FirstRand Bank

ANNUAL REPORT **2020**

for the year ended 30 June

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 2020.

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

- a simplified group structure and
- corporate governance.

An overview of the group's strategy and a detailed analysis of financial results for the year ended 30 June 2020 is provided in section B.

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

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

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A

OVERVIEW OF FIRSTRAND BANK

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.

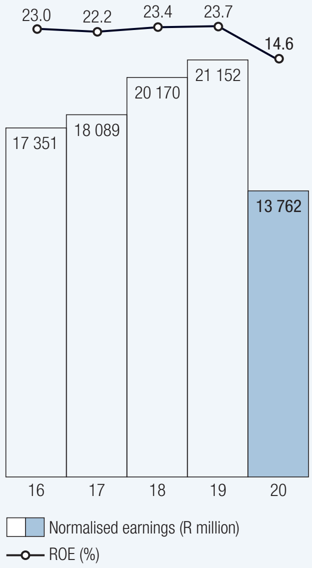
performance highlights

Normalised earnings	R13.8bn	↓ 35%	2019: R21.2bn
Normalised return on assets	1.02%		2019: 1.70%
Normalised return on equity	14.6%		2019: 23.7%
Advances (net of impairments)	R868bn	↓ 3%	2019: R895bn
Credit loss ratio	2.00%		2019: 0.95%
Liquidity coverage ratio	124%		2019: 133%
Deposits	R1 089bn	↑ 3%	2019: R1 058bn
Net stable funding ratio	116%		2019: 117%
CET1 ratio	12.3%		2019: 13.4%

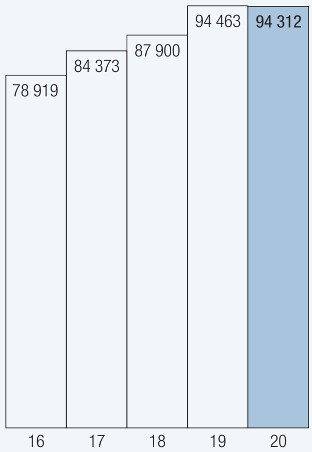
FNB RMB WesBank

Track record

NORMALISED EARNINGS *(R million)*
AND ROE *(%)*
CAGR (6%)



NORMALISED
NET ASSET VALUE *(R million)*
CAGR 5%



Note: 2016 to 2018 figures are based on IAS 39 and 2019 to 2020 figures on IFRS 9.

Simplified group structure

This report covers the results and operations of FRB

FirstRand

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100% FirstRand Bank Limited (FRB) Bond code: FRII — SA banking

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

100% FirstRand EMA Holdings (Pty) Ltd (FREMA) — Rest of Africa

- **58%** FirstRand Namibia
- **70%** FNB Botswana
- **100%** FNB Eswatini
- **95%** FNB Mozambique
- **100%** FNB Zambia
- **100%** FNB Lesotho
- **100%** FNB Tanzania
- **100%** First National Bank Ghana**
- **100%** RMB Nigeria

100% FirstRand International Limited (Guernsey) (FRI) — UK banking and hard currency platform

- **100%** Aldermore Group plc
- **100%** MotoNovo Finance[#]
- **100%** RMB International Mauritius

100% FirstRand Insurance Holdings (Pty) Ltd — Insurance

- **100%** FirstRand Life Assurance
- **100%** FirstRand Short-Term Insurance Ltd
- **100%** FirstRand Insurance Services Company (FRISCOL)

100% FirstRand Investment Management Holdings Limited — Investment management

- **100%** Ashburton Fund Managers
- **100%** Ashburton Management Company (RF)
- **100%** Ashburton Investments International Holdings
- **100%** FNB Investor Services
- **100%** FNB CIS Management Company (RF)
- **100%** Various general partners[†]

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

- **98%** RMB Private Equity Holdings
- **97%** RMB Private Equity
- **100%** RMB Securities
- **50%** RMB Morgan Stanley
- **100%** RMB Investments and Advisory
- **100%** RMB Australia Holdings
- **100%** FNB Stockbroking and Portfolio Management
- **81%** MotoVantage
- **100%** FirstRand Securities
- **100%** Hyphen Technology
- **100%** FNB Fiduciary

1. Division

2. Branch

3. Representative office

DirectAxis is a business unit of FirstRand Bank Limited.

* *Trading as FNB Channel Islands.*

** *The merger of First National Bank Ghana and GHL Bank has been concluded. The merged entity is known as First National Bank Ghana.*

\# *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.

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 B08 for more information) • Guernsey • India **Representative offices:** • Kenya • Angola • Shanghai	**Full service banking subsidiaries:** • Namibia • Botswana • Eswatini • Lesotho • Zambia • Mozambique • Tanzania • Ghana **Corporate and investment banking subsidiary:** • Nigeria **Hard currency platform:** • Mauritius **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

REPRESENTATIVE OFFICES (MANAGED BY RMB):

- **Kenya:** The corporate and investment banking (CIB) team acts as a liaison for RMB's dealmakers in South Africa. The offering ranges from debt leveraged finance to aviation, infrastructure and real estate finance, as well as structured trade and working capital solutions, and corporate finance advisory services.
- **Angola:** The CIB team offers a comprehensive range of financing products and services, as well as trade solutions, to local corporates, multinationals, governments and state-owned enterprises (SOEs).
- **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 a strong track record in arranging and distributing Africa-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 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 of the bank were constituted at group level in terms of authority received from the South African Registrar of Banks. The directors of the group ensure compliance with all relevant regulations, including the South African Banks Act, the South African Companies Act, and the Basel Committee on Banking Supervision (BCBS) and Financial Stability Board requirements, and other best practice regulations instituted by both local and international authorities. The bank endorses and endeavours to adhere to the guidelines and principles of King IV. The bank has applied the King IV principles as disclosed in the group annual integrated report. Stakeholders are referred to the group's annual integrated report available on https://www.firstrand.co.za/investors/annual-reporting/ for detailed disclosures of the group's corporate governance practices.

In accordance with section 94(2)(b) of the Companies Act, the audit committee of the group performs the functions under the section on behalf of the bank. The roles of the chairman, lead independent director and chief executive officer are clearly defined in the board charter, demonstrating the clear balance of power and authority at board level that ensures no one director has unfettered powers of decision-making.

BOARD CHANGES

Changes to the directorate are outlined below.

		EFFECTIVE DATE
RESIGNATIONS		
JJ Durand	Alternate non-executive director	28 November 2019
PJ Makosholo	Independent non-executive director	30 June 2020
HL Bosman	Non-executive director	30 June 2020
RETIREMENTS		
NN Gwagwa	Independent non-executive director	28 November 2019
EG Matenge-Sebesho	Independent non-executive director	28 November 2019
APPOINTMENT		
Z Roscherr	Independent non-executive director	1 April 2020

Responsibilities of directors

The board of directors of the bank (the board) is responsible for reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; monitoring corporate performance and overseeing major capital expenditure, acquisitions and disposals, information technology and stakeholder relations, while still retaining full and effective control of the bank. The bank has a unitary board and the chairman is an independent non-executive director, in terms of the King IV definition. King IV is a voluntary code of recommendations to ensure good corporate governance practices in South Africa. The code is, however, mandatory for all JSE listed entities as per the JSE Listings Requirements. The board comprises 14 directors of whom three serve in an executive capacity.

The board steers and sets direction for the group and brings independent, informed and effective leadership and judgement to bear on the decisions and deliberations reserved for the board, whilst ensuring that strategy, risk, performance and sustainable developments are effectively integrated and appropriately balanced.

Composition and frequency of meetings

A common, unitary board serves the group and the bank. William Rodger (Roger) Jardine has been 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 bank and the group boards. His experience and knowledge of the group makes him well qualified 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 and independence of mind essential for its effective functioning. The roles of the chairman and the CEO are separate, with segregated duties. The group's audit committee is constituted in respect of its duties in terms of section 94(7) of the Companies Act, 71 of 2008, and section 64 of the Banks Act, 1990.

Of the board's 14 directors three serve in an executive capacity while 11 are non-executive, and nine independent. The directors of the bank are listed on page A09. Non-executive directors are 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 strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

The board adopted the FirstRand 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 professional 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.

Corporate governance continued

Limitation to appointment period

A formal and transparent board nomination process is in place.
Non-executive directors who are appointed to the company must satisfy Companies Act requirements. Non-executive directors (other than the chairman) are subject to re-election and shall rotate every three years at the relevant annual general meeting of the company. The re-election of the non-executive directors (other than the chairman) takes place in terms of the memorandum of incorporation (MOI) of the company, Companies Act provisions and the JSE Listings Requirements.

The retirement age of non-executive directors (other than the chair) is set at age 70. Non-executive directors shall be eligible for re-election. Such directors shall vacate their offices at the close of the annual general meeting after turning 70, unless the board resolves to extend that age for an additional one year in each instance, should their specialised skills be required, and the board unanimously supports their nomination.

COMPANY SECRETARY

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

Board of directors

CHAIRMAN

WILLIAM RODGER (ROGER) JARDINE | 54

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

EXECUTIVE DIRECTORS

ALAN PATRICK PULLINGER | 54

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

HETASH SURENDRAKUMAR (HARRY) KELLAN | 48

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

MARY VILAKAZI | 43

Chief operating officer
Appointed: July 2018
BCom (Hons), CA(SA)

INDEPENDENT NON-EXECUTIVE DIRECTORS

MARY SINA BOMELA | 47

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

GRANT GLENN GELINK | 70

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

RUSSELL MARK LOUBSER | 70

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

THANDIE SYLVIA MASHEGO | 42

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

AMANDA TANDIWE (TANDI) NZIMANDE | 50

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

ZELDA ROSCHERR | 53

Independent non-executive director
Appointed: April 2020
BSc, BCom (Hons)

LOUIS LEON VON ZEUNER | 59

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

THOMAS (TOM) WINTERBOER | 64

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

NON-EXECUTIVE DIRECTORS

JOHAN PETRUS BURGER | 61

Non-executive director
Appointed: January 2009
Appointed non-executive director: September 2018
BCom (Hons), CA(SA)

FRANCOIS (FAFFA) KNOETZE | 57

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

B

ANALYSIS OF FINANCIAL RESULTS

overview of results

Key financial results, ratios and statistics – normalised

for the year ended 30 June

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages B112 and B113.

R million	2020	2019	% change
Earnings performance			
Normalised earnings	**13 762**	21 152	(35)
Headline earnings	**13 803**	21 169	(35)
Attributable earnings – IFRS (refer page C79)*	**13 739**	22 644	(39)
Normalised net asset value	**94 312**	94 463	–
Average normalised net asset value	**94 388**	89 290	6
Ratios and key statistics			
ROE (%)	**14.6**	23.7	
ROA (%)	**1.02**	1.70	
Diversity ratio (%)	**42.6**	42.3	
Credit impairment charge	**18 269**	8 460	>100
Stage 3/NPLs as % of advances	**5.22**	3.71	
Credit loss ratio (%)	**2.00**	0.95	
Total impairment coverage ratio (%)	**79.9**	79.8	
Specific coverage ratio (%)	**44.7**	45.8	
Performing book coverage ratio (%)	**1.94**	1.31	
Cost-to-income ratio (%)	**54.8**	53.4	
Effective tax rate (%)	**17.8**	24.4	
Number of employees	**40 174**	38 328	5
Balance sheet			
Normalised total assets	**1 414 712**	1 291 404	10
Advances (net of credit impairment)	**867 940**	894 543	(3)
Average gross loan-to-deposit ratio (%)	**85.1**	87.5	
Deposits	**1 088 952**	1 058 439	3
Capital adequacy – IFRS**			
Capital adequacy ratio (%)	**15.7**	16.8	
Tier 1 ratio (%)	**12.8**	14.0	
Common Equity Tier 1 ratio (%)	**12.3**	13.4	
Leverage – IFRS**			
Leverage ratio (%)	**6.7**	7.2	
Liquidity – IFRS#			
Liquidity coverage ratio (%)	**124**	133	
Net stable funding ratio (%)	**116**	117	

* *Prior period attributable earnings includes the after-tax profit on sale of c. R1.5 billion on the Discovery card transaction, which is excluded from headline and normalised earnings.*

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

The bank's LCR and NSFR reflect South African operations only.

Summary income statement – normalised

for the year ended 30 June

R million	2020	2019	% change
Net interest income before impairment of advances	**46 484**	46 935	(1)
Impairment charge	**(18 269)**	(8 460)	>100
Net interest income after impairment of advances	**28 215**	38 475	(27)
Non-interest revenue	**34 447**	34 441	–
– Fee and commission income	**25 110**	25 716*	(2)
– Insurance income	**449**	560	(20)
– Markets, client and other fair value income	**4 049**	3 917	3
– Investment income	**130**	105	24
– Other non-interest revenue	**4 709**	4 143	14
Income from operations	**62 662**	72 916	(14)
Operating expenses	**(44 343)**	(43 475)*	2
Income before indirect tax	**18 319**	29 441	(38)
Indirect tax	**(810)**	(829)	(2)
Profit before tax	**17 509**	28 612	(39)
Income tax expense	**(3 118)**	(6 977)*	(55)
Profit for the year	**14 391**	21 635	(33)
Other equity instrument holders	**(629)**	(483)*	30
Normalised earnings attributable to ordinary equityholders of the bank	**13 762**	21 152	(35)

* *Restated following the adoption of IAS 12 and reclassification of customer loyalty expenses from operating expenses to fee and commission expense. Refer to pages C75 to C76.*

Summary statement of other comprehensive income – normalised

for the year ended 30 June

R million	2020	2019	% change
Profit for the year	**14 391**	21 635*	(33)
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**1 219**	498	>100
Gains arising during the year	**657**	943	(30)
Reclassification adjustments for amounts included in profit or loss	**1 036**	(251)	(>100)
Deferred income tax	**(474)**	(194)	>100
FVOCI debt reserve	**(82)**	7	(>100)
(Losses)/gains arising during the year	**(115)**	11	(>100)
Reclassification adjustments for amounts included in profit or loss	**1**	(1)	(>100)
Deferred income tax	**32**	(3)	(>100)
Exchange differences on translating foreign operations	**1 246**	42	>100
Gains arising during the year	**1 207**	58	>100
Deferred income tax	**39**	(16)	(>100)
Items that may not subsequently be reclassified to profit or loss			
FVOCI equity reserve	**(140)**	1	(>100)
(Losses)/gains arising during the year	**(180)**	1	(>100)
Deferred income tax	**40**	–	–
Remeasurements on defined benefit post-employment plans	**652**	(104)	(>100)
Gains/(losses) arising during the year	**906**	(144)	(>100)
Deferred income tax	**(254)**	40	(>100)
Other comprehensive income for the year	**2 895**	444	>100
Total comprehensive income for the year	**17 286**	22 079	(22)
Attributable to			
Ordinary equityholders	**16 657**	21 596	(23)
Other equity instrument holders	**629**	483*	30
Total comprehensive income for the year	**17 286**	22 079	(22)

* *Restated prior year following the adoption of IAS 12 amendments. Refer to pages C75 to C77.*

Summary statement of financial position – normalised

as at 30 June

R million	2020	2019
ASSETS		
Cash and cash equivalents	**99 781**	77 887
Derivative financial instruments	**120 511**	43 181
Commodities	**21 344**	21 176
Investment securities	**209 026**	176 942
Advances	**867 940**	894 543
– Advances to customers	**796 627**	831 097
– Marketable advances	**71 313**	63 446
Other assets*	**5 149**	4 963
Non-current assets and disposal groups held for sale	**1 558**	–
Amounts due by holding company and fellow subsidiaries	**67 309**	53 027
Investments in associates	**–**	66
Property and equipment**	**17 691**	15 352
Intangible assets	**692**	636
Deferred income tax asset	**3 711**	3 631
Total assets	**1 414 712**	1 291 404
EQUITY AND LIABILITIES		
Liabilities		
Short trading positions	**4 786**	5 355
Derivative financial instruments	**134 488**	48 053
Creditors, accruals and provisions	**14 350**	16 035
Current tax liability	**368**	1 043
Deposits	**1 088 952**	1 058 439
Employee liabilities	**7 814**	11 517
Liabilities directly associated with disposal groups classified as held for sale	**85**	–
Other liabilities**	**5 255**	3 322
Amounts due to holding company and fellow subsidiaries	**36 254**	25 784
Tier 2 liabilities	**22 322**	22 428
Total liabilities	**1 314 674**	1 191 976
Equity		
Ordinary shares	**4**	4
Share premium	**16 804**	16 804
Reserves	**77 504**	77 655
Capital and reserves attributable to ordinary equityholders	**94 312**	94 463
Other equity instruments	**5 726**	4 965
Total equity	**100 038**	99 428
Total equities and liabilities	**1 414 712**	1 291 404

* *In the prior year these amounts were disclosed as accounts receivable. The description other assets is more appropriate based on the nature of the assets included in this line item and is in line with industry practice.*

** *The bank elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved, as comparative information has been prepared on an IAS 17 basis. Refer to pages C75 to C78.*

Flow of funds analysis – normalised

R million	June 2020 vs June 2019 12-month movement	June 2019 vs 1 July 2018 12-month movement
Sources of funds		
Capital account movement (including profit and reserves)	**610**	12 311
Working capital movement	**(9 681)**	9 232
Short trading positions and derivative financial instruments	**8 536**	(8 606)
Deposits and long-term liabilities	**30 407**	76 145
Total	**29 872**	89 082
Application of funds		
Advances	**26 603**	(56 660)
Investments	**(2 497)**	(7 979)
Cash and cash equivalents	**(21 894)**	(6 376)
Investment securities (e.g. liquid asset portfolio)	**(32 084)**	(18 067)
Total	**(29 872)**	(89 082)

"The COVID-19 pandemic is a once in a generation event and has had a profound impact on the world. In South Africa it resulted in the deepest GDP contraction since the Second World War. The lockdown devastated the economy and it will be a long hard road back to recovery.

FirstRand Bank's performance for the year to 30 June 2020 reflects the depth of the crisis. However, the bank believes that the actions it has taken to strengthen and protect its balance sheet, combined with the structure of its portfolio and its chosen strategies, will ensure ROE and earnings recovery once the current stress scenario normalises."

Alan Pullinger | CEO

GROUP STRATEGY

FirstRand Limited (FirstRand or the group) 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 broad range of transactional, lending, investment and insurance products and services.

South Africa

Group earnings remain significantly tilted towards South Africa and are mainly generated by FirstRand Bank's large lending and transactional franchises, which have resulted in deep and loyal customer bases. Increased competition is targeting these traditional banking profit pools, particularly the transactional activities, and the bank remains focused on protecting this large and profitable revenue stream through:

- 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 less capital-intensive revenues and is investing in building meaningful insurance, and wealth and investment management businesses.

Ultimately the group's strategy in its domestic market is to deliver integrated financial services to its customers. Successful execution is underpinned by a long-standing culture of entrepreneurial thinking and innovation, combined with disciplined allocation and pricing of financial resources. This approach has resulted in a long track record of delivering superior economic profits, returns and dividends to shareholders.

The group's strategy to broaden its financial 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 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 A04, which outlines the group's various legal entities, including FRB) and thus fall outside the bank.

The group recently established RMB Mauritius (a subsidiary of FRI) as a hard-currency platform for its rest of Africa dollar exposures. The bank sold most of its US dollar lending exposures to RMB Mauritius in the second half of the previous financial year.

UK

In the UK, the group aims to build further franchise value through scaling, digitisation and disruption.

Effective May 2019, the operations of MotoNovo were sold to the Aldermore Group as part of the process to integrate the two businesses.

All business written by MotoNovo post integration is funded through 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.

OPERATING ENVIRONMENT

The operating environment for the second half of FirstRand Bank's financial year to 30 June 2020 is now considered to be the worst global economic crisis since the Second World War. The COVID-19 pandemic and associated economic crisis resulted in three simultaneous and profound shocks: to global trade; to global confidence, causing financial conditions to tighten significantly and abruptly; and to economic activity following the lockdown policies adopted by most of the world's major economies. This translated into a once in a generation economic stress event.

This scenario prompted coordinated efforts by central banks and governments to lower policy rates and simultaneously provide fiscal stimulus packages to cushion the impact of the economic shock to the real economy. Despite these actions, global financial conditions are expected to remain challenging. Any form of recovery will be contingent on proof that the spread of the virus in developed economies has peaked, allowing containment measures to be relaxed, and whether the various governments' fiscal support to consumers and small businesses has been successful to some degree.

South Africa's already extremely weak domestic position was further worsened by the COVID-19 crisis and resultant lockdown, with limited fiscal space to support the economy. The SARB provided monetary policy support, implementing 275 bps of rate cuts since the start of the crisis, however, the real-economy impact of COVID-19 remains deep given the loss of economic activity, tax revenue, and household and corporate income.

The rest of Africa portfolio also came under pressure as many of the Southern African Customs Union (SACU) economies rely heavily on activity in South Africa. Without exception, the real economies in these countries are extremely weak and face increased fiscal risk.

The UK entered the crisis with historically low levels of unemployment and fairly resilient household consumption activity and this, combined with the fiscal and monetary policy stimulus that is being applied, has provided some support to the real economy. However, despite these supportive factors, the UK suffered one of the deepest economic contractions globally in the second quarter of 2020.

FINANCIAL PERFORMANCE

SOURCES OF NORMALISED EARNINGS

	Year ended 30 June				
R million	**2020**	**% composition**	2019	% composition	% change
FNB	**10 208**	**74**	15 043	71	(32)
RMB	**4 502**	**33**	5 241	25	(14)
WesBank	**305**	**2**	901	4	(66)
MotoNovo (back book)	**(244)**	**(1)**	216	1	(>100)
FCC (includes Group Treasury) and other*	**(380)**	**(3)**	234	1	(>100)
Other equity instrument holders	**(629)**	**(5)**	(483)	(2)	30
Normalised earnings	**13 762**	**100**	21 152	100	(35)

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

FirstRand Bank's results for the year to 30 June 2020 reflect the extremely difficult operating environment, with normalised earnings decreasing 35% to R13.8 billion compared to 30 June 2019. ROE declined to 14.6%. Most of this decline was due to the much higher than expected credit impairment charge, driven by forward-looking economic assumptions required under IFRS 9. In addition, post the beginning of lockdown in March 2020, underlying customer income and affordability in all segments deteriorated sharply, as evidenced by lower levels of underlying transactional and credit turnover and in the amount of debt relief requested by customers, resulting in increased arrears and non-performing loans (NPLs).

The bank's capital position remained strong, with a Common Equity Tier 1 (CET1) capital adequacy ratio of 12.3%.

Pre-provision operating profit showed a decrease of 3%, which points to a resilient operating performance, despite margin pressure, subdued non-interest revenue growth due to lower absolute volumes during the lockdown period, and depressed new business origination.

PRE-PROVISION OPERATING PROFIT

	Year ended 30 June		
R million	**2020**	2019	% change
FNB	**27 129**	26 772	1
RMB	**8 328**	7 330	14
WesBank	**3 372**	3 167	6
MotoNovo	**(161)**	821	(>100)
FCC/Group Treasury	**(2 890)**	(1 018)	>100
Total bank pre-provision operating profit	**35 778**	37 072	(3)

- FNB demonstrated operational resilience, supporting its retail, small- and medium-sized enterprise (SME) and commercial customers through a range of debt relief propositions and multi-channel transactional solutions. As South Africa's leading digital bank, FNB was able to fulfil origination, account service and liability gathering digitally throughout the lockdown, with particularly strong growth in deposits.
- RMB delivered solid annuity income growth, underpinned by disciplined balance sheet deployment, with good growth in core advances and deposits. RMB's performance was further boosted by a recovery in the flow activities following increased market activity on the back of COVID-19.
- WesBank's pre-provision operating profit increased 6% due to higher fixed maintenance lease (FML) rental income in line with an increase in fleet size and focused cost containment measures across the business.
- MotoNovo's pre-provision profit reflects the wind-down of the book and lower securitisation-related income (which eliminates at a consolidated FirstRand group level).

COVID-19 created unprecedented economic stress, which has had a profound and far-reaching impact on the economy. One of the implications of this stress was the need to provide payment relief solutions for customers. For the South African businesses, some of these solutions are outlined below:

- Retail customers in good standing were offered emergency funds designed to bridge short-term liquidity needs and provide cash flow relief. The loans were priced at the prime interest rate with zero fees and a flexible repayment period starting three months after relief was taken up. No early settlement penalties are levied. This customer-centric approach covers all FNB products and those WesBank customers who bank with FNB. Payment holidays were also offered.
- FNB provided relief to commercial customers primarily in the form of payment holidays and additional relief was offered to SMEs through the government-guaranteed loan scheme.
- For corporate customers, relief was advanced on a case-by-case basis. Corporate relief was provided in the form of additional liquidity facilities, payment holidays and covenant waivers.

Eligibility for relief followed a risk-based approach and was assessed at an overall customer level.

For retail customers industry guidance set by the Banking Association of South Africa (BASA) was followed. Corporate and commercial portfolios were assessed against the respective sector's sensitivity to the impact of COVID-19.

DEBT RELIEF

	Number of customers (thousands)	**Number of accounts (thousands)**	**Underlying gross advances for which relief was provided (R million)**	**Total portfolio* (gross advances) (R million)**	**% of portfolio for which relief was provided**
Retail	188.4	653.7	63 529	407 244	16%
Commercial	16.7	31.0	30 832	135 028	23%
Corporate	n/a	n/a	53 098	322 114	16%
MotoNovo	22.5	22.5	423	3 782	11%
Total bank	227.6	707.2	147 882	905 712	16%

* *Total bank portfolio includes FCC advances.*

REVENUE AND COST OVERVIEW

Total net interest income (NII) decreased 1% following a decline in advances and margin compression given the endowment impact from interest rate cuts, exacerbated by the negative impact of securitisation income (which is eliminated on consolidation). Net interest margin (NIM) declined 33 bps to 464 bps, reflecting a higher proportional increase in liquid assets due to strong growth in deposits whilst advances reduced. Advances decreased 2% and deposits grew 3%, unpacked by operating business below.

	Growth in advances %	Growth in deposits %
FNB	3	17
– Retail	4	16
– Commercial	3	19
RMB	(1)	–
WesBank	(1)	24
MotoNovo	(84)	–

Advances growth in FNB occurred mainly in the premium and commercial segments, with the consumer segment sharply down, reflecting the lack of capacity in lower-income households to take on credit. Overall retail advances grew 4%, significantly impacted by the lockdown, reflecting depressed demand and cautious credit origination. At WesBank, the decline in advances reflects the material drop in applications during the first two months of lockdown.

Advances growth to the corporate and commercial sectors was muted due to weak macroeconomic conditions and low levels of business confidence. This was further compounded by the impact of COVID-19. RMB's decline in advances also reflects the further sale of certain US dollar-denominated advances to RMB Mauritius and a sharp decline in the repo book.

MotoNovo's advances decline reflects c. £750 million (R19 billion in rand terms) advances securitised and derecognised during the year and the ongoing wind-down of the book as all new origination from May 2019 is outside the bank.

Deposit growth benefited from strong momentum in savings and investment products and retail customer balances increasing pre- and during lockdown. Commercial customers maintained liquidity to support cash flow demands given the prevailing uncertainty, and large corporate deposit growth was underpinned by clients holding higher current account balances.

Non-interest revenue (NIR) was flat, reflecting a reduction in fee and commission income, offset by a 23% increase in revenue from markets' trading activities and a 14% increase in other NIR, reflecting higher rental and intergroup income.

FNB's NIR declined 1% due to the significant decrease in volumes during lockdown. FNB assisted customers by waiving SASwitch fees, rental relief on speedpoints and other devices, and data charges. In addition, as part of its annual pricing review (pre-pandemic), FNB had already reduced certain fee categories. These factors collectively impacted NIR by approximately R529 million.

Markets' trading activities reflect the recovery of the domestic flow activities in the second half of the year following increased market activity on the back of COVID-19. The credit trading portfolio continued to deliver good growth.

Growth in operating expenses was contained at 2%, reflecting the focus on cost management and lower variable staff expenditure given current year performance, and was achieved despite continued investment in platforms to extract further efficiencies.

Additional costs incurred were associated with managing employee and customer wellbeing on premises and in branches, and the rapid facilitation of remote working for a significant proportion of staff when lockdown commenced.

Despite the level of cost containment, given the degree of pressure on the topline, the bank's cost-to-income ratio increased to 54.8% (2019: 53.4%).

CREDIT PERFORMANCE

FirstRand has revised its macroeconomic outlook for 2020/21, with material downward revisions to key economic variables affecting the group's activities, including a sharp contraction in real GDP of 8%, a significant increase in unemployment and weakness in property markets. These revisions have been incorporated into the bank's credit provision models in line with IFRS 9 requirements, with all segments and portfolios experiencing notable incremental impacts from forward-looking adjustments.

This, together with arrears, resulted in performing provisions increasing R5.0 billion, mainly driven by conservative coverage ratios. NPLs increased 38% to 5.22% of advances (2019: 3.71%). This required further provision of R5.4 billion, with coverage largely maintained.

All of this combined resulted in a R10.5 billion (38%) increase in provisions (2019: R4.2 billion increase) held against loans and advances across all stages, products and portfolios. The following table unpacks these movements and operational credit losses, and explains the bank's materially higher credit impairment charge of R18.3 billion, and the credit loss ratio increase to 200 bps (2019: 95 bps).

ANALYSIS OF IMPAIRMENT CHARGE

R million	2020	2019	% change
Performing book provisions	5 023	(171)	
NPL provision	5 446	4 396	
Credit provision increase	10 469	4 225	>100
Modification	758	625	21
Write-off and other	9 127	6 026	51
Post write-off recoveries	(2 085)	(2 416)	(14)
Total impairment charge	**18 269**	8 460	>100

All provisions raised reflect the bank's best estimates against available data and scenario analysis (see pages C60 to C63 for detailed macro forecasts) and are considered appropriately prudent given the prevailing risk in the system. In addition, the bank has conservatively provided for a sharp increase in credit life retrenchment claims, taking account of the latest economic outlook.

Retail NPLs as a percentage of advances increased to 8.54% from 6.45% in the comparative period, driven by:

- increases in NPL balances across all retail portfolios, mainly due to the impact of COVID-19, despite relief granted; and
- the pronounced absolute increase in residential mortgage NPLs where NPL formation has historically been benign.

Other factors included new business strain from strong unsecured book growth in previous years, which had resulted in risk cutbacks in the second and third quarters of the financial year. Certain operational issues already disclosed in the first half, mainly relating to scorecards and collections in the unsecured portfolios, continued to impact NPLs in the second half.

Commercial NPLs as a percentage of advances increased to 5.85% from 3.82% in the prior year, also driven by COVID-19, the residual impact of the drought in previous years in the agriculture portfolio, and strong book growth in prior years, especially in overdraft advances.

RMB corporate and investment banking (CIB) NPLs as a percentage of advances increased to 1.20% from 0.85% due to clients in distressed industries migrating, higher interest in suspense and the currency impact.

The table below unpacks all movements in NPLs.

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	10 863	49	31
Loans under COVID-19 relief	1 907	–	6
Restructured debt review	234	6	1
Definition of rehabilitation (technical cures)	(601)	(14)	(2)
Lengthening of write-off period	696	19	2
NPLs (excluding MotoNovo)	**13 099**	**39**	**38**
MotoNovo	(51)	(8)	–
Total NPLs	**13 048**	**38**	**38**

FINANCIAL RESOURCE MANAGEMENT

Strategy

The management of the group's financial resources (FRM), 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.

Crisis response framework

At the onset of lockdown, FirstRand implemented specific actions to strengthen and protect the balance sheet to enable the group to effectively weather the prevailing environment, and emerge in a position to fully capitalise on the recovery.

Given the scale of the economic crisis, which FirstRand expects to influence the operating environment for the next 18 to 24 months, the group anchored business to certain FRM principles, adherence to which will ensure FirstRand returns to its historical trajectory of growth, quality earnings and delivery of superior returns to shareholders.

These FRM principles include:

- Carefully price for financial resources.
- Appropriately provide against lending portfolios.
- Apply strict cost management.
- Further strengthen and appropriately tilt the balance sheet to the macro outlook.
- Accrete capital and net asset value (NAV) – deployment of capital to reflect the increased cost of equity.
- Emerge from COVID-19 with limited vulnerabilities, with capital for growth.

Balance sheet strength

Capital position

Capital ratios as at June are summarised below.

		As at 30 June	
%	Internal targets	**2020**	2019
Capital*			
CET1	11.0 – 12.0	**12.3**	13.4
Tier 1	>12.0	**12.8**	14.0
Total	>14.25	**15.7**	16.8

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

In response to the COVID-19 pandemic, the PA implemented temporary measures to provide additional capacity to counter economic risks to the financial system and promote ongoing lending to the economy. These measures temporarily reduced the Pillar 2A capital requirement from 1% to 0% and the allowance to draw down against the capital conservation buffer as the PA considers this to be a period of financial stress.

Bank internal targets have not been adjusted for the COVID-19 temporary relief measures as they are aligned to the minimum requirements, including a fully phased-in Pillar 2A requirement.

The bank's CET1 ratio remained strong at 12.3% (2019: 13.4%), which is above its internal target range of 11.0% to 12.0%. The year-on-year decrease in the CET1 ratio was largely a function of:

- the COVID-19 impact on earnings;
- an increase in risk weighted assets (RWA) mainly from credit, counterparty credit and market risk driven by rand depreciation; and
- the transitional impact of IFRS 9 on 1 July 2019.

The overall decrease was partly offset by successful financial resource optimisation strategies.

FirstRand Bank continues to actively manage its capital composition and align its Additional Tier 1 (AT1) and Tier 2 instruments with the bank's internal targets. The AT1 instruments, together with Tier 2 instruments, are considered to be funding, and are not used to support risk in the bank. It remains the bank's intention to continue optimising its regulatory capital composition 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

Due to the liquidity risk introduced by its business activities, the bank optimises its funding composition within structural and regulatory constraints to enable business to operate in an efficient and sustainable manner. The bank entered the COVID-19 crisis in a strong liquidity position and remains well funded, with adequate liquidity buffers to meet both prudential liquidity requirements and internal targets. In order to allow markets to continue to operate smoothly and provide banks with temporary liquidity relief during the crisis, the PA temporarily reduced the prudential liquidity coverage ratio (LCR) requirement from 100% to 80%. The pandemic continues to impact the South African economy negatively, and key risk metrics and early warning indicators are closely monitored. The bank regularly forecasts its liquidity position and uses scenario analysis to inform decision-making. FRB continues to hold appropriate liquidity buffers and can access the required funding to withstand anticipated near-term liquidity risks.

The bank's portfolio of high-quality liquid assets (HQLA) provides a liquidity buffer against unexpected liquidity stress events or market disruptions, and serves to facilitate the changing liquidity needs of the operating businesses. The composition and quantum of available liquid assets is defined behaviourally by considering both the funding liquidity-at-risk and the market liquidity depth of these instruments. Additional liquidity overlays in excess of prudential requirements are determined based on stress testing and scenario analysis of cash inflows and outflows.

FirstRand Bank has built its liquid asset holdings in accordance with asset growth, risk appetite and regulatory requirements. The portfolio of high-quality liquid assets is continuously assessed and actively managed to ensure optimal composition, cost and quantum.

Key prudential liquidity ratios, LCR and the net stable funding ratio (NSFR), are summarised below.

	As at 30 June	
%	**2020**	2019
LCR*		
Regulatory minimum	**80**	100
Actual**	**124**	133
Average available HQLA (R billion)	**249**	222
NSFR*		
Regulatory minimum	**100**	100
Actual**	**116**	117

* *The bank's LCR and NSFR reflect South African operations only.*

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

PROSPECTS

Economic activity in South Africa is expected to start to rebound from the depths of the first half of 2020. This is mainly linked to the easing of lockdown measures and could stem the level of job losses and support the start of a recovery. However, given the South African government's limited capacity to inject further stimulus into the economy, there will be ongoing permanent damage to household and business balance sheets. This will limit the extent to which the economy will be able to recoup the output losses sustained during the first half of the year. As a result, private sector credit growth will remain weak and activity levels will continue to trend lower than pre-crisis.

The UK is likely to recover faster, as households and business activity rebound following the easing of lockdown conditions and the government's significant stimulus measures. This rebound will, however, face the added complexity of Brexit uncertainty during the latter part of 2020, which may constrain growth.

For FirstRand Bank, the economic impact of COVID-19 will continue to place acute pressure on the bank's performance for the rest of the 2020 calendar year. Trends post lockdown are improving as the economic recovery slowly emerges, however, activity levels will remain muted on a relative basis, balance sheet growth will be subdued, and the credit performance will not materially improve. Whilst this will translate into a recovery of earnings for the six months to December 2020 on a rolling six-month basis, the period-on-period performance compared to the six months to December 2019 (a pre-COVID-19 period) will be a further reduction given the significant base effect.

The bank anticipates an upward trajectory in earnings in the second-half six months to June 2021, although the absolute level of earnings on a year-on-year basis is unlikely to revert back to June 2020 levels.

FRB believes that the actions it has taken to strengthen and protect its balance sheet, combined with the structure of its portfolio and the strategies it continues to execute on, will ensure ROE and earnings recovery once the current stress scenario normalises.

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.

SIGNIFICANT JUDGEMENTS AND ESTIMATES USED BY MANAGEMENT

Management determines the critical judgemental items that require specific attention annually. In the current year these related to:

- impairment of advances – specific additional disclosure is provided on pages C154 to C160; and
- the valuation of complex financial instruments – specific additional disclosure is provided on pages C186 to C205.

Further, additional disclosure has been included in the unaudited section of this booklet on pages B38 to B51, and B61 to B92, relating to the impairment of advances.

Should further information be required, the full annual financial statements, including the audit opinion, are available for inspection at the group's registered office and will be published on FirstRand's website during early October 2020.

BOARD CHANGES

Changes to the directorate are outlined below.

		EFFECTIVE DATE
RESIGNATIONS		
JJ Durand	Alternate non-executive director	28 November 2019
PJ Makosholo	Independent non-executive director	30 June 2020
HL Bosman	Non-executive director	30 June 2020
RETIREMENTS		
NN Gwagwa	Independent non-executive director	28 November 2019
EG Matenge-Sebesho	Independent non-executive director	28 November 2019
APPOINTMENT		
Z Roscherr	Independent non-executive director	1 April 2020

WR JARDINE
Chairman

AP PULLINGER
CEO

C LOW
Company secretary

9 September 2020

review of operations

FNB

FNB represents FirstRand's activities in the retail and commercial segments in South Africa.

FNB's strategy is underpinned by:

- a main-banked client strategy anchored to growing and retaining client relationships using core transactional accounts as a key lever;
- a digital platform providing market-leading digital interfaces to deliver contextual, cost-effective and innovative propositions to its customers on an assisted and unassisted basis;
- using its deep customer relationships and sophisticated data analytics to effectively cross-sell and up-sell a broad range of financial services products, including insurance and investments;
- utilising eBucks generosity to reward customers driving platform adoption and cross-sell;
- applying disciplined origination strategies;
- providing innovative savings products to grow its retail deposit franchise;
- leveraging its mobile virtual network operator (MVNO) to augment customer value propositions, as well as to provide telecommunication services to its customers;
- creating right-sized physical points of presence that drive assisted customer engagements, whilst achieving cost efficiencies; and
- ultimately broadening its financial service offerings.

FNB FINANCIAL HIGHLIGHTS

	Year ended 30 June		
R million	**2020**	2019	% change
Normalised earnings	**10 208**	15 043	(32)
Normalised profit before tax	**14 179**	20 893	(32)
– South Africa	**14 640**	21 255	(31)
– Rest of Africa*	**(461)**	(362)	27
Total assets	**419 251**	411 966	2
Total liabilities	**409 835**	395 889	4
Stage 3/NPLs as a % of advances	**7.60**	5.71	
Credit loss ratio (%)	**3.12**	1.51	
Cost-to-income ratio (%)	**51.7**	50.9	
Advances margin (%)	**4.29**	4.39	

* *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 results were materially affected by the COVID-19 pandemic and the resultant lockdown in South Africa. Total FNB normalised earnings declined 32%.

FNB experienced a significant slowdown in all its key growth drivers in the last quarter of the year. Since the beginning of lockdown in March 2020, underlying customer income and affordability in FNB's retail, SME and commercial segments deteriorated sharply, particularly in those sectors most affected by the lockdown restrictions. This is evident in lower levels of underlying transactional activity and credit turnover through customers' accounts and in the amount of debt relief requested across all segments during the last quarter.

FNB also experienced the negative endowment impact and related margin pressure from interest rate cuts, subdued NIR growth due to lower absolute volumes during the lockdown period and fee concessions.

Growth in operating expenses was well contained at 4% despite the continued investment in digitisation, platform, and wealth and investment management (WIM) strategies. Given the pressure on revenue, operating jaws were negative, and the cost-to-income ratio increased to 51.7% compared to 50.9% in the prior year.

For the majority of the year, growth in transactional volumes across most channels was trending in line with expectations and above inflation, on the back of customer growth and cross-sell in FNB's premium and commercial segments. During the last three months of the year, when lockdown was implemented with the resultant drop in activity levels, certain channel volumes declined markedly, however, app volumes remained resilient, with overall transactional volumes 28% higher than the prior year.

CHANNEL VOLUMES

	Year ended 30 June		
Thousands of transactions	**2020**	2019	% change
ATM/ADT	**224 141**	245 433	(9)
Internet banking	**176 280**	197 957	(11)
Banking app	**303 503**	237 873	28
Mobile (excluding prepaid)	**41 260**	42 050	(2)
Point-of-sale merchants	**587 152**	578 634	1
Card swipes	**837 769**	872 989	(4)

FNB's digital strategy and platform fulfilment meant the business was particularly successful in enabling the provision of cash flow relief propositions and in attracting liabilities even during April and May.

Robust deposit growth also reflects retail customer balances increasing both pre- and during lockdown. Advances growth year-on-year was muted, with a significant pullback from the consumer segment, given limited credit capacity in lower income households. 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	**16**	**39 451**	**4**	**10 664**
– Consumer	**9**	**7 941**	**(26)**	**(10 775)**
– Premium	**19**	**31 510**	**9**	**21 317**
– DirectAxis	**–**	**–**	**1**	**122**
Commercial	**19**	**45 224**	**3**	**2 786**
Total FNB	**17**	**84 675**	**3**	**13 450**

* *R8.9 billion of advances balances migrated from consumer to premium as part of a platform migration in residential mortgages.*

Customer numbers remained stable year-on-year, as shown in the table below.

CUSTOMERS

	Number of customers at 30 June		
Millions	2020	2019	% change
Retail	**7.20**	7.22	–
– Consumer	**5.74**	5.88	(2)
– Premium	**1.46**	1.34	9
Commercial	**1.03**	0.97	6
Total SA customer base	**8.23**	8.19	–
eWallet transacting base*	**3.27**	2.35	39

* *Transacting base refers to a wallet that has received funds and been accessed at least twice in a six-month period.*

FNB's ongoing strategy of providing retail customers with the right service offering resulted in ongoing migration from the consumer segment to the premium segment. Consumer customer numbers were affected by a pullback in credit appetite, which resulted in further attrition in transactional accounts. Commercial continued to attract new customers.

ANALYSIS OF IMPAIRMENT CHARGE

R million	2020	2019	% change
Performing book provisions	**3 813**	629	
NPL provision	**3 625**	3 949	
Credit provision increase	**7 438**	4 578	62
Modification	**759**	484	57
Write-off and other	**6 424**	2 779	>100
Post write-off recoveries	**(1 671)**	(1 962)	(15)
Total impairment charge	**12 950**	5 879	>100

FNB's credit impairment charge increased to R13.0 billion, with the credit loss ratio increasing to 312 bps (2019: 151 bps). This was driven primarily by the increased impact of IFRS 9 forward-looking information (FLI) adjustments, following the sharp downward revisions to the group's macroeconomic assumptions, as well as increased impairments to cater for the embedded credit strain of FNB's debt relief portfolios. These resulted in credit provisions increasing by R7.4 billion with performing coverage (stage 1 and 2) increasing to 2.74% (2019: 1.78%).

FNB's NPLs increased 37% year-on-year, driven primarily by:

- higher commercial NPLs due to the residual impact of South Africa's drought in the agricultural book, as well as increased transactional NPLs given previous client and book growth, and property-related advances;
- higher NPLs across both retail secured and unsecured advances, especially in the last quarter; and
- an increase in distressed restructures in debt counselling portfolios due to the impact of COVID-19 on these customers.

RMB

RMB represents the group'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, a competitive transactional banking platform and to ensure delivery of an integrated CIB value proposition to corporate and institutional clients. This diversified business portfolio, coupled with a disciplined approach to balancing risk, return and growth, is designed to deliver sustainable earnings, balance sheet resilience and market-leading returns.

RMB FINANCIAL HIGHLIGHTS

	Year ended 30 June		
R million	**2020**	2019	% change
Normalised earnings	**4 502**	5 241	(14)
Normalised profit before tax	**6 251**	7 279	(14)
Total assets	**572 592**	467 704	22
Total liabilities	**568 013**	462 181	23
Credit loss ratio (%)	**0.64**	0.02	
Cost-to-income ratio (%)	**46.8**	51.3	

ANALYSIS OF IMPAIRMENT CHARGE

R million	**2020**	2019	% change
Performing book provisions	**1 470**	(708)	(>100)
NPL provision	**218**	259	(16)
Credit provision increase	**1 688**	(449)	(>100)
Modification	**–**	–	–
Write-off and other	**395**	508	(22)
Post write-off recoveries	**(6)**	(8)	(25)
Total impairment charge	**2 077**	51	>100

RMB's performance reflects the current macro environment, with pre-tax profits decreasing 14% to R6.3 billion, significantly impacted by additional COVID-19 credit impairments amounting to R1.7 billion.

The business continues to be conservatively provisioned with the performing book (stage 1 and 2) core coverage ratio increasing from 65 bps to 112 bps. RMB incurred a credit loss ratio of 64 bps for the financial year.

RMB benefited from solid annuity income growth underpinned by disciplined balance sheet deployment with core advances and deposits increasing by 6% (3% in constant currency terms) and 8%, respectively. The performance was further supported by solid flow-trading income following increased market activity on the back of COVID-19.

The cost reduction of 5% was due to lower variable costs linked to performance and deliberate fixed cost containment initiatives whilst maintaining investment in core platform modernisation. RMB continues to execute on its client-led strategy with an excess of R36 billion support provided to clients through the COVID-19 impacted operating environment.

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY

	Year ended 30 June		
R million	**2020**	2019	% change
Investment banking and advisory	**4 104**	4 707	(13)
Corporate and transaction banking	**1 243**	1 490	(17)
Markets and structuring	**1 504**	1 419	6
Investing*	**(161)**	(132)	22
Other	**(439)**	(205)	>100
Total RMB	**6 251**	7 279	(14)

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

Investment banking and advisory's performance declined 13%, set against the backdrop of a challenging economic environment, prolonged business cycle downswing and sovereign rating downgrades. These constraints, the impact of COVID-19, as well as the steep decline in the oil price manifested in R1 billion of additional credit impairments, whilst advisory activities remained muted given low levels of investor confidence. Overall results were supported by prior period balance sheet growth underpinning good annuity income, as well as solid fee generation from structuring, arranging and capital market mandates.

Corporate and transactional banking's performance declined 17%, reflecting the increased headwinds seen in the operating environment. The distress in the corporate lending sector necessitated additional COVID-19 credit impairment of R0.6 billion, whilst transactional volumes were under pressure given the sustained lockdown, further impacting earnings. Overall results, however, benefited from increased utilisation of working capital facilities and higher average deposit balances. In contrast, global foreign exchange business was dampened by a decline in volumes.

Markets and structuring delivered a solid performance, up 6% year-on-year. Flow activities have shown a recovery in the second half of the year following increased market activity on the back of COVID-19. The hard commodities business benefited from increased client volumes, rising commodity prices and a depreciating rand. The credit trading portfolio continued to deliver good growth.

Other activities reflect the investment into the group's markets infrastructure platform.

WESBANK

WesBank represents the group's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa. WesBank's strategy is focused 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

R million	Year ended 30 June 2020	2019	% change
Normalised earnings	**305**	901	(66)
Normalised profit before tax	**424**	1 251	(66)
Total assets	**119 441**	121 816	(2)
Total liabilities	**120 151**	121 690	(1)
Stage 3/NPLs as a % of advances	**8.82**	6.03	
Credit loss ratio (%)	**2.42**	1.54	
Cost-to-income ratio (%)	**53.6**	55.0	
Net interest margin (%)	**3.39**	3.23	

BREAKDOWN OF PROFIT CONTRIBUTION BY SEGMENT*

R million	Year ended 30 June 2020	2019	% change
Normalised PBT			
Retail VAF	**182**	820	(78)
Corporate and commercial	**242**	431	(44)
Total WesBank	**424**	1 251	(66)

* *Refer to additional segmental disclosure on page B30.*

WesBank's normalised profit before tax decreased 66% to R424 million. This performance reflects the impact of COVID-19 resulting in an increase of 54% in the impairment charge from R1 916 million to R2 948 million. Pre-pandemic, WesBank's NPLs were declining due to its focus on disciplined origination in low-risk buckets.

The month of April saw a total shutdown of dealer floors as the government sought to contain the spread of COVID-19 through a hard lockdown. This resulted in a record 98% drop in production in retail vehicle asset finance (VAF), although production recovered in May and June as lockdown restrictions were eased. The economic impact of the pandemic weighed on consumers, resulting in significant increases in arrears and ultimately NPLs.

In response to the economic impact of the COVID-19 lockdown, several debt relief measures were introduced over the last quarter of the financial year in both retail and corporate. Retail VAF debt relief was in the form of three-month payment relief and term extensions. For FNB-banked customers with more than one product, WesBank payment relief formed part of the retail emergency facility. Corporate clients were offered payment moratoriums.

ANALYSIS OF IMPAIRMENT CHARGE

R million	2020	2019	% change
Performing book provisions	**36**	1	>100
NPL provision	**1 598**	234	>100
Credit provision increase	**1 634**	235	>100
Modification	**(1)**	132	(>100)
Write-off and other	**1 652**	1 907	(13)
Post write-off recoveries	**(337)**	(358)	(6)
Total impairment charge	**2 948**	1 916	54

The increase in impairments was due to significant migrations in arrears recorded in both retail VAF and corporate spanning across exposures to private individuals, self-employed clients and SMEs. All this culminated in an overall increase of 88 bps (R1 032 million) and an increase in the credit loss ratio from 1.54% to 2.42%.

The average monthly income statement impairment charge for the three months from April to June materially increased to R515 million from R197 million recorded in the preceding three-month period, and R135 million for the six months to December 2019. Stage 3 arrears were affected on two fronts: firstly a significant number of accounts rolled into stage 3, whilst at the other end there were delays in write-offs and debt-review inflow due to court closures during lockdown. Significant deteriorations were also noted in normal arrears where clients adopted a wait-and-see attitude as the COVID-19 economic impact unfolded. This included customers who qualified for relief, applied and were approved, but did not utilise the payment relief.

WesBank continues to control operational expenditure and invest in digital process improvements and its growing FML fleet, which contributed positively to NIR.

Cost to income ratio marginally improved despite topline revenue pressures, overall cost growth was contained at 2%.

MotoNovo

Effective May 2019, the operations of MotoNovo were sold to the Aldermore Group, a fellow subsidiary of the bank, as part of the process to integrate the two businesses. All business written by MotoNovo post integration is in Aldermore Group and not in the bank.

Loans originated prior to the integration (the back book) are still housed in FirstRand Bank London Branch, but managed by MotoNovo. MotoNovo's back book normalised earnings decreased due to the ongoing wind-down of the book, with lower credit impairments and costs, which is offset by significantly lower NII reflecting the wind-down and lower securitisation-related income.

SEGMENT ANALYSIS OF NORMALISED EARNINGS

	Year ended 30 June				
R million	**2020**	**% composition**	2019	% composition	% change
Retail	**5 048**	**37**	9 189	43	(45)
– FNB*	**4 917**		8 598		(43)
– WesBank	**131**		591		(78)
Commercial	**5 465**	**39**	6 755	32	(19)
– FNB	**5 291**		6 445		(18)
– WesBank	**174**		310		(44)
Corporate and investment banking	**4 502**	**33**	5 241	25	(14)
– RMB	**4 502**		5 241		(14)
MotoNovo	**(244)**	**(2)**	216	1	(>100)
Other	**(1 009)**	**(7)**	(249)	(1)	>100
– FCC (including Group Treasury) and elimination adjustments	**(380)**		234		(>100)
– Other equity instruments	**(629)**		(483)		30
Normalised earnings	**13 762**	**100**	21 152	100	(35)

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

Segment report

for the year ended 30 June 2020

	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	4 819	2 728	4 121	2 994	7 115	7 122	**21 784**	11 526
Impairment charge	(1 411)	(1 997)	(2 831)	(2 068)	(4 899)	(1 666)	**(9 973)**	(2 949)
Net interest income after impairment of advances	3 408	731	1 290	926	2 216	5 456	**11 811**	8 577
Non-interest revenue	355	2 055	793	464	1 257	10 715	**14 382**	8 666
Income from operations	3 763	2 786	2 083	1 390	3 473	16 171	**26 193**	17 243
Operating expenses	(1 896)	(2 248)	(1 275)	(1 429)	(2 704)	(11 591)	**(18 439)**	(9 851)
Income before indirect tax	1 867	538	808	(39)	769	4 580	**7 754**	7 392
Indirect tax	(16)	(33)	(16)	(34)	(50)	(364)	**(463)**	(43)
Profit before income tax	1 851	505	792	(73)	719	4 216	**7 291**	7 349
Income tax expense	(519)	(142)	(222)	21	(201)	(1 180)	**(2 042)**	(2 058)
Profit for the year	1 332	363	570	(52)	518	3 036	**5 249**	5 291
Attributable to								
Ordinary equityholders	1 332	363	570	(52)	518	3 036	**5 249**	5 291
Other equity instrument holders	–	–	–	–	–	–	**–**	–
Profit for the year	1 332	363	570	(52)	518	3 036	**5 249**	5 291
Attributable earnings to ordinary shareholders	1 332	363	570	(52)	518	3 036	**5 249**	5 291
Headline earnings adjustments	–	–	–	–	–	–	**–**	–
Headline earnings	1 332	363	570	(52)	518	3 036	**5 249**	5 291
TRS and IFRS 2 liability remeasurement	–	–	–	–	–	–	**–**	–
IAS 19 adjustment	–	–	–	–	–	–	**–**	–
Normalised earnings	1 332	363	570	(52)	518	3 036	**5 249**	5 291

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

* *FNB rest of Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

** *Refer to additional segmental disclosure on page B30.*

\# *FCC represents group-wide functions.*

Retail and commercial				Corporate and institutional						
				RMB						
FNB rest of 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
(43)	33 267	4 777	38 044	4 887	2 177	7 064	1 376	46 484	490	46 974
(28)	(12 950)	(2 948)	(15 898)	(1 454)	(623)	(2 077)	(294)	(18 269)	–	(18 269)
(71)	20 317	1 829	22 146	3 433	1 554	4 987	1 082	28 215	490	28 705
928	23 976	2 587	26 563	7 018	1 916	8 934	(1 050)	34 447	(880)	33 567
857	44 293	4 416	48 709	10 451	3 470	13 921	32	62 662	(390)	62 272
(1 315)	(29 605)	(3 946)	(33 551)	(5 275)	(2 219)	(7 494)	(3 298)	(44 343)	358	(43 985)
(458)	14 688	470	15 158	5 176	1 251	6 427	(3 266)	18 319	(32)	18 287
(3)	(509)	(46)	(555)	(168)	(8)	(176)	(79)	(810)	–	(810)
(461)	14 179	424	14 603	5 008	1 243	6 251	(3 345)	17 509	(32)	17 477
129	(3 971)	(119)	(4 090)	(1 401)	(348)	(1 749)	2 721	(3 118)	9	(3 109)
(332)	10 208	305	10 513	3 607	895	4 502	(624)	14 391	(23)	14 368
(332)	10 208	305	10 513	3 607	895	4 502	(1 253)	13 762	(23)	13 739
–	–	–	–	–	–	–	629	629	–	629
(332)	10 208	305	10 513	3 607	895	4 502	(624)	14 391	(23)	14 368
(332)	10 208	305	10 513	3 607	895	4 502	(1 253)	13 762	(23)	13 739
–	–	–	–	–	–	–	–	–	64	64
(332)	10 208	305	10 513	3 607	895	4 502	(1 253)	13 762	41	13 803
–	–	–	–	–	–	–	–	–	77	77
–	–	–	–	–	–	–	–	–	(118)	(118)
(332)	10 208	305	10 513	3 607	895	4 502	(1 253)	13 762	–	13 762

Segment report continued

for the year ended 30 June 2020

	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 (%)	36.6	47.0	25.9	41.3	32.3	65.0	**51.0**	48.8
Diversity ratio (%)	6.9	43.0	16.1	13.4	15.0	60.1	**39.8**	42.9
Credit loss ratio (%)	0.64	6.85	11.53	12.87	12.06	9.62	**3.24**	2.77
Stage3/NPLs as a percentage of advances (%)	5.20	12.16	16.66	19.43	17.73	13.19	**7.97**	6.51
Income statement includes								
Depreciation	(7)	(5)	(3)	(60)	(63)	(2 171)	**(2 246)**	(162)
Amortisation	–	(15)	–	(18)	(18)	(16)	**(49)**	–
Impairment charges	–	–	–	–	–	6	**6**	(1)
Statement of financial position includes								
Advances (before impairments)	224 404	30 210	25 740	16 134	41 874	16 732	**313 220**	107 914
Stage 3/NPLs	11 662	3 675	4 289	3 135	7 424	2 207	**24 968**	7 030
Investment in associated companies	–	–	–	–	–	–	**–**	–
Total deposits	559	5 683	5	–	5	281 539	**287 786**	285 448
Total assets	220 550	26 062	20 737	12 905	33 642	34 219	**314 473**	104 498
Total liabilities†	220 693	26 807	21 359	14 295	35 654	24 119	**307 273**	101 821
Capital expenditure	7	22	2	44	46	2 307	**2 382**	208

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

* *FNB rest of Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

** *Refer to additional segmental disclosure on page B30.*

\# *FCC represents group-wide functions.*

† *Total liabilities are net of interdivisional balances.*

	Retail and commercial				Corporate and institutional						
					RMB						
	FNB rest of 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	**51.7**	**53.6**	**51.9**	44.3	54.2	**46.8**	>100	**54.8**	–	**54.6**
	>100	**41.9**	**35.1**	**41.1**	59.0	46.8	**55.8**	(>100)	**42.6**	–	**41.7**
	–	**3.12**	**2.42**	**2.96**	0.56	0.99	**0.64**	0.54	**2.00**	–	**2.00**
	–	**7.60**	**8.82**	**7.87**	1.19	1.25	**1.20**	1.68	**5.22**	–	**5.22**
	(1)	**(2 409)**	**(852)**	**(3 261)**	(117)	(8)	**(125)**	(5)	**(3 391)**	–	**(3 391)**
	–	**(49)**	**(21)**	**(70)**	(123)	–	**(123)**	–	**(193)**	–	**(193)**
	–	**5**	**(15)**	**(10)**	(10)	–	**(10)**	(67)	**(87)**	(7)	**(94)**
	–	**421 134**	**121 138**	**542 272**	253 669	68 445	**322 114**	41 326	**905 712**	–	**905 712**
	–	**31 998**	**10 684**	**42 682**	3 023	853	**3 876**	695	**47 253**	–	**47 253**
	–	**–**	**–**	**–**	–	–	**–**	–	**–**	–	**–**
	–	**573 234**	**68**	**573 302**	72 125	137 463	**209 588**	306 062	**1 088 952**	–	**1 088 952**
	280	**419 251**	**119 441**	**538 692**	503 463	69 129	**572 592**	303 428	**1 414 712**	–	**1 414 712**
	741	**409 835**	**120 151**	**529 986**	499 020	68 993	**568 013**	216 675	**1 314 674**	–	**1 314 674**
	(13)	**2 577**	**2 338**	**4 915**	245	1	**246**	–	**5 161**	–	**5 161**

Segment report continued

for the year ended 30 June 2019

	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	2 347	3 677	3 085	6 762	7 260	**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	1 410	2 381	1 706	4 087	5 975	**15 727**	10 024
Non-interest revenue	409	1 926	993	293	1 286	11 168	**14 789**	8 496
Income from operations	4 664	3 336	3 374	1 999	5 373	17 143	**30 516**	18 520
Operating expenses	(1 880)	(1 934)	(1 149)	(1 347)	(2 496)	(11 365)	**(17 675)**	(9 519)
Income before indirect tax	2 784	1 402	2 225	652	2 877	5 778	**12 841**	9 001
Indirect tax	(13)	(29)	(18)	(83)	(101)	(394)	**(537)**	(50)
Profit before income tax	2 771	1 373	2 207	569	2 776	5 384	**12 304**	8 951
Income tax expense	(776)	(384)	(618)	(159)	(777)	(1 509)	**(3 446)**	(2 506)
Profit for the year	1 995	989	1 589	410	1 999	3 875	**8 858**	6 445
Attributable to								
Ordinary equityholders	1 995	989	1 589	410	1 999	3 875	**8 858**	6 445
Other equity instrument holders	–	–	–	–	–	–	**–**	–
Profit for the year	1 995	989	1 589	410	1 999	3 875	**8 858**	6 445
Attributable earnings to ordinary shareholders	1 995	989	1 589	410	1 999	3 875	**8 858**	6 445
Headline earnings adjustments	–	–	–	–	–	–	**–**	–
Headline earnings	1 995	989	1 589	410	1 999	3 875	**8 858**	6 445
TRS and IFRS 2 liability remeasurement	–	–	–	–	–	–	**–**	–
IAS 19 adjustment	–	–	–	–	–	–	**–**	–
Normalised earnings	1 995	989	1 589	410	1 999	3 875	**8 858**	6 445

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

* *FNB rest of Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

** *Refer to additional segmental disclosure on page B30.*

FCC represents group-wide functions.

	Retail and commercial				Corporate and institutional						
					RMB						
	FNB rest of 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	24 147	2 413	26 560	6 504	1 829	8 333	(452)	34 441	1 371	35 812
	802	49 838	5 138	54 976	11 477	3 829	15 306	2 634	72 916	1 906	74 822
	(1 162)	(28 356)	(3 879)	(32 235)	(5 548)	(2 330)	(7 878)	(3 362)	(43 475)	16	(43 459)
	(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)	1 261	(6 977)	(430)	(7 407)
	(260)	15 043	901	15 944	4 169	1 072	5 241	450	21 635	1 492	23 127
	(260)	15 043	901	15 944	4 169	1 072	5 241	(33)	21 152	1 492	22 644
	–	–	–	–	–	–	–	483	483	–	483
	(260)	15 043	901	15 944	4 169	1 072	5 241	450	21 635	1 492	23 127
	(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

	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 (%)	38.4	45.3	24.6	39.9	31.0	61.7	**49.6**	49.4	
Diversity ratio (%)	8.4	45.1	21.3	8.7	16.0	60.6	**41.5**	44.1	
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 companies	–	–	–	–	–	–	**–**	–	
Total deposits	533	2 393	10	–	10	245 399	**248 335**	240 224	
Total assets	214 679	25 548	19 308	13 434	32 742	33 934	**306 903**	104 469	
Total liabilities†	214 061	25 476	18 733	14 278	33 011	21 886	**294 434**	100 500	
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 rest of Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page A04) and are not reported in bank.*

** *Refer to additional segmental disclosure on page B30.*

FCC represents group-wide functions.

† *Total liabilities are net of interdivisional balances.*

Retail and commercial				Corporate and institutional						
				RMB						
FNB rest of 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	**50.9**	**55.0**	**51.4**	48.2	60.5	**51.3**	>100	**53.4**	–	**52.2**
>100	**43.3**	**34.2**	**42.3**	56.5	47.5	**54.3**	(13.9)	**42.3**	–	**43.0**
–	**1.51**	**1.54**	**1.52**	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**

Additional segmental disclosure – WesBank

	Year ended 30 June 2020		
R million	**Retail**	**Corporate and commercial**	**Total WesBank**
NII before impairment of advances	**4 191**	**586**	**4 777**
Impairment of advances	**(2 699)**	**(249)**	**(2 948)**
Normalised profit before tax	**182**	**242**	**424**
Normalised earnings	**131**	**174**	**305**
Advances	**94 024**	**27 114**	**121 138**
Stage 3/NPLs	**9 810**	**874**	**10 684**
Advances margin (%)	**3.77**	**2.15**	**3.39**
Stage 3/NPLs as a % of advances (%)	**10.43**	**3.22**	**8.82**
Credit loss ratio (%)	**2.86**	**0.90**	**2.42**

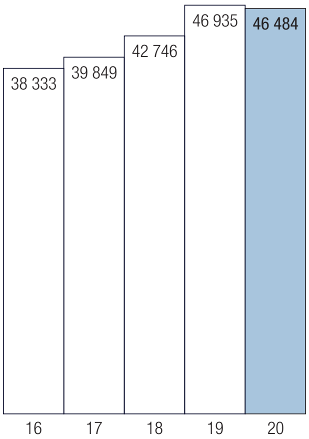
	Year ended 30 June 2019		
R million	Retail	Corporate and commercial	Total WesBank
NII before impairment of advances	4 038	603	4 641
Impairment of advances	(1 834)	(82)	(1 916)
Normalised profit before tax	820	431	1 251
Normalised earnings	591	310	901
Advances	94 751	27 945	122 696
Stage 3/NPLs	6 874	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

income statement analysis

Net interest income (before impairment of advances)

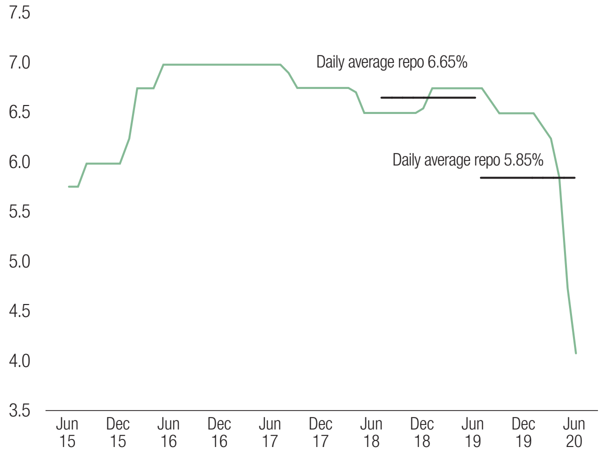
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – DOWN 1%

NET INTEREST INCOME
R million
CAGR 5%



Note: 2016 to 2018 figures are based on IAS 39 and 2019 to 2020 figures on IFRS 9.

REPO RATE – SOUTH AFRICA
%



Note: R272 billion = average endowment book for the year. Rates were 80 bps lower on average in the current year, which translate into a negative endowment impact of R2.1 billion for the year on an unhedged basis.

MARGIN CASCADE TABLE

Percentage of average interest-earning banking assets	%
2019 normalised margin	**4.97**
Capital and deposit endowment	**(0.09)**
– Volume	**0.11**
– Average rate	**(0.20)**
Interest-earning assets	**(0.22)**
– Change in balance sheet advances mix	**(0.02)**
– Asset pricing*	**(0.08)**
– Change in interest suspended under IFRS 9	**(0.12)**
Liabilities	**(0.02)**
– Change in deposit franchise composition	**0.07**
– Deposit pricing	**(0.09)**
Group Treasury and other movements	**0.01**
– Interest rate and FX management	**0.10**
– Carry cost on excess funding (including increase in HQLA)	**(0.09)**
2020 normalised margin	**4.65**

* *Includes the effects of the MotoNovo securitisation structures.*

Net interest income (before impairment of advances) continued

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

	Year ended 30 June		
R million	**2020**	2019	% change
Net interest income			
Lending	**21 591**	22 385	(4)
Transactional*	**16 775**	15 893	6
Deposits	**3 453**	3 326	4
Capital endowment	**6 348**	6 058	5
Group Treasury	**(1 891)**	(1 124)	68
Other (negative endowment, e.g. fixed assets)	**208**	397	(48)
Total net interest income	**46 484**	46 935	(1)

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

KEY DRIVERS

- Overall bank NII declined 1% year-on-year reflecting the decrease in advances of 2% (driven by MotoNovo securitisation and RMB book sale to RMB Mauritius) and muted deposits growth of 3% (deposit franchise up 15%).
- Lending NII decreased 4% due to retail lending margins decreasing, resulting from mix change following slower growth in unsecured and the lengthening of the write-off period, the impact of securitisations by MotoNovo and the sale of advances by RMB (refer below). This was to some extent offset by higher margins in FNB commercial following repricing of overdraft facilities.
- FNB's advances product margin decreased by 10 bps driven by an increase in suspended interest, arising from the growth in NPLs.
- Retail VAF performance includes both WesBank and MotoNovo.
  - WesBank's operational retail VAF margins increased 25 bps due to reduced dealer incentive costs (DIC) and origination fees, arising from ongoing calibration of models aligning to behavioural term. This uplift was partly offset by lower margins due to competitive pricing, resulting in a net increase of 16 bps for WesBank overall.
  - MotoNovo back-book margins were negatively impacted by the timing of securitisation transactions negatively impacting margins by >R1.2 billion, together with elevated funding costs (due to an increase in UK base rates).
- The average repo rate decreased 80 bps year-on-year, resulting in a negative endowment impact on capital and deposits. This was offset, to an extent, by higher capital levels and deposit volumes.
- FNB's deposit margins decreased, impacted by negative endowment, mix change in favour of lower-margin deposit products and increased competitive pressures. Overall FNB NII increased 5%, benefiting from strong growth of 13% in average deposits and average advances growth of 7%. Deposit growth was driven by cash investment products in the premium segment, wealth and investment products and strong growth in Islamic banking.
- RMB achieved NII growth of 1% reflecting a contraction of the advances book as a result of significant settlements, disciplined origination in a constrained macroeconomic environment and the sale of >$700 million of advances to RMB Mauritius in the prior year.
- Group Treasury's margin was impacted by the following factors:
  - Pre-COVID-19 the bank had increased both local and foreign liquid asset holdings to strengthen liquidity buffers to cater for further macro deterioration.
  - During lockdown, liquidity further increased given lower advances growth and stronger growth in the deposit franchise.
  - These factors led to a 20% increase in liquid assets, resulting in a year-on-year increase in carry costs of >R700 million.

AVERAGE BALANCE SHEET

		June 2020			June 2019**		
R million	Notes	Average balance*	Interest income/ (expense)	Average rate %	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate (RSA)				**9.35**			10.15
Balances with central banks		**25 780**	**–**		24 671	–	
Cash and cash equivalents		**34 598**	**1 612**	**4.66**	32 593	1 692	5.19
Liquid assets portfolio		**165 742**	**11 622**	**7.01**	135 321	9 906	7.32
Loans and advances to customers	1	**773 381**	**77 441**	**10.01**	751 212	81 920	10.91
Interest-earning assets		**999 501**	**90 675**	**9.07**	943 797	93 518	9.91
INTEREST-BEARING LIABILITIES							
Average JIBAR				**6.51**			7.06
Deposits due to customers	2	**(661 864)**	**(29 387)**	**4.44**	(593 972)	(29 322)	4.94
Group Treasury funding		**(326 264)**	**(21 142)**	**6.48**	(364 976)	(24 636)	6.75
Interest-bearing liabilities		**(988 128)**	**(50 529)**	**5.11**	(958 948)	(53 958)	5.63
ENDOWMENT AND TRADING BOOK							
Other assets[#]		**228 418**			256 437		
Other liabilities[†]		**(135 804)**			(161 902)		
NCNR preference shareholders and AT1 noteholders		**(5 312)**			(2 939)		
Equity		**(98 675)**			(76 445)		
Endowment and trading book		**(11 373)**	**6 338**	**(55.73)**	15 151	7 375	48.68
Total interest-bearing liabilities, endowment and trading book		**(999 501)**	**(44 191)**	**4.42**	(943 797)	(46 583)	4.94
Net interest margin on average interest-earning assets		**999 501**	**46 484**	**4.65**	943 797	46 935	4.97

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.*

** *The June 2019 numbers have been restated due to refinements in the calculations.*

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

[†] *Include trading liabilities.*

Net interest income (before impairment of advances) continued

NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

	June 2020		June 2019	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average prime rate (RSA)		**9.35**		10.05
Advances				
Retail – secured	**344 250**	**1.91**	338 361	2.45
Residential mortgages	**222 932**	**1.82**	210 206	1.79
VAF	**121 318**	**2.08**	128 155	3.54
Retail – unsecured	**93 917**	**11.08**	84 417	11.96
Card	**32 075**	**7.17**	29 764	7.69
Personal loans	**42 510**	**15.12**	37 535	16.34
– FNB	**26 117**	**13.92**	21 913	15.07
– DirectAxis	**16 393**	**17.02**	15 622	18.13
Retail other	**19 332**	**8.68**	17 118	9.80
Corporate and commercial	**335 214**	**2.52**	328 434	2.50
FNB commercial	**105 232**	**3.61**	96 618	3.61
– Mortgages	**27 885**	**2.27**	24 596	2.31
– Overdrafts	**39 401**	**5.04**	36 614	4.95
– Term loans	**37 946**	**3.11**	35 408	3.14
WesBank corporate	**28 756**	**2.15**	29 425	2.31
RMB investment banking*	**143 943**	**2.22**	149 738	2.19
RMB corporate banking	**57 283**	**1.45**	52 653	1.43
Total advances	**773 381**	**3.29**	751 212	3.54

* *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 on loans and advances to and deposits from customers is based on net interest income as a percentage of average advances or 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 individual business units with the liquidity risk exposure this activity creates for the bank 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.

NOTE 2 – MARGIN ANALYSIS ON DEPOSITS DUE TO CUSTOMERS

	June 2020		June 2019*	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average JIBAR (RSA)		**6.51**		7.06
Deposits				
Retail	**241 522**	**2.03**	216 787	2.35
Current and savings	**66 193**	**5.26**	60 197	6.14
Call	**91 624**	**0.88**	77 180	0.96
Term	**83 705**	**0.74**	79 410	0.82
Commercial	**262 990**	**2.39**	228 965	2.67
Current and savings	**98 565**	**4.80**	84 921	5.58
Call	**82 719**	**1.43**	75 405	1.45
Term	**81 706**	**0.47**	68 639	0.44
Corporate and investment banking	**157 352**	**0.94**	148 220	0.96
Current and savings	**80 969**	**1.35**	74 361	1.32
Call	**44 063**	**0.67**	41 664	0.77
Term	**32 320**	**0.30**	32 195	0.38
Total deposits	**661 864**	**1.92**	593 972	2.13

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

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

Credit highlights

CREDIT HIGHLIGHTS AT A GLANCE

		Year ended 30 June		
R million	Notes	2020	2019	% change
Total gross advances	1 on p. B62	**905 712**	921 846	(2)
– Stage 1		**782 667**	829 844	(6)
– Stage 2		**75 792**	57 797	31
– Stage 3/NPLs*	3 on p. B76	**47 253**	34 205	38
Stage 3/NPLs as a % of advances	3 on p. B76	**5.22**	3.71	
Impairment charge	6 on p. B84	**18 269**	8 460	>100
Credit loss ratio (%)	6 on p. B84	**2.00**	0.95	
Total impairments	5 on p. B82	**37 772**	27 303	38
Portfolio impairments	2 on p. B74	**16 645**	11 622	43
– Stage 1		**8 047**	5 959	35
– Stage 2		**8 598**	5 663	52
Stage 3 impairments		**21 127**	15 681	35
Specific coverage ratio (%)**	4 on p. B80	**44.7**	45.8	
Total impairment coverage ratio (%)#	5 on p. B82	**79.9**	79.8	
Performing book coverage ratio (%)†	2 on p. B74	**1.94**	1.31	

* *A detailed analysis of the growth in stage 3/NPLs is provided on page B42.*

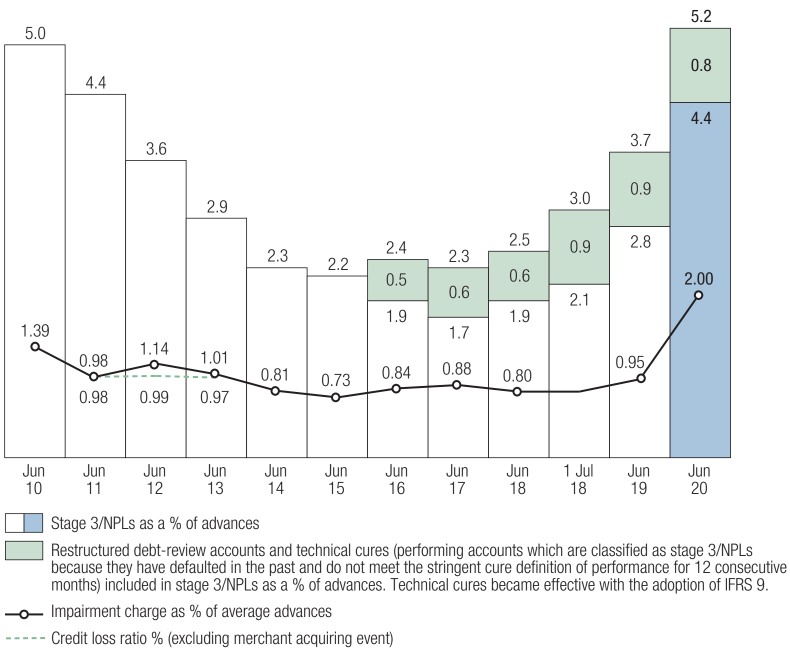
** *Specific impairments as % of stage 3/NPLs.*

\# *Total impairments as % of stage 3/NPLs.*

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

NPL AND IMPAIRMENT HISTORY

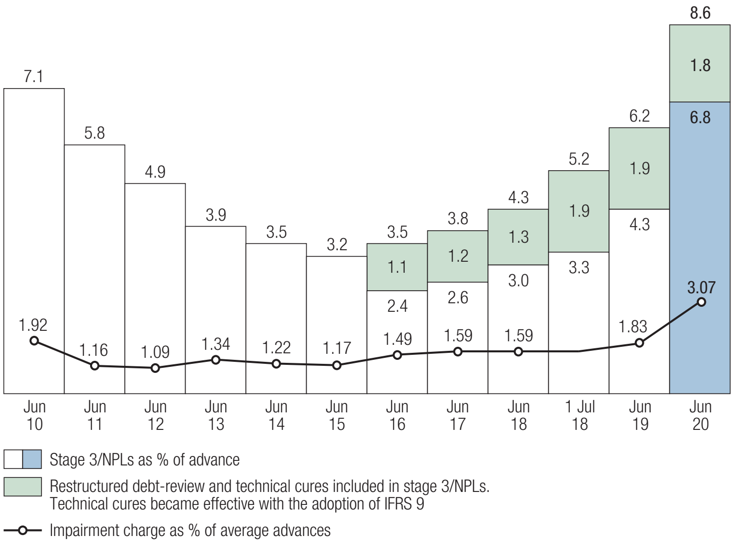
%



Note: 2010 to 2018 figures are based on IAS 39 and 2019 to 2020 on IFRS 9.

RETAIL NPLs AND IMPAIRMENTS*

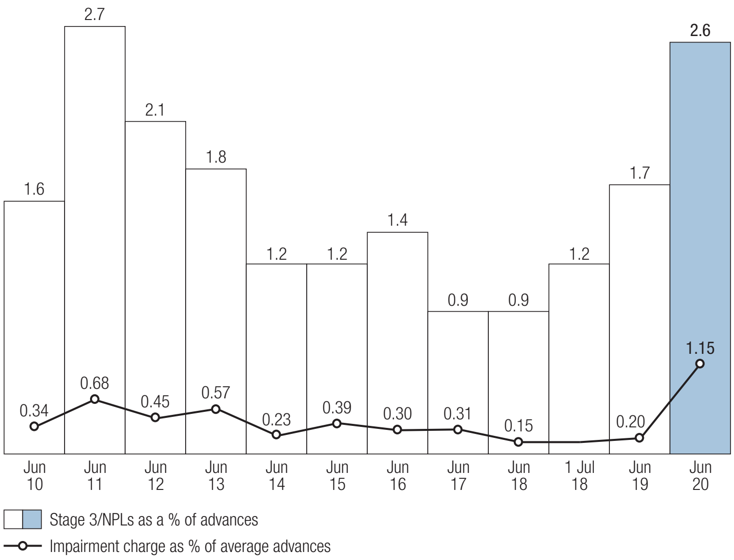
%



* *Include Discovery card and MotoNovo.*

CORPORATE AND COMMERCIAL NPLs AND IMPAIRMENTS

%



Note: 2010 to 2018 figures are based on IAS 39 and 2019 to 2020 on IFRS 9.

Credit highlights continued

HIGH-LEVEL OVERVIEW OF CREDIT PERFORMANCE

As explained on page B11, the bank's credit performance should be viewed in the context of a worse-than-anticipated macroeconomic environment, particularly in the second half of the financial year, exacerbated by the COVID-19 pandemic and resultant lockdowns.

COVID-19 relief provided

The COVID-19 lockdown created significant economic distress and this required revisions to origination criteria and collection processes, and the establishment of payment relief initiatives. An overview of the relief options that were made available to customers is provided below.

- FNB offered retail customers emergency loans which provided them with liquidity and cash flow relief. The loans were at prime rate for all customers, with zero fees and a flexible repayment period of up to five years (with no early settlement penalties). Repayment will commence after the three-month relief period is over. The emergency loan covers monthly instalments for FNB customers (including WesBank products).
- Customers were also offered traditional payment holidays in FNB retail and WesBank.
- There was also an option to convert and extend balloon payments due to WesBank in the next 12 months.
- In corporate and commercial, relief was undertaken on a case-by-case basis. Corporate relief was provided in the form of additional liquidity facilities, payment holidays and covenant waivers. Commercial customers were offered payment holidays through term extensions and overdrafts with flexible repayment timeframes.
- Relief was also provided to SMEs through the South African government-guaranteed loan scheme whereby SMEs meeting specific requirements received relief funds at prime to cover operational costs for a period of up to six months. No fees were incurred by the customer, with flexible repayment terms of up to five years with no early settlement penalties. The bank will incur 6% of the credit losses on these loans, and the SARB guarantees losses above that.

Assessment of eligibility for relief followed a risk-based approach and was conducted at an overall customer level. For retail customers in South Africa, industry guidance was followed, with relief provided to bucket 1 and 2 customers.

Bucket 1	Bucket 2	Bucket 3	Bucket 4
Up to date – no assistance required, no financial distress	Up to date – COVID-19 short-term liquidity stress leading to financial distress	Up to three payments in arrears – already experiencing some financial distress, cannot manage COVID-19 financial stress, resulting in shortfall	Already experiencing financial distress and more than three payments in arrears and/or legal action has commenced

Corporate and commercial portfolios were assessed against sector vulnerabilities to lockdown and the pandemic.

	HIGH RISK *(intermediate impact)*	MEDIUM RISK *(protracted impact)*	LOW RISK *(neutral/positive impact)*
CORPORATE	Finance, government (parastatals), retail, oil and gas (upstream), transport and aviation, leisure and hotels, building materials, mining (diamonds), IT hardware, construction	Real estate, banks, diversified industries, mining (other mineral extractions and mines), food producers and processors, automobile and parts, oil and gas (downstream)	Telecommunication services, retail (food and drugs retailers), health, mining (gold)
COMMERCIAL	Construction, transport/logistics, travel/tourism/hospitality, entertainment, luxury goods, wants basket, labourers/self-employed, mining supply chain	Commercial property, retail property, shopping and fast food, labour broking/professional services, fuels, manufacturing	Pharmaceuticals and healthcare (adjusted service model), agriculture, online entertainment, e-commerce, business enablers/ IT services

The table below unpacks the number of customers who applied for, received and utilised some form of credit relief.

	Number of customers (thousands)	Number of accounts (thousands)	Underlying gross advances for which relief was provided (R million)	Total portfolio* (gross advances) (R million)	% of portfolio
Retail	188.4	653.7	63 529	407 244	16%
Commercial	16.7	31.0	30 832	135 028	23%
Corporate	n/a	n/a	53 098	322 114	16%
MotoNovo	22.5	22.5	423	3 782	11%
Total bank	227.6	707.2	147 882	905 712	16%

* *Total bank portfolio includes FCC advances.*

Relief provided by RMB to investment and corporate banking clients was assessed and granted at an individual counterparty level and followed the normal credit approval process. The rand amount of relief granted, primarily in the form of short-term debt repayment moratoriums and new bridge finance advanced, amounted to R12.7 billion, representing a small percentage of underlying client facilities. The clients were primarily in sectors where short-term operating cash flows were immediately adversely impacted by the COVID-19 economic lockdown, e.g. private healthcare, real estate, hotels and leisure.

The aggregate gross exposure of these clients amounted to R53 billion, or 16% of total advances, and includes relief related to covenant waivers. The amount includes a number of well-rated clients (more than 51% of relief approved was for strongly rated clients) who approached the bank proactively for additional credit limits as a liquidity backstop, but subsequently elected not to draw down, or had no requirement for the bridge finance made available. The average utilisation relating to general banking facilities for clients who sought relief was 50% at 30 June 2020.

Whilst WesBank's FML business is not included in advances, payment holiday relief was provided to 25% of the customer base and 16% of value representing R42 million of deferred lease payments.

In addition to the on-balance sheet relief provided, the bank facilitated the distribution of other relief funds, such as the Oppenheimer COVID-19 relief fund.

Refer to pages B66 to B71 for more detail on advances where relief was provided.

Staging and coverage of COVID-19 relief

Retail exposures where relief has been offered were assessed to determine whether the requirement for relief is expected to be either temporary or permanent in nature. Where the requirement for relief is expected to be temporary in nature, the staging of the exposure as at 29 February 2020 has been maintained, and adjustments have been made to increase coverage to allow for incremental credit risk and potential masking of normal arrears emergence through the application of COVID-19 scaling factors. Where the requirement for relief is not expected to be temporary in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with normal practice. Determining whether the relief is temporary or a distressed restructure is based on product-specific definitions incorporating various factors.

Where relief has been provided through the provision of an emergency facility and the requirement for relief is expected to be temporary in nature, the facility has been treated as a new exposure from a staging perspective and coverage has been calculated on the basis of historical behaviour in similar products and incorporating the COVID-19 scaling factors (i.e. increasing the coverage). Where the requirement for relief is not expected to be temporary, the staging of the facility has been aligned to the staging of the underlying exposures. Where there are multiple underlying exposures with different stages, the worst of these stages has been applied and coverage adjusted with appropriate COVID-19 scaling factors.

Credit highlights continued

Exposures where relief was offered in commercial were assessed depending on whether a client was in the scored or judgemental portfolio. A volume-based approach was followed for SME customers mainly in the scored portfolio. A value-based approach was followed for judgmental portfolios with underlying specialised product specifications and qualifying criteria to determine liquidity relief support. Normal credit mandates were applied for clients in good standing and expected to recover. Credit risk assessments were also made with reference to sector/industry risk classifications. The staging of exposures as at 29 February 2020 has been maintained and adjustments have been made to coverage to allow for incremental credit risk and masking of normal arrears emergence through the application of COVID-19 scaling factors. Where the requirement for relief was approved under high-risk or debt-restructuring mandates, the staging and coverage were adjusted in line with normal practice, also dependent on the arrear and staging status of the exposure as at 29 February 2020.

In RMB, dedicated COVID-19 credit risk committees and forums considered, through detailed portfolio, sector and counterparty assessments, the risk-rating implications of the lockdown, the COVID-19 short-term relief granted and the revised macroeconomic outlook.

In addition to the above, and applicable to all portfolios, the material change in economic outlook was incorporated within performing coverage through a combination of models, and portfolio and sector judgemental out-of-model adjustments.

NPLs

NPLs increased 38% to 5.22% of advances (2019: 3.71%). An analysis of the R13 048 million increase in total NPLs to R47 253 million is provided in the table below.

R million	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	10 863	49	31
Loans under COVID-19 relief	1 907	–	6
Restructured debt review	234	6	1
Definition of rehabilitation (technical cures)	(601)	(14)	(2)
Lengthening of write-off period	696	19	2
NPLs (excluding MotoNovo)	**13 099**	**39**	**38**
MotoNovo	(51)	(8)	–
Total bank NPLs	**13 048**	**38**	**38**

Retail NPLs increased R9 169 million to R34 778 million, with NPLs as a percentage of advances increasing to 8.54% (2019: 6.45%), driven by the following factors:

- Growth in NPL balances across all retail portfolios, aggravated by COVID-19. This was most pronounced in residential mortgages as NPL build-up over recent years has been benign.
- Loans under COVID-19 relief meeting distressed-restructure requirements being classified as NPLs.
- New curing and write-off rules in terms of IFRS 9 (the write-off point for unsecured lending changed from six to 12 months, and using a 12 consecutive payments curing rule), resulting in an increase of R696 million in the absolute value of NPLs, reflecting additional write-offs of R1 050 million in loans due to a refinement in the write-off calculation to a recency basis. Restructured debt-review NPLs were positively impacted by ±R619 million due to the reinstatement of the curing rules.

Corporate and commercial NPLs increased 50% to 2.58% (2019: 1.72%), reflecting:

- the residual impact of the drought on the agriculture portfolio in previous years;
- specific high-value counters in commercial property and asset-based finance migrating to NPLs;
- higher levels of operational NPLs in the SME segment reflecting new business strain from previous strong book growth, and the weak macroeconomic environment; and
- an increase in CIB NPLs due to stress events leading to clients entering business rescue.

A detailed analysis of the product-level NPL drivers for specific retail products, and in total, is provided on pages B46 to B51.

Stage 2

Retail stage 2 advances increased 41%, due to the reinstatement of cure rules to performing debt-review clients (resulting in clients qualifying to cure migrating out of NPL status to stage 2), increased arrears and an upturn in significant increase in credit risk (SICR) triggers due to elevated behavioural risk scores.

Corporate and commercial stage 2 advances increased 29%, largely driven by RMB investment banking, which increased 57%. This reflects proactive migration of clients to stage 2 due to a combination of the expected adverse impact of COVID-19 on the profitability of some key industries (e.g. oil and gas, aviation, transportation, leisure, hotels and tourism and high-leverage commercial property finance). In addition, a small number of single name exposures migrated to stage 2 during the year.

Coverage

	30 June 2020		30 June 2019	
R million	**Provision**	**Coverage %**	Provision	Coverage %
Stage 1	**8 047**	**1.03**	5 959	0.72
Stage 2	**8 598**	**11.34**	5 663	9.80
Stage 3	**21 127**	**44.7**	15 681	45.8
Total	**37 772**	**79.9**	27 303	79.8

Portfolio (stage 1 and stage 2) impairments increased 43%. Stage 1 impairment provisions increased 35%, reflecting the impact of the increased COVID-19 coverage on relief provided, specific out-of-model overlays created given the increased uncertainty, and the significant impact of FLI.

Stage 2 impairment provisions increased 52%. Retail stage 2 coverage marginally decreased to 13.91% (2019: 13.98%) due to the change in mix in favour of secured advances, in particular higher residential mortgages. Overall stage 2 provisions grew due to increased downside risk in FLI, higher arrears and the reinstatement of cures on performing debt-review clients, which carry higher coverage. Corporate and commercial stage 2 coverage increased from 6.24% to 8.98% due to the impact of increased downside risk in FLI and the impact of increased COVID-19 coverage, as well as the migration of clients into stage 2 and the resultant move to lifetime expected credit losses.

The bank's total performing book (stage 1 and 2) coverage ratio increased to 1.94% (2019: 1.31%).

The total balance sheet impairment coverage ratio increased to 79.9% (2019: 79.8%), reflecting:

- substantial additional impairment provisions relating to the materially weaker existing and forward-looking macroeconomic environment; and
- the application of COVID-19 related scaling factors to advances on which relief was provided.

These increases were offset by:

- the impact of a high proportion of technically cured customers (customers who are fewer than three payments in arrears, but do not meet the group's stringent curing definition 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. agriculture and commercial property finance; and
- the restructure, positive credit migration and write-off of certain highly collateralised corporate exposures during the year, and new stage 3 migrations being highly collateralised and/or guaranteed.

Income statement impairment charge

The income statement credit impairment charge increased 2.2 times from R8.5 billion to R18.3 billion, resulting in a credit loss ratio of 200 bps (2019: 95 bps).

Retail impairments reflected an increase of 82% to 315 bps (2019: 181 bps). The corporate and commercial credit loss ratio increased to 115 bps (2019: 20 bps).

The impairment charge in all portfolios was significantly affected by the FLI impact, modification losses, increased arrears and SICR, given the tough macroeconomic environment. There was a significant change in the probabilities assigned to upside and downside economic scenarios compared to the prior year, with the upside scenario probability decreased to 12% (from 23%) and the downside scenario probability increased to 23% (from 18%). These were on top of all scenarios being significantly more negative in the current year. Refer to pages C60 to C63 for detailed macroeconomic information, including the specific factors included in the ECL calculation.

Post write-off recoveries decreased to R2 085 million (2019: R2 416 million) impacted by the later write-off point and the current worsening macro environment. Post write-off recoveries were driven by the retail unsecured and retail SA VAF portfolios, with continued focus on collections.

Credit highlights continued

The table below provides an analysis of the income statement impairment charge. The overall increase in balance sheet impairments (credit provisions) amount to R10.5 billion compared to R4.2 billion in the prior year. This increase is largely driven by the downward revisions to key economic variables, including a sharp contraction in real GDP of 8% and a significant increase in unemployment and weakness in property markets.

Below are the definitions of the key components of the increase in total balance sheet credit provisions.

- Change in stage 1 advances (volume) assuming the same coverage as in prior year (volume change in stage 1).
- Stage 1 coverage increase largely due to IFRS 9 requirements (change in stage 1 coverage).
- Change in stage 2 (volume) advances given the macro environment increasing the roll rates together with migration of sectors due to SICR as a consequence of COVID-19 (volume change in stage 2).
- Stage 2 coverage increase largely due to IFRS 9 requirements (change in stage 2 coverage).
- Stage 3 as a consequence of the 39% increase in NPL balances with coverage largely remaining similar to prior year.

	For the year ending 30 June 2020			
R million	**Volume change in stage 1**	**Change in stage 1 coverage**	**Volume change in stage 2**	**Change in stage 2 coverage**
Retail				
– Secured	**(40)**	**365**	**438**	**(155)**
– Unsecured	**(294)**	**1 111**	**1 277**	**(143)**
Commercial	**(3)**	**686**	**(12)**	**619**
Corporate	**(42)**	**468**	**457**	**587**
Rest of Africa	**–**	**–**	**–**	**–**
MotoNovo	**(162)**	**10**	**(123)**	**28**
FCC	**(76)**	**65**	**(36)**	**(2)**
Total	**(617)**	**2 705**	**2 001**	**934**

	For the year ending 30 June 2019			
R million	Volume change in stage 1	Change in stage 1 coverage	Volume change in stage 2	Change in stage 2 coverage
Retail				
– Secured	23	34	(91)	283
– Unsecured	355	67	123	(89)
Commercial	54	(2)	123	(250)
Corporate	130	103	1 163	(2 104)
Rest of Africa	–	–	–	–
MotoNovo	(34)	(30)	(43)	10
FCC	(35)	34	3	2
Total	493	206	1 278	(2 148)

Write-offs and other charges increased 51% to R9.1 billion (2019: R6.0 billion) driven by expected collection outcomes in the current year following prior year NPL formation given new business strain from historical advances growth. The majority of this growth emanated from the unsecured portfolio resulting in R3.4 billion of additional write-offs.

Modification loss increased largely in the unsecured portfolio.

The decline in post write-off recoveries across all portfolio reflecting the tougher economic environment.

The table below provides an overview of the key drivers of the impairment charge for the year ending 30 June 2020.

For the year ending 30 June 2020					
Change in stage 3 provisions	**Credit provision increase**	**Modification loss**	**Write-off and other**	**Post write-off recoveries**	**Total**
2 233	**2 841**	**39**	**1 630**	**(400)**	**4 110**
1 896	**3 847**	**719**	**5 523**	**(1 527)**	**8 562**
1 094	**2 384**	**–**	**895**	**(81)**	**3 198**
218	**1 688**	**–**	**395**	**(6)**	**2 077**
–	**–**	**–**	**28**	**–**	**28**
10	**(237)**	**–**	**415**	**–**	**178**
(5)	**(54)**	**–**	**241**	**(71)**	**116**
5 446	**10 469**	**758**	**9 127**	**(2 085)**	**18 269**

For the year ending 30 June 2019					
Change in stage 3 provisions	Credit provision increase	Modification loss	Write-off and other	Post write-off recoveries	Total
160	409	156	1 952	(451)	2 066
3 588	4 044	467	2 165	(1 779)	4 897
435	360	(7)	569	(90)	832
259	(449)	–	508	(8)	51
–	–	–	–	–	–
(41)	(138)	–	659	–	521
(5)	(1)	9	173	(88)	93
4 396	4 225	625	6 026	(2 416)	8 460

Credit highlights continued

DETAILED PRODUCT ANALYSIS OF CREDIT PERFORMANCE

PRODUCT	ADVANCES
Retail	• Retail advances growth slowed to 3% as a result of reduced risk appetite and lower customer demand given COVID-19. • Retail secured advances growth of 2% reflects a 3% increase in residential mortgages, offset by a decrease of 1% in VAF. • Growth in retail unsecured slowed to 4%, driven by 7% growth in card and the take-up of COVID-19 emergency loan relief of R2.3 billion. Excluding the relief, retail unsecured growth was 1.3%. • Twenty per cent of retail unsecured growth was due to the extension of the write-off period, which resulted in NPL formation of R4 289 million (2019: R3 593 million).
Residential mortgages	• Total residential mortgage advances increased 3%, despite negative house price inflation of 4.5%, driven by growth of 9% in premium residential mortgages, benefiting from new customer acquisition, up-sell initiatives and strong demand in private bank mortgage lending through the digital NAV >> Home channel, which grew 7%. This was partly offset by a 36% decline in affordable housing on the back of lower demand and migration of customers from the consumer segment (affordable housing) to premium.
Card	• Advances growth of 7% reflects the reduced risk appetite given the risk cuts together with the significant lower spending in the last quarter due to the COVID-19 lockdown.

STAGE 3/NPLs AND COVERAGE	IMPAIRMENT CHARGE

A further analysis of the R9 169 million increase in retail NPLs is provided below.

	Retail		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	6 882	48	27
Loans under COVID-19 relief	1 907	–	7
Debt review	282	8	1
Technical cures/curing rules	(598)	(14)	(2)
Write-off point extension	696	19	3
SA retail NPLs	**9 169**	**36**	**36**

The R696 million increase in NPLs due to the change in write-off point is largely driven by card and DirectAxis loans.

- The Retail credit loss ratio increased to 315 bps, driven by the FLI impact on all portfolios, COVID-19 scaling factors and the lingering impact of collection issues experienced in the first half of the year, offset by recoveries on credit life insurance.
- The impairment charge also reflects the decline in post write-off recoveries of R303 million.

- Residential mortgage NPLs increased 35%, reflecting historic book growth and the financial strain on customers, aggravated by COVID-19. NPLs in the affordable housing book increased 24% and premium mortgage lending reported a 51% NPL increase.

- The credit loss ratio increased to 64 bps (2019: 11 bps), reflecting the increase in NPLs and the FLI impact.
- Increased coverage through the application of COVID-19 scaling factors.

- The increase in operational NPLs reflects the strained macroeconomic environment and new business strain, given the seasoning of the book following strong advances growth over previous years. It also reflects the elevated risk in certain cohorts of advances written previously. The group received some relief in NPL formation due to the maturing of the write-off policy and curing definitions, and reinstatement of cures for debt-review accounts. Debt-review and technical cure NPLs comprise 14% of NPLs.
- The increase in NPLs since June 2019 is analysed below.

	Card		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	383	30	17
Loans under COVID-19 relief	270	–	12
Debt review	276	>100	12
Technical cures/curing rules	12	75	1
Write-off point extension	462	62	20
Total card NPLs	**1 403**	**62**	**62**

- Card reported a credit loss ratio of 6.85% (2019: 3.68%), reflecting the increase due to changes in the FLI assumptions.
- Increased coverage through the application of COVID-19 scaling factors.
- Further risk cuts have been implemented to mitigate increasing arrears and elevated vintages.

Credit highlights continued

PRODUCT	ADVANCES	
FNB personal loans	• After many years of strong growth, FNB personal loans remained flat, reflecting reduced risk appetite, the impact of the COVID-19 pandemic on the macroeconomic environment and customers opting to utilise COVID-19 relief.	
DirectAxis loans	• The 1% growth in advances reflects the slowdown in demand and lower risk appetite due to the weak and uncertain macroeconomic environment.	
Retail other	• The 7% decline reflects the lower usage of transactional banking accounts (primarily overdrafts), debt relief and the benefit of the shift to Fusion product spend.	

STAGE 3/NPLs AND COVERAGE	IMPAIRMENT CHARGE

- The increase in operational NPLs reflects the weak macroeconomic environment and new business strain given the seasoning of the book following strong advances growth in previous years, as well as the impact of certain collection process inefficiencies in the first quarter of the financial year, which resulted in increased roll rates into stage 3 that are required to meet the stringent curing requirements.
- The methodology used to determine the write-off point was refined during the year to a recency approach. This resulted in the write-off of R1 050 million, which had an immaterial impact on the impairment charge, however, lowering coverage marginally.
- The increase in FNB personal loans NPLs since June 2019 is analysed below.

	FNB personal loans		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	364	34	9
Loans under COVID-19 relief	573	–	17
Debt review	(146)	(32)	(4)
Technical cures/curing rules	(80)	(35)	(2)
Write-off point extension	157	9	5
Total FNB personal loans NPLs	868	25	25

Impairment charge:

- FNB personal loans reported a credit loss ratio of 10.46% (2019: 6.39%), reflecting the FLI impact, higher operational NPLs, the lingering result of collection process inefficiencies in the first quarter of the financial year and slowing post write-off recoveries.
- Increased coverage through the application of COVID-19 scaling factors.

- DirectAxis NPLs increased 29% due to an increase in operational NPLs given the weak macroeconomic environment. This was offset by the reinstatement of cures on performing debt-review advances and the sale of a portion of the NPL book during the year.

	DirectAxis loans		
	R million	**% change**	**Percentage point contribution to overall NPL increase**
Operational – new business strain	670	70	27
Loans under COVID-19 relief	319	–	13
Debt review	(582)	(66)	(24)
Technical cures/curing rules	3	3	–
Write-off point extension	303	61	13
Total DirectAxis NPLs	713	29	29

Impairment charge:

- The DirectAxis credit loss ratio of 12.87% (2019: 8.93%) reflects the benefit of more risk cutbacks in credit origination and the impact of the NPL book sale during the year, offset by the impact of FLI.
- Increased coverage through the application of COVID-19 scaling factors added to the impairment charge.

Credit highlights continued

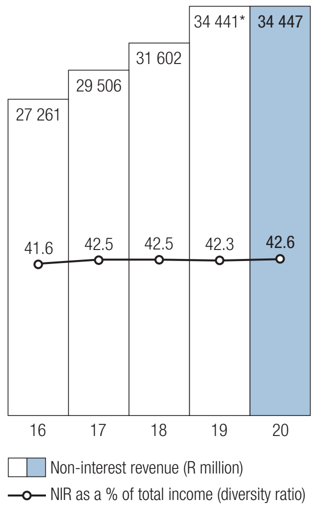
PRODUCT	ADVANCES	
FNB commercial	• Advances growth of 3% was driven by targeted new client acquisition in the business segment, resulting in growth of 4% in business core lending (i.e. SME transactional overdrafts), 3% in agriculture, 6% in commercial property finance and 8% in asset-based finance, offset by a 5% decline in specialised finance. • SME government-guaranteed loan scheme advances of R345 million added 12% to advances growth.	
RMB CIB*	• The CIB core advances book grew 6% year-on-year. The SA core advances book grew 2% due to higher working capital facility utilisation. The cross-border portfolio growth remained solid at 6% in dollar terms.	
WesBank VAF	• New business production in retail SA VAF contracted 12%, reflecting the impact of the lockdown levels 4 and 5, resulting in record-low production levels in April and May, in addition to the lengthening of vehicle replacement cycles, further risk cuts in origination, increased competitive pressures and the already challenging macroeconomic environment pre-COVID-19. • Corporate new business volumes increased 1%, benefiting from growth in FML. Asset-backed finance (ABF) contracted 16%, a reflection of the difficult macroeconomic environment, risk cuts in high-risk categories and industries, and the fact that a portion of business now reflects in FNB (own-banked clients). Overall corporate VAF new business advances (between WesBank and FNB) increased 2%.	
MotoNovo UK	• The 84% decline in MotoNovo reflects R19 billion (£750 million in rand terms) of advances that were securitised during the year and the ongoing wind-down of the book.	

* *Core advances.*

	STAGE 3/NPLs AND COVERAGE	IMPAIRMENT CHARGE
	• NPLs grew 54%, reflecting the significant economic strain experienced by many SMEs and, in particular, highly impacted sectors such as transport, and hotels and leisure. NPL growth also reflects high NPL growth in business core lending (unsecured) NPLs, following strong advances growth over the last 12 months, in addition to increases in highly collateralised NPLs in agriculture and the migration of a number of highly collateralised commercial property counters during the year.	• FNB commercial's credit loss ratio increased to 2.77%, reflecting the increase due to changes in FLI assumptions. • Increased coverage through the application of COVID-19 scaling factors.
	• NPLs increased 40%, reflecting the migration of certain distressed clients into NPLs. A significant component of these NPLs are highly collateralised or guaranteed.	• The core lending portfolio incurred a 69 bps credit loss ratio (2019: 2 bps), due to distress in the portfolio following COVID-19.
	• WesBank retail VAF NPLs increased 43%, primarily due to a significant number of accounts rolling into stage 3 due to increased macroeconomic strain, together with the delays in write-offs due to court closures during South Africa's national lockdown.	• The retail VAF portfolio reported a credit loss ratio of 2.86% (2019: 1.94%), driven by the significant roll into stage 3 triggered by the lockdown and the FLI impact.
	• MotoNovo NPLs decreased 23% in pound terms (8% in rand terms) reflecting the securitisations and wind-down.	• The impairment charge also reflects the impact of securitisations and wind-down.

Non-interest revenue – flat

NON-INTEREST REVENUE AND DIVERSITY RATIO
NIR CAGR 6%



* *Restated following the reclassification of customer loyalty expenses. Refer to pages C75 and C76.*

Note: 2016 to 2018 figures are based on IAS 39 and 2019 to 2020 figures on IFRS 9.

ANALYSIS OF NON-INTEREST REVENUE

R million	Notes	**2020**	2019	% change
Fee, commission and insurance income		**25 559**	26 276	(3)
– Fee and commission income	1	**25 110**	25 716*	(2)
– Insurance commission income	2	**449**	560	(20)
Markets, client and other fair value income	3	**4 049**	3 917	3
Investment income		**130**	105	24
Other non-interest revenue	4	**4 709**	4 143	14
Non-interest revenue		**34 447**	34 441	–

* *Reclassification of R240 million relating to costs incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the customer loyalty expense nature. Refer to pages C75 to C76.*

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

NIR was significantly impacted by the pandemic, in the last quarter of the year, which affected almost all NIR items. Fee, commission and insurance income represents 74% (2019: 76%) of NIR.

NOTE 1 – FEE AND COMMISSION INCOME – DOWN 2%

R million	2020	2019	% change
Bank fee and commissions income	**27 249**	27 862	(2)
– Card commissions	**4 208**	4 432	(5)
– Cash deposit fees	**1 518**	1 702	(11)
– Commission on bills, drafts and cheques	**2 530**	2 571	(2)
– Bank charges	**18 993**	19 157	(1)
– Commitment fees	**1 274**	1 364	(7)
– Other bank charges*	**17 719**	17 793	–
Knowledge-based fees	**1 108**	1 167	(5)
Management and fiduciary fees	**1 426**	1 177	21
– Investment management fees	**629**	581	8
– Management fees from associates and joint ventures	**772**	574	34
– Other management and brokerage fee income	**25**	22	14
Other non-bank commissions	**759**	754	1
Gross fee and commission income	**30 542**	30 960	(1)
Fee and commission expenditure**	**(5 432)**	(5 244)	4
– Transaction related fees	**(1 231)**	(1 336)	(8)
– Commission paid	**(266)**	(292)	(9)
– Customer loyalty programmes**	**(2 056)**	(1 892)	9
– Cash sorting, handling and transporting charges	**(981)**	(860)	14
– Card and cheque book related	**(426)**	(477)	(11)
– Other	**(472)**	(387)	22
Total fee and commission income	**25 110**	25 716	(2)

* *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.*

** *Reclassification of R240 million relating to costs incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the customer loyalty expense nature. Refer to pages C75 to C76.*

Non-interest revenue continued

KEY DRIVERS

- FNB NIR declined 1%, reflecting the impact of the COVID-19 pandemic and lockdown, which resulted in a significant decrease in transaction volumes as well as lower customer growth exacerbated by strong fee and commission expenditure growth.
- FNB assisted customers by waiving SASwitch fees, granting rental relief on speedpoints and other devices and providing 1GB of free data to qualifying customers, which reduced NIR by R119 million. Pre-COVID-19, as part of the annual pricing review, FNB decreased certain fee categories as part of its ongoing pre-emptive strategies to improve its customer value proposition in the face of increasing competition. This, together with decreasing cash and ATM withdrawal penalty and other account fees, lowered NIR R410 million.
- FNB transaction volumes decreased 1%. Electronic volumes remained flat despite banking app volumes up 28%, and manual volumes decreased 9%. Branch and cash centre transaction volumes decreased 31% and 15%, respectively.

%	Increase in transaction volumes
ATM/ADT	(9)
Internet banking	(11)
Banking app	28
Mobile (excluding prepaid)	(2)
Point-of-sale merchants	1
Card swipes	(4)

- Absolute levels of knowledge-based fees remained satisfactory considering the tough operating environment. The decrease was driven by reduced advisory activities owing to low levels of investor and business confidence. This was partially offset by solid annuity, and capital raising and underwriting income given the conclusion of notable deals during the year.
- Management and fiduciary fee income was impacted by moderate growth in AUM, subdued market performance and a switch by customers to new-generation products with lower fees.
- Growth in fee and commission expenses reflected increased customer rewards and cash handling fees. Rewards are a core component of the customer value proposition and, over the year, reward costs have increased due to more customers earning eBucks, higher costs of airport SLOW lounges and increased discounts. In addition, free airtime rewards were introduced.

COVID-19 and fee concession impact on fee and commission income

The bank responded to the COVID-19 crisis by supporting its customers, not only through debt relief but also through fee waivers. The table below provides an overview of the COVID-19 relief and other fee concessions provided for the year ending 30 June 2020.

R million	Rental relief	Service fee relief	Other	Fee concessions	Total NIR reduction
Relief/concessions	60	30	29	410	529

NOTE 2 – INSURANCE INCOME

R million	2020	2019	% change
Insurance commission	**152**	278	(45)
Insurance brokerage	**297**	282	5
Total insurance commission income	**449**	560	(20)

KEY DRIVERS

- Insurance income declined 20% and reflects the run-down of the MotoNovo business in the bank.

NOTE 3 – MARKETS, CLIENT AND OTHER FAIR VALUE INCOME

R million	2020	2019	% change
Client	**1 896**	1 720	10
Markets	**1 943**	1 585	23
Other	**210**	612	(66)
Total markets, client and other fair value income	**4 049**	3 917	3

KEY DRIVERS

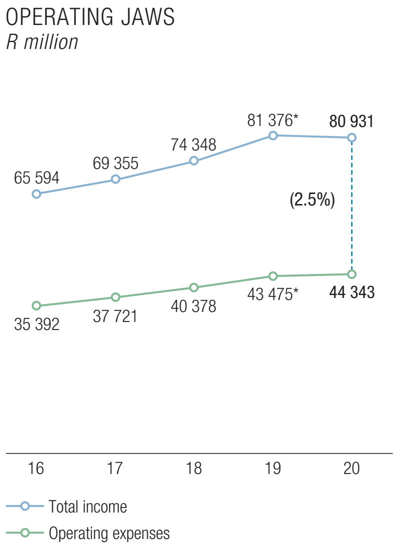
- Despite the tough operating environment, the markets and client activities delivered a strong performance.
  - Client revenues were strong as the bond market-making portfolio benefited from increased activity, however, partially offset by an illiquid equities market.
  - Domestic flow activities, although affected by the poorly performing economy, showed growth in the second half of the year following increased market activity on the back of COVID-19. Domestic foreign exchange (FX) benefited from higher volumes due to market volatility. The business took advantage of hard commodity market movements and there was a strong credit trading performance.
- The decline in other fair value income was due to mark-to-market movements on external and internal intercompany FX hedges, which will pull to par over the duration of the instrument and eliminate at a group level. The net total return swap (TRS) fair value income was negative year-on-year due to the decrease in the share price on the unhedged portion of the TRS.

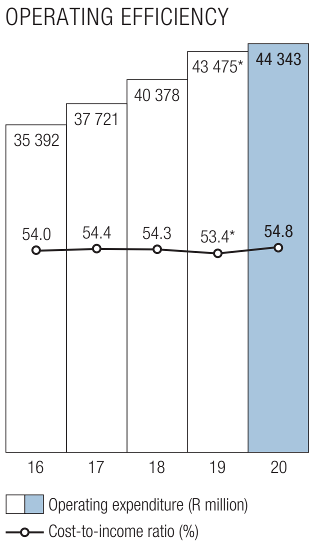
NOTE 4 – OTHER NON-INTEREST REVENUE – UP 14%

KEY DRIVERS

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

Operating expenses – up 2%





* *Reclassification of R240 million relating to operating expenses incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the nature of the expense. Refer to pages C75 to C76.*

Note: 2016 to 2018 figures are based on IAS 39 and 2019 to 2020 figures on IFRS 9. No restatements have been included in 2016 to 2018.

OPERATING EXPENSES

R million	**2020**	2019	% change
Staff expenditure	**25 809**	25 669	1
– Direct staff expenditure	**20 092**	18 366*	9
– Other staff-related expenditure	**5 717**	7 303*	(22)
Depreciation of property and equipment	**3 391**	2 499	36
Amortisation of intangible assets	**193**	135	43
Advertising and marketing	**1 505**	1 513	(1)
Insurance	**212**	251	(16)
Lease charges	**414**	1 044**	(60)
Professional fees	**1 798**	1 697	6
Audit fees	**362**	348	4
Computer expenses	**2 532**	2 363	7
Repairs and maintenance	**1 158**	1 246	(7)
Telecommunications	**388**	349	11
Cooperation agreements and joint ventures	**506**	638	(21)
Property	**857**	822	4
Business travel	**305**	401	(24)
Assets costing less than R7 000	**335**	332	1
Stationery and printing	**119**	154	(23)
Donations	**283**	259	9
Other expenditure	**4 176**	3 755	11
Total operating expenses	**44 343**	43 475	2

* *Certain staff expenses have been classified from other staff-related expenditure to direct staff expenditure, as it more accurately reflects the nature of the expenses. The comparative information has been restated.*

** *Reclassification of R240 million relating to costs incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the customer loyalty expense nature. Refer to pages C75 to C76.*

KEY DRIVERS

- Cost growth of 2% reflects lower variable staff expenditure and focused cost management with continued investment in new initiatives, technology and platforms.
- Staff costs, which comprise 58% (2019: 59%) of the bank's operating expenses, increased 1%.

	% CHANGE	REASONS
Direct staff costs	9	Impacted by unionised increases in South Africa in August 2019 at an average of 7.2% and a 5% increase in staff complement across the bank, predominantly from a transfer of staff from a group-related entity (DirectAxis).
Other staff-related expenditure	(22)	Variable costs reflect the decline in earnings and, the group's measure of economic profit, net income after cost of capital (NIACC). Normalised share-based payment expenses declined, given the decrease in the group's share price and the share incentive scheme not vesting in the current year.

- The 36% increase in depreciation was driven by the adoption of IFRS 16 (refer to pages C75 to C78), which increased the depreciation charge for the year by c. R640 million. In addition, strong growth in WesBank's FML book, including a significant deal concluded during the year, increased the depreciation charge by c. R185 million.
- The reduced lease charges reflect the revised accounting treatment of operating lease costs following the adoption of IFRS 16 (refer above), which partly drove the growth in depreciation.
- The increase in professional fees of 6% follows on increased technology-related projects, which also drive the increase in computer expenses.
- The increase in audit fees reflects inflation, scope increases and special projects.
- Computer expenses grew 7% due to increased licence fees and continued spend on projects related to various electronic platforms, cybersecurity, networks and credit-related reporting upgrades.
- Cooperation agreements and joint venture costs decreased 21%, affected by the ongoing migration of Discovery cards and weaker performance in WesBank's underlying alliances.
- The 9% increase in donations reflects the bank's R25 million contribution to the FirstRand SA Pandemic Intervention and Relief Effort (SPIRE) initiative and various other corporate social investment related initiatives.
- The strong growth in legal fees is due to higher debt collection fees as a result of focused collection activities.
- Other expenses include various items, such as provisions, entertainment, bank charges, insurance-related acquisition costs, subscriptions and memberships.

COVID-19 costs

The COVID-19 pandemic required a number of specific operational responses, including:

- managing employee and customer safety and wellbeing on premises; and
- facilitating remote working solutions for the majority of employees.

These interventions resulted in additional costs of R119 million.

In addition, immediately after the commencement of lockdown, FirstRand established relief funds, which were funded partly by the FirstRand foundations (R75 million) and partly by the group (R25 million).

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, increase market liquidity, and reduce 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 68% of total assets. The composition of the gross advances portfolio consists of SA retail secured (35%), SA retail unsecured (10%), SA corporate and commercial (47%), UK retail and commercial (4%), and other (4%). At June 2020, the bank reported total NPLs of R47 253 million (5.22% as a percentage of advances) and a credit loss ratio of 200 bps.

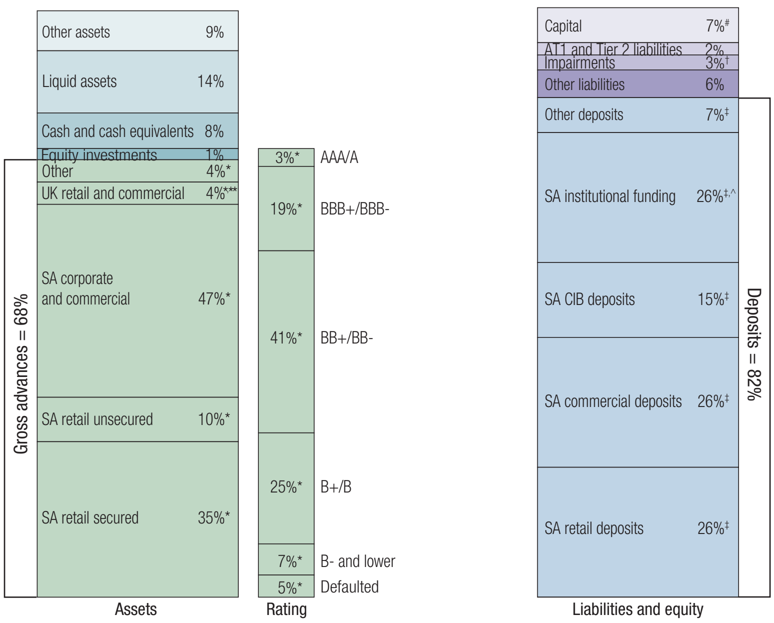
Cash and cash equivalents, and liquid assets represent 8% and 14%, respectively, of total assets. Risks relating to trading exposures represented 7% of bank RWA.

FRB's funding profile continues to reflect the structural funding constraints associated with the South African financial sector. The bank has, however, continued to enhance its risk-adjusted funding profile whilst targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of domestic institutional funding was 37 months at June 2020 (2019: 36 months).

The bank remained appropriately capitalised with a CET1 ratio of 12.3%, Tier 1 ratio of 12.8% and total capital adequacy ratio of 15.7%.

Gearing increased to 14.3 times (2019: 14.0 times), driven by 9% growth in average total assets, reflecting a significant increase in derivative assets.

ECONOMIC VIEW OF THE BALANCE SHEET

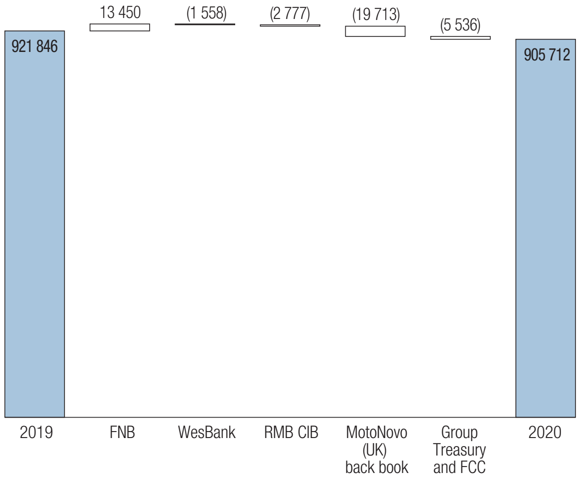


* As a proportion of gross advances.
** Based on advances originated in London Branch (including MotoNovo back book).
# Ordinary equity.
† Includes IFRS 9 impairment of advances and investment securities.
‡ As a proportion of deposits.
^ Includes CIB institutional funding.

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

Gross advances – down 2%

GROSS ADVANCES GROWTH BY BUSINESS
R million



ADVANCES

R million	2020	2019	% change
Gross advances	**905 712**	921 846	(2)
Impairment of advances	**(37 772)**	(27 303)	38
Net advances	**867 940**	894 543	(3)

Gross advances decreased 2%, with net advances decreasing 3%. The reduction is driven by the securitisation of the majority of the MotoNovo back book and the sale of $700 million cross-border advances by RMB to RMB Mauritius, as well as repo advances in RMB CIB decreasing 46%.

Credit

NOTE 1: ANALYSIS OF ADVANCES

SEGMENTAL ANALYSIS OF ADVANCES

	Advances		
	As at 30 June		
R million	2020	2019	% change
Retail	**407 244**	397 307	3
Retail – secured	**318 428**	311 915	2
Residential mortgages	**224 404**	217 164	3
WesBank VAF	**94 024**	94 751	(1)
Retail – unsecured	**88 816**	85 392	4
FNB card	**30 210**	28 115	7
Personal loans	**41 874**	39 369	6
– FNB	**23 412**	23 357	–
– DirectAxis	**16 134**	16 012	1
– COVID-19 relief	**2 328**	–	–
Retail other	**16 732**	17 908	(7)
Corporate and commercial	**457 142**	457 964	–
FNB commercial	**107 914**	105 128	3
– FNB commercial	**107 569**	105 128	2
– SME guaranteed scheme	**345**	–	–
WesBank corporate	**27 114**	27 945	(3)
RMB investment banking*,**	**233 649**	249 804	(6)
– Lending	**233 310**	249 445	(6)
– Loans to private equity investee companies	**339**	359	(6)
RMB corporate banking*,**	**68 445**	57 932	18
HQLA corporate advances**,#	**20 020**	17 155	17
FCC (including Group Treasury)	**37 544**	43 080	(13)
Securitisation notes	**26 419**	27 854	(5)
Discovery card	**–**	4 328	(100)
Other	**11 125**	10 898	2
Total advances excluding MotoNovo	**901 930**	898 351	–
Total MotoNovo (UK) back book	**3 782**	23 495	(84)
– MotoNovo (UK) back book VAF	**3 474**	22 917	(85)
– MotoNovo (UK) back book loans	**308**	578	(47)
Total advances including MotoNovo†	**905 712**	921 846	(2)
Of which:			
Accrual book	**839 788**	844 850	(1)
Fair value book	**65 924**	76 996	(14)

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

** *Corporate and investment banking including HQLA advances total R322 114 million (2019: R324 891 million).*

\# *Managed by the Group Treasurer.*

† *Included in advances are repo advances of R26 618 million (2019: R44 263 million).*

	Advances						
	As at 30 June						% composition 2020
	2020			2019			
	Stage 1	**Stage 2**	**Stage 3**	Stage 1	Stage 2	Stage 3	
	336 846	**35 620**	**34 778**	346 397	25 301	25 609	**45**
	271 244	**25 712**	**21 472**	276 929	19 474	15 512	**35**
	197 845	**14 897**	**11 662**	198 373	10 153	8 638	**25**
	73 399	**10 815**	**9 810**	78 556	9 321	6 874	**10**
	65 602	**9 908**	**13 306**	69 468	5 827	10 097	**10**
	24 352	**2 183**	**3 675**	24 321	1 522	2 272	**3**
	28 371	**6 079**	**7 424**	30 244	3 282	5 843	**5**
	15 850	**3 273**	**4 289**	18 036	1 900	3 421	**3**
	10 193	**2 806**	**3 135**	12 208	1 382	2 422	**2**
	2 328	**–**	**–**	–	–	–	**–**
	12 879	**1 646**	**2 207**	14 903	1 023	1 982	**2**
	405 590	**39 772**	**11 780**	419 287	30 822	7 855	**51**
	92 639	**8 245**	**7 030**	92 089	8 483	4 556	**12**
	92 331	**8 208**	**7 030**	92 089	8 483	4 556	**12**
	308	**37**	**–**	–	–	–	**–**
	24 385	**1 855**	**874**	25 875	1 546	524	**3**
	208 699	**21 927**	**3 023**	233 411	13 959	2 434	**26**
	208 360	**21 927**	**3 023**	233 052	13 959	2 434	**26**
	339	**–**	**–**	359	–	–	**–**
	59 847	**7 745**	**853**	50 757	6 834	341	**8**
	20 020	**–**	**–**	17 155	–	–	**2**
	37 358	**44**	**142**	42 734	209	137	**4**
	26 419	**–**	**–**	27 854	–	–	**3**
	–	**–**	**–**	4 026	165	137	**–**
	10 939	**44**	**142**	10 854	44	–	**1**
	779 794	**75 436**	**46 700**	808 418	56 332	33 601	**100**
	2 873	**356**	**553**	21 426	1 465	604	**–**
	2 586	**345**	**543**	20 875	1 443	599	**–**
	287	**11**	**10**	551	22	5	**–**
	782 667	**75 792**	**47 253**	829 844	57 797	34 205	**100**
	720 723	**71 990**	**47 075**	753 825	56 998	34 027	**93**
	61 944	**3 802**	**178**	76 019	799	178	**7**

Credit continued

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

	Advances			
	As at 30 June			% composition
R million	**2020**	2019	% change	**2020**
Corporate and investment banking advances*	**322 114**	324 891	(1)	**100**
Less: assets under agreement to resell	**(22 223)**	(41 117)	(46)	**(7)**
RMB advances net of assets under agreement to resell	**299 891**	283 774	6	**93**

* *Includes HQLA advances.*

RMB CORE ADVANCES

	Advances		
	As at 30 June		
R million	**2020**	2019	% change
RMB investment banking	**233 649**	249 804	(6)
Less: assets under agreements to resell	**(21 316)**	(40 464)	(47)
RMB investment banking core advances	**212 333**	209 340	1
RMB corporate banking	**68 445**	57 932	18
Less: assets under agreements to resell	**(907)**	(653)	39
RMB corporate banking core advances	**67 538**	57 279	18

CIB ADVANCES BREAKDOWN

	Advances			
	As at 30 June			% composition
R million	**2020**	2019	% change	**2020**
RMB investment banking core advances	**212 333**	209 340	1	**70**
– South Africa	**187 795**	189 205	(1)	**62**
– Cross-border (rest of Africa)*	**24 538**	20 135	22	**8**
HQLA corporate advances**	**20 020**	17 155	17	**7**
RMB corporate banking core advances	**67 538**	57 279	18	**23**
– South Africa	**47 680**	43 357	10	**16**
– Cross-border (rest of Africa)	**19 858**	13 922	43	**7**
CIB total core advances	**299 891**	283 774	6	**100**
CIB total lending advances	**299 552**	283 415	6	**100**
CIB loans to private equity investee companies	**339**	359	(6)	**–**
CIB total core advances	**299 891**	283 774	6	**100**
CIB core advances – South Africa#	**255 495**	249 717	2	**85**
CIB core advances – rest of Africa*,†	**44 396**	34 057	30	**15**
CIB total core advances	**299 891**	283 774	6	**100**

* *The cross-border portfolio increased by 6% in dollar terms. The allocation between South Africa and cross-border was refined during the current year.*

** *Managed by the Group Treasurer.*

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

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

SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

	Advances			
	As at 30 June			
R million	**2020**	2019	% change	**% composition 2020**
Sector analysis				
Agriculture	**40 930**	39 002	5	**5**
Banks	**13 626**	20 068	(32)	**2**
Financial institutions	**145 528**	161 302	(10)	**16**
Building and property development	**55 268**	50 028	10	**6**
Government, Land Bank and public authorities	**20 491**	23 438	(13)	**2**
Individuals	**396 396**	409 307	(3)	**43**
Manufacturing and commerce	**110 855**	107 274	3	**12**
Mining	**21 694**	10 611	>100	**2**
Transport and communication	**22 895**	22 778	1	**3**
Other services	**78 029**	78 038	–	**9**
Total advances	**905 712**	921 846	(2)	**100**
Geographical analysis				
South Africa	**831 552**	837 764	(1)	**91**
Rest of Africa	**34 081**	30 476	12	**4**
UK	**13 895**	28 338	(51)	**2**
Other Europe	**11 528**	13 974	(18)	**1**
North America	**6 675**	1 945	>100	**1**
South America	**3**	178	(98)	**–**
Australasia	**3**	2	50	**–**
Asia	**7 975**	9 169	(13)	**1**
Total advances	**905 712**	921 846	(2)	**100**

Credit continued

RETAIL ADVANCES FOR WHICH NO RELIEF WAS PROVIDED

		Stage of underlying gross advance		
R million	Underlying gross advance	Stage 1	Stage 2	Stage 3/ NPLs
Retail	343 715	280 798	30 044	32 873
Residential mortgages	192 624	169 413	11 838	11 373
WesBank VAF	78 969	60 023	9 260	9 686
FNB card	25 355	19 991	1 959	3 405
Personal loans	19 105	12 674	2 715	3 716
DirectAxis loans	14 032	8 481	2 735	2 816
Retail other	13 630	10 216	1 537	1 877

RETAIL ADVANCES THAT RECEIVED RELIEF

		Stage of underlying gross advance		
R million	Underlying gross advance	Stage 1	Stage 2	Stage 3/ NPLs
Retail	63 529	56 048	5 576	1 905
Residential mortgages	31 780	28 432	3 059	289
WesBank VAF	15 055	13 376	1 555	124
FNB card	4 855	4 361	224	270
Personal loans	4 307	3 176	558	573
Personal loans – COVID-19 relief*	2 328	2 328	–	–
DirectAxis loans	2 102	1 712	71	319
Retail other	3 102	2 663	109	330
Total retail advances	407 244	336 846	35 620	34 778

* *Coverage based on EAD.*

	Balance sheet impairments		Coverage		
	Performing	Stage 3	Performing coverage	Stage 3	Total coverage
	7 500	15 005	2.41	45.6	68.5
	1 190	2 395	0.66	21.1	31.5
	1 433	3 817	2.07	39.4	54.2
	1 140	2 620	5.19	76.9	110.4
	1 284	2 592	8.34	69.8	104.3
	1 216	2 093	10.84	74.3	117.5
	1 237	1 488	10.52	79.3	145.2

	Balance sheet impairments		Coverage			Liquidity facility	
	Performing	Stage 3	Performing coverage	Stage 3	Total coverage	Utilised	Committed undrawn
	2 243	852	3.64	44.7	162.5	2 328	1 502
	318	13	1.01	4.5	114.5	425	252
	375	22	2.51	17.7	320.2	267	165
	339	102	7.39	37.8	163.3	543	382
	379	369	10.15	64.4	130.5	395	243
	384	–	16.49	–	–	–	–
	202	178	11.33	55.8	119.1	112	67
	246	168	8.87	50.9	125.5	586	393

	9 743	15 857	2.62	45.6	73.6

Credit continued

COMMERCIAL ADVANCES FOR WHICH NO RELIEF WAS PROVIDED

		Stage of underlying gross advance			Balance sheet impairments	
R million	Underlying gross advance	Stage 1	Stage 2	Stage 3/ NPLs	Performing	Stage 3
FNB commercial	85 048	71 061	7 382	6 605	2 384	3 194
Overdrafts	19 187	13 703	3 285	2 199	1 459	1 823
Agriculture	31 406	27 710	1 684	2 012	230	469
Asset-based finance	8 821	7 790	575	456	99	169
Specialised finance	6 356	5 507	585	264	176	146
Commercial property finance	14 945	12 985	729	1 231	162	283
Other	4 333	3 366	524	443	258	304
WesBank corporate	19 148	16 480	1 794	874	167	281
Total commercial	104 196	87 541	9 176	7 479	2 551	3 475

COMMERCIAL ADVANCES THAT RECEIVED RELIEF

		Stage of underlying gross advance			Balance sheet impairments	
R million	Underlying gross advance	Stage 1	Stage 2	Stage 3/ NPLs	Performing	Stage 3
FNB commercial	22 866	21 578	863	425	349	101
Overdrafts	1 583	1 538	21	24	70	13
Agriculture	1 606	1 573	17	16	31	4
Asset-based finance	3 985	3 946	39	–	53	–
Specialised finance	3 024	2 825	50	149	51	34
Commercial property finance	12 304	11 509	559	236	134	50
Other	364	187	177	–	10	–
WesBank corporate	7 966	7 905	61	–	58	–
Total commercial	30 832	29 483	924	425	407	101
Total	135 028	117 024	10 100	7 904	2 958	3 576

Coverage		
Performing	Stage 3	Total coverage
3.04	48.4	84.5
8.59	82.9	149.2
0.78	23.3	34.7
1.18	37.1	58.8
2.89	55.3	122.0
1.18	23.0	36.1
6.63	68.6	126.9
0.91	32.2	51.3
2.64	46.5	80.6

Coverage			SME guarantee scheme			
Performing	Stage 3	Total coverage	Drawn	Undrawn	Total balance sheet provisions	Total coverage
1.56	23.8	105.9	345	445	48	6.1
4.49	54.2	345.8	319	344	40	6.0
1.95	25.0	218.8	–	–	–	–
1.33	–	–	–	–	–	–
1.77	22.8	57.0	–	–	–	–
1.11	21.2	78.0	26	101	8	6.3
2.75	–	–	–	–	–	–
0.73	–	–	–	–	–	–
1.34	23.8	119.5	345	445	48	6.1
2.33	45.2	82.7				

Credit continued

CIB ADVANCES FOR WHICH NO RELIEF WAS PROVIDED

		Stage of underlying gross advance		
R million	**Underlying gross advance**	**Stage 1**	**Stage 2**	**Stage 3/ NPLs**
CIB	**269 016**	**245 823**	**21 290**	**1 903**
RMB investment banking	**213 005**	**197 061**	**14 631**	**1 313**
RMB corporate banking	**56 011**	**48 762**	**6 659**	**590**

CIB ADVANCES THAT RECEIVED RELIEF

		Stage of underlying gross advance		
R million	**Underlying gross advance**	**Stage 1**	**Stage 2**	**Stage 3/ NPLs**
CIB	**53 098**	**42 743**	**8 382**	**1 973**
RMB investment banking	**40 664**	**31 658**	**7 296**	**1 710**
RMB corporate banking	**12 434**	**11 085**	**1 086**	**263**
Total CIB	**322 114**	**288 566**	**29 672**	**3 876**

MOTONOVO ADVANCES FOR WHICH NO RELIEF WAS PROVIDED

		Stage of underlying gross advance		
R million	**Underlying gross advance**	**Stage 1**	**Stage 2**	**Stage 3/ NPLs**
MotoNovo	**3 359**	**2 653**	**238**	**468**

MOTONOVO ADVANCES THAT RECEIVED RELIEF

		Stage of underlying gross advance		
R million	**Underlying gross advance**	**Stage 1**	**Stage 2**	**Stage 3/ NPLs**
MotoNovo	**423**	**220**	**118**	**85**
Total MotoNovo	**3 782**	**2 873**	**356**	**553**

	Balance sheet impairments		Coverage		
	Performing	Stage 3	Performing coverage	Stage 3	Total coverage
	2 588	1 328	0.97	69.8	205.8
	1 891	1 095	0.89	83.4	227.4
	697	233	1.26	39.5	157.6

	Balance sheet impairments		Coverage		
	Performing	Stage 3/ NPLs	Performing coverage	Stage 3/ NPLs	Total coverage
	977	–	1.91	–	49.5
	704	–	1.81	–	41.2
	273	–	2.24	–	103.8
	3 565	1 328	1.12	34.3	126.2

	Balance sheet impairments		Coverage		
	Performing	Stage 3	Performing coverage	Stage 3	Total coverage
	72	217	46.37	2.5	61.8

	Balance sheet impairments		Coverage		
	Performing	Stage 3/ NPLs	Performing coverage	Stage 3/ NPLs	Total coverage
	43	33	38.82	12.7	89.4
	115	250	3.56	45.2	66.0

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

R million	Operational stage 3/NPLs*	Technical cures	Write-offs	Paying restructured debt-review stage 3/NPLs	Loans under COVID-19 relief in stage 3
30 June 2020					
Residential mortgages	**8 188**	**2 390**	**–**	**795**	**289**
FNB card	**1 680**	**28**	**1 207**	**490**	**270**
Personal loans	**1 438**	**149**	**1 817**	**312**	**573**
DirectAxis loans	**1 629**	**90**	**797**	**300**	**319**
Retail other	**893**	**52**	**468**	**464**	**330**
FNB retail NPLs	**13 828**	**2 709**	**4 289**	**2 361**	**1 781**
WesBank VAF	**7 255**	**886**	**–**	**1 543**	**126**
Total NPLs	**33 558**	**3 595**	**4 289**	**3 904**	**1 907**

R million	Operational stage 3/NPLs*	Technical cures	Write-offs	Paying restructured debt-review stage 3/NPLs	Loans under COVID-19 relief in stage 3
30 June 2019					
Residential mortgages	5 611	2 477	–	550	
FNB card	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	4 308	1 331	–	1 235	
Discovery card	86	3	–	48	
Total NPLs	22 746	4 196	3 593	3 670	

* *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, undertaken by the bank, that are non-performing.*

	Total stage 3/NPLs	Total stage 3/NPLs % increase	Operational stage 3/NPLs % change	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	Loans under COVID-19 relief in stage 3/NPLs as a % of total stage 3/NPLs
	11 662	**35**	**46**	**20**	**–**	**7**	**2**
	3 675	**62**	**30**	**1**	**33**	**13**	**7**
	4 289	**25**	**34**	**3**	**42**	**7**	**13**
	3 135	**29**	**70**	**3**	**25**	**10**	**10**
	2 207	**11**	**(6)**	**2**	**21**	**21**	**15**
	24 968	**33**	**40**	**11**	**17**	**9**	**7**
	9 810	**43**	**68**	**9**	**–**	**16**	**1**
	47 253	**38**	**48**	**8**	**9**	**8**	**4**

	Total stage 3/NPLs	Total stage 3/NPLs % increase since 1 July 2018	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
	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

Credit continued

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

	Total portfolio impairments				
	As at 30 June				
				2020	
R million	**2020**	2019	% change	**Stage 1**	**Stage 2**
Portfolio impairments					
Retail	**9 743**	7 184	36	**4 788**	**4 955**
Retail – secured	**3 316**	2 708	22	**1 277**	**2 039**
Residential mortgages	**1 508**	870	73	**731**	**777**
WesBank VAF	**1 808**	1 838	(2)	**546**	**1 262**
Retail – unsecured	**6 427**	4 476	44	**3 511**	**2 916**
FNB card	**1 479**	902	64	**917**	**562**
Personal loans	**3 465**	2 386	45	**1 812**	**1 653**
– FNB	**1 663**	1 367	22	**791**	**872**
– DirectAxis	**1 418**	1 019	39	**637**	**781**
– COVID-19 relief	**384**	–	–	**384**	**–**
Retail other	**1 483**	1 188	25	**782**	**701**
Corporate and commercial	**6 523**	3 763	73	**2 950**	**3 573**
FNB commercial	**2 733**	1 509	81	**1 394**	**1 339**
– FNB commercial	**2 685**	1 509	78	**1 350**	**1 335**
– SME government-guaranteed scheme	**48**	–	–	**44**	**4**
WesBank corporate	**225**	159	42	**114**	**111**
RMB investment banking*	**2 595**	1 500	73	**1 119**	**1 476**
– Lending	**2 590**	1 497	73	**1 114**	**1 476**
– Loans to private equity investee companies	**5**	3	67	**5**	**–**
RMB corporate banking*	**970**	595	63	**323**	**647**
HQLA corporate advances	**–**	–	–	**–**	**–**
FCC (including Group Treasury)	**264**	313	(16)	**264**	**–**
Securitisation notes	**20**	22	(9)	**20**	**–**
Discovery card	**–**	112	(100)	**–**	**–**
Other	**244**	179	36	**244**	**–**
Total portfolio impairments excluding MotoNovo	**16 530**	11 260	47	**8 002**	**8 528**
Total MotoNovo	**115**	362	(68)	**45**	**70**
– MotoNovo VAF	**87**	329	(74)	**21**	**66**
– MotoNovo loans	**28**	33	(15)	**24**	**4**
Total portfolio impairments including MotoNovo	**16 645**	11 622	43	**8 047**	**8 598**

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

Total portfolio impairments							
As at 30 June		Performing book coverage ratios (% of performing advances)					
2019		As at 30 June					
Stage 1	Stage 2	**Stage 1**	**Stage 2**	**2020**	Stage 1	Stage 2	2019
3 646	3 538	**1.42**	**13.91**	**2.62**	1.05	13.98	1.93
952	1 756	**0.47**	**7.93**	**1.12**	0.34	9.02	0.91
360	510	**0.37**	**5.22**	**0.71**	0.18	5.02	0.42
592	1 246	**0.74**	**11.67**	**2.15**	0.75	13.37	2.09
2 694	1 782	**5.35**	**29.43**	**8.51**	3.88	30.58	5.94
555	347	**3.77**	**25.74**	**5.57**	2.28	22.80	3.49
1 415	971	**6.39**	**27.19**	**10.06**	4.68	29.59	7.12
857	510	**4.99**	**26.64**	**8.70**	4.75	26.84	6.86
558	461	**6.25**	**27.83**	**10.91**	4.57	33.36	7.50
–	–	**16.49**	**–**	**16.49**	–	–	–
724	464	**6.07**	**42.59**	**10.21**	4.86	45.36	7.46
1 841	1 922	**0.73**	**8.98**	**1.46**	0.44	6.24	0.84
733	776	**1.50**	**16.24**	**2.71**	0.80	9.15	1.50
733	776	**1.46**	**16.26**	**2.67**	0.80	9.15	1.50
–	–	**14.29**	**10.81**	**13.91**	–	–	–
92	67	**0.47**	**5.98**	**0.86**	0.36	4.33	0.58
785	715	**0.54**	**6.73**	**1.13**	0.34	5.12	0.61
782	715	**0.53**	**6.73**	**1.12**	0.34	5.12	0.61
3	–	**1.47**	**–**	**1.47**	0.84	–	0.84
231	364	**0.54**	**8.35**	**1.44**	0.46	5.33	1.03
–	–	**–**	**–**	**–**	–	–	–
275	38	**0.71**	**–**	**0.71**	0.64	18.18	0.73
22	–	**0.08**	**–**	**0.08**	0.08	–	0.08
76	36	**–**	**–**	**–**	1.89	21.82	2.67
177	2	**2.23**	**–**	**2.22**	1.63	4.55	1.64
5 762	5 498	**1.03**	**11.30**	**1.93**	0.71	9.76	1.30
197	165	**1.57**	**19.66**	**3.56**	0.92	11.26	1.58
172	157	**0.81**	**19.13**	**2.97**	0.82	10.88	1.47
25	8	**8.36**	**36.36**	**9.40**	4.54	36.36	5.76
5 959	5 663	**1.03**	**11.34**	**1.94**	0.72	9.80	1.31

Credit continued

NOTE 3: ANALYSIS OF STAGE 3/NPLs

SEGMENTAL ANALYSIS OF STAGE 3/NPLs

	Stage 3/NPLs As at 30 June		
R million	2020	2019	% change
Retail	**34 778**	25 609	36
Retail – secured	**21 472**	15 512	38
Residential mortgages	**11 662**	8 638	35
WesBank VAF	**9 810**	6 874	43
Retail – unsecured	**13 306**	10 097	32
FNB card	**3 675**	2 272	62
Personal loans	**7 424**	5 843	27
– FNB	**4 289**	3 421	25
– DirectAxis	**3 135**	2 422	29
– COVID-19 relief	**–**	–	–
Retail other	**2 207**	1 982	11
Corporate and commercial	**11 780**	7 855	50
FNB commercial	**7 030**	4 556	54
– FNB commercial	**7 030**	4 556	54
– SME government-guaranteed scheme	**–**	–	–
WesBank corporate	**874**	524	67
RMB investment banking*	**3 023**	2 434	24
– Lending	**3 023**	2 434	24
– Loans to private equity investee companies	**–**	–	–
RMB corporate banking*	**853**	341	>100
HQLA corporate advances**	**–**	–	–
FCC (including Group Treasury)	**142**	137	4
Securitisation notes	**–**	–	–
Discovery card	**–**	137	(100)
Other	**142**	–	–
Total stage 3/NPLs excluding MotoNovo	**46 700**	33 601	39
Total MotoNovo	**553**	604	(8)
– MotoNovo VAF	**543**	599	(9)
– MotoNovo loans	**10**	5	100
Total stage 3/NPLs including MotoNovo	**47 253**	34 205	38
Of which:			
Accrual book	**47 075**	34 027	38
Fair value book	**178**	178	–

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

** *Managed by the Group Treasurer.*

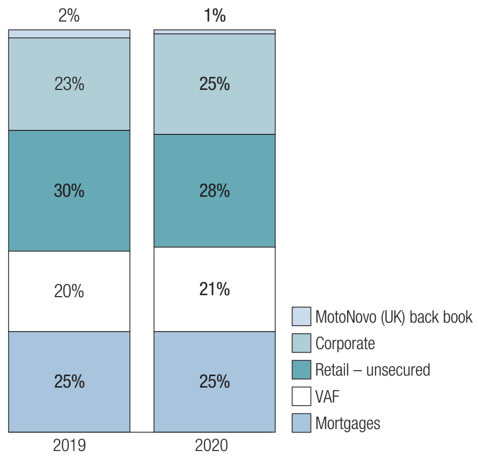
		Stage 3/NPLs as a % of advances	
		As at 30 June	
	% composition 2020	2020	2019
	75	8.54	6.45
	46	6.74	4.97
	25	5.20	3.98
	21	10.43	7.25
	29	14.98	11.82
	8	12.16	8.08
	16	17.73	14.84
	9	18.32	14.65
	7	19.43	15.13
	–	–	–
	5	13.19	11.07
	25	2.58	1.72
	15	6.51	4.33
	15	6.54	4.33
	–	–	–
	2	3.22	1.88
	6	1.29	0.97
	6	1.30	0.98
	–	–	–
	2	1.25	0.59
	–	–	–
	–	0.38	0.32
	–	–	–
	–	–	3.17
	–	1.28	–
	99	5.18	3.74
	1	18.88	3.48
	1	15.63	2.61
	–	3.25	0.87
	100	5.22	3.71
	100	5.61	4.03
	–	0.27	0.23

Credit continued

SECTOR AND GEOGRAPHICAL ANALYSIS OF NPLs

	Stage 3/NPLs			% composition	Stage 3/NPLs as a % of advances	
	As at 30 June				As at 30 June	
R million	**2020**	2019	% change	**2020**	**2020**	2019
Sector analysis						
Agriculture	**2 253**	1 781	27	**5**	**5.50**	4.57
Financial institutions	**278**	224	24	**1**	**0.19**	0.14
Building and property development	**1 396**	1 154	21	**3**	**2.53**	2.31
Government, Land Bank and public authorities	**1 191**	79	>100	**3**	**5.81**	0.34
Individuals	**33 370**	25 162	33	**69**	**8.42**	6.15
Manufacturing and commerce	**2 909**	2 779	5	**6**	**2.62**	2.59
Mining	**887**	660	34	**2**	**4.09**	6.22
Transport and communication	**859**	337	>100	**2**	**3.75**	1.48
Other services	**4 110**	2 029	>100	**9**	**5.27**	2.60
Total stage 3/NPLs	**47 253**	34 205	38	**100**	**5.22**	3.71
Geographical analysis						
South Africa	**45 678**	32 702	40	**97**	**5.49**	3.90
Other Africa	**159**	268	(41)	**–**	**0.47**	0.88
UK	**553**	604	(8)	**1**	**3.98**	2.13
Other Europe	**1**	–	–	**–**	**0.01**	–
North America	**773**	566	37	**2**	**11.58**	29.10
Asia	**89**	65	37	**–**	**1.12**	0.71
Total stage 3/NPLs	**47 253**	34 205	38	**100**	**5.22**	3.71

NPL DISTRIBUTION



SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

R million	As at 30 June 2020			As at 30 June 2019		
	Stage3/NPLs	Security held and expected recoveries	Specific impairment	Stage 3/NPLs	Security held and expected recoveries	Specific impairment
Retail	34 778	18 921	15 857	25 609	13 881	11 728
Retail – secured	21 472	15 225	6 247	15 512	11 498	4 014
Residential mortgages	11 662	9 254	2 408	8 638	6 967	1 671
WesBank VAF	9 810	5 971	3 839	6 874	4 531	2 343
Retail – unsecured	13 306	3 696	9 610	10 097	2 383	7 714
FNB card	3 675	953	2 722	2 272	524	1 748
Personal loans	7 424	2 192	5 232	5 843	1 414	4 429
– FNB	4 289	1 328	2 961	3 421	710	2 711
– DirectAxis	3 135	864	2 271	2 422	704	1 718
– COVID-19 relief	–	–	–	–	–	–
Retail other	2 207	551	1 656	1 982	445	1 537
Corporate and commercial	11 780	6 876	4 904	7 855	4 263	3 592
FNB commercial	7 030	3 735	3 295	4 556	2 253	2 303
– FNB commercial	7 030	3 735	3 295	4 556	2 253	2 303
– SME government-guaranteed scheme	–	–	–	–	–	–
WesBank corporate	874	593	281	524	345	179
RMB investment banking*	3 023	1 928	1 095	2 434	1 417	1 017
– Lending	3 023	1 928	1 095	2 434	1 417	1 017
– Loans to private equity investee companies	–	–	–	–	–	–
RMB corporate banking*	853	620	233	341	248	93
HQLA corporate advances**	–	–	–	–	–	–
FCC (including Group Treasury)	142	26	116	137	16	121
Securitisation notes	–	–	–	–	–	–
Discovery card	–	–	–	137	16	121
Other	142	26	116	–	–	–
Total excluding MotoNovo	46 700	25 823	20 877	33 601	18 160	15 441
Total MotoNovo	553	303	250	604	364	240
– MotoNovo VAF	543	303	240	599	364	235
– MotoNovo loans	10	–	10	5	–	5
Total including MotoNovo	47 253	26 126	21 127	34 205	18 524	15 681

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

** *Managed by the Group Treasurer.*

Credit continued

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

	Total stage 3/specific impairments		
	As at 30 June		
R million	**2020**	2019	% change
Specific impairments			
Retail	**15 857**	11 728	35
Retail – secured	**6 247**	4 014	56
Residential mortgages	**2 408**	1 671	44
WesBank VAF	**3 839**	2 343	64
Retail – unsecured	**9 610**	7 714	25
FNB card	**2 722**	1 748	56
Personal loans	**5 232**	4 429	18
– FNB	**2 961**	2 711	9
– DirectAxis	**2 271**	1 718	32
– COVID-19 relief	**–**	–	–
Retail other	**1 656**	1 537	8
Corporate and commercial	**4 904**	3 592	37
FNB commercial	**3 295**	2 303	43
– FNB commercial	**3 295**	2 303	43
– SME government-guaranteed scheme	**–**	–	–
WesBank corporate	**281**	179	57
RMB investment banking*	**1 095**	1 017	8
– Lending	**1 095**	1 017	8
– Loans to private equity investee companies	**–**	–	–
RMB corporate banking*	**233**	93	>100
HQLA corporate advances**	**–**	–	–
FCC (including Group Treasury)	**116**	121	(4)
Securitisation notes	**–**	–	–
Discovery card	**–**	121	(100)
Other	**116**	–	–
Total stage 3/specific impairments/implied loss given default excluding MotoNovo	**20 877**	15 441	35
Total MotoNovo	**250**	240	4
– MotoNovo VAF	**240**	235	2
– MotoNovo loans	**10**	5	100
Total stage 3/specific impairments/implied loss given default including MotoNovo	**21 127**	15 681	35

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

** *Managed by the Group Treasurer.*

Total stage 3/specific impairments	
Coverage ratios (% of stage 3/NPLs)	
As at 30 June	
2020	2019
45.6	45.8
29.1	25.9
20.6	19.3
39.1	34.1
72.2	76.4
74.1	76.9
70.5	75.8
69.0	79.2
72.4	70.9
–	–
75.0	77.5
41.6	45.7
46.9	50.5
46.9	50.5
–	–
32.2	34.2
36.2	41.8
36.2	41.8
–	–
27.3	27.3
–	–
81.7	88.3
–	–
–	88.3
81.7	–
44.7	46.0
45.2	39.7
44.2	39.2
100.0	100.0
44.7	45.8

Credit continued

NOTE 5: ANALYSIS OF BALANCE SHEET TOTAL IMPAIRMENTS AND COVERAGE RATIOS

	Balance sheet impairments		
	As at 30 June		
R million	**2020**	2019	% change
Total impairments			
Retail	**25 600**	18 912	35
Retail – secured	**9 563**	6 722	42
Residential mortgages	**3 916**	2 541	54
WesBank VAF	**5 647**	4 181	35
Retail – unsecured	**16 037**	12 190	32
FNB card	**4 201**	2 650	59
Personal loans	**8 697**	6 815	28
– FNB	**4 624**	4 078	13
– DirectAxis	**3 689**	2 737	35
– COVID-19 relief	**384**	–	–
Retail other	**3 139**	2 725	15
Corporate and commercial	**11 427**	7 355	55
FNB commercial	**6 028**	3 812	58
– FNB commercial	**5 980**	3 812	57
– SME government-guaranteed scheme	**48**	–	–
WesBank corporate	**506**	338	50
RMB investment banking*	**3 690**	2 517	47
– Lending	**3 685**	2 514	47
– Loans to private equity investee companies	**5**	3	67
RMB corporate banking*	**1 203**	688	75
HQLA corporate advances**	**–**	–	–
FCC (including Group Treasury)	**380**	434	(12)
Securitisation notes	**20**	22	(9)
Discovery card	**–**	233	(100)
Other	**360**	179	>100
Total impairments excluding MotoNovo	**37 407**	26 701	40
Total MotoNovo (UK) back book	**365**	602	(39)
– MotoNovo (UK) back book VAF	**327**	564	(42)
– MotoNovo (UK) back book loans	**38**	38	–
Total impairments including MotoNovo	**37 772**	27 303	38

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

** *Managed by the Group Treasurer.*

Balance sheet impairments							
As at 30 June						Coverage ratios (% of stage 3/NPLs)	
2020			2019			As at 30 June	
Stage 1	Stage 2	Stage3	Stage 1	Stage 2	Stage 3	2020	2019
4 788	4 955	15 857	3 646	3 538	11 728	73.6	73.8
1 277	2 039	6 247	952	1 756	4 014	44.5	43.3
731	777	2 408	360	510	1 671	33.6	29.4
546	1 262	3 839	592	1 246	2 343	57.6	60.8
3 511	2 916	9 610	2 694	1 782	7 714	120.5	120.7
917	562	2 722	555	347	1 748	114.3	116.6
1 812	1 653	5 232	1 415	971	4 429	117.1	116.6
791	872	2 961	857	510	2 711	107.8	119.2
637	781	2 271	558	461	1 718	117.7	113.0
384	–	–	–	–	–	–	–
782	701	1 656	724	464	1 537	142.2	137.5
2 950	3 573	4 904	1 841	1 922	3 592	97.0	93.6
1 394	1 339	3 295	733	776	2 303	85.7	83.7
1 350	1 335	3 295	733	776	2 303	85.1	83.7
44	4	–	–	–	–	–	–
114	111	281	92	67	179	57.9	64.5
1 119	1 476	1 095	785	715	1 017	122.1	103.4
1 114	1 476	1 095	782	715	1 017	121.9	103.3
5	–	–	3	–	–	–	–
323	647	233	231	364	93	141.0	201.8
–	–	–	–	–	–	–	–
264	–	116	275	38	121	267.6	316.8
20	–	–	22	–	–	–	–
–	–	–	76	36	121	–	170.1
244	–	116	177	2	–	253.5	–
8 002	8 528	20 877	5 762	5 498	15 441	80.1	79.5
45	70	250	197	165	240	66.0	99.7
21	66	240	172	157	235	60.2	94.2
24	4	10	25	8	5	380.0	760.0
8 047	8 598	21 127	5 959	5 663	15 681	79.9	79.8

Credit continued

NOTE 6: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

	Total impairment charge		
	Year ended 30 June		
R million	2020	2019	% change
Retail	**12 672**	6 963	82
Retail – secured	**4 110**	2 066	99
Residential mortgages	**1 411**	232	>100
WesBank VAF	**2 699**	1 834	47
Retail – unsecured	**8 562**	4 897	75
FNB card	**1 997**	937	>100
Personal loans	**4 899**	2 675	83
– FNB	**2 447**	1 296	89
– DirectAxis	**2 068**	1 379	50
– COVID-19 relief	**384**	–	–
Retail other	**1 666**	1 285	30
Corporate and commercial	**5 275**	883	>100
FNB commercial	**2 949**	750	>100
– FNB commercial	**2 901**	750	>100
– SME government-guaranteed scheme	**48**	–	–
WesBank corporate	**249**	82	>100
RMB investment banking*	**1 454**	26	>100
– Lending	**1 452**	26	>100
– Loans to private equity investee companies	**2**	–	–
RMB corporate banking*	**623**	25	>100
HQLA corporate advances**	**–**	–	–
FNB Africa	**28**	–	–
FCC (including Group Treasury)	**116**	93	25
Securitisation notes	**(2)**	(3)	(33)
Discovery card	**–**	90	(100)
Other	**118**	6	>100
Total impairment charge excluding MotoNovo	**18 091**	7 939	>100
Total MotoNovo	**178**	521	(66)
– MotoNovo VAF	**162**	544	(70)
– MotoNovo loans	**16**	(23)	(>100)
Total impairment charge including MotoNovo	**18 269**	8 460	>100
Portfolio impairments charge	**6 872**	1 764	>100
Specific impairments charge	**11 397**	6 696	70

* *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	
2020	2019
3.15	1.81
1.30	0.68
0.64	0.11
2.86	1.94
9.83	6.27
6.85	3.68
12.06	7.49
10.46	6.39
12.87	8.93
32.99	–
9.62	7.60
1.15	0.20
2.77	0.75
2.73	0.75
27.83	–
0.90	0.27
0.60	0.01
0.60	0.01
0.57	–
0.99	0.05
–	–
–	–
0.29	0.22
(0.01)	(0.01)
–	2.07
1.07	0.05
2.01	0.92
1.31	2.13
1.23	2.30
3.61	(2.85)
2.00	0.95
0.75	0.20
1.25	0.75

Credit continued

RECONCILIATION OF IMPAIRMENTS

The following table provides an analysis of the 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	**2020**	2019	**2020**	2019	**2020**	2019
Non-performing book	**21 007**	15 681	**120**	–	**21 127**	15 681
Performing book	**16 035**	11 307	**610**	315	**16 645**	11 622
Total balance sheet impairments	**37 042**	26 988	**730**	315	**37 772**	27 303

The following table provides an analysis of balance sheet impairments.

TOTAL BALANCE SHEET IMPAIRMENTS

	As at 30 June		
R million	**2020**	2019	% change
Opening balance	**27 303**	23 078	18
Transfers to non-current assets held for sale	**(42)**	–	–
(Disposals)/acquisitions	**(247)**	(155)	59
Exchange rate difference	**334**	3	>100
Bad debts written off	**(12 023)***	(7 388)	63
Net new impairments created	**19 596**	10 251	91
Net interest recognised on stage 3 advances	**2 851**	1 514	88
Closing balance	**37 772**	27 303	38

* *During the reporting period the impact of the extension of the bank's write-off point from six to 12 months started to mature, leading to a significant increase in bad debts written off in the retail portfolios.*

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

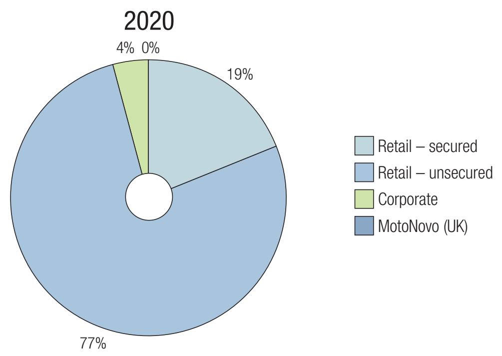
INCOME STATEMENT IMPAIRMENTS

	Year ended 30 June		
R million	**2020**	2019	% change
Specific impairment charge	**12 790**	8 515	50
– Specific impairment charge – amortised cost	**12 670**	8 515	49
– Credit fair value adjustments – non-performing book	**120**	–	–
Portfolio impairment charge	**6 806**	1 736	>100
– Portfolio impairment charge – amortised cost	**6 528**	1 701	>100
– Credit fair value adjustments – performing book	**278**	35	>100
Total impairments before recoveries and modifications	**19 596**	10 251	91
Modification losses	**758**	625	21
– COVID-19 relief	**–**	–	–
– Debt review and other	**758**	625	21
Recoveries of bad debts written off	**(2 085)**	(2 416)	(14)
Total impairments	**18 269**	8 460	>100

IMPACT OF POST WRITE-OFF RECOVERIES

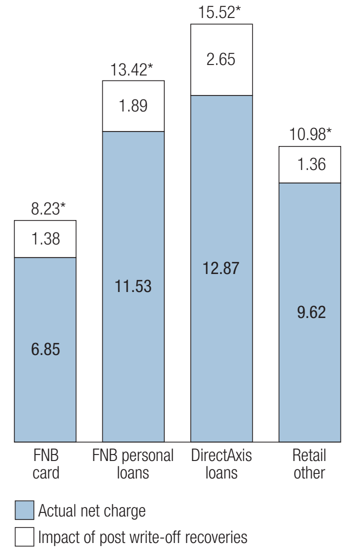
Post write-off recoveries amounted to R2 085 million (June 2019: R2 416 million), primarily emanating from the unsecured retail lending portfolios, specifically FNB loans, DirectAxis loans and FNB card.

POST WRITE-OFF RECOVERIES



RETAIL UNSECURED CREDIT LOSS RATIOS AND RECOVERIES

%



* *Gross of recoveries (%).*

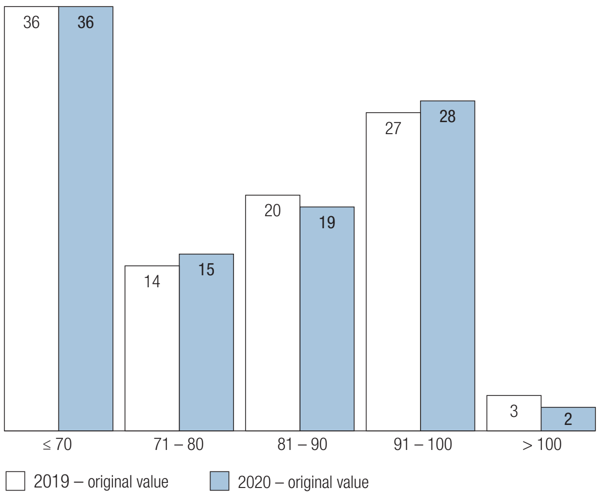
Credit continued

RISK ANALYSIS

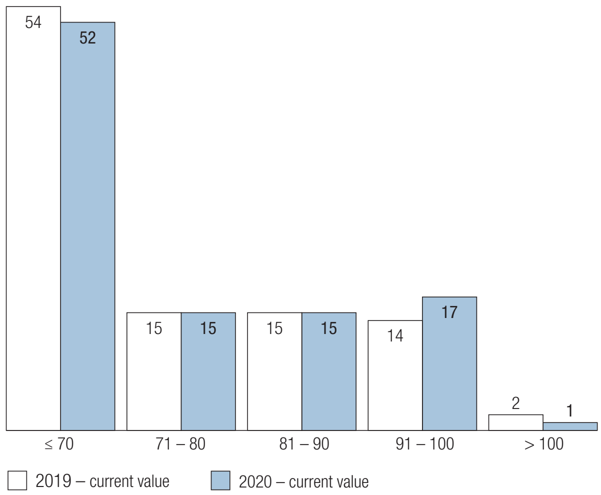
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

Loan-to-value (LTV) ratios for new business are an important consideration in the credit origination process. The group, however, places more emphasis on counterparty creditworthiness as opposed to relying only on the underlying security. LTVs have increased due to increased loan extension to main-banked clients, with higher LTVs offered to better-rated existing clients.

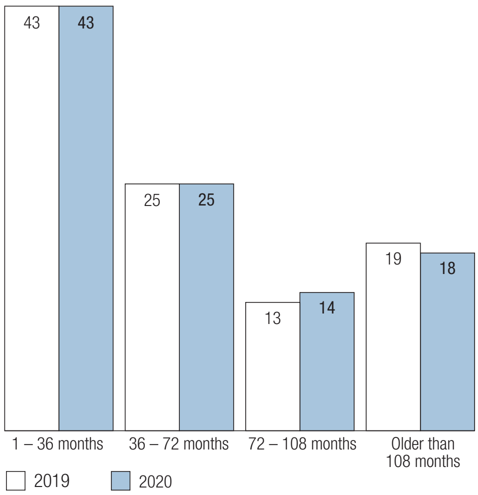
RESIDENTIAL MORTGAGES
BALANCE-TO-ORIGINAL VALUE
%



RESIDENTIAL MORTGAGES
BALANCE-TO-MARKET VALUE
%



RESIDENTIAL MORTGAGES
AGE DISTRIBUTION TOTAL
%



Note: The above loan balance-to-value ratios and age distributions have been restated to only include performing accounts.

The overall vintage performance across portfolios deteriorated in the last quarter of the financial year given the impact of the pandemic and resultant lockdowns. A considerable number of risk mitigation actions were implemented across the retail portfolios. New payouts decreased in the fourth quarter compared to the same period in 2019 due to strengthened underwriting criteria, reduced demand and the partial closure of deeds offices over this period. As such, credit growth remained weak compared to prior years.

Vintage performance metrics were also affected by relief measures provided to customers who suffered income loss during the lockdown period. Specifically, agreements under relief did not roll into default. For the calculation of vintage performance, exposures that were subject to COVID-19 relief are excluded from the point of relief.

Vintages have been adjusted to allow for the reduced period that these accounts would have been at risk of default. To provide an indication of the extent to which different charts observed 12-month vintage performance, the vintage graph includes a breakdown of exposures originated per month and which subsequently took COVID-19 relief within the first year. As COVID-19 relief was offered from March 2020, this breakdown reflects new business charts from April 2019.

FNB residential mortgages

The following graph shows arrears in the residential mortgage portfolio. It includes accounts with at least one payment in arrears, expressed as a percentage of total advances. Early arrears increased considerably during lockdown but started to show recovery in June 2020 as lockdown eased.

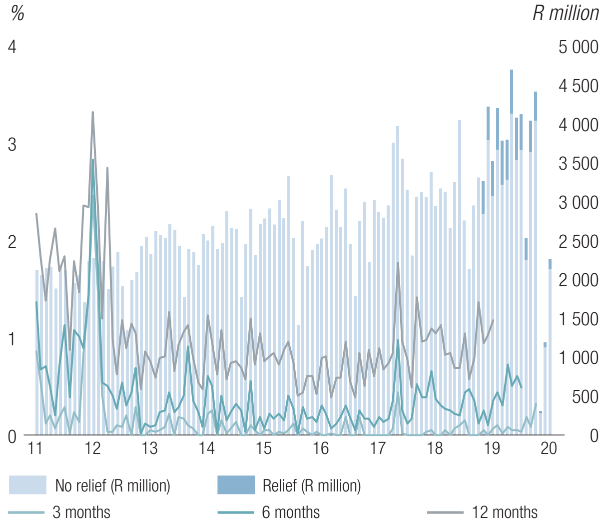
FNB RESIDENTIAL MORTGAGE ARREARS

FNB continues to pursue a risk-adjusted approach to residential mortgage origination, which has yielded positive results in managing the risk-return profile. New vintages remain stable and within risk triggers, however, an increase has been noted in the six- and 12-month vintages for origination since May 2019, impacted by lockdown measures.

The vintage metrics were partially affected by payment relief offered, with c.12% of business originated since May 2019 opting for payment relief within a year of origination.

This will be closely monitored for post-relief payment experience. Underwriting criteria have been tightened for new business originated from April 2020 onwards.

FNB RESIDENTIAL MORTGAGE VINTAGE ANALYSIS



Credit continued

FNB card

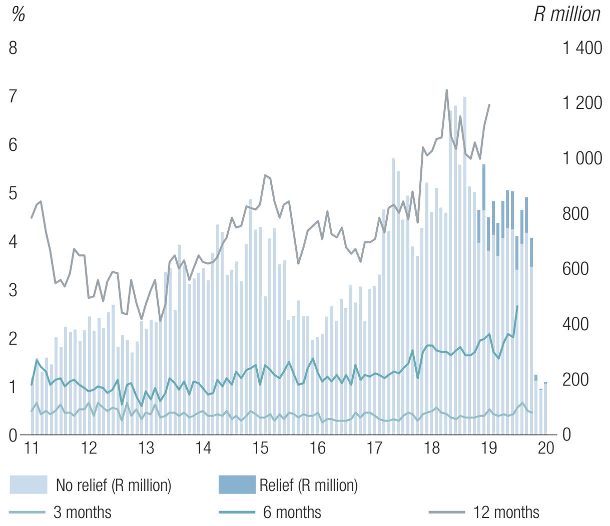
The vintage analysis below includes new credit card sales and credit limit increases granted.

Vintages show that the previously reducing trend has reverted to an increasing trend, with increases in the six- and 12-month vintages for originations since May 2019, showing the effects of lockdown.

The vintages were partially affected by payment relief offered, with c.16% of business originated since May 2019 opting for payment relief within the first year of origination.

Post-relief payment experience will be closely monitored. Risk criteria were tightened for new business originated from April 2020.

FNB CARD VINTAGE ANALYSIS



Note: Credit card vintages have been restated to include new credit card sales as well as any credit limit increases. Vintages were previously based on new credit card sales only.

FNB personal loans

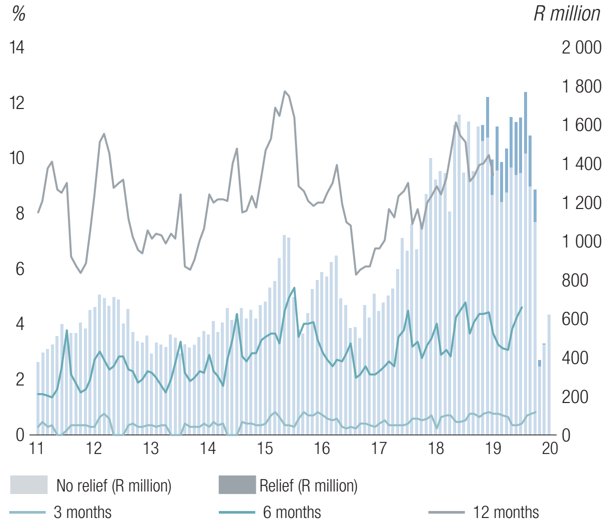
New vintages remain within risk triggers, however, an increase in the three- and six-month vintages was noted for origination since September 2019, and further showing the effects of lockdown measures.

These vintage metrics were partially impacted by payment relief offered, with c.15% of business originated since September 2019 opting for payment relief within the first year of origination.

Post-relief payment experience will be closely monitored. Underwriting criteria were tightened for new business originated from April 2020.

Despite the current challenging macro conditions, overall performance remains within thresholds.

FNB PERSONAL LOANS VINTAGE ANALYSIS



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

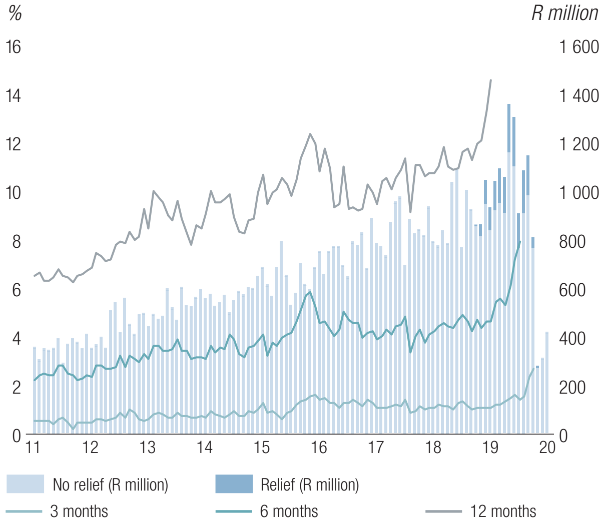
DirectAxis loans

New vintages in DirectAxis exceeded 12-month risk triggers for origination since May 2019, with default rates accelerating during lockdown. Corresponding increases in the three- and six-month vintages are evident for origination since October 2019 and February 2020, respectively. Strong risk mitigation actions were implemented in April 2019.

The vintage metrics are partially affected by payment relief offered, with c.13% of business originated since September 2019 opting for payment relief within the first year of origination.

Post-relief payment experience will be closely monitored. Underwriting criteria were tightened for new business originated since April 2020.

DIRECTAXIS LOANS VINTAGE ANALYSIS

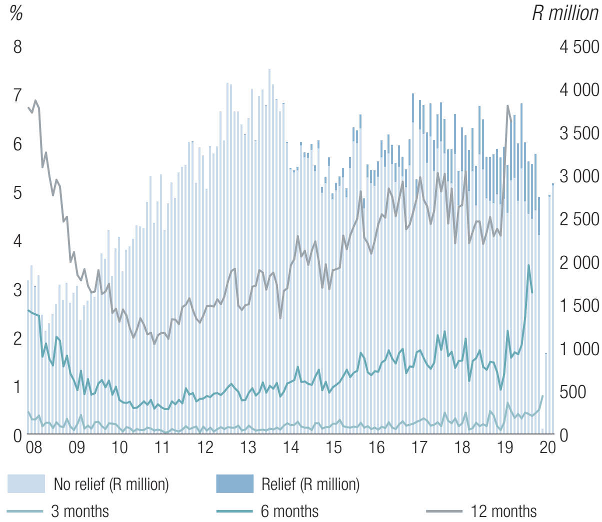


Note: The DirectAxis debt review accounts are reflected as default (12-month vintage), aligned to FNB personal loans since July 2018. Prior to this date, debt review was reflected in their respective stages.

WesBank retail VAF

As anticipated, default rates in WesBank VAF retail show increased strain due to lockdown. This is despite the credit risk tightening changes made in 2019 and WesBank's focus on origination in low-risk buckets. Prior to COVID-19, the improving trend in vintages was evident. The majority of payment relief accounts have been on the books longer than 12 months.

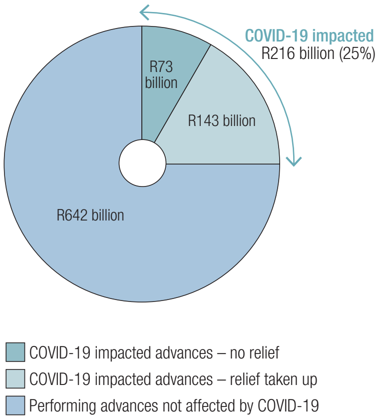
WESBANK RETAIL VAF VINTAGE ANALYSIS



Credit continued

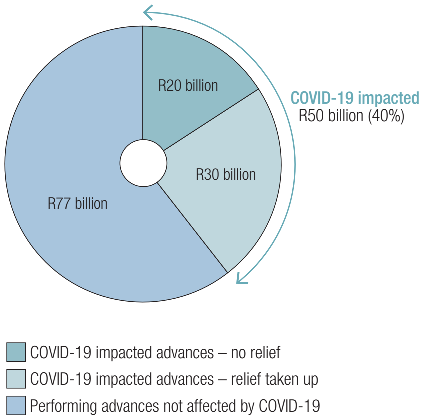
The graphs below provide additional information on the sectors most significantly impacted by COVID-19.

TOTAL BANK (PERFORMING BOOK)*

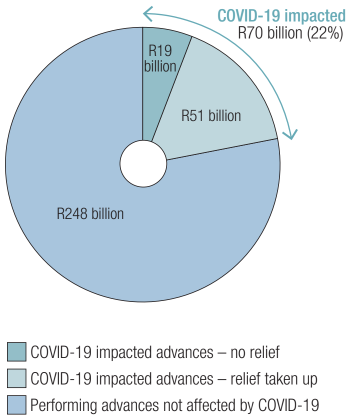


* *Includes FCC and MotoNovo.*

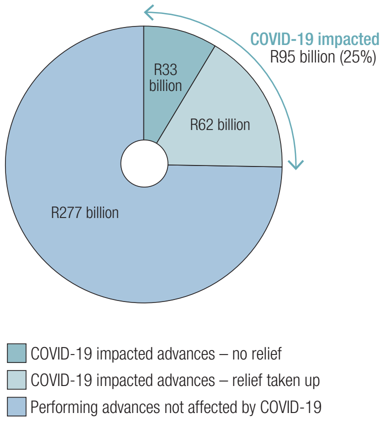
COMMERCIAL (PERFORMING BOOK)



CORPORATE (PERFORMING BOOK)

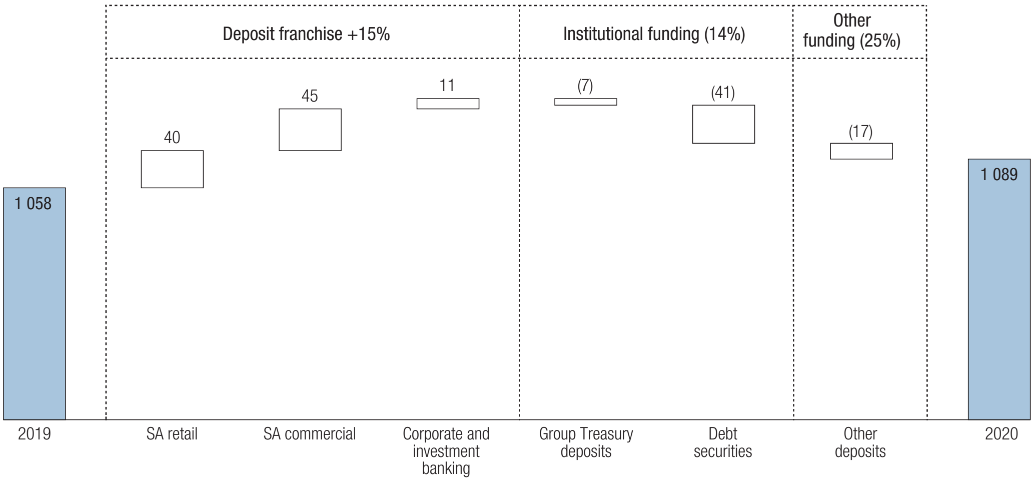


RETAIL (PERFORMING BOOK)



Deposits – up 3%

FUNDING GROWTH BY SEGMENT*
R billion



** Includes debt securities and securitisations.*

KEY DRIVERS

- FNB's deposits increased 17%.
  - Retail deposits grew 16% supported by ongoing new customer acquisition and money management engagements with customers to simplify savings outcomes. Reduced spending and lower withdrawals from notice products during COVID-19 contributed to growth in the second half of the financial year. At June 2020, FNB ranked first in household deposits*.
  - Commercial deposits increased 19%, driven by proactive client engagement, digitisation, and innovative deposit solutions. The COVID-19 crisis also led to growth during the second half of the financial year as clients sought safety in bank deposit products.
- Growth in RMB CIB's deposit base was driven by increased liquidity positions of clients through COVID-19 interventions which were placed back with RMB, specifically in the corporate bank.
- The decline in institutional funding is a result of continued optimisation of the bank's funding profile as well as the impact of the COVID-19 crisis as:
  - demand for fixed deposits and negotiable certificates of deposit (NCDs) from institutional investors decreased;
  - there was reduced issuance of debt securities and floating rate notes (FRNs); and
  - the bank redeemed a US dollar senior bond and other short-dated loans.
- The overall reduction in other deposits was due to reduced client demand for repurchase agreements and a decrease in cash collateral received.

* *Source: BA900, 30 June 2020.*

Funding and liquidity

The group aims to fund its activities in an efficient and flexible manner, from diverse and sustainable funding pools, whilst operating within prudential limits and incorporating rating agency requirements. The group's objective is to maintain and enhance its deposit market share by appropriately rewarding depositors, and targets a funding profile with natural liquidity risk offsets. Due to the liquidity risk introduced by its business activities, the group optimises its funding composition within structural and regulatory constraints to enable business to operate in an efficient and sustainable manner.

Compliance with prudential 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 group's funding and liquidity profile.

The bank entered the COVID-19 crisis in a strong liquidity position and remains well funded, with adequate liquidity buffers to meet both prudential liquidity requirements and internal targets. In order to allow markets to continue to operate smoothly and provide banks with temporary liquidity relief during the crisis, the PA issued *Directive 1 of 2020, Temporary measures to aid compliance with the liquidity coverage ratio during the Coronavirus (COVID-19) pandemic stress period,* which temporarily reduced the prudential LCR requirement from 100% to 80%, effective 1 April 2020. The pandemic continues to impact the South African economy negatively, and key risk metrics and early warning indicators are closely monitored. The bank regularly forecasts its liquidity position and uses scenario analysis to inform decision-making. FirstRand continues to hold appropriate liquidity buffers and can access the required funding to withstand anticipated near-term liquidity risks.

FUNDING MANAGEMENT

South Africa is characterised by a low discretionary savings rate and a higher degree of contractual savings captured by institutions (pension funds, life insurers and asset managers). A portion of these contractual savings translate into banks' institutional funding, which is riskier from a liquidity perspective than funding raised through banks' deposit franchises. South African corporates and the public sector also make use of financial intermediaries that provide bulking and maturity transformation services for their cyclical cash surpluses. Liquidity risk is, therefore, structurally higher in South Africa than in most financial markets. This risk is, however, to some extent mitigated by the following market dynamics:

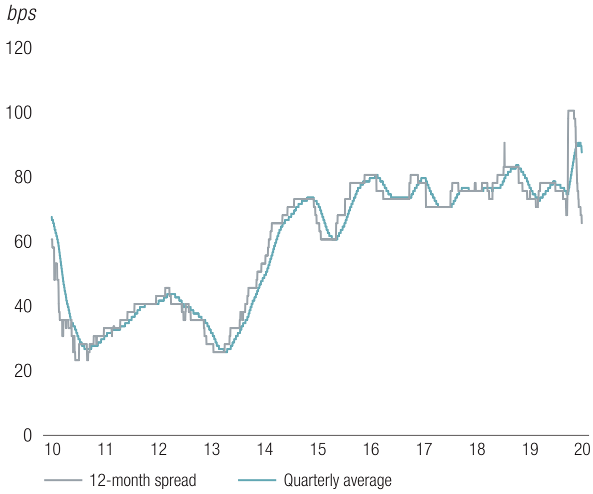
- concentration of customer current accounts with the large South African banks;
- the closed rand system, where rand transactions are cleared and settled through registered banks and clearing institutions domiciled in South Africa;
- the prudential exchange control framework; and
- South African banks' low dependence on foreign currency funding.

Considering the structural features of the South African market, the group's focus remains on achieving an improved risk-adjusted and diversified funding profile, enabling it to meet prudential liquidity requirements.

In line with the South African banking industry, the bank raises a large proportion of its funding from the institutional market. To maximise efficiency and flexibility in accessing institutional funding opportunities, both domestic and international debt programmes are utilised. 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 money market instruments. Funding spreads drifted lower in early 2020, rising abruptly following the onset of the COVID-19 crisis. Spreads breached global financial crisis levels and remained elevated from March to May 2020. Funding spreads started to normalise in late May 2020, as liquidity relief measures took effect and market volatility subsided, with spreads returning to pre-crisis levels by the end of the financial year.

12-MONTH MID-MARKET FUNDING SPREAD



Sources: Bloomberg (RMBP screen) and Reuters.

The following graph illustrates that longer-dated funding spreads have remained elevated for some time. Since 2016, however, funding spreads for maturities greater than three years have started trending downwards, interrupted by the upward COVID-19 spike.

LONG-TERM FUNDING SPREADS

Sources: Bloomberg (RMBP screen) and Reuters.

Funding measurement and activity

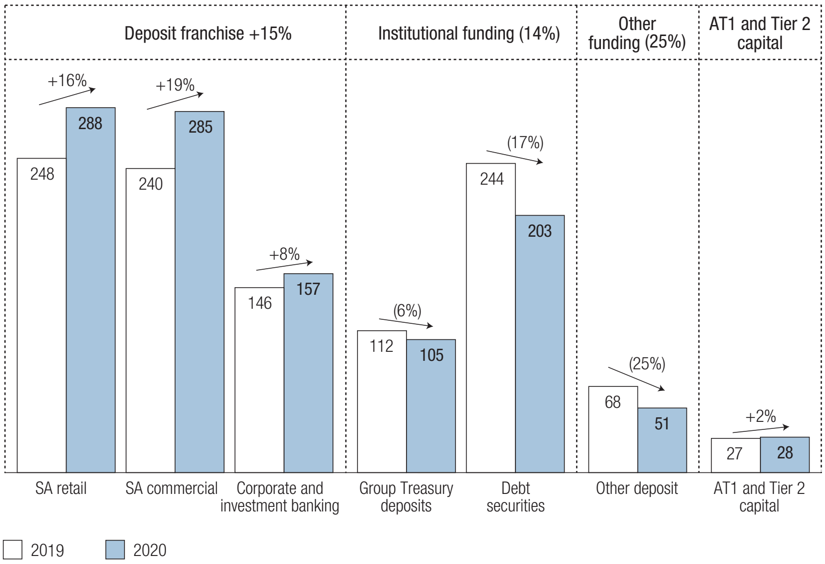
FirstRand Bank remains the primary debt-issuing entity in the group and generates a greater proportion of its funding from deposits compared to the South African industry aggregate. Its funding profile also reflects the structural features described previously.

The group manages its funding profile by source, counterparty type, market, product and currency. The deposit franchise remains the most efficient and stable source of funding, representing 65% of total bank (including foreign branches) funding liabilities at June 2020 (2019: 59%).

Growing the deposit franchise across all market segments remains the bank's primary focus from a funding perspective, 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 funding with improved client pricing adjusted for source and behaviour. In addition to customer deposits, the bank accesses the domestic money markets frequently and the debt capital markets from time to time. 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.

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

FUNDING PORTFOLIO GROWTH*
R billion

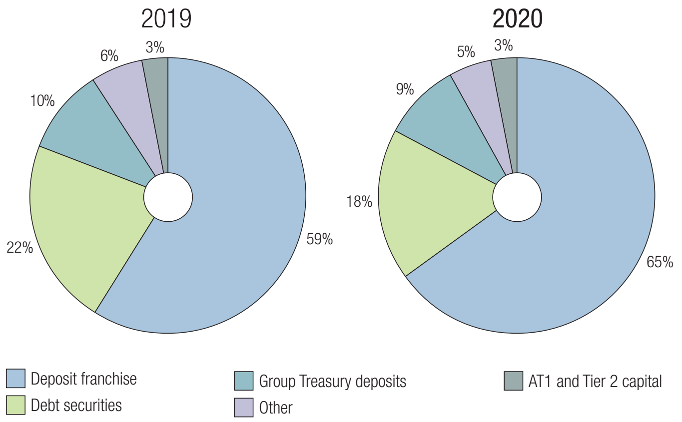


** Includes debt securities and securitisations.*
Note 1: Percentage change is based on actual (not rounded) numbers shown in the bar graphs above.

Funding and liquidity continued

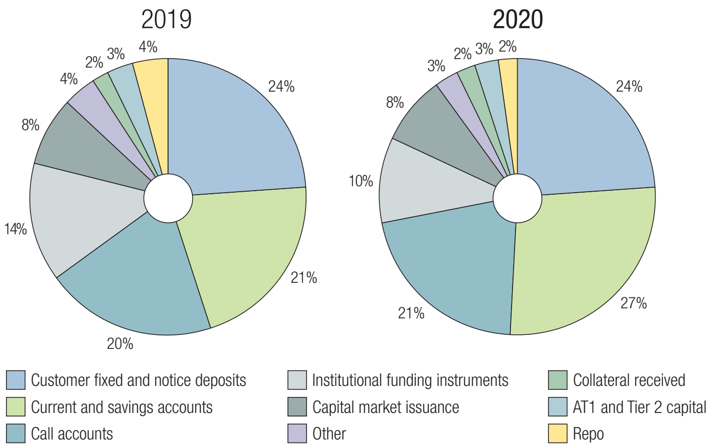
The graphs below show that the bank's funding mix has improved, with further growth in deposits relative to institutional funding sources.

FUNDING MIX



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

FUNDING BY INSTRUMENT TYPE

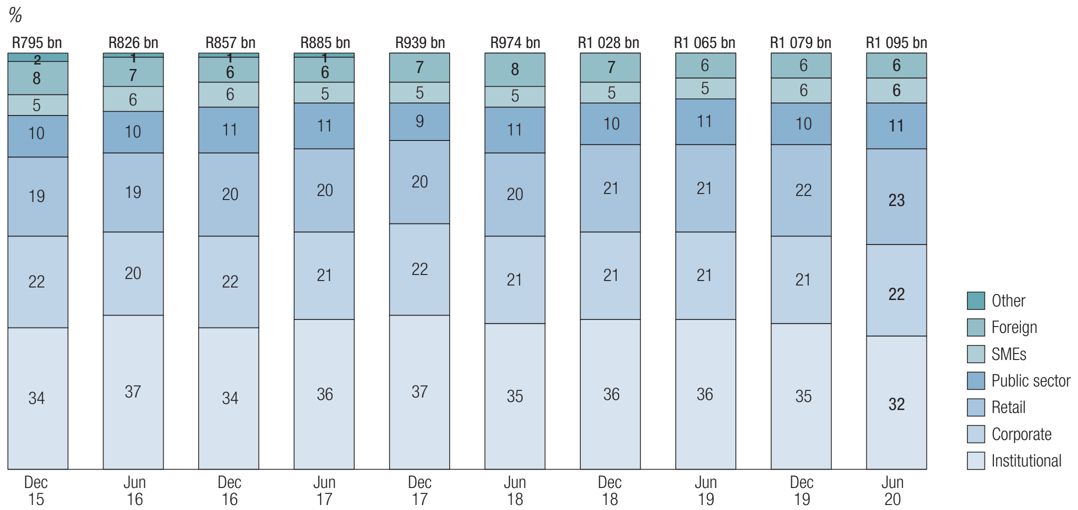


The bank's strategy to grow its deposit and transactional banking franchise naturally results in a significant proportion of contractually short-dated funding. Although these deposits are cyclical in nature, reflecting each customer's transactional and savings requirements, when viewed in aggregate overall portfolio activity is more stable, resulting in an improved liquidity risk profile.

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

	As at 30 June				
	2020				2019
% of funding liabilities	Total	Short term	Medium term	Long term	Total
Institutional funding	**31.7**	**10.7**	**4.0**	**17.0**	36.1
Deposit franchise	**68.3**	**54.8**	**7.9**	**5.6**	63.9
Corporate	**22.1**	**19.3**	**2.1**	**0.7**	20.3
Retail	**23.0**	**18.2**	**3.3**	**1.5**	20.8
SMEs	**5.6**	**4.7**	**0.6**	**0.3**	5.3
Governments and parastatals	**11.0**	**9.5**	**1.1**	**0.4**	11.1
Foreign	**6.6**	**3.1**	**0.8**	**2.7**	6.3
Other	**–**	**–**	**–**	**–**	0.1
Total	**100.0**	**65.5**	**11.9**	**22.6**	100.0

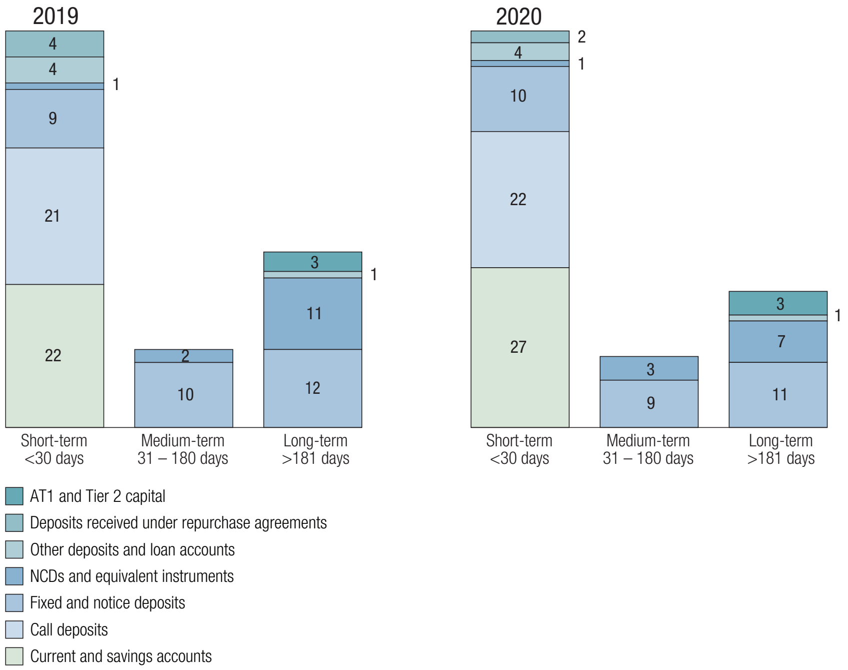
BANK FUNDING ANALYSIS BY SOURCE*



* *Excludes foreign branches.*

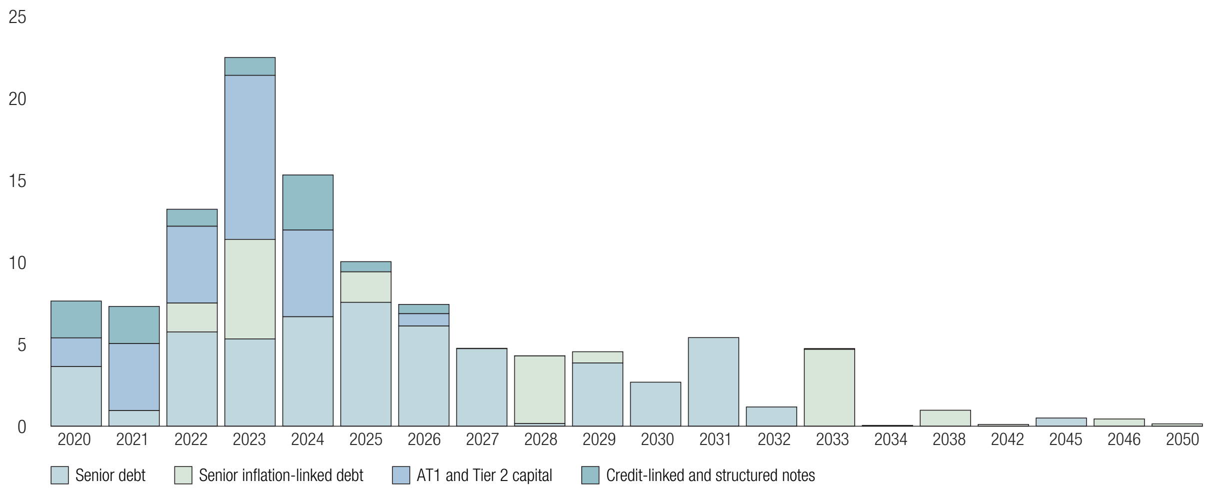
Funding and liquidity continued

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 pricing and investor demand into consideration.

MATURITY PROFILE OF FIRSTRAND BANK* CAPITAL MARKET INSTRUMENTS
R billion



* *Including foreign branches.*

Funds transfer pricing

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits as well as regulatory friction costs in 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 also includes the cost of hedges to immunise business against interest rate risk. 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.

FOREIGN CURRENCY BALANCE SHEET

The active management of foreign currency liquidity risk remains a focus given the group's operations in the UK and in the rest of Africa.

MotoNovo

MotoNovo has been fully integrated with Aldermore and is now supported by Aldermore's funding platform, with new business funded via a combination of on-balance sheet deposits, institutional 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. This book continues to run down through attrition and asset sales, releasing funding capacity to be redeployed as required.

Risk management approach

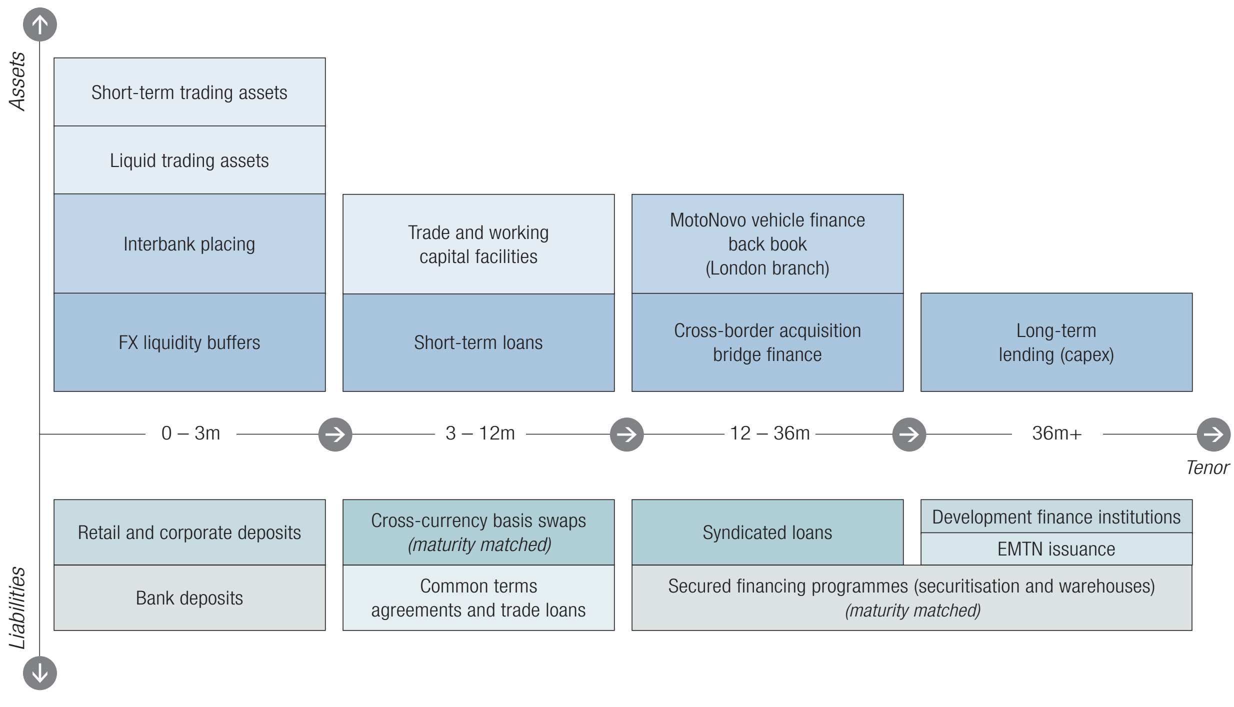
The group seeks to avoid undue liquidity risk exposure and thus maintains liquidity risk within the risk appetite approved by the board and risk committee. As an authorised dealer, the bank is subject to foreign currency macro-prudential limits as set out in the *Exchange Control Circular 9/2016*, issued by the SARB. From a risk management perspective, the group utilises internally derived foreign currency balance sheet measures based on its economic risk assessment and has set internal limits below those allowed by the macro-prudential framework. This limit applies to the group's exposure to foreign 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 considers 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



Funding and liquidity continued

LIQUIDITY RISK POSITION

The following table summarises the available sources of liquidity for the bank's South African operations.

COMPOSITION OF LIQUID ASSETS

	As at 30 June	
R billion	**2020**	2019
Cash and deposits with central banks	**43**	32
Government bonds and bills	**155**	135
Other liquid assets	**51**	55
Total liquid assets	**249**	222

The bank's portfolio of high-quality liquid assets provides a liquidity buffer against unexpected liquidity stress events or market disruptions, and serves to facilitate changing liquidity needs of the operating businesses. The composition and quantum of available liquid assets are defined behaviourally by considering both the funding liquidity-at-risk and the market liquidity depth of these instruments. Additional liquidity overlays in excess of prudential requirements are determined based on stress testing and scenario analysis of cash inflows and outflows.

The bank has built its liquid asset holdings in accordance with asset growth, risk appetite and regulatory requirements. The portfolio of high-quality liquid assets is continuously assessed and actively managed to ensure optimal composition, cost and quantum.

Liquidity ratios for the bank at June 2020 are summarised below.

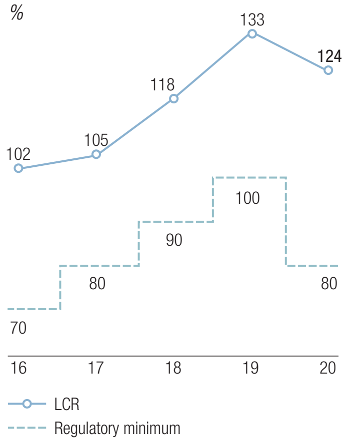
%	LCR*	NSFR*
Regulatory minimum**	80	100
Actual	124	116

* *The bank's LCR and NSFR reflect South African operations only. LCR is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2020 for FirstRand Bank South Africa.*

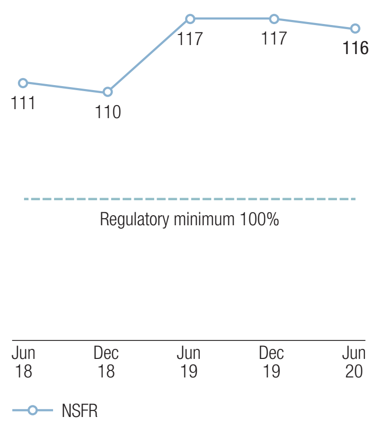
** *In line with Directive 1 of 2020, the LCR requirement reduced from 100% to 80%, effective 1 April 2020. There were no changes to the NSFR minimum requirement.*

The graphs below provide an overview of the bank's liquidity ratios.

LCR
%



NSFR
%



Funding from institutional clients is a large 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 deposit franchise funding and reduce reliance on institutional sources.

Capital

The bank actively manages capital aligned to strategy and risk appetite/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; and
- issuance of capital instruments.

The capital planning process ensures that the CET1, Tier 1 and total capital adequacy ratios remain within or above target ranges and regulatory minimums 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, 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 actively manages its capital stack to ensure an efficient capital structure, closely aligned to bank internal targets.

Economic capital (EC) is incorporated in the bank's internal target assessment, specifically focusing on the level of loss-absorbing capital required to cover the bank's economic risk. It is defined as an internal measure of risk which estimates the amount of capital required to cover unexpected losses. The bank continues to enhance the use of EC by facilitating risk-based decisions, including capital allocation. The assessment of economic risk aligns with FirstRand's economic capital framework to ensure the bank remains solvent at a confidence interval of 99.93%, and that it can deliver on its commitment to stakeholders over a one-year horizon.

Regular reviews of the EC position are carried out across businesses, enabling efficient portfolio optimisation with respect to financial resource management and portfolio behaviour. At 30 June 2020, the bank reported an EC multiple (loss-absorbing capital/EC requirement) of 1.6 times on a post-diversification basis.

YEAR UNDER REVIEW

In response to the COVID-19 pandemic, the PA implemented temporary measures to provide additional capacity to counter economic risks to the financial system and promote ongoing lending to the economy. The PA published *Directive 2 of 2020, Matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic*, which temporarily reduced the Pillar 2A capital requirement from 1% to 0% effective 6 April 2020. Banks in South Africa will also be allowed to draw down against the capital conservation buffer as the PA considers this to be a period of financial stress. The minimum leverage ratio requirement has not been adjusted for any COVID-19 relief measures.

Directive 4 of 2020, Capital framework for South Africa based on the Basel III framework, was also published on 27 August 2020, and incorporated the reduction in the Pillar 2A capital requirement to 0%. Banks are also required to disclose their domestic systemically important bank (D-SIB) add-ons as part of its regulatory disclosures. The D-SIB requirement for the bank is 1.5%.

In addition, the Prudential Regulation Authority reduced the UK countercyclical buffer (CCyB) requirement from 1% to 0% in March 2020. This reduced the bank's CCyB requirement from 5 bps at 30 June 2019 to nil at 30 June 2020.

The bank's internal targets have not been adjusted for the COVID-19 temporary relief measures as they are aligned to the minimum requirements incorporating a fully phased-in Pillar 2A requirement.

FRB maintained a strong CET1 ratio with buffers in excess of the regulatory minimums. The bank's capital and leverage ratios at 30 June are summarised in the following table.

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	7.0	8.5	10.5	4.0
Internal target	11.0 – 12.0	>12.0	>14.25	>5.5
Actual – including unappropriated profits**				
FRB including foreign branches#				
2020	**12.3**	**12.8**	**15.7**	**6.7**
2019	13.4	14.0	16.8	7.2
FRB excluding foreign branches				
2020	**11.9**	**12.4**	**15.5**	**6.4**
2019	13.2	13.8	16.8	6.8

* *Excludes the bank-specific requirements, i.e. individual capital requirement (Pillar 2B) and D-SIB add-on.*

** *Includes the transitional impact of IFRS 9.*

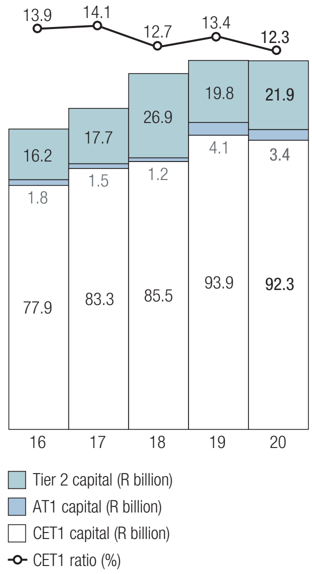
Ratios excluding unappropriated profits are CET1 of 12.3%, Tier 1 of 12.7%, total capital adequacy of 15.7% and a leverage ratio of 6.7%. Refer to https://www.firstrand.co.za/investors/basel-pillar-3-disclosure/ for further detail.

Capital continued

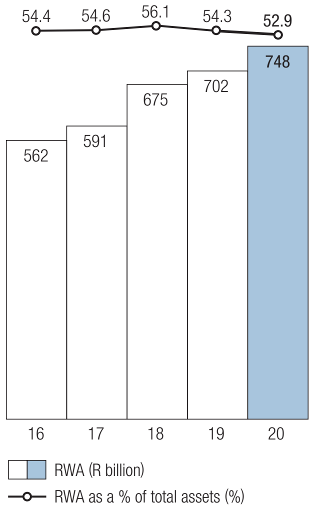
The capital and leverage information included in the following sections relate to FRB including foreign branches.

The graphs below provide a five-year view of the bank's capital adequacy, RWA and leverage positions.

CAPITAL ADEQUACY*



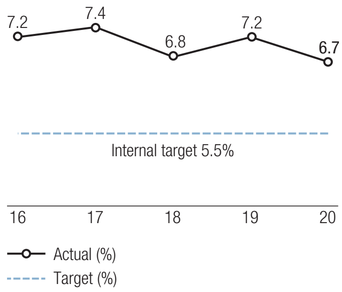
RWA HISTORY



** Includes unappropriated profits.*

The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios and is a function of Tier 1 capital, and total on- and off-balance sheet exposures. The decrease in the leverage ratio to June 2020 mainly relates to a decrease in the Tier 1 capital and an increase in total exposures.

LEVERAGE*



** Includes unappropriated profits.*

Note: 2016 to 2018 figures are based on IAS 39 and 2019 to 2020 figures on IFRS 9.

Supply of capital

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

COMPOSITION OF CAPITAL*

	As at 30 June	
R million	**2020**	2019
CET1 capital	**92 318**	93 886
Tier 1 capital	**95 730**	98 006
Total qualifying capital	**117 666**	117 836

* *Includes unappropriated profits of R354 million. Refer to https://www.firstrand.co.za/investors/basel-pillar-3-disclosure/ for a detailed breakdown of the composition of capital.*

KEY DRIVERS: 2020 vs 2019

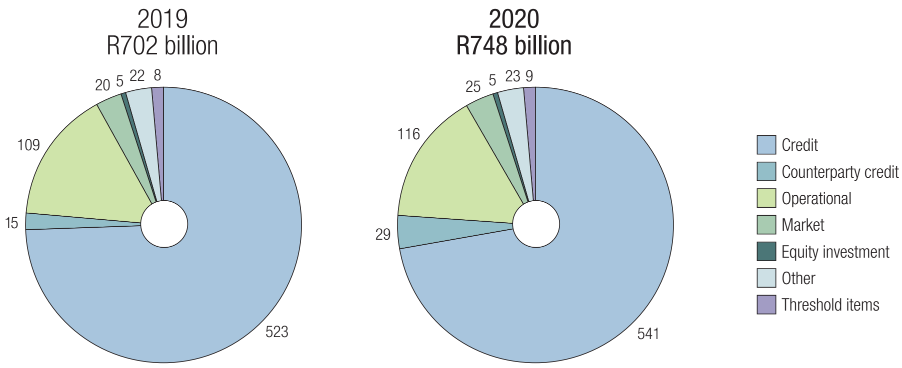
CET1	↓	• Net earnings generation was negatively impacted by COVID-19. • Reduction in CET1 due to the transitional impact of IFRS 9.
AT1	↓	• Impairment for intergroup AT1 investment partly offset by additional tap issuance in July 2019.
Tier 2	↑	• Benefit from foreign currency translation movements and increased surplus provisions over expected losses, partly offset by the redemption of the FRB15 in March 2020.

Capital continued

Demand for capital

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

RWA ANALYSIS



KEY DRIVERS: 2020 vs 2019		
Credit	▲	• Increase due to risk migration, impact of rating downgrades on corporate exposures and depreciation of the rand. • Organic growth at muted levels was partly offset by financial resource optimisation strategies.
Counterparty credit	▲	• Increased risk positions and mark-to-market movements on the back of rand depreciation against major currencies.
Operational	▲	• Recalibration of risk scenarios and increase in gross income used to calculate the capital floor requirements for entities on the advanced measurement approach. • Increase in gross income for entities on the standardised approach.
Market risk	▲	• Market volatility due to the COVID-19 pandemic and rating downgrades were partly offset by the reduced market risk multiplier and refinement of methodologies.
Other risks	▲	• An increase in property and equipment due to implementation of IFRS 16 on 1 July 2019 and growth in other assets.
Threshold items	▲	• Increase in the deferred income tax assets, including the transitional impact of IFRS 9, partly offset by a decrease in investments in financial and banking entities.

Capital adequacy position for the bank and its foreign branches

The bank's registered 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. The bank's approach is that foreign branches must be adequately capitalised on a standalone basis. Based on the outcome of detailed stress testing, each foreign branch targets a capital level in excess of in-country regulatory minimums.

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 profits to the bank.

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

RWA AND CAPITAL ADEQUACY POSITIONS OF FRB AND ITS FOREIGN BRANCHES

	As at 30 June				
	2020				2019
	Total minimum requirement %	RWA* R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %
Basel III (PA regulations)					
FirstRand Bank**, #		**748 079**	**12.8**	**15.7**	16.8
FirstRand Bank South Africa**		**703 893**	**12.4**	**15.5**	16.8
FirstRand Bank London	**10.5†**	**41 603**	**14.8**	**15.9**	12.2
FirstRand Bank India		**2 615**	**31.5**	**31.8**	29.8
FirstRand Bank Guernsey		**512**	**12.9**	**12.9**	16.7

* *RWA for entities outside of South Africa converted to rands using the closing rate at 30 June 2020.*

** *Includes unappropriated profits.*

Includes foreign branches.

† *Excludes the bank-specific requirements, i.e. individual capital requirement (Pillar 2B) and D-SIB add-on.*

Regulatory update

COVID-19 REGULATORY UPDATE	In response to the COVID-19 pandemic, the PA implemented the following temporary measures to provide capital and liquidity relief to enable banks to counter economic risks to the financial system as a whole. • *Directive 1 of 2020, Temporary measures to aid compliance with the liquidity coverage ratio during the Coronavirus (COVID-19) pandemic stress period* Given the financial market turmoil and reduced market liquidity, banks could find it increasingly difficult to comply with the prescribed 100% LCR requirement set out in the regulations. The PA, therefore, deemed it appropriate to temporarily amend the minimum requirement specified for banks' compliance with LCR to 80%, effective 1 April 2020. The period for which the relief will remain in place is dependent on how the crisis evolves and its impact on the banking system, but a return to the 100% limit will be phased in. This action was consistent with measures taken by international regulators and provided the system with capacity to utilise liquidity buffers built up since 2015. As this is a temporary change in the limit, when the 100% limit is restored the buffers will need to be replenished. • *Directive 2 of 2020, Matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic* The PA considers the COVID-19 pandemic to be a stress event posing risk to the entire financial system and has, therefore, temporarily reduced the Pillar 2A capital requirement from 1% to 0%, effective 6 April 2020. Any bank or banking group will also be allowed to draw down against its capital conservation buffer while the directive remains in place. In the event that banks or banking groups enter the capital conservation buffer, they will be required to consult the PA. • *Directive 3 of 2020, Matters related to the treatment of restructured credit exposures due to the Coronavirus (COVID-19) pandemic* The banking sector has been encouraged to continue to extend credit to sectors in need, particularly households and small businesses, and to provide relief measures to reduce the strain on these sectors in an effort to sustain the local economy and maintain financial stability. The PA has been supportive of the various COVID-19 relief initiatives offered to customers, such as payment holidays being offered by banks in order to provide relief to certain borrowers in the retail sector in an effort to mitigate the impact of the pandemic. The PA is also cognizant of the possible effect of the pandemic on the corporate sector. The PA has, therefore, decided to amend the requirements specified in *Directive 7 of 2015* to provide temporary relief on the minimum capital requirements for banks, controlling companies and branches of foreign institutions relating to credit risk during this time. • *Guidance Note 4 of 2020, Recommendations on the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers, in light of the negative economic impact of the Coronavirus Disease (COVID-19) pandemic and the temporary regulatory capital relief provided by the Prudential Authority* The PA indicated in this guidance note that the general expectation is that no distribution of dividends on ordinary shares take place in 2020 and that the payment of cash bonuses to executive officers and material risk takers also not be made during the same period. The PA further expects banks' boards to take appropriate action in respect of the accrual, vesting and payment of variable remuneration, in a manner that is aligned to the principles enumerated in the guidance note and in accordance with the relevant legal requirements, as applicable.
BASEL III REFORMS	The PA issued *Guidance Note 7 of 2020, Proposed implementation dates in respect of specified regulatory reforms*. The implementation of these reforms has been further postponed given the impact of the COVID-19 pandemic. The following reforms have been postponed to 1 January 2021 from 1 October 2020: • standardised approach to counterparty credit risk; • capital requirement for bank exposures to central counterparties; and • capital requirements for banks' equity investments in funds. The proposed implementation dates for the revisions of the securitisation framework and large exposures framework have been delayed to 1 April 2021.

LCR	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). *Guidance Note 5 of 2019, Continued provision of a committed liquidity facility by South African Reserve Bank to banks*, 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 PA's intention to phase out the CLF by 1 December 2021. The PA will, in consultation with banks, investigate possible alternatives to the CLF, if necessary.
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 was 31 August 2019. The discussion paper outlined the objectives of the resolution framework, and the planning and the conducting of a resolution with an emphasis on open-bank resolution. Open-bank resolution is applicable to systemically important institutions where the bank continues to function in its existing form under its own licence. 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 is 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 Financial Sector Laws Amendment Bill (FSLAB) is promulgated. The FSLAB was tabled in Parliament by the Minister of Finance on 20 August 2020. The FSLAB introduced a new tranche of loss-absorbing instruments, i.e. 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. PwC, appointed by the World Bank and SARB, conducted a survey to analyse various aspects relevant to flac instrument requirements. The survey was completed during the first quarter of 2020 and the results are currently subject to review by the SARB. An amendment to the FSLAB included the establishment of the Corporation for Deposit Insurance (CoDI) and is designed to protect depositors' funds and enhance financial stability. The SARB has commenced with a project to consider the complexities of operationalising a deposit insurance scheme in South Africa, and has also released several discussion documents. The first discussion document, *Coverage and reporting rules for deposit insurance in South Africa*, was released in April 2020 with the banking industry providing comments to the SARB in June 2020. The SARB published a second document, *The deposit insurance funding model and the implication for banks*, on 1 September 2020 and comments are due by 16 October 2020.
FINANCIAL CONGLOMERATES	The Financial Sector Regulation Act empowers the PA to designate a group of companies as a financial conglomerate and to also regulate and supervise such designated financial conglomerates. The PA is also empowered to issue prudential standards relating to financial conglomerates, and these must be complied with by the holding companies of such financial conglomerates. On 4 March 2020, the PA published draft financial conglomerate standards for a second round of informal consultation. The amendments to the standards have been based on comments received during the July 2018 consultation together with developments in the regulatory approach to financial institutions. Comments on the draft standards and an impact assessment study were provided by the banking industry in June 2020. Once the financial conglomerate standards have been finalised, the reporting templates for the standards will be drafted for further consultation.

Credit ratings

South African banks' credit ratings are constrained by the ratings of the South African sovereign, given the link between the banks' creditworthiness and that of the government. Moody's Investors Service (Moody's) downgraded FRB's ratings on 31 March 2020, following its downgrade of the South African sovereign on 27 March 2020. S&P Global Ratings (S&P) downgraded the ratings of FRB on 7 May 2020, subsequent to its downgrade of the sovereign on 29 April 2020. The rating actions on the South African sovereign were driven by the continuing deterioration in South Africa's fiscal strength, structurally very weak growth, and the significant adverse impact of COVID-19 on the country's fiscal and growth prospects.

The following tables summarise the credit ratings of the South African sovereign and FRB at 9 September 2020.

SOUTH AFRICAN SOVEREIGN LONG-TERM RATINGS

	Outlook	Foreign currency rating	Local currency rating
S&P	Stable	BB-	BB
Moody's	Negative	Ba1	Ba1

Sources: S&P and Moody's.

FIRSTRAND BANK LIMITED RATINGS

		Counterparty rating*		National scale rating		
	Outlook	Long-term	Short-term	Long-term	Short-term	Standalone credit rating**
S&P	Stable	BB-	B	zaAA	zaA-1+	bbb-
Moody's	Negative	Ba1	NP	Aa1.za	P-1.za	ba1

* *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 and Moody's.

FRB's standalone credit ratings continue to reflect its strong market position in South Africa, as well as its focused strategy and solid franchise in the banking sector, good core profitability, financial flexibility, robust risk management and sound liquidity and capital positions.

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 2019,* remain unchanged.

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. The *pro forma* financial information should be read in conjunction with the unmodified Deloitte & Touche and PricewaterhouseCoopers Inc. independent reporting accountants' report, in terms of International Standard on Assurance Engagements (ISAE 3420), 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 a 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, 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 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 for the share schemes that are not hedge accounted.

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 01/2019 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 B111.

Statement of headline earnings – IFRS

for the year ended 30 June

R million	2020	2019	% change
Profit for the year (refer to page C79)	**14 368**	23 127	(38)
Other equity instruments holders	**(629)**	(483)	30
Earnings attributable to ordinary equityholders	**13 739**	22 644	(39)
Adjusted for	**64**	(1 475)	(>100)
Gain on investment activities of a capital nature	**–**	(1 928)*	(100)
Loss/(gain) on the disposal of property and equipment	**17**	(53)	(>100)
Impairment of intangible assets	**6**	63	(90)
Impairment of assets in terms of IAS 36	**66**	19	(100)
Tax effects of adjustments	**(25)**	424*	(>100)
Headline earnings	**13 803**	21 169	(35)

* *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

R million	2020	2019	% change
Headline earnings	**13 803**	21 169	(35)
Adjusted for	**(41)**	(17)	>100
TRS and IFRS 2 liability remeasurement*	**77**	80	(4)
IAS 19 adjustment	**(118)**	(97)	22
Normalised earnings	**13 762**	21 152	(35)

* *The bank uses a TRS with external parties to hedge itself against the exposure to changes in the FirstRand share price associated with the group's long-term incentive schemes.*
The TRS is accounted for as a derivative in terms of IFRS with the full fair value change recognised in NIR unless it qualifies for hedge accounting.
In the current year, FirstRand's share price decreased R30.49 and during the prior year increased by R4.66.
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 B110.

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2020

R million	**Normalised**	Margin-related items included in fair value income	IAS 19 adjustment	Headline earnings adjustments	TRS and IFRS 2 liability remeasure-ment	**IFRS**
Net interest income before impairment of advances	**46 484**	392	–	–	98	**46 974**
Impairment charge	**(18 269)**	–	–	–	–	**(18 269)**
Net interest income after impairment of advances	**28 215**	392	–	–	98	**28 705**
Non-interest revenue	**34 447**	(392)	–	(17)	(471)	**33 567**
Income from operations	**62 662**	–	–	(17)	(373)	**62 272**
Operating expenses	**(44 343)**	–	164	(72)	266	**(43 985)**
Income before indirect tax	**18 319**	–	164	(89)	(107)	**18 287**
Indirect tax	**(810)**	–	–	–	–	**(810)**
Profit before income tax	**17 509**	–	164	(89)	(107)	**17 477**
Income tax expense	**(3 118)**	–	(46)	25	30	**(3 109)**
Profit for the year	**14 391**	–	118	(64)	(77)	**14 368**
Attributable to						
Other equity instrument holders	**(629)**	–	–	–	–	**(629)**
Ordinary equityholders	**13 762**	–	118	(64)	(77)	**13 739**
Headline and normalised earnings adjustments	**–**	–	(118)	64	77	**23**
Normalised earnings attributable to ordinary equityholders of the bank	**13 762**	–	–	–	–	**13 762**

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2019

R million	Normalised	Margin-related items included in fair value income	IAS 19 adjustment	Headline earnings adjustments	TRS and IFRS 2 liability remeasure-ment	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	34 441	(454)	–	1 981	(156)	35 812
Income from operations	72 916	–	–	1 981	(75)	74 822
Operating expenses	(43 475)	–	135	(82)	(37)	(43 459)
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	(6 977)	–	(38)	(424)	32	(7 407)
Profit for the year	21 635	–	97	1 475	(80)	23 127
Attributable to						
Other equity instrument holders	(483)	–	–	–	–	(483)
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

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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 2020. 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. Simonet Terblanche, 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. The adoption of the new standard IFRS 16 and the amended IAS 12 had the most significant impact on the bank in the current year. Refer to accounting policy 9 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, which oversees the bank's risk governance structures and processes. Internal audit provides independent assurance on the adequacy and effectiveness of controls and report to the audit committee.

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

The directors have reviewed the bank's budgets and flow of funds forecasts for the next three years 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 it 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 no 71 of 2008. Their unmodified report appears on page C8.

The annual financial statements of the bank, which appears on pages C17 to C284, were approved by the board of directors on 9 September 2020.

WR Jardine
Chairman
Sandton
9 September 2020

AP Pullinger
Chief executive officer

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 fact that 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 fact that the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by them;
- the fact that the auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- the fact that criteria specified for independence were met.

The audit committee has carried out its statutory duties, including re-evaluating the performance of the external auditors, and, agreeing on 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 Deloitte & Touche lead partner, Kevin Black, who replaced Darren Shipp 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 Deloitte & Touche lead partner, were performed.

The audit committee is satisfied with the financial statements, accounting policies and the internal financial controls of the company. The audit committee has reviewed the annual financial statements of the bank and recommended it to the board for approval.

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

Signed on behalf of the group audit committee:

GG Gelink
Chairman, audit committee
Sandton
9 September 2020

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
9 September 2020

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 R14 368 million (2019: R23 127 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 R16 667 million were paid during the 2020 financial year (2019: R12 645 million).

Distributions of R629 million were made on AT1 instruments (2019: R483 million). Current tax of R176 million (2019: R58 million) relating to the AT1 instruments was recognised in the income statement.

SHARE CAPITAL

Ordinary share capital

Details of FirstRand Bank Limited's share capital are presented in note 24 of the annual financial statements. There were no changes to authorised or issued ordinary share capital during the year.

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 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.

WR Jardine
Chairman
Sandton
9 September 2020

AP Pullinger
Chief executive officer

INDEPENDENT AUDITORS' REPORT

To the Shareholder of FirstRand Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of FirstRand Bank Limited as at 30 June 2020, and its financial performance and its 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.

What we have audited

FirstRand Bank Limited's financial statements set out on pages C17 to C284 which comprise:

- the statement of financial position as at 30 June 2020;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements including a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

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.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>

Impairment of advances

Management continues to monitor the impact of the IFRS 9 - *Financial Instruments* (IFRS 9), Expected Credit Loss (ECL) methodology and to refine inputs and judgements made to ensure that output of the models are aligned to the requirements of the accounting standard and industry developments.

As described in the "Accounting policies, Significant judgements and estimates impacted by COVID-19", section of the financial statements, the impact of the COVID-19 pandemic has increased the level of judgement required by management in the measurement of the ECL.

Impairment of advances was considered to be a 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 in determining the ECL on advances,
- The uncertainty related to unprecedented global and local economic stress, 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

We have set out below the Corporate advances and Retail and commercial advances separately given the unique nature of the products. We also highlight post model adjustments.

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Our audit of the impairment of advances included, amongst others, the following audit procedures performed together with the assistance of our economic, credit and actuarial experts:

- Across all significant portfolios we assessed the associated impairment practices applied by management against the requirements of IFRS 9; and
- We assessed the company's probability-weighted macroeconomic scenario estimates 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. We also assessed how management has incorporated the impact of COVID-19 into the macroeconomic scenarios.

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Corporate advances*:

Corporate advances are individually significant and the ECL calculations of impairments are inherently judgemental in nature.

The areas of significant management judgement include the modelling methodology applied to Stage 1 and Stage 2 exposures, which include:

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Corporate advances:

We performed the following procedures on the ECL for corporate advances with the assistance of our economic, credit and actuarial experts, taking the impact of COVID-19 into account:

- Assessed the design, implementation and operating effectiveness of the relevant financial reporting controls as well as the general and application computer controls

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</table>

● The judgement involved relating to input assumptions and methodologies applied to estimate the Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD) within the ECL calculations; ● The incorporation of forward-looking information (FLI) and macroeconomic inputs into the Significant Increase in Credit Risk (SICR) assessment and ECL calculations; ● The assessment of whether there has been a SICR event since origination date of the exposure to the reporting date (i.e. a trigger event that has caused a deterioration in credit risk and resulted in migration of the loan from Stage 1 to Stage 2), taking the impact of COVID-19 into account; and ● Assessing the impact of COVID-19 on the forward-looking economic information incorporated into the respective models. In addition, for Stage 3 exposures: ● The assumptions used for estimating the recoverable amounts and timing of future cash flows of individual exposures which have been classified as non performing. * *This applies to corporate advances apparent in RMB corporate banking, RMB investment banking and Rest of Africa, as well as Group Treasury and other*.	relating to the processes used to calculate impairments, and tested controls relating to data and model governance ● Tested controls over the credit risk management and governance processes when advancing new facilities or restructuring existing facilities; ● Assessed the appropriateness of the ECL methodology, including any refinements against actual experience and industry practice; ● Assessed the quality of the data used in credit management, reporting and modelling for completeness and accuracy through data analytics with specific focus on the appropriateness of assumptions made by management in determining the applicable macroeconomic inputs, credit ratings, EAD, PD, LGD and valuation of collateral in the current economic climate; ● For a sample of advances, agreed the input data to underlying documentation; ● Confirmed that the latest available FLI has been appropriately incorporated within the impairment models by comparing these to our own actuarial statistics and independent market data; ● Developed an independent view to quantify the impact of COVID-19 due to the inherent uncertainty in the estimation of this risk by applying our own independent inputs to management's model. We compared the severity to past actual stress events and the ability of the ECL models to capture the full extent of the stress; ● Selected a sample of advances with no indicators of SICR and determined if this was reasonable by forming an independent view based on publicly available information on whether there was a significant increase in credit risk; ● For a sample of industries, performed top-down industry and bottom-up analyses over individual counterparties based on publicly available information as a sense check over the SICR assessment, assumptions applied and post model adjustments raised; and ● In respect to Stage 3 advances, tested the key controls around the valuation of collateral (where applicable) for operating effectiveness, including inspecting a sample of legal agreements and underlying documentation to assess the legal right to and existence of collateral and expected timing of future cash flows. Based on the procedures described above, our audit evidence was consistent with the inputs in the ECL on corporate advances which were found to be within an

<table>
<tr><td></td><td>acceptable range in the context of IFRS 9.</td></tr>
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Retail and commercial advances:**

Retail and commercial advances are higher volume, lower value and therefore a significant portion of credit impairments are 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 credit impairment models, analysing data and determining the most appropriate assumptions and estimates. The inputs into the modelling process require significant management judgement, which include:

- The input assumptions and methodologies applied to estimate the PD, EAD and LGD within the ECL calculations;
- The assessment of whether there has been a SICR event 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), taking the impact of COVID-19 into account;
- Determining the expected value to be realised from collateral in place and the time this collateral will take to realise;
- The determination of the write-off point and application of the cure definition;
- The incorporation of FLI and macroeconomic inputs into the SICR assessment and ECL calculations;
- Determining and weighting of assumptions used in the forward-looking economic model which incorporated a less favourable outlook as a result of the COVID -19 pandemic and related lockdown with reduced economic activity; and
- Assessing the impact of COVID-19 on ECL raised for the relief loans, as SICR in the form of arrears may have been delayed.

*** This applies to retail and commercial advances apparent in total retail secured, total retail unsecured, FNB Commercial, Wesbank corporate and MotoNovo.*

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Retail and commercial advances:

We performed the following procedures on the ECL within retail and commercial advances with the assistance of our economic, credit and actuarial experts, at a portfolio level, based on the applicable methodologies and inputs, taking the impact of COVID-19 into account:

- Obtained an understanding of the methodologies used by management with reference to actual experience, industry practice and assumptions used in the various ECL model components (PD, EAD, LGD) and how these were calibrated by using historical information to estimate future cash flows;
- Tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over model governance and approval;
- Tested the design, implementation and, where appropriate, operating effectiveness of relevant controls as well sample testing of data used by the models to calculate impairments, which included the reperformance of the base ECL models;
- Independently recalculated the ECL by considering management's ECL calculation, adjusting component inputs based on our independent assessment and compared the result to management's result;
- Through applying the assumptions and data included in management's model, including the performance of cured accounts, we assessed the reasonableness of SICR classifications;
- Tested the SICR thresholds applied and the resultant transfer into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on historical data;
- To determine the impact of change in SICR thresholds on the ECL recognised, we performed a sensitivity analysis of SICR;
- Tested the performance of the client behavioural scores that drive the PD estimates and SICR triggers through calculation of Gini and population stability metrics;
- Assessed the potential impact of reduced collateral values, a delayed recovery process and reduced cure from default for secured exposures by separately considering individually significant collateral, historically stressed collateral values and by quantifying the impact of longer mortgage realisations;
- Assessed the potential impact on recoveries and cure from default for unsecured exposures by comparing

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	estimates to historic experience of defaulted accounts; ● Evaluated management's assessment of historical post write-off recoveries relative to the current volume of accounts written off, 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 LGD and the application of the curing rules; ● Considered the assumptions used in the forward-looking economic model, the macro-economic variables considered, variables selected and the sensitivity of ECL components to each variable; ● Compared these to our own actuarial statistics and independent market data; ● Confirmed that the latest available forward-looking information has been appropriately incorporated within the impairment models by comparing these to our own actuarial statistics and independent market data; ● Developed an independent view to assess management's quantification of the impact of COVID-19, by considering historic LGD and PD sensitivity to stress and the historic correlation of PDs to lower income and retrenchments as evidenced by changes in inflows into client transactional accounts; and ● 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. Based on the procedures described above, our audit evidence was consistent with 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.
Post model adjustments: Where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macroeconomic events, additional provisions via post model adjustments are made. Significant judgement was made by management in determining the COVID-19 macroeconomic adjustment which is discussed above. The related disclosures in the financial statements are included in:	**Post model adjustments:** We obtained management's post model adjustments and performed the following: ● Tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the governance and approval of post model adjustments; ● Re-performed management's calculation of the COVID-19 post model adjustment for relief loans to ensure mathematical accuracy and that the calculation was in accordance with the documented policy; ● Assessed the reasonableness of post model

● Accounting policies, Significant, judgement and estimates impacted by COVID-19; ● Accounting policies, Critical accounting estimates, assumptions and judgements; and ● Note 31 – Financial risks - Credit risk.	adjustments raised by management (such as adjustments made to coverage held for COVID-19 relief to allow for the impact of delayed arrears recognition), including independent considerations taking into account industry and client/portfolio specific risk; and ● Considered the need for any other post model adjustments not considered by management through independent research. Based on the procedures described above, our audit evidence was consistent with the post model adjustments which were found to be within an acceptable range in the context of IFRS 9.
Valuation of complex financial instruments which are subject to significant judgements The valuation of complex financial instruments was considered to be a matter of most significance to the current year audit. Management applied significant judgement relating to the complex valuation methodologies as well as the determination of key assumptions relating to the inputs into the valuations. Significant judgement is required in respect of unobservable inputs and the consideration of developments in valuation methodologies due to the impact of funding costs, bid offer spreads, and counterparty credit spreads as well as the related fair value disclosures. These methodologies are constantly changing in line with developing market practices and trends. As described in the “Accounting policies, Significant, judgements and estimates impacted by COVID-19” section of the financial statements, COVID-19 has increased the level of judgement required by management in the current year largely due to market volatility experienced which impacted the above mentioned inputs. The financial instruments impacted by management’s judgements include: ● Advances carried at fair value (level 3); ● Complex derivative financial instruments (level 2 and 3); and ● Investment securities valued with reference to unobservable inputs (level 3).	Our audit procedures over the valuation of these complex financial instruments included, amongst others, the following procedures which were performed with the assistance of our valuation experts: ● We tested the design, implementation and operating effectiveness, as appropriate, of the relevant financial reporting controls, the existence of key governance structures and the general and application computer controls relating to the relevant IT systems supporting 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; ● In response to the impact of COVID-19, we assessed the appropriateness of the significant inputs into management’s valuations, owing to market volatility including funding costs, bid offer spreads and counterparty credit spreads against reasonable factors which impact the reported exit values; ● 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

The related disclosures in the financial statements are included in: ● Accounting policies, Significant, judgement and estimates impacted by COVID-19; and ● Note 27 – Fair value measurements.	independent information; and ● We assessed the appropriateness of the fair value hierarchy disclosures due to lower levels of observability and liquidity with reference to the requirements of IFRS 13, Fair value measurements. Based on the procedures described above, our audit evidence was consistent with management's assumptions used in the valuation of complex financial instruments which are subject to judgement.

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"*, 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 and will not express an audit opinion or any form of assurance conclusion thereon.

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

If, based on the work we have performed 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 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, actions taken to eliminate threats or safeguards applied.

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 auditor's 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 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 22 years. In addition, prior to the formation of FirstRand Bank Limited, Deloitte & Touche were one of the joint auditors of First National Bank of Southern Africa Limited for 10 years.

Deloitte & Touche

Deloitte & Touche
Registered auditor
Per Partner: Kevin Black
5 Magwa Crescent
Johannesburg
9 September 2020

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Registered auditor
Director: Johannes Grosskopf
4 Lisbon Lane
Johannesburg
9 September 2020

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, 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 2020, and income statement, statements of other comprehensive income, changes in equity and 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 operating business 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 judgement 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 note 8 of the accounting policies.

COVID-19 impact

Due to the coronavirus (COVID-19) pandemic, governments across the world have declared national lockdowns, which have resulted in extensive travel restrictions and quarantine measures being implemented. Businesses globally have had to limit or suspend their operations and as such, the COVID-19 measures implemented by governments globally have severely impacted a wide range of industries, including the financial sector. Due to the global economic downturn, a significant increase in the volatility of the financial and commodities markets worldwide has been noted.

Due to the unprecedented nature of the COVID-19 pandemic, it is not possible to accurately predict the full extent and duration of its economic impact.

While the specific areas of judgement detailed in note 8 of the accounting policies did not change, given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impact of such a pandemic has resulted in additional judgement within those identified areas, which has resulted in changes to the estimates and assumptions that have been applied in the measurement of some of the bank's assets and liabilities from the prior period.

Significant judgement and estimates impacted by COVID-19

The table below provides an overview of the areas where additional judgement has been applied and includes references to the relevant sections in the notes to the annual financial statements, where additional information has been included.

Description	Additional information
Impairment provisions on advances	
Incorporating forward-looking information	
Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in determining the bank's forward-looking assumptions for the purposes of its expected credit loss (ECL) calculation, has been provided. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.	Accounting policy note 8.4 *Impairment of financial assets - Forward-looking information*.
Significant increase in credit risk	
The bank has not followed an overall blanket approach to the ECL impact of COVID-19 (where COVID-19 is seen as a significant increase in credit risk trigger that will result in the entire portfolio of advances moving into their respective next staging bucket). A more systematic and targeted approach to the impact of COVID-19 on the customer base is being undertaken, which is in line with the bank's existing policy documented in the group credit impairment framework.	Accounting policy note 8.4 *Impairment of financial assets*

The key statement of financial position items and related disclosures that have been impacted by COVID-19

In addition to the key areas where additional judgement has been applied, the following balances and related disclosures have also been impacted by COVID-19.

Description	Additional information
Overall application of the going concern principle	
The directors reviewed the bank's budget and flow of funds forecasts for the next three years and considered the bank's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets and flow of funds forecasts took the impact of the COVID-19 pandemic into consideration, including projections of the impact on the bank's capital, funding and liquidity requirements, all of which have remain within internal targets and above regulatory requirements. As part of this assessment, the directors considered the sufficiency of the bank's financial resources throughout the pandemic. The management of the bank's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of the bank's stated growth and return targets and is driven by the bank's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets (RWA) is based on the bank's macroeconomic outlook and is 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 bank sets	Directors' responsibility statement on page C3. Note 31 *Financial Risks* • Note 31.2 *Liquidity risk*; and • Note 31.6 *Capital management*

Description	Additional information
targets through different business cycles and scenarios. 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.	
COVID-19 debt relief measures provided to customers	
Due to the COVID-19 pandemic, consequent lockdown and its resultant impact on the economy, a liquidity crisis was experienced by a large number of customers. In order to assist customers, the bank provided various relief measures to customers. In the retail and commercial segments, these included the following: ➢ new facilities being granted, including the COVID-19 SME scheme guaranteed by the South African Reserve Bank (SARB); ➢ restructure of existing exposures with no change in the present value of the estimated future cash flows; and ➢ restructure of existing exposures with a change in the present value of the estimated future cash flows. For wholesale exposures bespoke debt relief measures were provided on a client-by-client basis. In order to determine the appropriate accounting treatment of the restructure of existing facilities and related additional disclosures required, the principles set out in accounting policy note 4.3 were applied.	For the impact on the staging of debt relief measures, refer to accounting policy note 8.4 *Impairment of financial assets - Treatment of financial relief offered in response to the impacts of COVID-19.* *Note 11 Impairment of advances - Modified advances measured at amortised cost for details of all modifications and resultant gains or losses recognised in the current year.*
Hedge accounting	
An assessment was conducted regarding the impact of COVID-19 with respect to whether the forecasted cash flows in cash flow hedge relationships remain highly probable on 30 June 2020. Based on available facts as at the reporting date, including announcements from governments and regulators, the modelling of the hedged future cash flows were determined to remain highly probable and hedge accounting has continued to be applied.	Note 7 *Derivative financial instruments.*
Financial risks	
The bank's robust risk management framework continues to be applied across the various risk areas introduced by financial instruments and the various risk owners continue to monitor the impact of COVID-19 on the bank's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by staff, counterparties, clients and suppliers are being identified, assessed, managed and governed through timely application of the bank's risk management framework.	Note 31 *Financial risks*
Fair value measurement	
The valuation techniques for fair value measurement of financial instruments have been assessed by the respective valuation committees at a business unit to determine the impact that the market volatility introduced by COVID-19 has had on the fair value measurements of these instruments. When assessing the fair value measurement of financial instruments for this	Note 27 *Fair value measurement*

Description	Additional information
period, the valuation models have been built to take into consideration inputs that are reflective of market participant inputs as opposed to bank-specific inputs. The appropriateness of the inputs to valuations, which include the use of correlations, price volatilities, funding costs and bid offer, counterparty and own credit spreads, was also considered. Changes in valuation inputs have also been considered in terms of the impact they have on the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the level 3 sensitivity analysis that may be required if applicable.	
Lease concessions	
When granting lease concessions as the lessor, the business units within the bank that issue lease contracts are providing certain payment holidays to lessees. These payment holidays have been assessed in the context of IFRS 16 and it has been concluded that they do not qualify as new leases. **Where the bank is the lessor – operating leases** Modifications to the timing of lease payments of operating leases merely affect the timing of the cash flows to be received under the leasing contract. A receivable is recognised for the lease payments not received during the payment holiday, which in turn would be subject to an ECL provision. **Where the bank is the lessor – finance leases** FirstRand continues to apply the group accounting policy on modifications (in terms of the requirements of IFRS 9) for lease receivables arising from finance leases.	Note 12 *Other assets* Note 10 *Advances*

The bank adopted the following significant accounting policies in preparing its financial statements. Except for policies relating to IFRS 16 and IAS 12, these accounting 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**	Classification and measurement (section 4.1)	Impairment (section 4.2)	Transfers, modifications and de-recognition (section 4.3)
		Offset and collateral (section 4.4)	Derivatives and hedge accounting (section 4.5)	
5	**Other assets and liabilities**	Property and equipment (section 5.1)	Intangible assets (section 5.1)	Commodities (section 5.1)
		Provisions (section 5.1)	Non-current assets held for sale (section 5.2)	Leases (section 5.3)
6	**Capital and reserves**	Share capital and treasury shares	Dividends and non-cash distributions	Other reserves
7	**Transactions with employees**	Employee liabilities (section 7.1)	Share-based payment transactions (section 7.2)	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
8	**Critical judgements**	Introduction (section 8.1)	Subsidiaries, associates and joint arrangements (section 8.2)	Taxation (section 8.3)
		Impairment of financial assets (section 8.4)	Provisions (section 8.5)	Transactions with employees (section 8.6)
9	**Restatement and changes in presentation of prior year numbers**	Impact of new accounting standards – IFRS 16 (section 9.1)	Impact of revised accounting standards – IAS 12 (section 9.2)	Changes in presentation (section 9.3)
		Impact on the income statement (section 9.4)	Impact on the statement of other comprehensive income (section 9.5)	Impact on statement of financial position (section 9.6)

The following new standards were adopted in the current year:

New/revised IFRS	Description of change	Impact on FirstRand Bank
IFRS 16	The bank adopted IFRS 16 effective 1 July 2019, which replaces IAS 17, and various related interpretations. IFRS 16 introduced a single lease accounting model for lessees, which had an impact on the bank's financial results as at 1 July 2019. 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 leasing transactions. Under IFRS 16, the accounting treatment of leases by the lessee has changed fundamentally as it eliminates the dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.	The bank adopted the modified retrospective approach with no restatement of prior period information on the date of initial application. Where the bank is the lessee under an operating lease, the following amounts were recognised on the date of initial application (DIA): ➢ A lease liability included in other liabilities measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate for the remaining period of the lease. ➢ A corresponding right-of-use asset (ROUA) included in a new category within property and equipment. ➢ The bank's remaining operating leases fell within the short-term and low value exemption, which resulted in no lease liability or right-of-use asset having to be recognised at DIA. For more details on the bank's policy for these assets, please refer to accounting policy note 5. The amended disclosure requirements of IFRS 16 and the updated presentation of operating leases, where the bank is the lessee, will be prospectively applied by the bank. Therefore, all comparative presentations and disclosures relating to operating leases are based on the measurement requirements of IAS 17. The adoption of IFRS 16 did not have an impact on leases where the bank is the lessor. For more detail on the amounts recognised on the DIA, refer to accounting policy note 9 *Impact of adopting new and revised standards*.
Annual improvements 2015 – 2017 cycle	These annual improvements include amendments to: ➢ 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,	The amendments to IFRS 3, IFRS 11 and IAS 23 are not applicable to the bank.

New/revised IFRS	Description of change	Impact on FirstRand Bank
	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 23 - the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. ➢ IAS 12 - the amendments clarify that all income tax consequences of dividends as defined by IFRS 9 (i.e. distribution of profits) should be recognised: ➢ at the same time as the liability to pay those dividends is recognised; and ➢ in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid. It is therefore necessary to link dividends to past transactions in order to determine where the income tax consequences (if any) of dividends should be recognised.	The bank adopted the amendment to IAS 12 relating to recognising the income tax consequences of dividends. The amendment clarifies that the tax consequences of dividends should be recognised in the income statement, other comprehensive income or equity, according to where the past transactions or events were recognised that gave rise to the distributable reserves from which the dividends were declared. For more details on the impact of adopting the amendment, refer to accounting policy note 9 *Impact of adopting new and revised standards*.
IFRS 9 amendments	**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	The amendment will be considered when the bank issues instruments with these

New/revised IFRS	Description of change	Impact on FirstRand Bank
	assets affected, that include some advances and debt securities which would otherwise be measured at fair value through profit or loss (FVTPL).	characteristics.
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 assessed the impact of this amendment on the annual financial statements as part of the overall adoption of IFRS 9 and confirmed that the bank currently complies with this amendment.
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 tax returns before the financial statements are finalised.	The bank complied with the guidance issued by the IFRIC and as such there have been no significant changes in the bank's treatment of uncertain tax treatment as a result of IFRIC 23.

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, income statement or in the statement of other comprehensive income.
Materiality	IFRS 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 it is a monetary item (in which case the closing spot rate is applied) or non-monetary items. For non-monetary item 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 in fair value gains or losses. To the extent that foreign exchange gains or losses relate to financial assets held at fair value through other comprehensive income (FVOCI) 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 are consolidated. These include certain securitisation structures or other entities used for the purpose of buying and selling credit protection.</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 of 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, for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection.
Where the interest or sponsorship does not result in control, 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 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 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 principal shareholder of FirstRand Limited was RMB Holdings Limited, incorporated in South Africa, until 27 June 2020 on which date it unbundled its investment. 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 dependent children, domestic partner's dependent 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 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 banking book. ➢ Includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. ➢ Interest income is calculated using the effective interest rate, which includes origination fees. The original effective interest rate is applied to: o the gross carrying amount of financial assets which are not credit impaired; and o 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 of the accounting policies). ➢ 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 expense includes: ➢ interest on financial liabilities measured at amortised cost; ➢ interest on financial liabilities 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 financial 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	
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; the performance obligation (i.e. the different services) and can determine the transaction price which is required to be 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. 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;

Fee and commission income	➢ knowledge-based fee and commission income; ➢ management, trust and fiduciary fees; ➢ fee and commission income from service providers; and ➢ other non-banking fee and commission income. Fee and commission income is earned on the execution of a significant performance obligation, which may be when 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 known as eBucks, in terms of which it undertakes to provide reward credits to qualifying customers to buy goods and services. The supplier of the goods and services to be acquired by customers can either be the bank or an external third party. The bank recognises a contract liability referred to as customer loyalty programme liability which represents the deferred amount of revenue, resulting from 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. When the bank is acting as an agent, amounts collected and incurred on behalf of the principal are not recognised on a gross basis. Only the net commission retained by the group is recognised in fee and commission income.

Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received. Expenses relating to the provision of the customer loyalty reward credits are recognised as fee and commission expenses as incurred.
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.

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

Fair value gains or losses

Fair value gains or losses of the bank recognised in non-interest revenue include 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 net 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 is 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 is directly linked to fair value movements on the underlying assets;
- ordinary and preference dividends on equity instruments at fair value through profit or loss; and
- any difference between the carrying amount of the liability and the consideration paid, when the bank repurchases debt instruments that it has issued.

Gains less losses from investing activities

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

- any gains or losses on disposals of investments in subsidiaries, 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; and
- 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.

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. Current income tax arising from distributions made on other equity instruments is recognised in the income statement as the distributions are made from retained earnings arising from profits previously recognised in the income statement.	
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. ➢ Share-based payment liabilities. ➢ Cash flow hedges. ➢ Provisions for pensions and other post-retirement benefits.
Measurement	The liability method under IAS 12 is used, which 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. For temporary differences arising from the fair value adjustments on investment properties and investment securities, deferred income tax is provided at the rate that would apply to the sale of the assets, i.e. the capital gains tax rate.
Presentation	Deferred income tax is presented in profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items recognised directly in equity or other comprehensive income relate to: ➢ the issue or buy-back of share capital;

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

4 FINANCIAL INSTRUMENTS

4.1 Classification 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 detailed under accounting 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 an operating business level, although operating businesses will perform the assessment on a portfolio or subportfolio level, depending on the manner in which groups of financial assets are managed in each operating business. 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 repurchase 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 is 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. In addition, where the issuer initiates a repurchase of the financial assets which was not anticipated in the terms of the financial asset, the repurchase is not seen as a sale for the purposes of assessing the business model of that group of financial assets.

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 are 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 they are significant.

A change in business model 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 principal 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 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 call and short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents are measured at amortised cost.

Retail advances		
	Business model	**Cash flow characteristics**
Retail advances	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 this business model include: ➢ residential mortgages; ➢ vehicle and asset finance; ➢ personal loans; ➢ credit cards; and ➢ other retail products such as overdrafts.	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.
Corporate and commercial advances		
Corporate and commercial advances	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 this business model 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, either insignificant in value in relation to the value of advances held-to-collect cash flows, or infrequent, and therefore the held to collect	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.

	business model is still appropriate.	
	Within the RMB's Investment Banking Division (IBD), debt for large corporates and institutions is 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 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).	The cash flows on these advances are 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 also include marketable advances representing corporate bonds and certain debt investment securities qualifying as high-quality liquid assets that are under the control of the group treasurer, held by RMB IBD. 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		
Investment securities	Group 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	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.
Other assets		
Other assets	Other financial assets 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 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>Any advances which are originated to be distributed 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 are 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 profit or loss (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 economic 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 are designating at fair value through profit or loss are the following:
- advances; and
- 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">Group Treasury holds 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	The treasury division of the bank hold certain investment securities for liquidity management purposes. 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.	

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 one held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated 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 liabilities 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 at FVTPL.

The financial liabilities that the bank designated at fair value through profit or loss are the following:

- deposits; and
- other funding liabilities.

Both types of liabilities satisfied the above-mentioned conditions 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 hedge accounting 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 other comprehensive income (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 other financial assets 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 8.4 where all risk parameters, scenarios and sources of estimation are detailed more extensively.

Expected credit losses			
Loss allowance on financial assets			
Credit risk has not increased significantly since initial recognition (stage 1)	**Credit risk has increased significantly since initial recognition, but asset is not credit impaired (stage 2)**	**Asset has become credit impaired since initial recognition (stage 3)**	**Purchased or originated credit impaired**
12-month expected credit losses	Lifetime expected credit losses (LECL)	LECL	Movement in LECL since initial recognition

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. Where a change in terms is significant and is deemed to be a substantial modification it results 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 standard minimum period for transition from stage 2 back to stage 1 is applied across all advances, 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	Advances are considered credit impaired if they meet the definition of default. The bank's definition of default applied to calculating provisions under IFRS 9 has

assets	been aligned to the definition applied to 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 the 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-defaulted rates. Curing from default within wholesale business is determined judgementally through a committee process.
Purchased or originated credit-impaired	Financial assets that meet the above-mentioned 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 secured loans are written off on perfection of collateral and retail unsecured loans are written off when observation of post-default payment behaviour indicates that further material recoveries are unlikely. Write-off points within retail unsecured portfolios are defined on a per-portfolio basis with reference to cumulative delinquency and/or payment recency, with write-offs typically occurring when 12 to 15 cumulative payments have been missed. ➢ 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.
Other assets	ECL for other assets i.e. financial accounts receivables and where applicable, contract assets, are calculated using the simplified approach. This results is a lifetime ECL being recognised.
Investment securities	Impairment parameters for investment securities (probability of default (PD), loss given default (LGD) and exposure at default (EAD)) 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

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 would 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, and 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:

<table>
<tr><th>Transaction type</th><th>Description</th><th>Accounting treatment</th></tr>
<tr><th colspan="3">Transfers without derecognition</th></tr>
<tr><td>Repurchase agreements</td><td>Investment securities and advances are sold to an external counterparty in exchange for cash and the 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.</td><td rowspan="2">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.</td></tr>
<tr><td>Securities lending</td><td>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.</td></tr>
<tr><td>Other transfers</td><td>The bank enters into transactions in terms of which it sells advances to conduits of the FirstRand group or a structured entity but retains substantially all the risks and rewards of ownership related to the transferred advances.</td><td>Similar to repurchase agreements above.</td></tr>
<tr><th colspan="3">Transfers with derecognition</th></tr>
<tr><td>Where the bank purchases its own debt</td><td colspan="2">The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.</td></tr>
<tr><td>Traditional securitisations and other structured transactions</td><td>Specific advances or investment securities are sold to the structured entity, which in turn issues liabilities to third party investors, for example variable rate notes or investment grade commercial paper, to fund the purchase thereof.</td><td>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 does not retain substantially</td></tr>
</table>

	The bank assumes an obligation to pay over all the cash flows it collects from the securitised assets to the structured entity in terms of a servicing agreement. 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.	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 as well as the other financial assets and liabilities it has recognised.
Modification without derecognition		
Modification of contractual cash flows	Debt restructuring is a process that is applied to accounts whereby 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 the process for raising a new advance, including reassessing the customer's credit risk, repricing the asset and entering into a new legal agreement.	Existing asset is derecognised and a new asset is recognised at 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

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

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

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

It is the bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an 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 either as held for trading or formally designated as hedging instruments. The bank elected to adopt IFRS 9 for cash flow and fair value hedges. IAS 39 will continue to be applied to portfolio hedges, which the bank refers to as macro hedges for which fair value hedge accounting has been applied.

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/IAS39 and are calculated to be effective.

The bank extensively hedges with interest rate swaps 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 and evaluating developments in the market and their impact thereof on accounting.

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 and is released as the hedged item affects the income statement. The treatment would be similar to where the hedging instrument is cancelled or discontinued.

5 OTHER ASSETS AND LIABILITIES

5.1 Classification and measurement

<table>
<tr><th>Classification</th><th>Measurement</th></tr>
<tr><th colspan="2">Property and equipment</th></tr>
<tr><td colspan="2">Information regarding land and buildings is kept at the bank’s registered office and is open for inspection in terms of section 26 of the Companies Act.</td></tr>
<tr><td>Property and equipment of the bank 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.</td><td>Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.

Depreciation is on a straight-line basis over the useful life of the asset, except for assets capitalised under leases where the bank is the lessee, in which case it is depreciated over the life of the lease (refer to policy 5.3).

Leasehold premises are measured on the shorter of estimated life or period of lease.

Freehold property and property held under agreements:
- Buildings and structures 50 years
- Mechanical and electrical 20 years
- Components 20 years
- Sundries 3 – 5 years
- Computer equipment 3 – 5 years
- Other equipment 3 – 10 years</td></tr>
</table>

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 to 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 if they form part of the trading operations of the bank; and ➢ certain commodities subject to option agreements whereby the counterparty may acquire the commodity at a future date, where 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 as fair value gains or losses within non-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 continuing use. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss as part of non-interest revenue.

5.2 Non-current assets and disposal groups held for sale

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

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

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

5.3 Leases

The bank leases a variety of properties, equipment and vehicles. Rental agreements typically include fixed periods over which the item is leased, which are individually negotiated and contain a wide range of different terms and conditions. The bank assesses whether a contract is or contains a lease at inception of a contract.

Qualifying leases are recognised as a ROUA and a corresponding liability at the date at which the leased asset is made available for use by the bank.

	Bank is the lessee	**Bank is the lessor**
At inception	The bank recognises a ROUA and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as lease assets with a replacement value of R100 000 or less at the inception of the lease). The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the individual bank lessee uses its own incremental borrowing rate, being the rate that it can borrow funds from Group Treasury. The ROUAs are measured at cost comprising of the amount of the initial measurement of the lease liability plus any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROUAs are treated in line with other property and equipment. Variable payments that do not depend on an index or rate are not included in the measurement of the lease liability and the ROUA. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line operating expenses in the income	Where the bank company is the lessor under a finance lease, the bank recognises finance lease receivables included in advances and impairs the advances, as required, in line with policy 4.2. No practical expedients are applied, and the general model under IFRS 9 is used for impairment calculation on lease receivables.

	Bank is the lessee	Bank is the lessor
	statement.	
Over the life of the lease	Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROUA is subsequently measured at cost less accumulated depreciation and impairment losses. The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life. The bank applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method. Finance lease receivables are assessed for impairment in terms of IFRS 9, as set out in the impairment of financial assets policy section 4.2.
Presentation	The lease liability is presented in other liabilities in the consolidated statement of financial position. The ROUAs are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROUA in the property and equipment note.	Finance lease receivables are presented as part of advances in the statement of financial position.
Operating leases	For short-term or low value leases, which the bank has defined as all other leases except for property and vehicle leases, the lease payments are recognised as operating expense, spread on a straight-line basis over the term of the lease.	Assets held under operating leases are included in property and equipment and depreciated – refer to policy 5.1. Rental income is recognised as other non-interest revenue on a straight-line basis over the lease term.
Finance lease – 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.	

Contracts where the bank is the lessee (IAS 17) - 2019

The bank classifies leases of property and equipment where it assumes substantially all the risks and rewards of ownership as finance leases. The bank classifies as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset.

	Bank company is the lessee
At inception – finance lease	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.
Over the life of the lease – finance lease	The asset is depreciated – refer to accounting policy 5.1.
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 or asset of the bank in creditors and accruals.

6 CAPITAL AND RESERVES

Transaction	Liability	Equity
Shares issued and issue costs	Preference shares, where the bank does not have the unilateral ability to avoid repayments, are classified as other liabilities. Preference shares which qualify as Tier 2 capital have been included in Tier 2 liabilities. Other preference share liabilities have been included in other liabilities as appropriate.	The bank's equity includes ordinary shares and Additional Tier 1 notes. 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 liability.	Dividends on equity instruments are recognised against equity. A corresponding liability is recognised when the dividends have been approved by the bank'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.
Other reserves	Not applicable.	Other reserves recognised by the bank includes the capital redemption reserve funds and cash flow hedge accounting reserve.

7 TRANSACTIONS WITH EMPLOYEES

7.1 Employee benefits

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

Defined contributions plans	
Determination of purchased pension on retirement from defined contribution plan	**Recognition** Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.
	Measurement Upon retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, gender, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at the time of purchase (inflation-linked bond yields available). 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. It should be noted that the purchase price for a new retiree would be slightly larger than the liability determined on the accounting valuation as the purchase price allows for a more conservative mortality assumption based on the solvency reserves of the fund. 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 nominal and inflation linked government issued 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 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 employees 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.

7.2 Share-based payment transactions

The bank operates a cash-settled share-based incentive plan 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, to the extent the plans are expected to vest.

8 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

8.1 Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise, the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the bank, except those related to fair value measurement, which are included in note 27.

8.2 Subsidiaries, structured entities and associates

Consolidated financial statements	The bank does not prepare consolidated financial statements as there are no material differences between the amounts reported in the separate and consolidated financial statements. This has been agreed upon 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 of the 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. However, for structured entities, judgement is often needed to determine which investors have control of the entity. 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. ➢ 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 countries 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 has no lending and deposit taking activities at this point.

8.3 Taxation

The bank is subject to direct tax in a number of jurisdictions. As such there may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the amount of tax that may be due. 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 probable liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

8.4 Impairment of financial assets

Impairment of advances
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. The objective of the measurement of an impairment loss is to produce a quantitative measure of the bank's credit risk exposure. The bank adopted the PD/LGD approach to calculate ECL for advances. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, an upside scenario and a 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 information
Forward-looking macroeconomic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. The quantitative techniques applied estimate the impact of forecasted macroeconomic 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, teams of economists both locally and within the various subsidiaries assess the micro and macroeconomic developments to formulate the macroeconomic forecasts. A number of internal and external economists are then requested to assign a probability to each scenario. The rationale for the probabilities assigned by each of the economists requested to respond is 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.

Quantitative techniques applied estimate the impact of forecasted macroeconomic factors on expected credit losses using various techniques dependent on the portfolio within which models will be applied.

Within the RMB corporate banking and IBD portfolios, macroeconomic stress testing models are applied to estimate the impact of forward-looking information on expected credit losses. These stress testing models are industry-specific, and make use of regression techniques, observed macro-economic correlations and expert judgement, depending on the extent of data available in each industry. The outputs from these models are used to determine the level of stress that a particular industry is expected to experience, and through-the-cycle impairment parameters are scaled accordingly, with scalere based on historic S&P default data.

Within the commercial portfolio, the economic capital model is used to determine credit loss curves per portfolio under various scenarios, taking into account the industries represented in each portfolio. Judgement is applied to select appropriate loss curves for determining forward-looking ECL estimates commensurate with the current economic environment and forward-looking expectations.

Within retail portfolios, forward-looking ECL is modelled using regression-based techniques that determine the relationship between key macro-economic factors and credit risk parameters based on historically observed correlations.

Modelled correlations and macro-economic variable weightings are adjusted on the basis of expert judgement to ensure that the relationships between macro-economic forecasts and risk parameters are intuitive and that ECL is reflective of forward-looking expectations of credit performance.

Where the impact of forward-looking macro-economic information on ECL is determined based on historical relationships between macro-economic movements and default rates, and it is not expected for these relationships to hold under current macro-economic conditions, judgemental adjustments have been made through post-model adjustments to ensure that relationships between macro-economic forecasts and ECL estimates are intuitive, with ECL increasing where macro-economic conditions are expected to worsen, and reflecting additional relevant information not catered for in the models. This approach is followed across all portfolios.

The table sets out the scenarios and the probabilities assigned to each scenario at 30 June 2020:

Scenario	Probability	Description
Baseline	56%	Assumes that global growth experiences a significant contraction in 2020 before

regime	(2019: 59%)	normalising in 2021. Developed market (DM) inflation remains benign and global interest rates remain extremely accommodative. The South African domestic economy experiences a significant contraction in economic activity and inflation remains low. The outlook is characterised by ongoing income weakness and policy uncertainty.
Upside regime	12% (2019:23%)	Assumes that global growth experiences a significant contraction in 2020 before recovering strongly towards the end of 2020. DM inflation falls lower, and global interest rates remain extremely accommodative. The South African domestic economy experiences a significant short-term contraction in economic activity and inflation remains low. After the initial shock, policy certainty is restored and confidence-boosting economic reforms are implemented.
Downside regime	32% (2019:18%)	Assumes that global growth experiences a significant contraction in 2020, which results in long term damage to global supply chains and weaker long-term global economic activity. DM inflation falls and global interest rates remain extremely accommodative. The South African domestic economy experiences a significant short-term contraction in economic activity, which is compounded by policy mistakes and extremely low confidence which prevents the economy from recovering from the COVID-19 induced shock.

There has been a significant change in the assumptions used in each of the scenarios and in the probabilities assigned to upside and downside scenarios, when compared to the prior year. There are a number of factors, including the COVID-19 pandemic and resultant lockdown, that have contributed to this change. These are discussed in more detail below and have resulted in increases in the provisions recognised in the current year.

Overview of forward-looking information included in the 30 June 2020 provisions

The forward-looking assumptions set out in this section was based on the inputs used at the date that the ECL provisions for 30 June 2020 was finalised.

Following the initial COVID-19 induced economic shocks the global economy is expected to suffer a significant contraction in gross domestic product (GDP) in 2020, followed by a weak recovery in 2021. This shock is expected to result in low inflation in 2020 with slight pick-up in 2021. The large and co-ordinated fiscal and monetary policy support that has been provided by global central banks and governments has stabilised financial conditions and has resulted in low global interest rates. At the same time, the social distancing and lockdown regulations have helped a broad base of countries to control and contain the spread of COVID-19 through their populations which is expected to abate towards the end of 2020. This has allowed more people to return to work and is lifting both supply and demand in the global economy. High-frequency manufacturing and services sector GDP measures have started to rise across both developed and emerging market economies. However, it remains clear that the battle against COVID-19 is far from over. The global economy does not yet benefit from a synchronised upswing in GDP or inflation given how the virus and policy responses thereto are playing out across the world. As such, although more stable, risk appetite remains subdued and demand for commodities remains low. A vast number of economies have been forced to lift their debt levels considerably in order to combat the virus, which is going to leave the global economy with a long-term debt overhang. Such an environment remains supportive of safe-haven assets which should continue to support the US dollar in the near term.

South Africa

After an initial and severe contraction in GDP in the first half of 2020, the gradual recovery in global demand should support South Africa's export sectors which will help the economy to lift GDP marginally. Already weak domestic demand and income growth has been amplified by the COVID-19 crisis, which has resulted in lower core and headline inflation. With inflation contained, and global interest rates low the SARB has been able to reduce the short term interest rate considerably in order to support to the economy**.**

The real-economy impact of COVID-19 remains extremely deep with ongoing uncertainty about the risk of second waves of infection. At 30 June 2020 the view was that the government will continue to implement a focussed approach to lockdown and social distancing measures at a regional and industry level, where restrictions will be tightened within specific industries, individual businesses or geographic areas depending on the spread of the virus. These assumptions were introduced into the forward-looking macroeconomic information and tie directly into the bank's GDP growth forecast. It is increasingly clear that the loss of economic activity, tax revenue, household and corporate income as a result of the virus has left the economy substantially, weakened and more vulnerable.

Significant macroeconomic factors for 30 June 2020

The table below sets out the most significant macroeconomic factors used to estimate the forward-looking information on the ECL provisions. The information is forecast over a period of three years, per the South African economy that the bank operates in.

South Africa*	Upside scenario			Baseline expectation			Downside scenario		
%	2021	2022	2023	2021	2022	2023	2021	2022	2023
Applicable across all portfolios									
Real GDP growth	(0.60)	4.20	4.00	(0.60)	2.40	0.90	(2.00)	0.00	0.00
CPI inflation	3.30	3.00	3.00	3.00	3.80	4.50	4.70	5.90	7.60
Repo rate	2.75	2.75	2.75	3.25	3.25	3.25	6.00	6.25	6.50
Retail specific									
Real income growth	1.00	4.20	4.90	(1.80)	1.60	0.40	(0.90)	(0.20)	(0.30)
House price index growth**	6.30	17.90	17.80	(1.00)	6.40	3.80	(12.50)	(8.30)	(10.10)
Household debt income	71.50	71.50	71.50	71.50	71.50	71.50	71.50	71.50	71.50
Employment	(0.20)	1.30	1.20	(0.20)	0.70	0.30	(2.20)	(1.30)	(1.70)
Wholesale specific									
Fixed capital formation	1.80	9.10	12.00	(12.30)	1.00	(1.00)	(2.10)	(1.90)	(1.60)
Foreign exchange rate (USD/ZAR)	12.30	11.80	12.00	15.40	15.90	16.70	17.30	19.70	22.00

**The comparative period information has not been updated in line with the information presented for 30 June 2020. As IFRS 9 is refined and embedded in the banks reporting process, additional disclosure is included.*

*** Applicable to the secured portfolio.*

Significant macroeconomic factors for 30 June 2019

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 performing (stage 1 and stage 2) impairment provisions on advances, if the probability weighting assigned to each of the scenarios were increased to 100%.

	2020	
	R' million	% change on total IFRS 9 provision
Impairment provision on performing advances	**16 035**	
Scenarios		
Baseline	**16 245**	**1**
Upside	**15 560**	**(3)**
Downside	**17 433**	**9**

The analysis only reflects the impact of changing the probability assigned to each scenario to a 100% and does not, include any changes to model adjustments, including those needed to cater for the impact of COVID-19.

Post-model adjustments

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 macroeconomic events, additional provisions via post-model adjustments are made. The following table summarises the reasons for the material post-model adjustments made.

Post-model adjustment	Description	Portfolios impacted
COVID-19 macroeconomic adjustment	Post-model adjustment made on the basis of constrained expert judgement to allow for macro-economic impacts not adequately captured by existing statistical models. Adjustment calculated through application of expert judgement-based weightings to macroeconomic factors within the existing forward-looking information methodology.	Retail and commercial credit portfolios across all geographies.
Adjustment for COVID-19 relief	Adjustments made to coverage held for COVID-19 relief to allow for impact of delayed arrears recognition, which results from an inability to observe normal arrears behaviour and to provide accordingly where payment relief is offered.	Retail and commercial credit portfolios across all geographies.

<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 and are adjusted for forward-looking information such as the house price index, prime lending rate and GDP etc. 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 no 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</td><td colspan="2">Although COVID-19 has had a negative impact on the economies in which the bank</td></tr>
</table>

Judgement	Retail and retail SME	Wholesale and commercial SME
whether the credit risk of financial instruments have increased significantly since initial recognition	operates, in isolation COVID-19 initially reflected a liquidity constraint more than an inherent increase in credit risk for the entire portfolio of advances held by the bank. As such the bank did not impose a blanket downgrade on all ECL stages. A more systematic and targeted approach to the impact of COVID-19 on the bank's customer base was undertaken, following the bank's existing credit framework, which allowed for well-balanced and consistent decision-making that considered not only the impact of COVID-19, but existing economic trends as well. As such, the bank did not view requests for payment deferrals and liquidity assistance as the sole indicator that SICR had occurred for performing advances. IFRS 9 contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This means that where payments are 30 days past due, the financial asset needs to migrate from stage 1 to stage 2. Instead of rebutting this presumption, the group views that where the customer and the group have agreed to a deferral of payment for a specified period, that such an extension will not trigger the counting of days past due.	
SICR assessment of COVID-19 relief exposures	In accordance with IFRS 9, all exposures are assessed to determine whether there has been a SICR at each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis. SICR triggers are based on client behaviour, client based-behavioural scores and 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 rates within 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. Additional judgement triggers, such as employment in industries in distress, have also been considered in the context of COVID-19 and its financial impact.	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. SICR triggers are determined based on client behaviour, client internal FirstRand 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 determined at a deal and client level and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk. Additional judgement triggers, such as belonging to an industry in distress, are considered in the context of the financial impact of COVID-19. 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.

<table>
<tr><th>Judgement</th><th>Description</th></tr>
<tr><td>Sensitivity staging</td><td>
As outlined above, when there is a SICR since initial recognition, the exposure is moved from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses. The move from 12-month expected credit loss to life-time expected credit loss can result in a substantial increase in ECL. The sensitivity information provided in the table below details the additional ECL charge to the income statement that the group would recognise if 5% of the gross carrying amount of advances suffered a SICR and were moved from stage 1 to stage 2 as at 30 June 2020. A 5% increase in advances categorised as stage 2 can be viewed as a reasonably possible alternative based on the current economic conditions.
<table>
<tr><th colspan="3">30 June 2020*</th></tr>
<tr><th>R million</th><th>5% increase in gross carrying amount of exposure</th><th>Increase in the loss allowance</th></tr>
<tr><td>Retail</td><td>16 987</td><td>1 704</td></tr>
<tr><td>Wholesale, commercial and other (including Group Treasury)</td><td>22 146</td><td>2 279</td></tr>
<tr><td>Total increase in stage 2 advances and ECL</td><td>39 133</td><td>3 983</td></tr>
</table>
*Comparative information has not been provided. As IFRS 9 is refined and embedded in the bank’s reporting process, additional disclosure is included. This information was not produced in the prior year.
As indicated, the bank applied two specific judgements in determining the ECL for the current year namely:

that the group did not apply a blanket downgrade to all ECL stages to advances that qualified and received a form of COVID-19 relief; and
the group applied a post-model adjustment against advances where COVID-19 relief had been provided, so as to allow for the impact of delayed arrears recognition, which results from an inability to observe normal arrears behaviour.

The following table sets out the additional ECL charge to the income statement if all advances which were subject to a form of COVID-19 relief were deemed to have suffered a SICR and were moved from stage 1 to stage 2, or where the COVID-19 relief was deemed to be an indicator of impairment and the advance was moved from stage 2 to stage 3 as at 30 June 2020.
The increase in the loss allowance is calculated as the difference between the impairment that would have been raised in either stage 2 or stage 3 and the impairment recognised as at 30 June 2020. The impairment recognised as at 30 June 2020 already includes the post-model adjustment for COVID-19 relief detailed in the post-model adjustment section in this note. The impact on the income statement impairment charge is set out below.
</td></tr>
</table>

Judgement	Retail and retail SME	Wholesale and commercial SME

R million	30 June 2020 Stage 2	Stage 3
Additional impairment charge recognised if the exposures reported in stage 1 at year end had moved into stage 2	4 442	-
Additional impairment charge recognised if the exposures reported in stage 2 at year end had moved into stage 3	-	3 037

The table below sets out the additional ECL charge to the income statement if the post model adjustment for COVID-19 was stressed and increased by 10%. A 10% increase in post model adjustment can be viewed as a reasonably possible alternative based on the current economic conditions.

R million	30 June 2020 Stage 1	Stage 2	Stage 3
Additional impairment charge	73	20	69

Treatment of financial relief offered in response to the impacts of COVID-19 – retail and commercial exposures (excluding SME Loan Guarantee Scheme)

The bank offered financial relief through various mechanisms in response to COVID-19. These included the following –

- additional facilities or new loans being granted;
- restructure of existing exposures with no change in the present value of the estimated future cash flows; and
- restructure of existing exposures with a change in the present value of estimated future cash flows.

Prior to COVID-19 relief being granted to an applying customer, the customer was assessed against eligibility for relief criteria. In doing so, the bank was able to identify customers who were in good standing but were facing financial distress directly or indirectly due to the impact of COVID-19. The COVID-19 relief provided to these customers were deemed to be temporary and cash flow in nature. Where a customer was already experiencing financial distress and was in arrears prior to 29 February 2020, any restructuring of the customer's facilities was deemed to be permanent in nature.

Where relief is expected to be temporary in nature, the staging of the exposure as at 29 February 2020 has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where relief is expected to be permanent in nature, the exposure has been treated as a distressed restructure, and staging and coverage have been adjusted in line with normal practice.

Where relief has been enacted through issuance of a new loan as part of non-distressed

Judgement	Retail and retail SME	Wholesale and commercial SME
	restructure, the loan has been treated at initial recognition as a new exposure and coverage has been calculated on the basis of historical behaviour in similar products including a post model adjustment to allow for incremental credit risk attributable to COVID-19 relief provided. The terms of the new loan are distinct from other facilities granted to the customer previously, as the new loan is unsecured and its repayment terms differ from the terms of the customer's other facilities with the bank. Where the relief provided as an emergency facility (as defined under the National Credit Act) is part of a distressed restructure, the staging of the emergency facility has been aligned to the staging of the underlying exposures. Where there are multiple underlying exposures with different stages, the worst of these stages has been applied. The ECL for all exposures on which relief has been offered and for all emergency facilities has been adjusted to reflect the impact of forward-looking macroeconomic information in line with the rest of the portfolio.	
Treatment of financial relief offered in response to the impacts of COVID-19 – wholesale exposures	Debt relief measures for wholesale clients have been undertaken on a case-by-case basis within the boundaries of existing credit risk management processes. ECL treatment of financial relief offered to wholesale customers remains the same as for other wholesale restructures.	
Treatment of SME Loan Guarantee Scheme	An arrangement facilitated by the Banking Association of South Africa (BASA), between the SARB and participating banks in South Africa was concluded during the current year. In terms of the arrangement, the SARB committed to provide dedicated funding at the repo rate to the banks who elected to participate in the SME Loan Guaranteed Scheme (the scheme). The bank is a participant in the scheme. In terms of the scheme, the bank will utilise the dedicated funding obtained from the SARB to lend to qualifying SME customers who would be charged the prime interest rate on the advance (ring-fenced portfolio). The interest rate on the loan is deemed to an acceptable market rate. The loans are repayable up to a maximum of five years, with no early settlement penalties applied. As part of the scheme, the bank would share up to a maximum of 6% of the credit loss suffered if the advances in the portfolio were to default. The SARB would compensate the bank for all other credit losses suffered (limited guarantee) on the ring-fenced portfolio. The SARB is compensated for accepting such credit risk exposure by receiving a credit loss protection premium from the bank, the terms of which are identical for all participants in the scheme. In terms of the scheme, the bank is acting as principal in the overall structure and therefore has recognised loans advanced to customers (note 10). The limited guaranteed arrangement entered into with the SARB is viewed as a credit enhancement integral to the loans advanced to the customers, and the cost of the limited guarantee is adjusted to the effective interest rate of the portfolio of loans advanced under the scheme. The bank considers credit enhancements that are obtained from a third party at approximately the same time as the loan agreement is entered into with the customer, so as to mitigate the credit risk associated specifically to the customer, as integral to the loan agreement. Due to the nature of the limited guarantee obtained, the	

<table>
<tr><th>Judgement</th><th>Retail and retail SME</th><th>Wholesale and commercial SME</th></tr>
<tr><td></td><td colspan="2">bank is only exposed to a maximum credit loss of 6% of the initial amount advanced to the customer and as such, the ECL on the loans advanced under this scheme factor in the exposure to this maximum credit loss.</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 repay their credit obligations in full without any recourse by the bank 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. In most retail portfolios curing is set at 12 consecutive payments
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 to 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>

8.5 Provisions

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

8.6 Transactions with employees

<table>
<tr><th colspan="2">Employee benefits – defined benefit plans</th></tr>
<tr><td>Determination of required funding levels</td><td>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 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 2020), 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.</td></tr>
<tr><td>Determination of present value of defined benefit plan obligations</td><td>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.</td></tr>
<tr><th colspan="2">Cash-settled share-based payment plans</th></tr>
<tr><td>Determination of fair value</td><td>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.</td></tr>
</table>

9 RESTATEMENT AND CHANGES IN PRESENTATION OF PRIOR YEAR NUMBERS

9.1 Impact of new accounting standards – IFRS 16

The bank adopted IFRS 16 during the current period, with the most significant impact on the accounting treatment of leases where the group is the lessee. The standard requires lessees to recognise a ROUA and corresponding lease liability in respect of all leases that were previously classified as operating leases under IAS 17. The standard does allow for certain exemptions from this treatment for short-term leases and leases where the underlying asset is considered to be of low value.

As permitted by IFRS 16, the bank did not restate comparative information and elected to apply the modified retrospective approach on the date of initial application (DIA) being 1 July 2019. On the DIA, a lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at DIA was recognised. The bank elected to measure the ROUA at a value equal to the lease liability as calculated at the DIA, adjusted for any lease prepayments that were made as well as any operating lease liabilities from the straight lining of lease liabilities, that were raised under IAS 17.

The table below reconciles the operating lease commitments recognised under IAS 17 to the lease liabilities recognised on the statement of financial position as at 1 July 2019:

R million	Note	Amount
Operating lease commitments disclosed as at 30 June 2019 under IAS 17	**1**	**2 120**
Less: Short term leases	2	(357)
Less: Low-value leases	3	(46)
Less: Variable rate leases (payments not based on a rate or index)	4	(43)
Add: Adjusted for treatment of extension and termination options	5	333
Total qualifying operating leases subject to IFRS 16		**2 008**
Less: Discounted using the bank's incremental borrowing rate	6	(377)
Additional lease liability recognised as at 1 July 2019 (included in other liabilities)		**1 631**

The table below sets out a breakdown of the total amount of ROUA recognised as at 1 July 2019:

R million	Note	Amount
ROUA recognised on DIA (equal to the present value of lease liability)	**1**	**1 631**
Add: Prepayments	7	4
Less: Operating lease straight lining liability	7	(93)
ROUA recognised after adjustments		**1 542**
Property held under finance leases under IAS 17	9	868
Total ROUA as at 1 July 2019 (included in PPE)		**2 410**

The ROUA recognised is accounted for as property and equipment (PPE). The recognition of additional assets of R1 542 million on the statement of financial position leads to additional capital requirements and on the transition to IFRS 16.

The recognition of the lease liability and ROUA impacted the amounts recognised in the bank's income statement from the DIA. Under IAS 17 a straight-lined operating lease charge was recognised in operating expenses.

From DIA, the following amounts will be recognised in the income statement under IFRS 16:

- Interest expense on the lease liability;
- Depreciation charge on the ROUA recognised over the lease term; and
- Rental charge recognised for variable rate leases and assets classified as short-term or low-value in terms of the bank's policy.

The adoption of IFRS 16 had no impact on the amount of the net deferred tax recognised.

Note	Adjustment	Description of policy
1	Operating lease commitments under IAS 17	The bank applied the practical expedient in IFRS 16 C3 and did not reassess the definition of a lease on its current lease contracts but applied the requirements of IFRS 16 to all leases recognised as operating leases previously under IAS 17.
2	Short term leases	IFRS 16 provides an exemption for leases that are short-term in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied per class of leases (i.e. leases of property, leases of vehicles, etc.). The bank applied this exemption to all classes of leases at DIA and for new leases entered into after the DIA that meets the definition. The bank defines short term leases as any lease that has a lease term of 12 months or less and where the terms of the lease contain: ➢ no extension periods that the group is reasonably certain to exercise which would result in the lease term being longer than 12 months; and ➢ no purchase option.
3	Low-value leases	IFRS 16 provides an exemption for leases of assets that are low-value in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied on an asset-by-asset basis and is at the election of the lessee. This exemption has been applied to all classes of leases, excluding property, at DIA and to new leases entered into after the DIA that meets the bank's definition of a low value lease.
4	Variable rate leases (payments not based on a rate or index)	Under IAS 17, certain service agreements with variable payments where included in the amount of operating lease commitments disclosed in the annual financial statements. Under IFRS 16 variable lease payments that are not linked to a rate or an index are not capitalised and are expensed when incurred.
5	Extension and termination options	The bank's policy is to include extension and termination operations for certain property leases where there is a reasonably certain expectation that the lease will be renewed and as such the value of these extension and termination options are taken into consideration in the determination of the lease liability.

<table>
<tr><th>Note</th><th>Adjustment</th><th>Description of policy</th></tr>
<tr><td></td><td></td><td>In assessing whether it is reasonably certain that the option will be exercised, past practices observed for similar types of leases and the economic reasons for electing those options are used to conclude whether it is reasonably certain that the option will be exercised or not.</td></tr>
<tr><td>6</td><td>Discounting using the bank’s incremental borrowing rate</td><td>IFRS 16 requires that the lease payments are discounted. The discounted amount is calculated using the incremental borrowing rate at DIA. The bank used the practical expedient in IFRS 16 that allows the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

The range of incremental borrowing rates is indicative of:
• duration of the lease;
• credit risk of the business that is the lessee; and
• currency of the lease for the branches outside of South Africa.

The range of incremental borrowing rates can be broken down as follows based on the currency of the lease:
<table><tr><th>Currency</th><th>Range</th></tr><tr><td>Rand</td><td>7.87% - 8.62%</td></tr><tr><td>Pound</td><td>2.13% - 2.89%</td></tr></table></td></tr>
<tr><td>7</td><td>Prepayments and operating lease straight lining liability</td><td>The bank adjusted the lease prepayments and operating lease liabilities from the straight lining of lease liabilities, that were raised under IAS 17 against the ROUA recognised on the DIA.</td></tr>
<tr><td>8</td><td>Property held under finance leases under IAS 17</td><td>The bank previously had property held under finance leases that was included in property and equipment within the leasehold premises category. No lease liabilities relating to the finance lease was recognised, as the lease was prepaid. At transition to IFRS 16, the measurement was retained and the property held under finance lease was reclassified to ROUA.</td></tr>
</table>

9.2 Impact of revised accounting standards – IAS 12

The bank also adopted the amendments that were made to IAS 12 in the current financial year. The amendment clarifies that the tax consequences of dividends should be recognised in the income statement, other comprehensive income or equity, according to where past transactions or events were recognised that gave rise to the distributable reserves from which the dividends were declared. Therefore, if the dividends are declared from retained income arising from profits previously recognised in the income statement, the income tax consequences of the dividend distribution should be recognised in the income statement. The amendment to IAS 12 is required to be applied retrospectively and comparative information has been restated.

The amendment affects the recognition of the income tax deduction on the bank's AT1 instruments included within other equity instruments. The tax impact of the dividends on these instruments was previously recognised directly in equity and is now required to be recognised in the income statement. The amendment resulted in a restatement of income tax and profit attributable to other equityholders in the income statement, as well as the distributions on other equity instruments in the statement of changes in equity.

Dividends on the bank's AT1 non-cumulative non-redeemable instruments are payable on a quarterly basis. The bank's AT1 instruments were issued during 2018 and 2019. The implementation of the amended requirements impacted the amounts previously published at 30 June 2019.

The impact on the bank's financial results as at 30 June 2019 and 1 July 2019 (DIA for IFRS 16) as well as the impact of the amendment to IAS 12 are set out below.

9.3 Change in presentation

During the current financial period the nature of various expenses incurred by FNB relating to its customers loyalty programme was reassessed. This resulted in expenses of R 240 million relating to operating lease expenses incurred on SLOW lounges being reclassified from operating expenses to fee and commission expenses, so as to align with the treatment of other direct and incremental customer loyalty related expenses.

These changes in presentation had no impact on the profit or loss statement and only affected the presentation of items within non-interest revenue and operating expenses.

9.4 RESTATED INCOME STATEMENT

R million	As reported at 30 June	Restatement for IAS 12 amendments	Restatement for customer loyalty programme expenses	Restated 30 June
Net interest income before impairment of advances	**47 470**	**-**	**-**	**47 470**
Impairment and fair value of credit on advances	(8 460)	-	-	(8 460)
Net interest income after impairment of advances	**39 010**	**-**	**-**	**39 010**
Non-interest revenue	36 052	-	(240)	35 812
- Net fee and commission income	25 956	-	(240)	25 716
- Fee and commission income	30 960	-	-	30 960
- Fee and commission expense	(5 004)	-	(240)	(5 244)
- Insurance income	560	-	-	560
- Fair value income	3 214	-	-	3 214
- Fair value gains or losses	7 965	-	-	7 965
- Interest expense on fair value activities	(4 751)	-	-	(4 751)
- Gains less losses from investing activities	2 033	-	-	2 033
- Other non-interest income	4 289	-	-	4 289
Income from operations	**75 062**	**-**	**(240)**	**74 822**
Operating expenses	(43 699)	-	240	(43 459)
Income before indirect tax	**31 363**	**-**	**-**	**31 363**
Indirect tax	(829)	-	-	(829)
Profit before income tax	**30 534**	**-**	**-**	**30 534**
Income tax expense	(7 465)	58	-	(7 407)
Profit for the year	**23 069**	**58**	**-**	**23 127**
Attributable to				
Ordinary equityholders	22 644	-	-	22 644
Other equity instrument holders	425	58	-	483
Profit for the year	**23 069**	**58**	-	**23 127**

9.5 RESTATED STATEMENT OF OTHER COMPREHENSIVE INCOME

R million	As reported at 30 June	Restatement for IAS 12 amendments	Restated 30 June
Profit for the year	**23 069**	**58**	**23 127**
Items that may be reclassified to profit or loss			
Cash flow hedges	**498**	**-**	**498**
Gains arising during the year	943	-	943
Reclassification adjustments for amounts included in profit or loss	(251)	-	(251)
Deferred income tax	(194)	-	(194)
FVOCI debt reserve	**7**	**-**	**7**
Gains arising during the year	11	-	11
Reclassification adjustments for amounts included in profit or loss	(1)	-	(1)
Deferred income tax	(3)	-	(3)
Exchange differences on translating foreign operations	**42**	**-**	**42**
Gains arising during the year	58	-	58
Deferred income tax	(16)	-	(16)
Items that may not subsequently be reclassified to profit or loss			
FVOCI equity reserve	**1**	**-**	**1**
Gains arising during the year	1	-	1
Remeasurement on defined benefit post-employment plans	**(201)**	**-**	**(201)**
Losses arising during the year	(279)	-	(279)
Deferred income tax	78	-	78
Other comprehensive loss for the year	**347**	**-**	**347**
Total comprehensive income for the year	**23 416**	**58**	**23 474**
Attributable to			
Ordinary equityholders	22 991	-	22 991
Other equity instrument holders	425	58	483
Total comprehensive income for the year	**23 416**	**58**	**23 474**

9.6 RESTATED STATEMENT OF FINANCIAL POSITION

R million	As reported at 30 June 2019	Restatement for IFRS 16	Restated 1 July 2019
Assets			
Accounts receivable	4 963	(4)	4 959
Property and equipment	15 352	1 542	16 894
Other assets	1 271 089	-	1 271 089
Total assets	**1 291 404**	**1 538**	**1 292 942**
EQUITY AND LIABILITIES			
Liabilities			
Creditors, accruals and provision (operating lease straight-lining liability)	16 035	(93)	15 942
Current tax liability	1 043	-	1 043
Tier 2 liabilities	22 428	-	22 428
Other liabilities	1 152 470	1 631	1 154 101
Total liabilities	**1 191 976**	**1 538**	**1 193 514**
Equity			
Ordinary shares	4	-	4
Share premium	16 804	-	16 804
Reserves	77 655	-	77 655
Capital and reserves attributable to ordinary equityholders	**94 463**	**-**	**94 463**
Other equity instruments	4 965	-	4 965
Total equity	**99 428**	**-**	**99 428**
Total equity and liabilities	**1 291 404**	**1 538**	**1 292 942**

INCOME STATEMENT

for the year ended 30 June

R million	Notes	2020	2019
Interest income calculated using effective interest rate		**97 812**	100 943
Interest on other financial instruments and similar income		**770**	498
Interest and similar income	1.1	**98 582**	101 441
Interest expense and similar charges	1.2	**(51 608)**	(53 971)
Net interest income before impairment of advances		**46 974**	47 470
Impairment and fair value of credit of advances		**(18 269)**	(8 460)
- Impairment on amortised cost advances	11	**(17 871)**	(8 425)
- Fair value of credit on advances	11	**(398)**	(35)
Net interest income after impairment of advances		**28 705**	39 010
Non-interest revenue	2	**33 567**	35 812
- Net fee and commission income	2.1	**25 110**	25 716
- Fee and commission income		**30 542**	30 960
- Fee and commission expense*		**(5 432)**	(5 244)
Insurance income	2.2	**449**	560
Fair value gains or losses	2.3	**4 659**	3 214
- Fair value gains or losses		**9 444**	7 965
- Interest expense on fair value activities		**(4 785)**	(4 751)
Gains less losses from investing activities	2.4	**130**	2 033
Other non-interest revenue	2.5	**3 219**	4 289
Income from operations		**62 272**	74 822
Operating expenses*	3	**(43 985)**	(43 459)
Income before indirect tax		**18 287**	31 363
Indirect tax	4.1	**(810)**	(829)
Profit before income tax		**17 477**	30 534
Income tax expense*	4.2	**(3 109)**	(7 407)
Profit for the year		**14 368**	23 127
Attributable to			
Ordinary equityholders		**13 739**	22 644
Other equity instrument holders*		**629**	483
Profit for the year		**14 368**	23 127

**Restated following the adoption of IAS 12 amendments (see accounting policy note 9) and reclassification in the prior period of R240 million relating to operating lease expenses incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the nature of the expense.*

The bank elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June

R million	2020	2019
Profit for the year*	**14 368**	23 127
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**1 219**	498
Gains arising during the year	**657**	943
Reclassification adjustments for amounts included in profit or loss	**1 036**	(251)
Deferred income tax	**(474)**	(194)
FVOCI debt reserve	**(82)**	7
(Losses)/gains arising during the year	**(115)**	11
Reclassification adjustments for amounts included in profit or loss	**1**	(1)
Deferred income tax	**32**	(3)
Exchange differences on translating foreign operations	**1 246**	42
Gains arising during the year	**1 207**	58
Deferred income tax	**39**	(16)
Equity investments designated at fair value through other comprehensive income	**(140)**	1
- (Losses)/gains arising during the year	**(180)**	1
- Deferred income tax	**40**	-
Items that may not subsequently be reclassified to profit or loss		
Remeasurements on defined benefit post-employment plans	**534**	(201)
- Gains/(losses) arising during the year	**742**	(279)
- Deferred income tax	**(208)**	78
Other comprehensive income for the year	**2 777**	347
Total comprehensive income for the year	**17 145**	23 474
Attributable to		
Ordinary equityholders	**16 516**	22 991
Other equity instrument holders*	**629**	483
Total comprehensive income for the year	**17 145**	23 474

Restated prior year following the adoption of IAS 12 amendments. Refer to accounting policy note 9 for details.

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	2020	2019
ASSETS			
Cash and cash equivalents	6	**99 781**	77 887
Derivative financial instruments	7	**120 511**	43 181
Commodities	8	**21 344**	21 176
Investment securities	9	**209 026**	176 942
Advances	10	**867 940**	894 543
- Advances to customers		**796 627**	831 097
- Marketable advances		**71 313**	63 446
Other assets*	12	**5 149**	4 963
Non-current assets and disposal groups held for sale	13	**1 558**	-
Amounts due by holding company and fellow subsidiaries	14	**67 309**	53 027
Investments in associates		**-**	66
Property and equipment**	15	**17 691**	15 352
Intangible assets	16	**692**	636
Deferred income tax asset	17	**3 711**	3 631
Total assets		**1 414 712**	1 291 404
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	18	**4 786**	5 355
Derivative financial instruments	7	**134 488**	48 053
Creditors, accruals and provisions	19	**14 350**	16 035
Current tax liability		**368**	1 043
Deposits	20	**1 088 952**	1 058 439
Employee liabilities	21	**7 814**	11 517
Liabilities directly associated with disposal groups classified as held for sale	13	**85**	-
Other liabilities**	22	**5 255**	3 322
Amounts due to holding company and fellow subsidiaries	14	**36 254**	25 784
Tier 2 liabilities	23	**22 322**	22 428
Total liabilities		**1 314 674**	1 191 976
Equity			
Ordinary shares	24.1	**4**	4
Share premium	24.1	**16 804**	16 804
Reserves		**77 504**	77 655
Capital and reserves attributable to ordinary equityholders		**94 312**	94 463
Other equity instruments	24.2	**5 726**	4 965
Total equity		**100 038**	99 428
Total equity and liabilities		**1 414 712**	1 291 404

* *In the prior year, these amounts were described as accounts receivable. The description as other assets is more appropriate, based on the nature of the assets included in this line item and is in line with industry practice.*

** *The bank elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved, as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.*

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

R million	Ordinary share capital and ordinary equityholders' funds					
	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve	
Balance as at 1 July 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	
Ordinary dividends	-	-	**-**	-	-	
Distributions on other equity instruments	-	-	**-**	-	-	
Movement in other reserves	-	-	**-**	-	-	
Total comprehensive income for the year	-	-	**-**	534	1 219	
Preference shares redeemed during the year	-	-	**-**	-	-	
AT1 instruments issued	-	-	**-**	-	-	
Balance as at 30 June 2020	4	16 804	**16 808**	(381)	2 060	

The dividend per share is R1.46 (2019: R2.91).

* *Other reserves includes the FVOCI reserve.*

** *Other equity instruments at 30 June 2020 includes, R5 726 AT1 instruments. Restated prior year following the adoption of IAS 12 amendments, the reclassification of coupon payments on AT1 instruments was performed. Refer to accounting policy note 9 for details.*

	Ordinary share capital and ordinary equityholders' funds					
	Foreign currency translation reserve	Other reserves*	Retained earnings	**Reserves attributable to ordinary equity-holders**	**Other equity instruments** **	**Total equity**
	731	1 405	65 544	**67 309**	**3 000**	**87 117**
	-	-	(12 645)	**(12 645)**	**-**	**(12 645)**
	-	-	-	**-**	**(483)**	**(483)**
	-	-	-	**-**	**-**	**-**
	42	8	22 644	**22 991**	**483**	**23 474**
	-	-	-	**-**	**(3 000)**	**(3 000)**
	-	-	-	**-**	**4 965**	**4 965**
	773	1 413	75 543	**77 655**	**4 965**	**99 428**
	-	-	(16 667)	**(16 667)**	**-**	**(16 667)**
	-	-	-	**-**	**(629)**	**(629)**
	-	-	-	**-**	**-**	**-**
	1 246	(222)	13 739	**16 516**	**629**	**17 145**
	-	-	-	**-**	**-**	**-**
	-	-	-	**-**	**761**	**761**
	2 019	1 191	72 615	**77 504**	**5 726**	**100 038**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Note	2020	2019
Cash flows from operating activities			
Interest and fee commission receipts*		**122 794**	128 388
Trading and other income		**2 807**	4 302
Interest payments**		**(49 567)**	(52 649)
Other operating expenses*' **		**(36 839)**	(35 082)
Dividends received		**497**	640
Dividends paid		**(17 296)**	(13 070)
Taxation paid		**(5 423)**	(8 018)
Cash generated from operating activities		**16 973**	24 511
Movements in operating assets and liabilities		**9 833**	(13 240)
- Liquid assets and trading securities		**(33 737)**	(16 183)
- Advances		**21 453**	(64 534)
- Deposits		**20 458**	79 911
- Other assets#		**110**	504
- Creditors#		**(1 346)**	2 172
- Employee liabilities		**(2 031)**	(4 962)
- Other liabilities**		**4 926**	(10 148)
Net cash generated from operating activities		**26 806**	11 271
Cash flows from investing activities			
Acquisition of property and equipment		**(4 905)**	(3 271)
Proceeds on disposal of property and equipment		**747**	840
Acquisition of intangible assets		**(257)**	(447)
Net cash outflow from investing activities		**(4 415)**	(2 878)
Cash flows from financing activities			
Proceeds on the issue of other liabilities		**3 800**	936
Redemption of other liabilities		**(2 606)**	(73)
Principal payments towards lease liabilities**		**(595)**	-
Proceeds from issue of Tier 2 liabilities		**-**	2 625
Capital repaid on Tier 2 liabilities		**(2 049)**	(7 488)
Proceeds from issue of AT1 equity instruments		**761**	1 965
Net cash inflow/(outflow) from financing activities		**(689)**	(2 035)
Net increase in cash and cash equivalents		**21 702**	6 358
Cash and cash equivalents at the beginning of the year		**77 887**	71 511
Effect of exchange rate changes on cash and cash equivalents		**192**	18
Cash and cash equivalents at the end of the year	6	**99 781**	77 887

* *Reclassification in the prior period of R240 million relating to operating lease expenses incurred on SLOW lounges from other operating expenses to interest and fee commission receipts, so as to better reflect the nature of the item.*

** *The bank elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.*

\# *In the prior year, movement of R2 676 million in other assets and creditors was presented as a net movement. Due to the different underlying nature of these cash flows, these items have been disclosed separately in the current period and the prior period has been expanded in a similar way to achieve appropriate comparability.*

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	2020	2019
Analysis of interest and similar income		
Instruments at fair value through profit and loss	**770**	498
Instruments at amortised cost*	**97 643**	100 904
Debt instruments at fair value through other comprehensive income	**169**	39
Interest and similar income	**98 582**	101 441
Advances	**80 843**	83 954
- Overdrafts and cash management accounts	**7 517**	7 911
- Term loans	**3 755**	3 649
- Card loans	**4 900**	4 791
- Instalment sales and hire purchase agreements	**13 149**	14 312
- Lease payments receivable	**305**	330
- Property finance	**22 292**	22 677
- Personal loans	**11 159**	10 526
- Preference share agreements	**23**	37
- Assets under agreements to resell	**412**	582
- Investment bank term loans	**10 131**	11 788
- Other advances	**2 335**	2 466
- Marketable advances	**4 865**	4 885
Cash and cash equivalents	**1 789**	1 977
Investment securities	**8 503**	7 795
Amounts due by holding company and fellow subsidiaries	**1 903**	1 992
Preference dividends received	**3 095**	3 098
Other	**2 449**	2 625
Interest and similar income	**98 582**	101 441

* *Interest cash flows on hedging instruments of R1 002 million was disclosed separately in the prior period, it has now been incorporated into instruments at amortised cost to align with the classification of the hedged item.*

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2020	2019
Analysis of interest expense and similar charges		
Instruments at fair value through profit or loss	**(67)**	(59)
Instruments at amortised cost*	**(51 408)**	(53 809)
Non-financial instruments	**(133)**	(103)
Interest expense and similar charges	**(51 608)**	(53 971)
Deposits from customers	**(32 631)**	(34 076)
- Current accounts	**(4 995)**	(5 101)
- Savings deposits	**(714)**	(595)
- Call deposits	**(12 224)**	(12 011)
- Fixed and notice deposits	**(14 698)**	(16 369)
Debt securities	**(17 052)**	(17 984)
- Negotiable certificates of deposit	**(3 702)**	(4 659)
- Fixed and floating rate notes	**(13 350)**	(13 325)
Other	**(1 501)**	(1 709)
- Repurchase agreements	**(849)**	(974)
- Securities lending	**(175)**	(217)
- Cash collateral and credit linked notes	**(477)**	(518)
Lease liabilities**	**(140)**	-
Tier 2 liabilities	**(1 929)**	(2 210)
Amounts due to holding company and fellow subsidiaries	**(601)**	(904)
Other	**(2 539)**	(1 839)
Gross interest expense and similar charges	**(56 393)**	(58 722)
Less: interest expense on fair value activities reallocated	**4 785**	4 751
Interest expense and similar charges	**(51 608)**	(53 971)

* *Interest cash flows on hedging instruments of R751 million which was disclosed separately in the prior period, it has now been incorporated into instruments at amortised cost to align with the classification of the hedged item.*

** *The bank elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.*

2 NON-INTEREST REVENUE

R million	Notes	2020	2019
Fee and commission income		**30 542**	30 960
Instruments at amortised cost		**25 428**	26 037
Instruments at fair value through profit or loss		**13**	39
Non-financial instruments		**5 101**	4 884
Fee and commission expenses*		**(5 432)**	(5 244)
Net fee and commission income	2.1	**25 110**	25 716
Non-financial instruments		449	560
Insurance commission income	2.2	**449**	560
Instruments at fair value through profit or loss		**2 094**	4 584
- Mandatory FVTPL		**2 384**	4 392
- Designated FVTPL		**(290)**	192
Translation gains or losses on instruments not held at fair value through profit or loss		**2 565**	(1 086)
Non-financial		**-**	(284)
Fair value gains or losses	2.3	**4 659**	3 214
Instruments at amortised cost		**119**	94
Instruments at fair value through other comprehensive income		**7**	1 936
Non-financial		**4**	3
Gains less losses from investing activities	2.4	**130**	2 033
Other non-interest revenue	2.5	**3 219**	4 289
Total non-interest revenue		**33 567**	35 812

* *Reclassification in the prior period of R240 million relating to operating lease expenses incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the nature of the expense.*

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	2020	2019
Banking fee and commission income	**27 249**	27 862
- Card commissions	**4 208**	4 432
- Cash deposit fees	**1 518**	1 702
- Commitment fees	**1 274**	1 364
- Commissions: bills, drafts and cheques	**706**	730
- Exchange commissions	**1 824**	1 841
- Brokerage income	**116**	149
- Bank charges	**17 603**	17 644
- Transaction and service fees	**5 329**	5 620
- Documentation and administration fees	**9 180**	8 522
- Cash handling fees	**2 267**	2 760
- Other	**827**	742
Knowledge-based fee and commission income	**1 108**	1 167
Management, trust and fiduciary fees	**1 426**	1 177
Fee and commission from service providers	**517**	539
Other non-banking fee and commission income	**242**	215
Fee and commission income	**30 542**	30 960
Transaction processing fees	**(1 032)**	(1 141)
Commission paid	**(208)**	(236)
Customer loyalty programmes*	**(2 056)**	(1 892)
Cash sorting, handling and transportation charges	**(981)**	(860)
Card and cheque book related	**(426)**	(477)
ATM commissions paid	**(58)**	(56)
Other	**(671)**	(582)
Fee and commission expenses	**(5 432)**	(5 244)
Net fee and commission income	**25 110**	25 716

* *Reclassification in the prior period of R240 million relating to operating lease expenses incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the nature of the expense.*

2.2 Insurance commission income

R million	2020	2019
Insurance commissions	**152**	278
Insurance brokerage	**297**	282
Total insurance commission income	**449**	560

2 NON-INTEREST REVENUE continued

2.3 Fair value gains or losses

R million	2020	2019
Dividend income on preference shares held	**486**	588
Other fair value gains or losses	**4 173**	2 626
Total fair value gains or losses	**4 659**	3 214

2.4 Gains less losses from investing activities

R million	2020	2019
Gain on disposal of investment securities	**119**	2 015
- Gains on disposal of debt instruments at amortised cost	**119**	87
- Gains on investment activities of a capital nature*	**-**	1 928
Impairment of debt investment securities at amortised cost	**1**	7
Reclassification from other comprehensive income on the derecognition/sale of debt instruments at FVOCI	**(1)**	1
Dividends on equity instruments at FVOCI	**8**	7
Other dividends received	**1**	1
Preference dividends from insurance profit share arrangements	**2**	2
Total gains less losses from investing activities	**130**	2 033

** The impact of the gain on the Discovery transaction in the prior year, gross of tax of R448 million.*

2.5 Other non-interest revenue

R million	2020	2019
(Losses)/gains on disposal of property and equipment	**(17)**	53
Recoveries from holding company and fellow subsidiaries	**558**	1 807
Rental income	**1 746**	1 505
Income related to direct sale and other operating lease transactions	**494**	461
- Sales	**1 482**	1 499
- Cost of sales	**(1 136)**	(1 184)
- Other operating lease transactions	**148**	146
Other income	**438**	463
Total other non-interest revenue	**3 219**	4 289

3 OPERATING EXPENSES

R million	Notes	2020	2019
Auditors' remuneration		**(362)**	(348)
- Audit fees		**(328)**	(308)
- Fees for other services		**(32)**	(36)
- Prior year under accrual		**(2)**	(4)
Non-capitalised lease charges*		**(414)**	-
- Short-term leases charge		**(251)**	-
- Low-value lease charge		**(98)**	-
- Variable lease charge		**(65)**	-
Operating lease charges**		**-**	(1 044)
Staff costs		**(25 379)**	(25 571)
- Salaries, wages and allowances#		**(20 092)**	(18 366)
- Contributions to employee benefit funds		**(294)**	(346)
- Defined contribution schemes#		**(183)**	(198)
- Defined benefit schemes	21.1	**(111)**	(148)
- Social security levies		**(306)**	(356)
- Share-based payments	25	**(567)**	(1 602)
- Movement in short-term employee benefits liability		**(3 499)**	(4 387)
- Other staff costs		**(621)**	(514)
Other operating costs		**(17 830)**	(16 496)
- Amortisation of intangible assets	16	**(193)**	(135)
- Depreciation of property and equipment	15	**(3 391)**	(2 499)
- Impairments incurred		**(94)**	(168)
- Insurance		**(212)**	(251)
- Advertising and marketing		**(1 505)**	(1 513)
- Maintenance		**(1 158)**	(1 246)
- Property		**(857)**	(822)
- Computer		**(2 532)**	(2 363)
- Stationery, storage and delivery		**(250)**	(311)
- Telecommunications		**(388)**	(349)
- Professional fees		**(1 798)**	(1 697)
- Expenses paid to holding company and fellow subsidiaries	29	**(1 066)**	(1 154)
- Donations		**(283)**	(259)
- Assets costing less than R7 000		**(335)**	(332)
- Business travel		**(305)**	(401)
- Profit share expenses		**(506)**	(638)
- Bank charges		**(240)**	(252)
- Legal fee expenses		**(543)**	(392)
- Entertainment		**(145)**	(219)
- Subscriptions and memberships		**(197)**	(165)
- Training expenses		**(301)**	(326)
- Other operating expenditure		**(1 531)**	(1 004)
Total operating expenses		**(43 985)**	(43 459)

**The bank elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.*

***Reclassification in the prior period of R240 million relating to operating lease expenses incurred on SLOW lounges from operating expenses to fee and commission expenses, so as to better reflect the nature of the expense.*

#Certain staff expenses to the value of R1 263 million have been reclassified from defined contribution scheme expenses to salaries, wages and allowances, as it more accurately reflects the nature of the expenses. The comparative information has been restated.

3 OPERATING EXPENSES continued

Impairment incurred during 2020

Other assets
Included within impairments is an amount of R26 million relating to ECL raised on non-advances. The remaining impairment charge relates to various individually immaterial assets which were impaired down to their recoverable amount based on either their value in use or fair value less costs to sell. This included the bank's investment in its associate, Vumela Enterprise Development Fund, which was fully impaired in the current year.

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.

Other 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

	2020			2019		
	Services as directors			Services as directors		
R thousand	**FirstRand**	**Group**	**Total**	FirstRand	Group	Total
Independent non-executive directors						
WR Jardine	**6 282**	**273**	**6 555**	6 326	252	6 578
MS Bomela	**1 142**	**-**	**1 142**	1 075	-	1 075
G Gelink	**2 690**	**1 595**	**4 285**	2 424	1 729	4 153
NN Gwagwa (resigned at 2019 AGM)	**672**	**-**	**672**	1 108	-	1 108
RM Loubser	**2 670**	**1 892**	**4 562**	2 611	2 183	4 794
PJ Makosholo (resigned 30 June 2020)	**1 407**	**541**	**1 948**	1 291	509	1 800
TS Mashego	**1 064**	**133**	**1 197**	954	126	1 080
EG Matenge-Sebesho (resigned at 2019 AGM)	**632**	**663**	**1 295**	1 075	628	1 703
AT Nzimande	**1 369**	**-**	**1 369**	1 285	-	1 285
L Von Zeuner (appointed 1 February 2019)	**1 533**	**173**	**1 706**	539	-	539
T Winterboer	**1 451**	**490**	**1 941**	1 451	-	1 451
Z Roscherr (appointed 1 April 2020)	**763**	**750**	**1 513**	-	-	-
Non-executive directors						
HL Bosman (resigned 30 June 2020)	**1 262**	**33**	**1 295**	943	125	1 068
JP Burger (appointed 1 September 2018)	**2 105**	**1 007**	**3 112**	1 431	725	2 156
JJ Durand (resigned at 2019 AGM)	**277**	**-**	**277**	394	-	394
F Knoetze	**1 272**	**749**	**2 021**	1 291	1 199	2 490
Total non-executive directors	**26 591**	**8 299**	**34 890**	24 198	7 476	31 674

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 2020 with the FirstRand annual remuneration cycle running from 1 August to 31 July.

Long-term incentive (LTI) awards are made annually under the Conditional Incentive Plan (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 LTI. Previous reporting reflected the LTI allocated in the financial year at original award value. For King IV single figure reporting, the value presented is the LTI 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	2020	2019
AP Pullinger (group CEO)[1]		
Cash package paid during the year	**8 971**	8 493
Retirement contributions paid during the year	**179**	167
Other allowances	**264**	205
Guaranteed package	**9 414**	8 865
Performance-related STI:		
Cash	**5 825**	12 200
- Within 6 months[2]	**-**	8 350
- Within 1 year	**5 825**	3 850
Share linked- deferred 2 and 3 years (BCIP)[3]	**3 825**	10 200
Variable pay	**9 650**	22 400
Total guaranteed and variable pay	**19 064**	31 265
Value of LTI awards allocated during the financial year under the CIP[4]	**20 046**	18 500
Total reward including LTIs	**39 110**	49 765
Single figure reporting		
Total guaranteed and variable pay	**19 064**	31 265
Value of LTI awards settled during the financial year under the CIP[5]	**14 630**	10 000
Total reward including LTIs (Single figure)	**33 694**	41 265
M Vilakazi (group COO)[1, 6]		
Cash package paid during the year	**6 816**	6 468
Retirement contributions paid during the year	**132**	125
Other allowances	**173**	157
Guaranteed package	**7 121**	6 750
Performance-related STI:		
Cash	**4 025**	5 875
- Within 6 months[2]	**-**	4 133
- Within 1 year	**4 025**	1 742
Share linked- deferred 2 and 3 years (BCIP)[3]	**2 025**	3 875
Variable pay	**6 050**	9 750
Total guaranteed and variable pay	**13 171**	16 500
Value of LTI awards allocated during the financial year under the CIP[4]	**10 775**	8 500
Total reward including LTIs	**23 946**	25 000
Appointment award		
Sign-on cash bonus	**-**	7 500
Sign-on CIP allocation	**-**	14 000
Total appointment award	**-**	21 500
Single figure reporting		
Total guaranteed and variable pay	**13 171**	16 500
Sign-on cash bonus	**-**	7 500
Value of LTI awards settled during the financial year under the CIP[5]	**-**	-
Total reward including LTIs (Single figure)	**13 171**	24 000

3 OPERATING EXPENSES continued

R thousand	2020	2019
HS Kellan (group financial director)[1]		
Cash package paid during the year	**7 526**	7 175
Retirement contributions paid during the year	**61**	54
Other allowances	**173**	156
Guaranteed package	**7 760**	7 385
Performance-related STI:		
Cash	**4 300**	6 167
- Within 6 months[2]	**-**	4 328
- Within 1 year	**4 300**	1 839
Share linked- deferred 2 and 3 years (BCIP)[3]	**2 300**	4 167
Variable pay	**6 600**	10 334
Total guaranteed and variable pay	**14 360**	17 719
Value of LTI awards allocated during the financial year under the CIP[4]	**13 440**	12 000
Total reward including LTIs	**27 800**	29 719
Single figure reporting		
Total guaranteed and variable pay	**14 360**	17 719
Value of LTI awards settled during the financial year under the CIP[5]	**8 600**	7 000
Total reward including LTI (Single figure)	**22 960**	24 719
J Celliers (CEO FNB)[1]		
Cash package paid during the year	**7 742**	7 364
Retirement contributions paid during the year	**138**	131
Other allowances	**173**	156
Guaranteed package	**8 053**	7 651
Performance-related STI:		
Cash	**6 150**	8 287
- Within 6 months[2]	**-**	5 741
- Within 1 year	**6 150**	2 546
Share linked- deferred 2 and 3 years (BCIP)[3]	**4 150**	6 287
Variable pay	**10 300**	14 574
Total guaranteed and variable pay	**18 353**	22 225
Value of LTI awards allocated during the financial year under the CIP[4]	**15 515**	14 500
Total reward including LTIs	**33 868**	36 725
Single figure reporting		
Total guaranteed and variable pay	**18 353**	22 225
Value of LTI awards settled during the financial year under the CIP[5]	**11 943**	10 000
Total reward including LTI (Single figure)	**30 296**	32 225

3 OPERATING EXPENSES continued

R thousand	2020	2019
C de Kock (CEO WesBank)[1]		
Cash package paid during the year	**5 331**	5 046
Retirement contributions paid during the year	**43**	39
Other allowances	**169**	190
Guaranteed package	**5 543**	5 275
Performance-related STI:		
Cash	**3 062**	4 750
- Within 6 months[2]	**-**	3 383
- Within 1 year	**3 062**	1 367
Share linked- deferred 2 and 3 years (BCIP)[3]	**1 063**	2 750
Variable pay	**4 125**	7 500
Total guaranteed and variable pay	**9 668**	12 775
Value of LTI awards allocated during the financial year under the CIP[4]	**10 435**	9 844
Total reward including LTIs	**20 103**	22 619
Single figure reporting		
Total guaranteed and variable pay	**9 667**	12 775
Value of LTI awards settled during the financial year under the CIP[5]	**9 200**	7 500
Total reward including LTIs (Single figure)	**18 867**	20 275
J Formby (CEO RMB)[1]		
Cash package paid during the year	**4 644**	3 607
Retirement contributions paid during the year	**74**	60
Other allowances	**190**	194
Guaranteed package	**4 908**	3 861
Performance-related STI:		
Cash	**8 375**	13 000
- Within 6 months[2]	**-**	8 883
- Within 1 year	**8 375**	4 117
Share linked- deferred 2 and 3 years (BCIP)[3]	**6 375**	11 000
Variable pay	**14 750**	24 000
Total guaranteed and variable pay	**19 658**	27 861
Value of LTI awards allocated during the financial year under the CIP[4]	**9 100**	8 300
Total reward including LTIs	**28 758**	36 161
Single figure reporting		
Total guaranteed and variable pay	**19 658**	27 861
Value of LTI awards settled during the financial year under the CIP[5]	**7 500**	5 000
Total reward including LTIs (Single figure)	**27 158**	32 861

3 OPERATING EXPENSES continued

£ thousand	2020	2019
P Monks[1, 7]		
Cash package paid during the year	**831**	754
Retirement contributions paid during the year	**48**	43
Other allowances	**24**	18
Guaranteed package	**903**	815
Performance-related STI:		
Cash	**-**	382
- Within 6 months[8]	**-**	382
- Within 1 year	**-**	-
Share linked- deferred over 3 years[9]	**-**	188
Variable pay	**-**	570
Total guaranteed and variable pay	**903**	1 385
Value of LTI awards allocated during the financial year under the CIP[5, 11]	**649**	633
Total reward including LTIs	**1 552**	2 018
Single figure reporting		
Total guaranteed and variable pay	**903**	1 385
Pre-acquisition cash deferral settled during the financial year[10]	**679**	296
Total reward including LTIs (Single figure)	**1 582**	1 681

R thousand	2020	2019
JP Burger[1, 12]		
Cash package paid during the year	**-**	1 645
Retirement contributions paid during the year	**-**	28
Other allowances	**-**	39
Guaranteed package	**-**	1 712
Performance-related STI:		
Cash	**-**	-
- Within 6 months[2]	**-**	-
- Within 1 year	**-**	-
Share linked- deferred 2 and 3 years (BCIP)[3]		
Variable pay	**-**	-
Total guaranteed and variable pay	**-**	1 712
Value of LTI awards allocated during the financial year under the CIP[4]	**-**	-
Total reward including LTIs	**-**	1 712
Single figure reporting		
Total guaranteed and variable pay	**-**	1 712
Value of LTI awards settled during the financial year under the CIP[5]	**18 350**	15 630
Total reward including LTIs (Single figure)	**18 350**	17 342

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 businesses (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. *Variable compensation paid in cash in respect of the year ended June 2020, will be paid (with an interest factor) in one tranche in June 2021. In prior years, variable compensation paid in cash in respect of the year ended June, was paid (with an interest factor) in three tranches, during the following year ending on 30 June. i.e. August, December and June.*
3. *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.*
4. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the LTI allocated in the financial year and is reflected at award value at grant date. Refer to note 25.*
5. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. For King IV single figure reporting, the value presented in the table is the LTI settled in the financial year at original award value.*
6. *Prescribed officer (M Vilakazi) appointed effective 1 July 2018.*
7. *Prescribed officer (P Monks) appointed effective 1 July 2018.*
8. *The Aldermore performance related STI cash component is paid in full in August.*
9. *The Aldermore performance related STI share linked component is released in equal annual tranches over three years from grant date.*
10. *Aldermore pre-acquisition cash award deferred and settled in the financial year.*
11. *Aldermore LTIP allocated amount is the on- target value assumed at 67% of maximum.*
12. *JP Burger was an executive director for two months in the prior financial year, and became a non-executive director effective 1 September 2018.*

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.

COVID-19 Instrument for senior managers

The COVID-19 health crisis and the resulting economic impact will be evident in FirstRand's results in 2020 and the foreseeable future. This impact has resulted in the 2017 LTI not vesting and increases the risk of the 2018 and 2019 LTIs not vesting. This requires that the group's remuneration approach caters for the retention of employees considered critical to the ongoing sustainability of the business.

For senior employees, including the FirstRand executive directors and prescribed officers, the retention condition is for three years (rolling every 12 months) in the form of an LTI with only time-based vesting and no performance conditions:

- This retention instrument will be awarded in September 2020. This value will be converted to share-linked instruments on the award date and will vest in equal proportions (tranches) over the next three years (September 2021, 2022, 2023).
- Should an employee who receives this award resign within 12 months of a tranche of the award vesting, they will be required to repay the full amount of the vested tranche. Thereby the instrument represents up to a four year retention period.
- The award purpose is retention and not to additionally benefit an employee. As such, in the event that the 2018 and 2019 LTI awards do vest, only the higher of the COVID-19 vesting tranche or the outstanding LTI awards will vest (not both).

More detail on the retention awards is outlined in the annual integrated report.

COVID-19 instrument

R thousand	**2020**
AP Pullinger	**19 273**
M Vilakazi	**16 638**
HS Kellan	**12 720**
J Celliers	**15 008**
C De Kock	**10 139**
J Formby	**8 700**
P Monks (£ thousand)	**689**

3 OPERATING EXPENSES continued

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	**2020**	2019
JR Formby	**2 011**	2 873
AP Pullinger	**1 160**	1 774
JP Burger	**-**	847

Long-term executive management retention scheme

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

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.

   During the year, Remco approved the extension of the scheme for two years from original vesting date of September 2021 to September 2023. If the participant leaves after September 2020 but before the amended vesting date of September 2023, the participant will forfeit 20% of the upside of the scheme. The extension of the scheme is considered an amendment of terms and therefore an increased rate, linked to the real interest rate, has been applied to the outstanding funding.

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	
AP Pullinger				
Deferred share-linked STI awards				
2017	September 2017	9 600	September 2019	
2018	September 2018	10 200	September 2020	
2019 (2-year deferral)	September 2019	5 100	September 2021	
2019 (3-year deferral)	September 2019	5 100	September 2022	
2020 (2-year deferral)	September 2020	1 912	September 2022	
2020 (3-year deferral)	September 2020	1 913	September 2023	
Balance deferred share-linked STIs		**33 825**		
LTI awards under the CIP				
2016	September 2016	14 630	September 2019	
2017	September 2017	15 550	September 2020	
2018	September 2018	18 500	September 2021	
2019	September 2019	20 046	September 2022	
Balance LTIs		**68 726**		
Total outstanding incentives				
M Vilakazi				
Deferred share-linked STI awards				
2019 (2-year deferral)	September 2019	1 937	September 2021	
2019 (3-year deferral)	September 2019	1 938	September 2022	
2020 (2-year deferral)	September 2020	1 012	September 2022	
2020 (3-year deferral)	September 2020	1 013	September 2023	
Balance deferred share-linked STIs		**5 900**		
LTI awards under the CIP				
2018 (appointment award)	September 2018	14 000	September 2020	
2018 (annual allocation)	September 2018	8 500	September 2021	
2019	September 2019	10 775	September 2022	
Balance LTIs		**33 275**		
Total outstanding incentives				

	Units					
	Opening balance	Awards made during year[1]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30 Jun 2020	Value on settlement in 2020[3] R thousand
	178 671	-	(178 671)	-	-	13 034
	153 103	-	-	-	153 103	-
	78 221	-	-	-	78 221	-
	78 221	-	-	-	78 221	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	488 216	-	(178 671)	-	309 545	13 034
	309 274	-	(309 274)	-	-	20 165
	289 410	-	-	(289 410)	-	-
	277 688	-	-	-	277 688	-
	-	307 455	-	-	307 455	-
	876 372	307 455	(309 274)	(289 410)	585 143	20 165
	1 364 588	307 455	(487 945)	(289 410)	894 688	33 199
	29 716	-	-	-	29 716	-
	29 716	-	-	-	29 716	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	59 432	-	-	-	59 432	-
	210 142	-	-	(210 142)	-	-
	127 586	-	-	-	127 586	-
	-	165 261	-	-	165 261	-
	337 728	165 261	-	(210 142)	292 847	-
	397 160	165 261	-	(210 142)	352 279	-

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
HS Kellan				
Deferred share-linked STI awards				
2017	September 2017	3 250	September 2019	
2018	September 2018	4 000	September 2020	
2019 (2-year deferral)	September 2019	2 083	September 2021	
2019 (3-year deferral)	September 2019	2 084	September 2022	
2020 (2-year deferral)	September 2020	1 150	September 2022	
2020 (3-year deferral)	September 2020	1 150	September 2023	
Balance deferred share-linked STIs		**13 717**		
LTI awards under the CIP				
2016	September 2016	8 600	September 2019	
2017	September 2017	9 500	September 2020	
2018	September 2018	12 000	September 2021	
2019	September 2019	13 440	September 2022	
Balance LTIs		**43 540**		
Total outstanding incentives				
J Celliers				
Deferred share-linked STI awards				
2017	September 2017	5 000	September 2019	
2018	September 2018	6 000	September 2020	
2019 (2-year deferral)	September 2019	3 143	September 2021	
2019 (3-year deferral)	September 2019	3 144	September 2022	
2020 (2-year deferral)	September 2020	2 075	September 2022	
2020 (3-year deferral)	September 2020	2 075	September 2023	
Balance deferred share-linked STIs		**21 437**		
LTI awards under the CIP				
2016	September 2016	11 943	September 2019	
2017	September 2017	12 850	September 2020	
2018	September 2018	14 500	September 2021	
2019	September 2019	15 515	September 2022	
Balance LTIs		**54 808**		
Total outstanding incentives				

	Units					
	Opening balance	Awards made during year[1]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30 Jun 2020	Value on settlement in 2020[3] R thousand
	60 487	-	(60 487)	-	-	4 413
	60 041	-	-	-	60 041	-
	31 959	-	-	-	31 959	-
	31 959	-	-	-	31 959	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	184 446	-	(60 487)	-	123 959	4 413
	181 802	-	(181 802)	-	-	11 853
	176 809	-	-	(176 809)	-	-
	180 122	-	-	-	180 122	-
	-	206 136	-	-	206 136	-
	538 733	206 136	(181 802)	(176 809)	386 258	11 853
	723 179	206 136	(242 289)	(176 809)	510 217	16 266
	93 057	-	(93 057)	-	-	6 789
	90 061	-	-	-	90 061	-
	48 217	-	-	-	48 217	-
	48 217	-	-	-	48 217	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	279 552	-	(93 057)	-	186 495	6 789
	252 472	-	(252 472)	-	-	16 461
	239 158	-	-	(239 158)	-	-
	217 647	-	-	-	217 647	-
	-	237 961	-	-	237 961	-
	709 277	237 961	(252 472)	(239 158)	455 608	16 461
	988 829	237 961	(345 529)	(239 158)	642 103	23 250

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
C De Kock				
Deferred share-linked STI awards				
2017	September 2017	3 250	September 2019	
2018	September 2018	2 750	September 2020	
2019 (2-year deferral)	September 2019	1 375	September 2021	
2019 (3-year deferral)	September 2019	1 375	September 2022	
2020 (2-year deferral)	September 2020	531	September 2022	
2020 (3-year deferral)	September 2020	532	September 2023	
Balance deferred share-linked STIs		**9 813**		
LTI awards under the CIP				
2016	September 2016	9 200	September 2019	
2017	September 2017	9 844	September 2020	
2018	September 2018	9 844	September 2021	
2019	September 2019	10 435	September 2022	
Balance LTIs		**39 323**		
Total outstanding incentives				
J Formby				
Deferred share-linked STI awards				
2017	September 2017	10 250	September 2019	
2018	September 2018	11 000	September 2020	
2019 (2-year deferral)	September 2019	5 500	September 2021	
2019 (3-year deferral)	September 2019	5 500	September 2022	
2020 (2-year deferral)	September 2020	3 187	September 2022	
2020 (3-year deferral)	September 2020	3 188	September 2023	
Balance deferred share-linked STIs		**38 625**		
LTI awards under the CIP				
2016	September 2016	7 500	September 2019	
2017	September 2017	7 900	September 2020	
2018	September 2018	8 300	September 2021	
2019	September 2019	9 100	September 2022	
Balance LTIs		**32 800**		
Total outstanding incentives				

	Units					
	Opening balance	Awards made during year[1]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30 Jun 2020	Value on settlement in 2020[3] R thousand
	60 487	-	(60 487)	-	-	4 413
	41 278	-	-	-	41 278	-
	21 089	-	-	-	21 089	-
	21 089	-	-	-	21 089	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	143 943	-	(60 487)	-	83 456	4 413
	194 486	-	(194 486)	-	-	12 680
	183 212	-	-	(183 212)	-	-
	147 760	-	-	-	147 760	-
	-	160 041	-	-	160 041	-
	525 458	160 041	(194 486)	(183 212)	307 801	12 680
	669 401	160 041	(254 973)	(183 212)	391 257	17 093
	190 768	-	(190 768)	-	-	13 917
	165 112	-	-	-	165 112	-
	84 356	-	-	-	84 356	-
	84 356	-	-	-	84 356	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	524 592	-	(190 768)	-	333 824	13 917
	158 548	-	(158 548)	-	-	10 337
	147 031	-	-	(147 031)	-	-
	124 584	-	-	-	124 584	-
	-	139 571	-	-	139 571	-
	430 163	139 571	(158 548)	(147 031)	264 155	10 337
	954 755	139 571	(349 316)	(147 031)	597 979	24 254

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date
P Monks (£ thousand)			
Deferred share-linked STI awards			
2018 (1-year deferral) [4, 5]	September 2018	38	September 2019
2018 (2-year deferral)	September 2018	38	September 2020
2018 (3-year deferral)	September 2018	38	September 2021
2019 (1-year deferral) [4]	September 2019	62	September 2020
2019 (2-year deferral)	September 2019	63	September 2021
2019 (3-year deferral)	September 2019	63	September 2022
2020 (1-year deferral) [4]	September 2020	-	September 2021
2020 (2-year deferral)	September 2020	-	September 2022
2020 (3-year deferral)	September 2020	-	September 2023
Balance deferred share-linked STIs		**302**	
LTI awards under the CIP			
2018	September 2018	633	September 2021
2019	September 2019	649	September 2022
Balance LTIs		**1 282**	
Total outstanding incentives			
JP Burger (R thousand)			
Deferred share-linked STI awards			
2017	September 2017	11 900	September 2019
2018	September 2018	12 674	September 2020
Balance deferred share-linked STIs		**24 574**	
LTI awards under the CIP			
2016	September 2016	18 350	September 2019
2017	September 2017	19 500	September 2020
Balance LTIs		**37 850**	
Total outstanding incentives			

	Units[6]					
	Opening balance	Awards made during year[1]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30 Jun 2020	Value on settlement in 2020[3] R thousand
	-	-	-	-	-	38
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	38
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	38
	221 477	-	(221 477)	-	-	16 157
	190 329	-	-	-	190 329	-
	411 806	-	(221 477)	-	190 329	16 157
	387 914	-	(387 914)	-	-	25 292
	362 925	-	-	(362 925)	-	-
	750 839	-	(387 914)	(362 925)	-	25 292
	1 162 645	-	(609 391)	(362 925)	190 329	41 449

3 OPERATING EXPENSES continued

1. *FirstRand share-linked schemes are determined on a monetary value and not on the number of shares. The deferred shared-linked STI awards allocation is determined after year end, using the average three-day volume weighted average price (VWAP) eight days after results announcement, therefore the number of deferred shared-linked STI award units allocated in 2020, cannot be calculated at the time the annual financial statements are issued.*
2. *Deferred share-linked STI awards 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 LTI awards allocated before September 2019. For these incentive schemes, LTI vesting depends on certain corporate performance targets being met on a cumulative basis over three years. However, for pre-2019 LTI 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 the final remuneration committee decision. FirstRand applies graded vesting to LTI awards allocated from September 2019, given the current environment the probability of vesting is lower but it is too early to quantify. For information purposes, the maximum possible value of the unvested awards as at June 2020 is the market value of the total number of shares at R38.06 per share on the last trading day of the financial year (30 June 2020).*
3. *The values at settlement date include share price growth and interest earned (Deferred share-linked STI awards) from grant date. This does not apply to the Aldermore STI shared linked awards, which earn no interest or share price growth.*
4. *The Aldermore performance related STI share linked component is released in equal annual tranches over three years from grant date.*
5. *This award was incorrectly excluded from the prior year unvested table.*
6. *Aldermore incentive awards are not convertible into units.*

4 INDIRECT TAX AND INCOME TAX EXPENSE

	R million	2020	2019
4.1	**Indirect tax**		
	Value-added tax (net)	**(810)**	(829)
	Total indirect tax	**(810)**	(829)
4.2	**Income tax expense**		
	South African income tax		
	Current	**(3 759)**	(8 076)
	- Current year*	**(3 714)**	(7 411)
	- Prior year adjustment	**(45)**	(665)
	Deferred income tax	**651**	786
	- Current year	**703**	98
	- Prior year adjustment	**(52)**	688
	Total South African income tax	**(3 108)**	(7 290)
	Foreign company and withholding tax	**(1)**	(2)
	- Current year	**(1)**	(2)
	Total foreign company and withholding tax	**(1)**	(2)
	South African capital gains tax	**-**	(115)
	- Deferred capital gains tax	**-**	(115)
	Total capital gains tax	**-**	(115)
	Total income tax expense	**(3 109)**	(7 407)

** Restated prior year following the adoption of IAS 12 amendments.*

Tax rate reconciliation

%	2020	2019*
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Dividend income	**(7.4)**	(4.1)
Non-taxable income**	**(3.9)**	-
Prior year adjustments	**0.5**	(0.1)
Effect of capital gains tax rate	**-**	0.4
Disallowed expenditure#	**1.4**	0.5
Other items	**(0.8)**	(0.4)
Effective rate of tax	**17.8**	24.3

** Restated following the adoption of IAS 12 amendments. This resulted in a change in the prior year effective tax rate. In addition, other non-taxable income amounts that were previously disclosed in Other have been moved out of this line item and separately disclosed.*

*** Non-taxable translation gains on preference shares.*

 # The majority of the disallowed expense relates non-deductible translation losses.

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, according to measurement basis and in order of when the assets are expected to be realised.

	2020			
		At fair value through profit or loss		
R million	**Amortised cost**	**Mandatory**	**Designated**	
ASSETS				
Cash and cash equivalents	**99 781**	**-**	**-**	
Derivative financial instruments	**-**	**108 167**	**-**	
Investment securities	**109 793**	**92 510**	**51**	
Advances	**802 746**	**57 925**	**7 269**	
Other assets	**2 970**	**-**	**-**	
Non-current assets and disposal groups held for sale	**1 558**	**-**	**-**	
Amounts due by holding company and fellow subsidiaries	**51 228**	**16 081**	**-**	
Non-financial assets	**-**	**-**	**-**	
Total assets	**1 068 076**	**274 683**	**7 320**	

	2019			
		At fair value through profit or loss		
R million	Amortised cost	Mandatory	Designated	
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	
Other assets	3 139	-	-	
Non-current assets and disposal groups held for sale	-	-	-	
Amounts due by holding company and fellow subsidiaries	50 694	2 333	-	
Non-financial assets	-	-	-	
Total assets	1 057 294	176 132	9 028	

2020							
	At fair value through other comprehensive income		**Derivatives designated as hedging instruments**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current**
	Debt	**Equity**					
	-	**-**	**-**	**-**	**99 781**	**99 781**	**-**
	-	**-**	**12 344**	**-**	**120 511**	**108 732**	**11 779**
	6 047	**625**	**-**	**-**	**209 026**	**112 185**	**96 841**
	-	**-**	**-**	**-**	**867 940**	**307 832**	**560 108**
	-	**-**	**-**	**2 180**	**5 150**	**3 026**	**2 124**
	-	**-**	**-**	**-**	**1 558**	**1 558**	**-**
	-	**-**	**-**	**-**	**67 309**	**39 107**	**28 202**
	-	**-**	**-**	**43 437**	**43 437**	**21 343**	**22 094**
	6 047	**625**	**12 344**	**45 617**	**1 414 712**	**693 564**	**721 148**

2019							
	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

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, according to measurement basis and in order of according to when the liabilities are expected to be settled.

	2020			
		At fair value through profit or loss		
R million	Amortised cost	Mandatory	Designated	
LIABILITIES				
Short trading positions	**-**	**4 786**	**-**	
Derivative financial instruments	**-**	**124 101**	**-**	
Creditors, accruals and provisions	**9 026**	**-**	**-**	
Deposits	**1 043 012**	**37 693**	**8 247**	
Other liabilities	**2 875**	**-**	**577**	
Amounts due to holding company and fellow subsidiaries	**19 867**	**16 387**	**-**	
Tier 2 liabilities	**22 322**	**-**	**-**	
Liabilities directly associated with disposal groups classified as held for sale	**85**	**-**	**-**	
Non-financial liabilities	**-**	**-**	**-**	
Total liabilities	**1 097 187**	**182 967**	**8 824**	

	2019			
		At fair value through profit or loss		
R million	Amortised cost	Mandatory	Designated	
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	

2020					
	Derivatives designated as hedging instruments	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current and non-contractual**
	-	**-**	**4 786**	**4 786**	**-**
	10 387	**-**	**134 488**	**124 243**	**10 245**
	-	**5 324**	**14 350**	**11 721**	**2 629**
	-	**-**	**1 088 952**	**921 211**	**167 741**
	-	**1 803**	**5 255**	**1 234**	**4 021**
	-	**-**	**36 254**	**36 204**	**50**
	-	**-**	**22 322**	**4 762**	**17 560**
	-	**-**	**85**	**85**	**-**
	-	**8 182**	**8 182**	**4 812**	**3 370**
	10 387	**15 309**	**1 314 674**	**1 109 058**	**205 616**

2019					
	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

6 CASH AND CASH EQUIVALENTS

R million	2020	2019
Coins and bank notes	**8 240**	7 468
Money at call and short notice	**65 155**	44 719
Balances with central banks	**26 386**	25 700
Total cash and cash equivalents	**99 781**	77 887
Mandatory reserve balances included above	**26 225**	25 559

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

For further details on the valuation of derivatives refer to note 27.

Qualifying for hedging accounting

Where all required criteria are met, derivatives are classified as qualifying for hedge accounting. Hedge accounting is applied to remove the accounting mismatch between the derivative (hedging instrument) and the underlying hedged item. All qualifying hedging relationships are designated as either fair value or cash flow hedges. The bank applies hedge accounting in respect of specified interest rate risk and equity risk as detailed in this note.

The bank defines interest rate risk in the banking book (IRRBB) as the sensitivity of the statement of financial position and income statement to unexpected adverse movements in interest rates. IRRBB and equity risk is managed by Group Treasury and the FirstRand asset, liability and capital committee (ALCCO) under approved policies. For further details on the bank's approach to managing interest rate risk and market risk, refer to note 31.

IRRBB is expected within a banking operation and can be an important source of profitability and shareholder value and is therefore managed from an earnings approach, with the aim to protect and enhance NII. Therefore, both fair value and cash flow hedge accounting are applied to provide a better reflection of how IRRBB is managed in profit or loss.

Equity risk is created by the bank's obligation under its employee share incentive schemes of which the future cash outflows are directly impacted by changes in FirstRand Limited's share price. This equity risk is managed by purchasing equity derivatives which mitigates the exposure to variability in cash outflows as a result of the FirstRand share price. Cash flow hedge accounting is employed to provide a better reflection of how equity risk is managed in profit or loss.

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.

The following tables reflect the notional and fair value of the derivative instruments that qualify for hedge accounting or are held for trading. The notional amounts for derivative instruments qualifying for fair value hedge accounting include macro hedging portfolios.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments - assets

	2020		2019	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges	**327 246**	**11 785**	197 907	4 467
- Interest rate derivatives	**327 109**	**11 783**	194 799	2 674
- Equity derivatives	**137**	**2**	3 108	1 793
Fair value hedges	**10 692**	**559**	25 753	368
- Interest rate derivatives	**10 692**	**559**	25 753	368
Held for trading	**7 679 025**	**108 167**	6 393 607	38 346
Currency derivatives	**299 060**	**15 266**	389 645	9 991
Interest rate derivatives	**7 280 489**	**89 577**	5 922 417	26 294
Equity derivatives	**66 423**	**2 248**	28 444	1 749
Commodity derivatives	**18 039**	**754**	38 546	228
Energy derivatives	**799**	**175**	760	30
Credit derivatives	**14 215**	**147**	13 795	54
Total	**8 016 963**	**120 511**	6 617 267	43 181
Exchange traded	**80 610**	**50**	48 229	77
Over the counter	**7 936 353**	**120 461**	6 569 038	43 104
Total	**8 016 963**	**120 511**	6 617 267	43 181

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments - liabilities

	2020		2019	
R million	**Notional**	**Fair value**	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges	**212 913**	**9 232**	266 243	2 212
- Interest rate derivatives	**210 317**	**8 047**	266 243	2 212
- Equity derivatives	**2 596**	**1 185**	-	-
Fair value hedges	**12 727**	**1 155**	11 203	261
- Interest rate derivatives	**12 727**	**1 155**	11 203	261
Held for trading	**7 775 600**	**124 101**	6 616 705	45 580
Currency derivatives	**295 913**	**27 656**	385 291	15 067
Interest rate derivatives	**7 381 549**	**89 684**	6 147 405	25 502
Equity derivatives	**65 764**	**4 292**	49 930	3 413
Commodity derivatives	**26 101**	**1 968**	29 321	1 470
Energy derivatives	**457**	**111**	647	35
Credit derivatives	**5 816**	**390**	4 111	93
Total	**8 001 240**	**134 488**	6 894 151	48 053
Exchange traded	**21 355**	**292**	20 767	26
Over the counter	**7 979 885**	**134 196**	6 873 384	48 027
Total	**8 001 240**	**134 488**	6 894 151	48 053

Refer to note 29 for information on related party derivatives.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Fair value hedges

Interest rate risk

The bank defines interest rate risk for which fair value hedge accounting is applied, as the potential variations in NII due to the bank holding portfolios 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;
- 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 bank's balance sheet; and
- behavioural uncertainties of the underlying hedged item, for example increased defaults, prepayments or early deposit withdrawals.

The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the benchmark interest rate embedded in the hedged item. This risk component comprises the majority of the hedged items' fair value risk.

For fair value hedge accounting purposes in certain instances, only the benchmark interest rate component of the hedged items' total interest rate exposure is designated as the hedged risk. The credit spread component above the benchmark interest rate is therefore excluded from hedge risk designated. The benchmark interest rate is determined with reference to the swap curve, which is regarded as the best indicator of interest rate risk. In all other instances, the total interest rate exposure on the hedged item is designated, where the credit risk is proven not to dominate the fair value movements as a result of this risk.

The following are the identified hedge items subject to fair value interest rate risk hedge accounting:

- Specified long-term fixed rate investment securities as well as other funding liabilities. To manage the interest rate risk associated with such risk exposure, the bank uses a variety of cash collateralised vanilla fixed-for-floating interest rate swaps for which the critical terms, such as the nominal and duration of the underlying risk exposure, are matched.
- 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 well as sales to securitisation vehicles. As a result, the bank has adopted a dynamic hedging strategy (macro hedging), to hedge the exposure profile by de-designating and re-designating interest rate swap agreements at each month-end to reach off-setting positions. The bank recognises the fair value movements related to changes in the interest rate risk in the advances portfolio in NIR, reducing the NIR volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone. This hedging strategy was applicable in the prior but not current year, as the macro-hedge did not qualify for hedge accounting as at 30 June 2020. The bank continually assesses whether hedge accounting can be applied to failed macro-hedges which could result in these macro-hedges being reinstated for hedge accounting purposes.

The designated hedged items attract fixed interest cash flows which exposes the bank to the risk of changes in the hedged item's fair value attributable to changes in the benchmark interest rate embedded in the hedge item. The interest rate swaps entered into pays fixed interest and receives floating interest cashflows. As such there is an expectation that the changes in fair value of the hedged item move in the opposite direction to changes in the interest rate swaps as a result of movements in the benchmark interest rate swap curve. Due to some of the

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

critical terms, such as the denominated currency and the fixed interest rates, of the hedging item and the interest rate swap being matched, an economic relationship is present.

In most instances, a 1:1 hedge ratio is maintained throughout the duration of the hedge relationship. Some hedge relationships do not have 1:1 hedge ratios as the nominals are matched based on the PV01 associated with the hedged item and hedging instrument.

The bank uses the regression analysis approach to assess the effectiveness of the hedge relationship in achieving an economic relationship prospectively.

One of the parameters used to test effectiveness is to evaluate whether the effectiveness ranges between 80%-125%. Even though this quantitative measure is not required under IFRS 9, the bank believes this is a benchmark which has been extensively used in the past and is a prudent approach to determine the effectiveness of the hedge relationship in line with the bank's risk management strategy.

In these hedge relationships for interest rate risk, the main sources of ineffectiveness are:

- the designated fixed interest rate on the hedged item differs to the offsetting rate of the interest rate swap;
- the unwinding of the time value of money element contained within the fair value of the hedging instrument on designation date; and
- differences in maturities of the interest rate swap and the hedged item.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following table discloses the maturity of the hedging instruments included in fair value hedging relationships excluding maturity of the macro hedging portfolios.

R million	**2020 Interest rate risk Notional amount**	2019 Interest rate risk Notional amount
Derivative asset		
4 — 12 months	**-**	7 067
> 12 months	**9 997**	7 133
Total	**9 997**	14 200
Derivative liability		
4 — 12 months	**-**	396
> 12 months	**17 694**	7 549
Total	**17 694**	7 945

The following table discloses the average interest rate which the hedging instrument included in the fair value hedging relationships, according to their respective maturity buckets, excluding macro hedging portfolios in the 2019 financial year.

R million	**2020 Average rate Interest rate risk %**	2019 Average rate Interest rate risk %
Derivative asset		
4 — 12 months	**-**	2
> 12 months	**5**	5
Derivative liability		
4 — 12 months	**-**	3
> 12 months	**5**	2

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following table sets out information about hedged items in fair value hedging relationships.

	2020			2019		
R million	Advances*	Investment securities	Funding liabilities**	Advances*	Investment securities	Funding liabilities**
Interest rate risk-hedged items						
Carrying amount excluding fair value hedge adjustments	**-**	**16 403**	**8 874**	22 534	8 232	14 347
Accumulated fair value hedge adjustments for instruments that are actively hedged	**-**	**1 307**	**562**	5	237	293
Total carrying amount of hedged items	**-**	**17 710**	**9 436**	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	**-**	**-**	**(11)**	-	-	(12)

* *Advances designated as hedged items, are subject to fair value macro hedging as applied under IAS 39. As at 30 June 2020, the fair value macro hedge no longer qualified for hedge accounting and as such is no longer designated as a formal hedge relationship. The on-balance sheet accumulated fair value adjustment related to the hedged items is R9 million and is disclosed in other assets.*

** *Funding liabilities are included in the deposit and Tier 2 liabilities lines in the statement of financial position.*

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following amounts were recognised in NIR for the year in respect of fair value hedging relationships.

R million	2020*	2019*
Interest rate risk		
Changes in fair value for the year arising on hedging instruments		
- Interest rate derivatives	**(691)**	(195)
On hedged items attributable to the hedged risk	**773**	177
- Advances	**-**	51
- Investment securities	**1 071**	233
- Funding liabilities**	**(298)**	(107)
Ineffectiveness recognised in NIR	**82**	(18)

* *All amounts included relate to single hedge relationships and macro hedging portfolios to which a dynamic hedging strategy is applied.*

** *Funding liabilities are included in the deposit and tier 2 liabilities lines in the statement of financial position.*

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

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 variability in future cash flows resulting from changes in market rates. The following are the identified hedged items subject to cash flow hedge accounting:

- variable Johannesburg interbank average rate (JIBAR) linked advances (cash flow interest rate risk);
- variable overnight financial liabilities (cash flow interest rate risk); and
- the bank's share incentive scheme (cash flow equity price risk).

Interest rate risk

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest cash flows due to the movement of benchmark interest rates on recognised financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, fixing the hedged cash flows.

The variable interest rate on JIBAR assets and overnight financial liabilities exposes the group to volatility in interest cash flows as the variable benchmark interest rate varies over time. To manage the cash flow risk, the bank utilises cash collateralised pay-fixed receive-floating vanilla interest rate swaps that exhibit the same nominal and duration as the underlying risk exposure. The change in the interest cash flows attributable to the change in benchmark rate is designated as the hedged risk for hedging accounting purposes.

The bank enters into interest rate swaps that have similar critical terms as the hedged items, such as reference rate, reset dates, payment dates, maturities and notional amounts. Variable rate assets are hedged with pay-variable receive-fixed interest rate swaps, and variable rate liabilities are hedged with receive-variable pay-fixed interest rate swaps. The changes in the cash flows on the hedging instruments are therefore expected to offset the changes in the cash flows on hedged items, thereby resulting in an economic relationship.

A 1:1 hedge ratio is applied as the nominal amount of the hedging instruments and the designated hedged item is the same.

The bank uses the regression analysis approach (utilising a hypothetical derivative as a proxy for the hedged item) to assess the effectiveness of the hedge relationship in achieving an economic relationship prospectively.

One of the parameters used to test effectiveness is to evaluate whether the effectiveness ranges between 80%-125%. Even though this quantitative measure is not required under IFRS 9, the bank believes this is a benchmark which has been extensively used in the past and is a prudent approach to determine the effectiveness of the hedge relationship in line with the bank's risk management strategy.

In the cash flow hedge of interest rate risk, the main sources of ineffectiveness are:

- day 1 gains or losses on the hedging instrument at the inception of the hedge;
- benchmark rate differences arising from the use of JIBAR-linked swaps to hedge fixed rate overnight financial liabilities valued using the benchmark interest rate obtained from the interest rate swap curve; and
- designation of JIBAR-linked advances between JIBAR fixing dates.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

Equity risk

Equity risk exists within the bank's employee share incentive schemes that enable key management personnel and employees to benefit from the performance of FirstRand's share price. Refer to note 25 for further details.

These share incentive schemes, which are accounted for as cash-settled share-based payments in terms of IFRS 2, expose the bank to cash flow equity risk due to the volatility in the share price of FirstRand. The share price movement of the share incentive scheme is economically hedged with a total return swap (TRS). When the share price increases, the share-based payment (SBP) expense increases in line with the share price movement. Conversely, the fair value gain of the TRS will increase for the share price component of the derivative in line with the increase in share price. The inverse would apply if the share price decreases. Critical terms such as notional amounts and maturity dates are matched. Thus changes in the cash flows between the hedged item and the hedging derivative instrument offset each other, resulting in an economic relationship being present between the SBP expense in the share incentive scheme and the TRS.

The bank uses the regression analysis approach (utilising a hypothetical derivative as a proxy for the hedged item) to assess the effectiveness of the hedge relationship in achieving an economic relationship prospectively. Even though a quantitative measure is not required by IFRS 9, the group still uses the regression analysis as a method to investigate the extent to which changes in the hedged item and the hedging instrument are highly and negatively correlated.

One of the parameters used to test effectiveness is to evaluate whether the effectiveness ranges between 80%-125%. Even though this quantitative measure is not required under IFRS 9, the bank believes this is a benchmark which has been extensively used in the past and is a prudent approach to determine the effectiveness of the hedge relationship in line with the group's risk management strategy.

In cash flow hedging for equity risk hedge relationships, the main sources of ineffectiveness are:

- mismatches in the critical terms (including differences between the notional amount of the hedging instrument and the actual number of grants vested or expected to vest) of the hedged item and the hedging instrument;
- actual number of shares that vest versus the vesting probabilities used in the calculation of the cash-settled share-based payment;
- funding costs in the TRS derivatives; and
- the unwinding of the time value of money element contained within the fair value of the hedging instrument on designation date.

Due to the IFRS 2 award not vesting in the current year, the hedging relationship for this scheme no longer qualified for hedge accounting. The TRS derivative designated as part of this hedging relationship was therefore classified as Held for trading, with fair value movements being recognised in NIR, and the portion of the cashflow hedge reserve which related to this hedge relationship was released to profit or loss.

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following table discloses the maturity of the hedging instruments included in cash flow hedging relationships.

	2020		2019	
	Notional amount		Notional amount	
R million	**Interest rate risk**	**Equity risk**	Interest rate risk	Equity risk
Derivative assets				
1 — 3 months	**19 274**	**-**	548	1 279
4 — 12 months	**126 079**	**-**	36 074	-
>12 months	**181 756**	**137**	158 177	1 829
Total	**327 109**	**137**	194 799	3 108
Derivative liabilities				
1 — 3 months	**11 630**	**-**	19 747	-
4 — 12 months	**56 686**	**-**	100 818	-
>12 months	**142 001**	**2 596**	145 678	-
Total	**210 317**	**2 596**	266 243	-

The following table discloses the average interest rate and share price for which the hedging instruments included in cash flow hedging relationships are based on, according to their respective maturity buckets.

	2020		2019	
	Average rate/price		Average rate/price	
R million	**Interest rate risk (%)**	**Equity risk ZAR**	Interest rate risk (%)	Equity risk ZAR
Derivative assets				
Notional amount				
1 — 3 months	**7**	**-**	7	47
4 — 12 months	**6**	**-**	7	-
>12 months	**7**	**34**	8	42
Derivative liabilities				
Notional amount				
1 — 3 months	**7**	**-**	7	-
4 — 12 months	**7**	**-**	7	-
>12 months	**7**	**59**	8	-

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following table represents the hedge ineffectiveness recorded in NIR and operating expenses for the year in respect of cash flow hedging relationships.

	2020			2019		
R million	**Interest rate risk**	**Equity risk**	**Total**	Interest rate risk	Equity risk*	Total
Changes in fair value for the year						
On hedging instrument:	**2 346**	**1 014**	**3 360**	1 229	(485)	744
- Interest rate derivative	**2 346**	**-**	**2 346**	1 229	-	1 229
- Equity derivatives	**-**	**1 014**	**1 014**	-	(485)	(485)
On the hedging item subject to the hedged risk	**(2 333)**	**(1 405)**	**(3 738)**	(1 096)	674	(422)
- Advances	**(2 333)**	**-**	**(2 333)**	(1 096)	-	(1 096)
- Share based payment liability	**-**	**(1 405)**	**(1 405)**	-	674	674
Ineffectiveness recognised in NIR and operating expense	**13**	**(391)**	**(378)**	133	-	322

* *The equity risk in the 2019 financial year is zero due to the bank over hedging the position.*

7 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following amounts relate to hedging instruments included in cash flow hedging relationships.

R million	2020 Interest rate risk	 Equity risk	 Total
Cash flow hedge reserve – opening balance	**568**	**273**	**841**
Gains/(losses) recognised in reserves in the current year	**2 961**	**(2 304)**	**657**
Deferred tax on reserve movement	**(802)**	**328**	**(474)**
Transfers to NII, and operating staff costs	**(98)**	**1 134**	**1 036**
Hedged item affects profit or loss	**144**	**1 128**	**1 272**
Hedged future cash flows no longer expected to occur	**(242)**	**6**	**(236)**
Cash flow hedge reserve – closing balance	**2 629**	**(569)**	**2 060**
Cash flow hedge reserve relating to continuing hedges	**2 631**	**(569)**	**2 062**
Cash flow hedge reserve relating to discontinued hedges	**(2)**	**-**	**(2)**
Cash flow hedge reserve – closing balance	**2 629**	**(569)**	**2 060**

R million	2019 Interest rate risk	 Equity risk	 Total
Cash flow hedge reserve – opening balance	35	308	343
Gains/(losses) recognised in reserves in the current year	638	562	1 200
Deferred tax on reserve movement	(207)	13	(194)
Transfers to NII, and operating staff costs	102	(610)	(508)
Hedged item affects profit or loss	33	(610)	(577)
Hedged future cash flows no longer expected to occur	69	-	69
Cash flow hedge reserve – 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
Cash flow hedge reserve – closing balance	568	273	841

8 COMMODITIES

R million	**2020**	2019
Agricultural commodities	**1 553**	2 197
Gold	**19 695**	18 910
Platinum group metals	**96**	69
Total commodities	**21 344**	21 176

9 INVESTMENT SECURITIES

R million	2020	2019
Negotiable certificates of deposit	-	49
Treasury bills	37 146	36 316
Other government and government guaranteed stock	145 577	112 775
Other dated securities	18 415	21 023
Equities	7 931	6 823
Total gross carrying amount of investment securities	209 069	176 986
Loss allowance on investment securities	(43)	(44)
Total investment securities	209 026	176 942

Analysis of the impairment stages of investment securities

	2020			
	Amortised cost		FVOCI (debt)	
R million	Carrying amount	ECL allowance	Carrying amount	ECL allowance
Stage 1	108 521	19	6 047	-
Stage 2	1 316	24	-	-
Total investment securities	109 837	43	6 047	-

	2019			
	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	-	-
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.

9 INVESTMENT SECURITIES continued

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	**2020**	2019	**2020**	2019
Repurchase agreements	**19 862**	21 918	**19 500**	22 066

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 R19 891 million (2019: R21 941 million) and the associated liabilities is R19 575 million (2019: R22 083 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 FVOCI is R625 million (2019: 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 plan on selling. The fair value movement of these investments declined mainly as a result of the impact of COVID-19 on the fair value determination, in particular the bank’s investment in African Bank Holdings Limited.

10 ADVANCES

R million	Notes	2020	2019
Category analysis			
Overdrafts and cash management accounts		**72 364**	73 823
Term loans		**54 349**	48 218
Card loans		**32 415**	34 829
Instalment sales, hire purchase agreements and lease payments receivable		**123 206**	144 623
Property finance		**250 186**	240 650
Personal loans		**52 236**	49 470
Preference share agreements		**38 418**	41 808
Assets under agreement to resell		**26 618**	44 263
Investment bank term loans		**147 763**	144 837
Long-term loans to group associates and joint ventures		**529**	449
Other		**36 315**	35 430
Total customer advances		**834 399**	858 400
Marketable advances		**71 313**	63 446
Gross value of advances		**905 712**	921 846
Impairment of advances	11	**(37 772)**	(27 303)
Net advances		**867 940**	894 543

10 ADVANCES continued

Analysis of instalment sale, hire purchase and lease payments receivable

	2020			2019		
	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	**38 936**	**(6 732)**	**32 204**	45 783	(8 582)	37 201
Between 1 and 5 years	**102 812**	**(19 124)**	**83 688**	122 688	(24 815)	97 873
More than 5 years	**9 135**	**(1 821)**	**7 314**	12 359	(2 810)	9 549
Total	**150 883**	**(27 677)**	**123 206**	180 830	(36 207)	144 623

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 R52 million (2019: R35 million).

10 ADVANCES continued

Transfers and derecognition of advances in structured transactions

Transfers without derecognition

Advances with the carrying amount of R21 104 million (2019: R20 694 million) 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 with derecognition

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 Programme and FAST) and for MotoNovo retail hire purchase advances (Turbo Finance 5, 6, 7, 8, MotoFirst, MotoPark and Motoway). 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 R million		Carrying value of liabilities R million	
			2020	2019	**2020**	2019
Nitro 5	June 2015	R2.4 billion	**-**	5	**-**	5
Turbo Finance 6	February 2016	£392 million	**-**	1 256	**-**	1 165
Fast	July 2016	R6.8 billion	**10 727**	9 608	**10 251**	9 266
Turbo Finance 7	November 2016	£568 million	**-**	2 662	**-**	2 507
MotoFirst	October 2017	£400 million	**11 766**	14 436	**11 781**	14 515
MotoPark	January 2018	£540 million	**7 555**	10 893	**7 620**	10 872
Nitro 6	April 2018	R2 billion	**745**	1 262	**677**	1 214
Turbo Finance 8	November 2018	£400 million	**3 665**	5 696	**3 705**	5 702
Nitro Programme	May 2019	R2 billion	**1 391**	2 090	**1 362**	2 095
Motoway	September 2019	£583 million	**12 622**	-	**12 779**	-

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.

Type of continuing involvement	2020				
	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	**229**	**1 604**	**229**	**1 604**	**5 331**
Investment securities and other investments	**9 989**	**1 955**	**9 992**	**1 955**	**9 989**
Other structured transactions					
Marketable advances	**1 371**	**-**	**1 371**	**-**	**1 371**
Total	**11 589**	**3 559**	**11 592**	**3 559**	**16 691**

Type of continuing involvement	2019				
	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

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.

	2020			2019		
	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	**1 844**	**-**	**1 844**	2 635	-	2 635
Income recognised from continuing involvement	**3 236**	**98**	**3 334**	2 667	118	2 785
- for the current period	**874**	**10**	**884**	677	18	695
- cumulative	**2 362**	**88**	**2 450**	1 990	100	2 090

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.

	2020			2019		
	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	**41 251**	**-**	**41 251**	41 361	-	41 361
- Call	**255**	**-**	**255**	61	-	61
- 1 to 3 months	**1 019**	**-**	**1 019**	104	-	104
- 4 to 12 months	**4 671**	**-**	**4 671**	1 624	-	1 624
- 1 to 5 years	**35 306**	**-**	**35 306**	39 520	-	39 520
- Over 5 years	**-**	**-**	**-**	52	-	52

10 ADVANCES continued

Analysis of advances per class

R million	2020 Total	Amortised cost	Fair value through profit or loss	Loss allowance
Residential mortgages	**220 488**	**224 404**	**-**	**(3 916)**
WesBank VAF	**88 377**	**94 024**	**-**	**(5 647)**
Total retail secured	**308 865**	**318 428**	**-**	**(9 563)**
FNB card	**26 009**	**30 210**	**-**	**(4 201)**
Personal loans	**33 177**	**41 874**	**-**	**(8 697)**
Other retail	**13 593**	**16 732**	**-**	**(3 139)**
Total retail unsecured	**72 779**	**88 816**	**-**	**(16 037)**
FNB commercial	**101 886**	**107 887**	**27**	**(6 028)**
- FNB commercial excluding scheme	**101 589**	**107 542**	**27**	**(5 980)**
- Government guaranteed scheme	**297**	**345**	**-**	**(48)**
WesBank corporate	**26 608**	**27 114**	**-**	**(506)**
RMB corporate banking	**67 242**	**68 318**	**127**	**(1 203)**
RMB investment banking	**249 979**	**189 765**	**63 904**	**(3 690)**
Total corporate and commercial	**445 715**	**393 084**	**64 058**	**(11 427)**
Group Treasury and other	**37 164**	**35 678**	**1 866**	**(380)**
MotoNovo	**3 417**	**3 782**	**-**	**(365)**
Total advances at 30 June 2020	**867 940**	**839 788**	**65 924**	**(37 772)**

R million	2019 Total	Amortised cost	Fair value through profit or loss	Loss allowance
Residential mortgages	214 623	217 164	-	(2 541)
WesBank VAF	90 570	94 751	-	(4 181)
Total retail secured	**305 193**	**311 915**	**-**	**(6 722)**
FNB card	25 465	28 115	-	(2 650)
Personal loans	32 554	39 369	-	(6 815)
Other retail	15 183	17 908	-	(2 725)
Total retail unsecured	**73 202**	**85 392**	**-**	**(12 190)**
FNB commercial	101 316	105 054	74	(3 812)
- FNB commercial excluding scheme	101 316	105 054	74	(3 812)
- Government guaranteed scheme	-	-	-	-
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	42 646	41 964	1 116	(434)
MotoNovo	22 893	23 495	-	(602)
Total advances at 30 June 2019	**894 543**	**844 850**	**76 996**	**(27 303)**

10 ADVANCES continued

Reconciliation of the gross advances and loss allowance on total advances as at 30 June 2020

	2020*				
	Gross advances				
R million	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired
Amortised cost	844 850	753 825	56 998	34 027	-
Fair value	76 996	76 019	799	73	105
Amount as at 1 July 2019	921 846	829 844	57 797	34 100	105
Current year movement in the back book**					
Stage 1	(157 253)	(142 163)	(14 376)	(714)	-
Transfer from stage 2 to stage 1	-	14 376	(14 376)	-	-
Transfer from stage 3 to stage 1	-	714	-	(714)	-
Current year change in exposure and net movement on GCA and ECL provided/(released)#	(157 253)	(157 253)	-	-	-
Stage 2	(10 957)	(38 871)	30 421	(2 507)	-
Transfer from stage 1 to stage 2	-	(38 871)	38 871	-	-
Transfer from stage 3 to stage 2	-	-	2 507	(2 507)	-
Current year change in exposure and net movement on GCA and ECL provided/(released)#	(10 957)	-	(10 957)	-	-
- Exposures with a change in measurement basis from 12 months to lifetime ECL	3 145	-	3 145	-	-
- Other changes in stage 2 exposures and ECL	(14 102)	-	(14 102)	-	-
Stage 3	(2 220)	(14 168)	(11 363)	23 311	-
Transfer from stage 1 to stage 3	-	(14 168)	-	14 168	-
Transfer from stage 2 to stage 3	-	-	(11 363)	11 363	-
Current year change in exposure and net movement on GCA and ECL provided/(released)#	(2 220)	-	-	(2 220)	-
Purchased or originated credit-impaired	22	-	-	-	22
Current year change in exposure and net movement on GCA and ECL provided/(released)#	22	-	-	-	22
New business†	178 024	159 848	12 592	4 683	901
Current year change in exposure and net movement on GCA and ECL provided/(released)#	178 024	159 848	12 592	4 683	901
Other movements applicable to new business and back book					
Acquisition/(disposal) of advances±	(16 529)	(15 994)	(299)	(236)	-
Transfers (to)/from non-current assets or disposal groups held for sale	(1 588)	(1 509)	(79)	-	-
Modifications that did not give rise to derecognition	(758)	-	(64)	(694)	-
Exchange rate differences	7 148	5 680	1 163	305	-
Bad debts written off^	(12 023)	-	-	(12 023)	-
Amount as at 30 June 2020	905 712	782 667	75 792	46 225	1 028
Amortised cost	839 788	720 723	71 990	46 174	901
Fair value	65 924	61 944	3 802	51	127

	2020				
	Loss allowance				
	Total	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired**
	26 988	5 693	5 614	15 681	-
	315	266	49	-	-
	27 303	5 959	5 663	15 681	-
	(400)	954	(1 208)	(146)	-
	-	1 208	(1 208)	-	-
	-	146	-	(146)	-
	(400)	(400)	-	-	-
	3 561	(412)	4 628	(655)	-
	-	(412)	412	-	-
	-	-	655	(655)	-
	3 561	-	3 561	-	-
	1 152	-	1 152	-	-
	2 409	-	2 409	-	-
	13 066	(458)	(2 020)	15 544	-
	-	(458)	-	458	-
	-	-	(2 020)	2 020	-
	13 066	-	-	13 066	-
	120	-	-	-	120
	120	-	-	-	120
	6 100	2 107	1 538	2 455	-
	6 100	2 107	1 538	2 455	-
	(247)	(133)	(44)	(70)	-
	(42)	(19)	(23)	-	-
	-	-	-	-	-
	334	49	64	221	-
	(12 023)	-	-	(12 023)	-
	37 772	8 047	8 598	21 007	120
	37 042	7 699	8 336	21 007	-
	730	348	262	-	120

10 ADVANCES continued

* *The reconciliation for the year ended 30 June 2020 has been prepared using a year-to-date view. This means that the bank reports exposures based on the impairment stage at the end of the reporting period. This is consistent with the prior year. In the current year, it was concluded that providing disclosure which distinguished between the back book and new business provided more meaningful information to the user in gaining an understanding of the performance of advances overall. The current year movement is therefore split between new business and back book. In the prior year, this was presented as a single line. However, comparative information could not be restated without undue cost due to the nature of the underlying systems which collate the ECL information at a point in time, and as such the information presented in the loss allowance and gross carrying amount reconciliations will not be comparable to the information presented for 30 June 2019 except on a total level.*

** *The bank transfers opening balances (back book), at the value as at 1 July, based on the impairment stage at the end of the reporting period. Any change in exposure and additional ECL raised or released is included in the impairment stage as at the end of the reporting period. Exposures in the back book, can move directly from stage 3 to stage 1, if the curing requirements have been met in a reporting period. The opening balances as at 1 July are transferred to the impairment stage at 30 June in the transfers section and the current year movements in the back book (changes in exposure and net movement on GCA and ECL provided/ (released)) are reflected separately in the reconciliation above. The current year movement for stage 2 advances is split between exposure where there has been a change in the measurement basis from 12 months to lifetime ECL and other changes in other risk parameters.*

\# *The movement on GCA is the net amount of:*

- *additional amounts advanced on the back book and any settlements. Transfers on the back book is reflected separately; and*
- *new business originated during the financial year, the transfers between stages of the new origination and any settlements.*

Current year ECL provided / (released) relates to –

- *an increase/ (decrease) in the carrying amount of the back book during the current year, as well as the increase/ (decrease) in the risk associated with the opening balance of the back book; and*
- *includes interest on stage 3 advances for stage 3 exposures in the back book and new business. In the prior period it was separately presented.*

† *New business is broadly defined as any new product issued to a new or existing customer during the current financial year, including any increase or decrease there in during the current financial year. All new business is included in the change in exposure due to new business in the current year based on the exposures' impairment stage at the end of the reporting period. Therefore, exposures in the new business lines can be reported in stage 3 at the end of the reporting date.*

± *In the prior year, this line included disposals by RMB related to loan syndications whereby the full exposure was recognised in new business and changes in exposure and the sell down to other external parties recognised as disposals. During the current year, the net amount of the syndication is included in the "net movement on GCA due to new business in the current year" section. Management believes this provides a more accurate view of the new business originated in the current 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. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is R11 014 million.*

Gross advances declined in the current year, whereas the overall levels of ECL provisions increased in the current year. The increase in the ECL and the performance of the advance book should be analysed in the context of an existing strained macro economic environment, which has been further weakened by the COVID-19 pandemic and resulting lockdown.

Changes in the gross carrying amount of advances

The following changes in the gross carrying amount of advances contributed to the change in ECL in the current financial year:

10 ADVANCES continued

- Residential mortgages increased by R7 240 million reflecting a 3% increase from the prior year. This mainly relates to growth in premium residential mortgages, benefiting from new client acquisition, up-sell initiatives and strong demand in private bank mortgage lending;
- WesBank VAF declined in the current year, reflecting the impact of the lock down on motor vehicle sales in addition to the lengthening of customer's vehicle replacement cycles, further risk cuts in origination and increased competition.
- FNB card advances increased by R2 095 million, as a result of targeted client acquisition, client migration as well as increased limits and the shift to card transactional accounts (Fusion product) away from more traditional transactional products included in retail other.
- Although personal loans increased by R2 505 million, driven by the COVID-19 emergency relief loan offering. Excluding the emergency loans, personal loan growth was negatively impacted by reduced risk appetite and lower customer demand.
- The decline in retail other advances of R1 176 million reflects the lower usage of transactional banking accounts (primarily overdrafts) and the move to card transactional accounts (Fusion product).
- The increase in FNB commercial advances of R2 786 million was largely driven by targeted new client acquisition in the business segment. R345 million of the growth in advances relates to loans granted under the SME government guaranteed scheme.
- RMB corporate bank grew advances by R10 513 million driven by higher corporate bank utilisation. Included in the RMB corporate bank growth was originated credit impaired advances of R127 million following a distressed restructure.
- RMB investment bank experienced a net basis decrease of R13 290 million, reflecting a decrease of amortised cost advances of R1 493 million and a decrease in fair value advances of R11 797 million. The decrease in fair value advances is mainly driven by a decrease in advances under reverse repurchase agreements, which carry no ECL as well as the decrease in investment bank term loans at fair value. RMB investment bank originated credit impaired assets of R901 million following distressed restructures, which did not result in ECL being recognised as these amounts are initially recognised net of impairments. In the current year and additional impairments of R120 million was recognised on credit impaired advances originated in the previous financial year.
- The MotoNovo back book (i.e. business written prior to the integration with Aldermore) decreased during the current year as advances were sold and derecognised as part of the Motoway securitisation and the back book winding down.

Change in total ECL

The charge to the income statement relating to total ECL before post-write off recoveries and modification gains or losses amounted to R19 596, of which R19 198 million was raised on amortised cost advances and R398 million was raised on fair value advances. The increase in ECL was only partially due to the increase in the gross carrying amount of advance. The main drivers for the substantial increase in the total level of ECL recognised in the current year provisions were:

- the materially weakened macroeconomic outlook and the associated impact on forward-looking macroeconomic information that was incorporated into the ECL by way of post-model adjustments; and
- the application of COVID-19 related scalars to advances on which relief was provided. These adjustments were made to the coverage held on advances where COVID-19 relief was provided, to compensate for the impact of delayed arrears recognition, which results from an inability to observe normal arrears behaviour.

The increase in the overall level of ECL provisions was marginally offset by:

10 ADVANCES continued

- the impact of a high proportion of technically cured customers (customers who are fewer than three payments in arrears, but do not yet meet the group'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, specifically agriculture and commercial property finance; and
- the restructure and positive credit migration of certain highly collateralised corporate exposures during the year and new stage 3 migrations were fully guaranteed or collateralised.

At the end of the financial year ended 30 June 2020, loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to R28 318 million for both advances carried at amortised cost and fair value.

Increase in stage 3 advances

Included in the total ECL before post-write-off recoveries and modification gains or losses of R19 596 million is an amount of R12 670 million, which relates to stage 3 ECL exposures. Included in the R12 670 million is R nil million attributable to fair value advances.

The growth in the gross carrying amount and ECL of stage 3 exposures is mainly driven by the retail portfolios is mainly due to the following:

- the deteriorating macroeconomic environment, aggravated by COVID-19, resulting in higher numbers of customer defaults;
- the stress environment causing a number of commercial and corporate default and business rescue; and
- the lengthening of the write-off point.

Upon the adoption of IFRS 9 in the prior period, new curing and write-off rules were implemented, which continued to be refined in the current period. In particular, the write-off point for unsecured lending changing from six to 12 months and a 12 consecutive payments curing rule was implemented, which both resulted in an increase in stage 3 advances during the current year.

Cured exposures

During the current year, the retail segment refined the curing rules applied to performing debt review clients, resulting in an increase in qualifying clients migrating from stage 3 to stage 2. Exposures in the retail segment moving from stage 2 to stage 1 was as a result of these counterparty's accounts being paid up to date and therefore no longer meeting the SICR criteria.

Post-write-off recoveries

Post-write-off recoveries of R2 085 million (June 2019: R2 416 million) remained stable, however impacted by the later write-off point. Post-write-off recoveries were driven by the unsecured retail lending portfolios and WesBank VAF portfolios, as well as due to the continued focus on the collections processes.

10 ADVANCES continued

Breakdown of ECL created in the current reporting period

	2020				
R million	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired#**
Current year ECL provided	**22 447**	**1 707**	**5 099**	**15 521**	**120**
Interest on stage 3 advances*	**(2 851)**	**-**	**-**	**(2 851)**	**-**
Current year change in ECL provided after interest on stage 3 advances	**19 596**	**1 707**	**5 099**	**12 670**	**120**
Post write-off recoveries	**(2 085)**	**-**	**-**	**(2 085)**	**-**
Modification losses	**758**	**-**	**64**	**694**	**-**
Impairment recognised in the income statement	**18 269**	**1 707**	**5 163**	**11 279**	**120**

** Interest on stage 3 advances was included in the total ECL provided in the current year for stage 3 exposures in the back book and new business. In the prior year interest on stage 3 advances was a separate reconciling item in the ECL reconciliation.*

10 ADVANCES continued

Analysis of total gross advances and loss allowance per impairment stage as at 30 June 2019

	2019				
	Gross advances				
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	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)	-
Modifications that did not give rise to derecognition	(625)	-	(29)	(596)	-
Net changes in exposure±	82 723	82 986	(874)	506	105
Interest on stage 3 advances	-	-	-	-	-
Amount as at 30 June 2019	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

	2019				
	Loss allowance				
	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired#
	22 798	4 993	6 520	11 285	-
	280	267	13	-	-
	23 078	5 260	6 533	11 285	-
	-	1 382	(3 008)	1 626	-
	-	1 958	(1 721)	(237)	-
	-	(336)	480	(144)	-
	-	(240)	(1 767)	2 007	-
	(154)	(191)	2	35	-
	(1)	20	(113)	92	-
	(7 386)	-	-	(7 386)	-
	-	-	-	-	-
	10 251	(512)	2 249	8 514	-
	1 515	-	-	1 515	-
	27 303	5 959	5 663	15 681	-
	26 988	5 693	5 614	15 681	-
	315	266	49	-	-

10 ADVANCES continued

- * *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.*
- ** *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 R9 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.*

10 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.

10 ADVANCES continued

Analysis of the gross advances and loss allowance on total advances as at 30 June 2020 per class

	2020					
	Gross advances					
R million	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	
Residential mortgages	224 404	197 845	14 897	11 662	-	
WesBank VAF	94 024	73 399	10 815	9 810	-	
Total retail secured	318 428	271 244	25 712	21 472	-	
FNB card	30 210	24 352	2 183	3 675	-	
Personal loans	41 874	28 371	6 079	7 424	-	
Other retail	16 732	12 879	1 646	2 207	-	
Total retail unsecured	88 816	65 602	9 908	13 306	-	
FNB commercial	107 914	92 639	8 245	7 030	-	
WesBank corporate	27 114	24 385	1 855	874	-	
RMB corporate banking	68 445	59 847	7 745	726	127	
RMB investment banking	253 669	228 719	21 927	2 122	901	
Total corporate and commercial	457 142	405 590	39 772	10 752	1 028	
Group Treasury and other	37 544	37 358	44	142	-	
MotoNovo	3 782	2 873	356	553	-	
Total advances at 30 June 2020	905 712	782 667	75 792	46 225	1 028	

	2020				
	Loss allowance				
	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired
	3 916	731	777	2 408	-
	5 647	546	1 262	3 839	-
	9 563	1 277	2 039	6 247	-
	4 201	917	562	2 722	-
	8 697	1 812	1 653	5 232	-
	3 139	782	701	1 656	-
	16 037	3 511	2 916	9 610	-
	6 028	1 394	1 339	3 295	-
	506	114	111	281	-
	1 203	323	647	113	120
	3 690	1 119	1 476	1 095	-
	11 427	2 950	3 573	4 784	120
	380	264	-	116	-
	365	45	70	250	-
	37 772	8 047	8 598	21 007	120

10 ADVANCES continued

Analysis of the gross advances and loss allowance on total advances as at 30 June 2019 per class

	2019					
	Gross advances					
R million	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	
Residential mortgages	217 164	198 373	10 153	8 638	-	
WesBank VAF	94 751	78 556	9 321	6 874	-	
Total retail secured	311 915	276 929	19 474	15 512	-	
FNB card	28 115	24 321	1 522	2 272	-	
Personal loans	39 369	30 244	3 282	5 843	-	
Other retail	17 908	14 903	1 023	1 982	-	
Total retail unsecured	85 392	69 468	5 827	10 097	-	
FNB commercial	105 128	92 089	8 483	4 556	-	
WesBank corporate	27 945	25 875	1 546	524	-	
RMB corporate banking	57 932	50 757	6 834	236	105	
RMB investment banking	266 959	250 566	13 959	2 434	-	
Total corporate and commercial	457 964	419 287	30 822	7 750	105	
Group Treasury and other	43 080	42 734	209	137	-	
MotoNovo	23 495	21 426	1 465	604	-	
Total advances at 30 June 2019	921 846	829 844	57 797	34 100	105	

	2019				
	Loss allowance				
	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired
	2 541	360	510	1 671	-
	4 181	592	1 246	2 343	-
	6 722	952	1 756	4 014	-
	2 650	555	347	1 748	-
	6 815	1 415	971	4 429	-
	2 725	724	464	1 537	-
	12 190	2 694	1 782	7 714	-
	3 812	733	776	2 303	-
	338	92	67	179	-
	688	231	364	93	-
	2 517	785	715	1 017	-
	7 355	1 841	1 922	3 592	-
	434	275	38	121	-
	602	197	165	240	-
	27 303	5 959	5 663	15 681	-

10 ADVANCES continued

Voluntary changes to the classes previously reported at 30 June 2019

	Gross advances		
R million	As previously reported	Movement	Updated amount
Residential mortgages	217 164	-	217 164
WesBank VAF*	117 668	(22 917)	94 751
Total retail secured	334 832	(22 917)	311 915
FNB card**	32 443	(4 328)	28 115
Personal loans*	39 947	(578)	39 369
Other retail	17 908	-	17 908
Total retail unsecured	90 298	(4 906)	85 392
FNB commercial	105 128	-	105 128
WesBank corporate	27 945	-	27 945
RMB corporate banking	57 932	-	57 932
RMB investment banking	266 959	-	266 959
Total corporate and commercial	457 964	-	457 964
Group Treasury and other	38 752	4 328	43 080
MotoNovo	-	23 495	23 495
Total advances at 30 June 2019	921 846	-	921 846

The bank defines a class firstly by nature of the customer relationship, in other words, whether the ultimate customer is retail, corporate and commercial or within the UK operations. Within the main classes identified, the group then further categorises the main class into sub-classes that are appropriate to the nature of the credit risk management information and which reflects similar characteristics of the financial instrument.

During the current year, the bank reclassified the following advances between classes, resulting in the comparative information being restated.

* *In line with the intergroup sale of the MotoNovo business from FirstRand Bank to Aldermore in the prior period, all advances previously originated by MotoNovo which had been classed as retail secured and retail unsecured have been reclassified to MotoNovo, so as to provide better comparability year on year of the MotoNovo class of advances.*

** *Discovery Card was reclassified to non-current assets held for sale and disposal groups. This resulted in the advances categorised in FNB Card (Discovery Card) no longer being reflected in the current year advances balance due to the reclassification under IFRS 5. In considering the nature of the ultimate customer used by the bank to define its classes at 30 June 2020, the ultimate customer for Discovery card is no longer the underlying retail customer but rather a single buyer. The bank reclassified Discovery card into Group Treasury, to better reflect the customer relationship relating to the advance.*

The bank reclassified advances between classes and elected to voluntarily restate its comparative information both in Note 10 Advances, Note 11 Impairment of Advances and Note 31 Financial Risk Management. To allow the user to compare the restated comparatives provided in these notes to the information previously presented, the affected notes included in the 2019 annual financial statements have included in Note 32 Impact due to movement in the classes of advances.

	Loss allowance		
	As previously reported	Movement	Updated amount
	2 541	-	2 541
	4 745	(564)	4 181
	7 286	(564)	6 722
	2 883	(233)	2 650
	6 853	(38)	6 815
	2 725	-	2 725
	12 461	(271)	12 190
	3 812	-	3 812
	338	-	338
	688	-	688
	2 517	-	2 517
	7 355	-	7 355
	201	233	434
	-	602	602
	27 303	-	27 303

11 IMPAIRMENT OF ADVANCES

Analysis of the loss allowance closing balance

	2020					
	Loss allowance					
R million	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit-impaired**	
Amount as at 30 June	**37 772**	**8 047**	**8 598**	**21 007**	**120**	
Included in the total loss allowance						
On and off-balance sheet exposure*	**37 385**	**7 836**	**8 445**	**20 984**	**120**	
Letters of credit and guarantees	**387**	**211**	**153**	**23**	**-**	
Components of total loss Allowance as at 30 June 2020						
— Forward looking information**	**3 749**	**1 636**	**1 434**	**679**	**-**	
— Changes in models†	**398**	**176**	**417**	**(195)**	**-**	
— Interest on stage 3 advances±	**2 480**	**-**	**-**	**2 480**	**-**	

** Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single EAD. The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.*

*** This represents the total ECL closing balance as at 30 June that is attributable to incorporating FLI macro information into the ECL calculations. For more detail on the process of incorporating FLI into the ECL calculation refer to accounting policy note 8.4.*

 # Comparative information for the components of total loss allowance as at 30 June was not collected in the prior period and could not be provided.

† This represents the total ECL closing balance as at 30 June that is attributable to significant model changes, such as model recalibrations or changes in the impairment methodology used that has been approved by a governance body. The amount reflected is the additional ECL recognised at the point/date that the model change was implemented.

± Cumulative balance of interest on stage 3 advances as at 30 June.

Breakdown of impairment charge recognised in the income statement

	2020			2019		
R million	**Total**	**Amortised cost**	**Fair value**	Total	Amortised cost	Fair value
Increase in loss allowance	**(19 596)**	**(19 198)**	**(398)**	(10 251)	(10 216)	(35)
Recoveries of bad debts	**2 085**	**2 085**	**-**	2 416	2 416	-
Modification loss	**(758)**	**(758)**	**-**	(625)	(625)	-
Impairment of advances recognised in the income statement	**(18 269)**	**(17 871)**	**(398)**	(8 460)	(8 425)	(35)

	2019				
	Loss allowance				
	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired
	27 303	5 959	5 663	15 681	-
	27 168	5 891	5 598	15 679	-
	135	68	65	2	-
	#	#	#	#	#
	#	#	#	#	#
	1 515	-	-	1 515	-

11 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on amortised cost advances per class

	Retail secured		Retail unsecured		
R million	Residential mortgages	WesBank VAF	FNB card	Personal loans	Other retail
Amount as at 1 July 2018	2 362	3 951	1 569	4 554	2 023
- Stage 1	269	626	458	1 177	637
- Stage 2	378	1 186	241	961	546
- Stage 3	1 715	2 139	870	2 416	840
Acquisition/(disposal) of advances	-	8	-	-	-
Exchange rate differences	122	(2)	5	3	(124)
Bad debts written off	(362)	(2 144)	(437)	(1 444)	(885)
Current period provision created/(released)*	317	2 044	1 371	3 385	1 453
- Stage 1	(96)	(261)	31	190	20
- Stage 2	322	541	296	449	273
- Stage 3	91	1 764	1 044	2 746	1 160
Interest on stage 3 advances	102	324	142	317	258
Amount as at 30 June 2019	2 541	4 181	2 650	6 815	2 725
Stage 1	360	592	555	1 415	724
Stage 2	510	1 246	347	971	464
Stage 3	1 671	2 343	1 748	4 429	1 537
Acquisition/(disposal) of advances	**-**	**-**	**-**	**(90)**	**-**
Transfers from/(to) other divisions	**-**	**-**	**-**	**-**	**-**
Transfers from/(to) non-current assets	**-**	**-**	**-**	**-**	**-**
Exchange rate differences	**-**	**-**	**-**	**-**	**-**
Bad debts written off	**(259)**	**(1 854)**	**(1 114)**	**(4 351)**	**(1 755)**
Current period provision created/(released)*	**1 634**	**3 320**	**2 665**	**6 323**	**2 169**
- Stage 1	**275**	**(240)**	**349**	**627**	**(12)**
- Stage 2	**423**	**554**	**458**	**966**	**415**
- Stage 3	**936**	**3 006**	**1 858**	**4 730**	**1 766**
Amount as at 30 June 2020	**3 916**	**5 647**	**4 201**	**8 697**	**3 139**
Stage 1	**731**	**546**	**917**	**1 812**	**782**
Stage 2	**777**	**1 262**	**562**	**1 653**	**701**
Stage 3	**2 408**	**3 839**	**2 722**	**5 232**	**1 656**

** 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-balance 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**	**Rest of Africa**	**MotoNovo**	**Total**
	3 457	333	945	2 603	261	-	740	22 798
	680	93	163	527	102	-	261	4 993
	879	91	723	1 284	33	-	198	6 520
	1 898	149	59	792	126	-	281	11 285
	-	-	-	(192)	-	-	30	(154)
	(1)	1	1	18	(7)	-	(17)	(1)
	(751)	(104)	(322)	(94)	(172)	-	(671)	(7 386)
	829	99	25	4	169	-	520	10 216
	(221)	(36)	(51)	78	(15)	-	(55)	(416)
	448	4	(77)	(152)	30	-	(16)	2 118
	602	131	153	78	154	-	591	8 514
	278	9	39	42	4	-	-	1 515
	3 812	338	688	2 381	255	-	602	26 988
	733	92	231	696	98	-	197	5 693
	776	67	364	668	36	-	165	5 614
	2 303	179	93	1 017	121	-	240	15 681
	-	**-**	**-**	**(21)**	**-**	**-**	**(136)**	**(247)**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**(42)**	**-**	**-**	**(42)**
	-	**-**	**10**	**188**	**-**	**-**	**119**	**317**
	(1 285)	**(114)**	**(141)**	**(524)**	**(201)**	**(28)**	**(397)**	**(12 023)**
	3 501	**282**	**526**	**1 301**	**123**	**28**	**177**	**22 049**
	489	**10**	**71**	**160**	**(57)**	**-**	**(61)**	**1 611**
	1 070	**64**	**347**	**671**	**(15)**	**-**	**(36)**	**4 917**
	1 942	**208**	**108**	**470**	**195**	**28**	**274**	**15 521**
	6 028	**506**	**1 083**	**3 325**	**135**	**-**	**365**	**37 042**
	1 394	**114**	**323**	**1 016**	**19**	**-**	**45**	**7 699**
	1 339	**111**	**647**	**1 214**	**-**	**-**	**70**	**8 336**
	3 295	**281**	**113**	**1 095**	**116**	**-**	**250**	**21 007**

11 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on fair value advances per class

	2020			
R million	RMB corporate banking	RMB investment banking	Group Treasury and other	Total
Amount as at 1 July 2018	-	106	174	280
- Stage 1	-	93	174	267
- Stage 2	-	13	-	13
- Stage 3	-	-	-	-
Exchange rate differences	-	-	-	-
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	-	-	-	-
Exchange rate differences	**-**	**17**	**-**	**17**
Current period provision created/(released)*	**120**	**212**	**66**	**398**
- Stage 1	**-**	**30**	**66**	**96**
- Stage 2	**-**	**182**	**-**	**182**
- Stage 3	**120**	**-**	**-**	**120**
Amount as at 30 June 2020	**120**	**365**	**245**	**730**
Stage 1	**-**	**103**	**245**	**348**
Stage 2	**-**	**262**	**-**	**262**
Stage 3	**120**	**-**	**-**	**120**

11 IMPAIRMENT OF ADVANCES continued

COVID-19 relief

The bank has offered financial relief through various mechanisms in response to COVID-19. These relief measures were granted to eligible customers whose accounts were up to date as at 29 February 2020 and included the following:

- additional facilities or new loans being granted, in particular the cash flow relief account;
- restructure of instalment products (payment relief) including extension of contractual terms;
- payment and interest relief; and
- extension of balloon repayment terms.

The cash flow relief account was offered to eligible FNB retail customers, where instead of offering customers a payment holiday with a term extension, customers were offered a cash flow relief loan, whereby payments due by the customer to the bank on a variety of the bank's products could be drawn from the cash flow relief account for a period of three months. The cash flow relief account bears interest at prime, has a flexible repayment period as negotiated and the customer has the ability to settle the amount earlier without incurring penalties. Repayment only commenced once the three-month relief period is over. In some instances, the relief period has been extended by a further three months. Amounts advanced to customers under the cash flow relief scheme is included in the retail unsecured class of advances. As the cash flow relief account is treated as a new advance to the customer and no modification loss was recognised on the underlying advances, as the payments due were settled from the cash flow relief account.

WesBank customers that bank with FNB were able to utilise the cash flow relief loan to make payment under their credit agreements. Customers with balloon payments due could elect to convert their balloon payment into an extended repayment term agreement, on terms similar to those in the original credit agreement.

Other financial relief mechanisms employed by the bank included customers being offered payment holidays of between three and six months. During the payment holiday interest accrued at the contractual rate. At the end of the relief period, customers had the option to adjust their instalment, extend the term of the facilities or elect to repay the full amount at the end of the deferral period.

Relief granted by RMB was in the form of short-term debt repayment moratoriums, increase in credit limits, short-term bridge financing and covenant waivers.

The debt relief measures discussed above resulted in the bank not suffering a modification loss as the present value of the original cash flows and the present value of the revised cash flows were equivalent.

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 and the modification resulted in a modification gain or loss being recognised.

Where the modification did not result in a modification gain or loss being recognised, as is the case with various of the COVID-19 debt relief mechanisms described above, these modifications are not disclosed below.

	Stage 2 and stage 3			
R million	Gross carrying amount before modification	Loss allowance before modification	Amortised cost before modification	Modification gain/(loss)
As at 30 June 2019				
Residential mortgages	569	(55)	514	(24)
WesBank VAF	846	(232)	614	(132)
Total retail secured	1 415	(287)	1 128	(156)
FNB Card	264	(178)	86	(58)
Personal loans	1 057	(336)	721	(363)
Other retail	41	(29)	12	(46)
Total retail unsecured	1 362	(543)	819	(467)
FNB commercial	202	(17)	185	7
Total corporate and commercial	202	(17)	185	7
Group Treasury and other	19	(12)	7	(9)
MotoNovo	-	-	-	-
Total	2 998	(859)	2 139	(625)
As at 30 June 2020				
Residential mortgages	**1 676**	**(109)**	**1 567**	**(40)**
WesBank VAF	**1 158**	**(339)**	**819**	**1**
Total retail secured	**2 834**	**(448)**	**2 386**	**(39)**
FNB Card	**460**	**(274)**	**186**	**(90)**
Personal loans	**2 714**	**(1 379)**	**1 335**	**(486)**
Other retail	**817**	**(489)**	**328**	**(143)**
Total retail unsecured	**3 991**	**(2 142)**	**1 849**	**(719)**
FNB commercial	**338**	**(24)**	**314**	**-**
Total corporate and commercial	**338**	**(24)**	**314**	**-**
Group Treasury and other	**-**	**-**	**-**	**-**
MotoNovo	**275**	**(92)**	**183**	**-**
Total	**7 438**	**(2 706)**	**4 732**	**(758)**

12 OTHER ASSETS

R million	2020	2019
Items in transit	**813**	1 952
Interest and commission accrued	**43**	19
Prepayments	**1 760**	1 300
Sundry debtors	**353**	402
Fair value hedge asset*	**9**	-
Other accounts receivable**	**2 282**	1 376
Total gross carrying amount of other assets	**5 260**	5 049
- Financial	**2 970**	3 139
- Non-financial	**2 290**	1 910
Loss allowance on other financial assets#	**(111)**	(86)
Total other assets	**5 149**	4 963

* *The balance reflected relates to the fair value of the interest rate risk component of the hedged items previously designated in a fair value macro hedge accounting relationship. The balance is being amortised over the remaining expected life of the previously designated hedged item in line with IAS 39.*

** *The bank as the lessor has granted lease concessions on operating leases to its customers in the form of payment holidays. The lease payments amounting to R82 million are deferred and included in other accounts receivable and are tested for ECL.*

\# *No further information is provided on the loss allowance on other assets as it is insignificant.*

13 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	2020	2019
Disposal group held for sale		
Advances*	**1 558**	-
Deposits*	**(85)**	-
Net assets of disposal group held for sale	**1 473**	-

* *Carrying amount approximates fair value.*

During the current year, advances, facilities and related deposits that were previously originated by the bank relating to Discovery branded credit cards were disposed of as part of the Discovery card transaction. These advances and facilities were transferred at their net book value, resulting in no gain or loss being recognised. The remaining disposal group of advances with a gross carrying amount of R1 600 million and an impairment allowance of R42 million at 30 June 2020 as well as deposits with a carrying amount of R85 million, was transferred during July 2020 and is included in the segment report under FCC and other.

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

R million	**2020**	2019
Amounts due by holding company	**-**	3 145
Amounts due by fellow subsidiaries	**67 450**	49 986
Impairment provision on amounts due to fellow subsidiaries	**(141)**	(104)
Total amounts due by holding company and fellow subsidiaries	**67 309**	53 027
Amounts due to holding company	**(236)**	(826)
Amounts due to fellow subsidiaries	**(36 018)**	(24 958)
Total amounts due to holding company and fellow subsidiaries	**(36 254)**	(25 784)
Net amounts due by holding company and fellow subsidiaries	**31 055**	27 243

As at 30 June 2020 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 (2019: 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**
2020				
Derivative financial instruments	**1 469 119**	**16 081**	**(1 297 140)**	**(16 387)**
2019				
Derivative financial instruments	955 342	2 333	(847 358)	(2 688)

15 PROPERTY AND EQUIPMENT

R million	Property: Freehold property	Property: Right of use premises	Right of use equip-ment	Computer equip-ment	Other equip-ment	Total
Net book value as at 1 July 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)**
IFRS 16 opening balance adjustment*	**868**	**456**	**217**	**-**	**-**	**1 541**
Reclassification of property held under finance lease	**868**	**(868)**	**-**	**-**	**-**	**-**
ROUA recognised on transition	**-**	**1 324**	**217**	**-**	**-**	**1 541**
Movement for the year	**(189)**	**(18)**	**46**	**233**	**726**	**798**
- Acquisitions	**79**	**773**	**116**	**1 427**	**2 510**	**4 905**
- Disposals	**(16)**	**(9)**	**-**	**(143)**	**(596)**	**(764)**
- Exchange rate difference	**-**	**11**	**-**	**-**	**-**	**11**
- Depreciation charge for the year	**(252)**	**(777)**	**(123)**	**(1 051)**	**- (1 188)**	**(3 391)**
- Early terminations / modification of leases	**-**	**(16)**	**53**	**-**	**-**	**37**
Net book value as at 30 June 2020	**7 831**	**1 953**	**263**	**2 801**	**4 843**	**17 691**
- Cost	**9 870**	**4 465**	**385**	**8 549**	**9 002**	**32 271**
- Accumulated depreciation	**(2 039)**	**(2 512)**	**(122)**	**(5 748)**	**(4 159)**	**(14 580)**

* *The right of use property includes the IFRS 16 assets as well as leases previously classified as finance leases.*

16 INTANGIBLE ASSETS

R million	Goodwill	Software and develop-ment costs	Trade-marks	Other	Total
Net book value as at 1 July 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)**
Movements for the year	**-**	**56**	**-**	**-**	**56**
Acquisitions/capitalisations	**-**	**256**	**-**	**-**	**256**
Exchange rate differences	**-**	**-**	**-**	**-**	**-**
Amortisation for the year	**-**	**(193)**	**-**	**-**	**(193)**
Impairments recognised	**-**	**(7)**	**-**	**-**	**(7)**
Net book value as at 30 June 2020	**-**	**692**	**-**	**-**	**692**
Cost	**104**	**1 862**	**-**	**-**	**1 966**
Accumulated amortisation and impairment	**(104)**	**(1 170)**	**-**	**-**	**(1 274)**

17 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	2020	2019
Deferred income tax asset		
Opening balance	**3 631**	3 079
Recognised in profit or loss	**651**	671
Deferred income tax on amounts charged directly to other comprehensive income	**(571)**	(119)
Total deferred income tax asset	**3 711**	3 631

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	**2020**	**2019**	**2020**	**2019**
Deferred income tax asset				
Provision for loan impairment	**3 853**	2 723	**1 130**	436
Provision for post-employment benefits	**268**	445	**30**	41
Other provisions	**455**	595	**(140)**	855
Cash flow hedges	**(801)**	(327)	**-**	-
Equity instruments designated at FVOCI	**30**	(2)	**(25)**	-
Instalment credit assets	**(167)**	(154)	**(13)**	(22)
Debt instruments held at FVOCI	**22**	(18)	**26**	-
Capital gains tax	**190**	182	**8**	(115)
Share-based payments	**252**	929	**(677)**	118
Deferred revenue liability	**(353)**	(572)	**249**	(572)
Other	**(38)**	(170)	**62**	(70)
Total deferred income tax asset	**3 711**	3 631	**650**	671

18 SHORT TRADING POSITIONS

R million	2020	2019
Government and government guaranteed	**4 707**	5 246
Other dated securities	**79**	109
Total short trading positions	**4 786**	5 355

19 CREDITORS, ACCRUALS AND PROVISIONS

R million	2020	2019
Net unclaimed balances	**415**	286
Fair value hedge liability*	**-**	5
Other accounts payable	**9 051**	10 832
Withholding tax for employees	**572**	554
Customer loyalty programme liability**	**1 878**	1 820
Operating lease liability straight lining of lease payments	**-**	106
Payments received in advance	**453**	413
Accrued expenses	**1 609**	1 760
Audit fees accrued	**142**	138
Provisions (including litigation and claims)	**230**	121
Total creditors, accruals and provisions	**14 350**	16 035

* *The balance reflected relates to the fair value of the interest rate risk component of the hedged item designated in a macro hedge accounting relationship, which was only applicable in the prior period.*

** *The contract liability which arises from the customer loyalty programme was not subject to contract modifications or changes in estimates during the current and prior period.*

19.1 Reconciliation of provisions

R million	2020	2019
Opening balance	**121**	143
Exchange rate differences	**7**	-
Charge to profit or loss	**119**	4
- Additional provisions created	**157**	45
- Unused provisions reversed	**(38)**	(41)
Utilised	**(17)**	(26)
Closing balance	**230**	121

20 DEPOSITS

R million	2020	2019
Category analysis		
Deposits from customers	**840 688**	752 452
- Current accounts	**277 891**	213 464
- Call deposits	**237 987**	220 734
- Savings accounts	**22 163**	15 876
- Fixed and notice deposits	**264 972**	254 944
- Other deposits from customers	**37 675**	47 434
Debt securities	**202 612**	243 955
- Negotiable certificates of deposit	**36 993**	59 408
- Fixed and floating rate notes	**164 320**	183 169
- Exchange-traded notes	**1 299**	1 378
Other	**45 652**	62 032
- Repurchase agreements	**23 559**	40 896
- Securities lending	**3 905**	1 802
- Cash collateral and credit-linked notes	**18 188**	19 334
Total deposits	**1 088 952**	1 058 439

21 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2020	2019
Liability for short-term employee benefits		**5 928**	6 581
Share-based payment liability		**901**	3 319
Defined benefit post-employment liability	21.1	**956**	1 591
Other long-term employee liabilities		**29**	26
Defined contribution post-employment liability	21.2	**-**	-
Total employee liabilities		**7 814**	11 517

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

21.1 Defined benefit post-employment liability

The bank has financial liabilities in respect of two defined benefit arrangements in South Africa – a plan that provides defined post-retirement medical benefits to retired employees, and a defined benefit 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 an asset or liability on the statement of financial position.

Nature of benefits	
Pension	**Medical**
The pension plan (FirstRand Retirement Fund) provides retired employees with a pension benefit 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 dependant's pension to the spouse and eligible children on death of the pensioner. There is 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 (16 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 of the plan in respect of defined contribution members is equal to the member's share of the fund, which is determined as the accumulation of the member'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. The fund provides a pension that can be purchased with the member's fund credit (equal to member contributions at retirement should the member so choose).	The medical scheme provides retired employees with medical benefits after service. The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post-employment medical subsidy.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Nature of benefits	
Pension	**Medical**
Should the pension account in the fund be in 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.	

Governance	
Pension	**Medical**
The pension plan is regulated by the Financial Sector Conduct Authority in South Africa. Responsibility for governance of the plan, including investment decisions lies with the board of trustees. Contribution categories available to members are jointly determined by the group and 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 group and four representatives of the plan participants in accordance with the plan's regulations. The trustees serve the board for four 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 Registrar of Pension Funds (i.e. to the Financial Sector Conduct Authority). A full actuarial valuation of the pension fund for submission to the Financial Sector Conduct Authority is performed every three years, with the last valuation done in 2017. Annual interim actuarial valuations are performed for the trustees and 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 of the medical plan scheme and the subsidy. The committee also considers administration and data management issues and analyses demographic and economic risks inherent in the subsidy policy. This committee is managed and governed by FirstRand group Financial Resources management executive committee and FirstRand Group Asset liability and capital committee. The committee also considers administration and data management issues and analyses demographic and economic risks inherent in the subsidy policy.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Asset-liability matching strategies
The bank ensures that the investment positions are managed within an asset and 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 aims to achieve 80% exposure in fixed interest instruments to immunise against the interest rate and inflation risk, and 20% exposure to local and foreign growth assets. An overlay comprising of 20% exposure of high-quality corporate credit fixed-income instruments is funded through a repo transaction of a portion of the South Africa government issued inflation-linked bonds to improve the probability of achieving the performance objective. 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 fewer eligible employees withdraw and/or should more eligible employees retire earlier than assumed, the liabilities could be understated.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

		2020			2019		
R million	Note	Pension	Medical*	Total	Pension	Medical*	Total
Post-employment benefit fund liability							
Present value of funded obligation		**7 584**	**2 716**	**10 300**	8 280	3 468	11 748
Fair value of plan assets		**(7 690)**	**(1 760)**	**(9 450)**	(8 560)	(1 877)	(10 437)
- Listed equity instruments		**(1 778)**	**-**	**(1 778)**	(2 244)	-	(2 244)
- Cash and cash equivalents		**(287)**	**-**	**(287)**	(390)	-	(390)
- Debt instruments		**(2 581)**	**-**	**(2 581)**	(2 743)	-	(2 743)
- Derivatives		**(8)**	**-**	**(8)**	(45)	-	(45)
- Qualifying insurance policy		**-**	**(1 760)**	**(1 760)**	-	(1 877)	(1 877)
- Other		**(3 036)**	**-**	**(3 036)**	(3 138)	-	(3 138)
Total employee (asset)/liability		**(106)**	**956**	**850**	(280)	1 591	1 311
Limitation imposed by IAS 19 asset ceiling		**106**	**-**	**106**	280	-	280
Total net post-employment liability		**-**	**956**	**956**	-	1 591	1 591
Total amount recognised in the income statement (included in staff costs)	**3**	**(23)**	**134**	**111**	(11)	159	148
Movement in post-employment benefit fund liability							
Present value opening balance		**-**	**1 591**	**1 591**	-	1 166	1 166
Current service cost		**4**	**41**	**45**	4	38	42
Net interest		**(27)**	**93**	**66**	(14)	121	107
Remeasurements recognised in OCI		**27**	**(769)**	**(742)**	14	266	280
Benefits paid		**(2)**	**-**	**(2)**	(2)	-	(2)
Employer contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Employee contributions		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**-**	**956**	**956**	-	1 591	1 591

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

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2020			2019		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets						
Opening balance	**8 560**	**1 877**	**10 437**	8 947	1 934	10 881
Interest income	**796**	**226**	**1 022**	799	182	981
Remeasurements recognised in OCI	**(965)**	**(151)**	**(1 116)**	(485)	(59)	(544)
Employer contributions	**1**	**-**	**1**	1	-	1
Employee contributions	**1**	**-**	**1**	1	-	1
Benefits paid and settlements	**(703)**	**(192)**	**(895)**	(703)	(180)	(883)
Closing balance	**7 690**	**1 760**	**9 450**	8 560	1 877	10 437
Reconciliation of limitation imposed by IAS 19 asset ceiling						
Opening balance	**280**	**-**	**280**	160	-	160
Interest income	**27**	**-**	**27**	15	-	15
Change in the asset ceiling, excluding amounts included in interest	**(201)**	**-**	**(201)**	105	-	105
Closing balance	**106**	**-**	**106**	280	-	280
The actual return on plan assets	**11%**	**-**		10%	-	
Included in plan assets were the following						
FirstRand Limited ordinary shares with fair value of	**20**	**-**	**20**	56	-	56
Total exposure to FirstRand	**20**	**-**	**20**	56	-	56

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

	2020		2019	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases %	**7.3**	**-**	7.6	-
Long-term increase in health costs %	**-**	**8.2**	-	8.3
The effects of a 1% movement in the assumed health cost rate (medical) and the expected rates of salary (pension) were:				
Increase of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**0.7**	**40.8**	0.5	51.7
- Effect on the defined benefit obligation (R million)	**3.7**	**298.8**	3.7	456.0
Decrease of 1%				
- Effect on the aggregate of the current service cost and interest cost (R million)	**(0.7)**	**(34.6)**	(0.5)	(42.7)
- Effect on the defined benefit obligation (R million)	**(3.5)**	**(255.3)**	(3.4)	(379.6)
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)	**250.8**	**81.5**	291.9	120.5
- Effect on the aggregate of the current service cost and interest cost (R million)	**49.0**	**10.2**	28.3	12.5
Decrease in life expectancy by 1 year				
- Effect on the defined benefit obligation (R million)	**(249.6)**	**(81.5)**	(289.4)	(119.4)
- Effect on the aggregate of the current service cost and interest cost (R million)	**(48.8)**	**(10.3)**	(28.1)	(12.4)
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**2**	**-**	3	-
Net increase in rate used to value pensions, allowing for pension increases (%)	**4.3**	**3.5**	3.2	1.1
The weighted average duration of the defined benefit obligation (years)	**7.8**	**13.0**	8.7	13.0

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

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

R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Pension benefits	**741**	**2 900**	**34 526**	**38 167**
Post-employment medical benefits	**201**	**971**	**17 855**	**19 027**
Total as at 30 June 2020	**942**	**3 871**	**52 381**	**57 194**

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. It 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 two-year age rating allows for the longer than average life expectancy of the retirees compared to general annuitant mortality. In addition, allowance is made for future expected improvements in annuitant mortality based on the income level of the annuitant (on average 0.50% p.a.).

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. It 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 is 20 years after the reporting date for pension and medical is 18 for male and 22 for female.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2020	2019
Pension		
The number of employees covered by the scheme		
Active members	**17**	19
Pensioners	**5 726**	5 845
Deferred plan participants	**249**	250
Total	**5 992**	6 114
Defined benefit obligation amounts due to		
Benefits vested at the end of the reporting period (R million)	**7 584**	8 280
- Amounts attributable to future salary increases (R million)	**57**	69
- Other benefits (R million)	**7 527**	8 211
Medical		
The number of employees covered by the scheme		
Active members	**3 077**	3 362
Pensioners	**5 214**	5 181
Total employees	**8 291**	8 543
Benefits vested at the end of the reporting period (R million)	**1 975**	2 360
Benefits accrued but not vested at the end of the reporting period (R million)	**741**	1 108
Conditional benefits (R million)	**741**	1 108
Other benefits (R million)	**1 975**	2 360

21.2 Defined contribution post-employment liability

R million	2020	2019
Post-employment defined contribution plan		
Present value of obligation	**19 974**	20 022
Present value of assets	**(19 974)**	(20 022)
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. It should be noted that the purchase price for a new retiree would be slightly larger than the liability determined on the accounting valuation as the purchase price allows for a more conservative mortality assumption based on the solvency reserves of the fund.

22 OTHER LIABILITIES

R million	2020	2019
Lease liabilities*	**1 803**	-
Funding liabilities	**3 452**	3 322
- Preference shares**	**3 198**	2 898
- Other	**254**	424
Total other liabilities	**5 255**	3 322

** The bank elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.*

*** The preference shares issued have variable interest rates that are linked to prime. Their maturity dates range between 2020 and 2023.*

Other liabilities reconciliation

	2020			2019		
R million	**Other**	**Lease**	**Total**	Other	Lease	Total
Opening balance	**3 322**	**-**	**3 322**	4 381	-	4 381
IFRS 16 adjustment	**-**	**1 631**	**1 631**	-	-	-
Cash flow movements	**107**	**(14)**	**93**	516	-	516
- Proceeds on the issue of other liabilities	**3 091**	**709**	**3 800**	936	-	936
- Redemption of other liabilities	**(2 606)**	**-**	**(2 606)**	(73)	-	(73)
- Principal payments towards lease liabilities	**-**	**(595)**	**(595)**	-	-	-
- Interest paid	**(378)**	**(128)**	**(506)**	(347)	-	(347)
Non-cash flow movements	**23**	**186**	**209**	(1 575)	-	(1 575)
- Fair value movement	**(376)**	**-**	**(376)**	(1 920)	-	(1 920)
- Foreign exchange	**15**	**9**	**24**	-	-	-
- Early termination / modification of lease	**-**	**37**	**37**	-	-	-
- Interest accrued	**384**	**140**	**524**	345	-	345
Total other liabilities	**3 452**	**1 803**	**5 255**	3 322	-	3 322

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. 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.

For details on the contractual maturity of lease liabilities, refer to note 31.2.1 Liquidity risk.

23 TIER 2 LIABILITIES

The Prudential Authority's (PA) Regulations relating to banks, require qualifying Tier 2 instruments to have a loss absorbency feature in the form of either a write-off or conversion to ordinary shareholder equity at the point of non-viability. These apply to any subordinated bonds issued on or after 1 January 2013.

R million	Maturity dates	Interest rate	2020	2019
Fixed rate bonds			**10 646**	8 709
- ZAR denominated	14 April 2021 to 3 June 2026	10% — 12.35%	**1 359**	1 359
- USD denominated	23 April 2023	6.25%	**9 287**	7 350
Floating rate bonds			**11 676**	13 719
- ZAR denominated	13 April 2021 to 3 June 2024	Three-month JIBAR 239bps — 400 bps	**11 676**	13 719
Total Tier 2 liabilities			**22 322**	22 428

Tier 2 liabilities reconciliation

R million	2020	2019
Opening balance	**22 428**	26 668
Cash flow movements	**(2 049)**	(4 863)
- Proceeds from the issue of Tier 2 liabilities	**-**	2 625
- Capital repaid on Tier 2 liabilities	**(2 049)**	(7 488)
Non-cash flow movements	**1 943**	623
- Foreign exchange*	**1 142**	(202)
- Fair value movement*	**303**	252
- Interest accrued	**498**	573
Tier 2 liabilities	**22 322**	22 428

**Presentation of the movement on the Tier 2 liability for the comparative period has been expanded to reflect the non-cash flow movements, attributable to the basis adjustment as a result of fair value hedge accounting (fair value movement) separate from foreign exchange movements.*

24 SHARE CAPITAL AND SHARE PREMIUM

24.1 Share capital and share premium classified as equity

R million	**2020**	2019
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	**4**	4
Issued		
1 866 836 (2019: 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

In the prior financial year, the memorandum of incorporation of FirstRand Bank was amended to convert the non-cumulative non-redeemable preference shares to non-cumulative redeemable preference shares. After conversion, all of the shares were redeemed at their carrying amount of R3 billion.

24.2 Additional Tier 1 capital

R million	**Rate**	**2020**	2019
FRB24	3-month JIBAR plus 445 basis points	**2 265**	2 265
FRB25*	3-month JIBAR plus 440 basis points	**3 461**	2 700
Total additional Tier 1 capital		**5 726**	4 965

* *Includes a tap issuance of R761 million in the current year.*

To date, the bank issued Basel III compliant Additional Tier 1 (AT1) instruments which are perpetual and pay non-cumulative, discretionary coupons on a quarterly basis. The terms and conditions provide for an issuer call option after five years, and at every coupon payment date that follows.

24 SHARE CAPITAL AND SHARE PREMIUM continued

In addition, at the discretion of the PA, the bank may write off the notes, in whole or in part, with no obligation to pay compensation to the noteholders upon the earlier of:

- the PA giving notice that a write-off is required without which the bank will become non-viable; or
- a decision being made to inject public sector capital, or equivalent support without which the bank will become non-viable.

The AT1 notes have been classified as equity as the terms and conditions do not contain a contractual obligation to pay cash to the noteholders.

The total coupon paid during the financial year was R629 million (2019: R255 million). Current tax of R176 million (2019: R58 million) relating to the AT1 capital note was recognised in the income statement.

25 REMUNERATION SCHEMES

R million	Note	**2020**	2019
The charge to profit or loss for share-based payments is as follows:			
Conditional incentive plan		**567**	1 602
Amount included in profit or loss	**3**	**567**	1 602

The purpose of these schemes is to appropriately attract, incentivise and retain managers and employees within the bank. The performance vesting conditions attached to the 2017 scheme were not met and the full obligation raised in the prior periods was therefore reversed in the current year.

25 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, where applicable, performance conditions are met. Conditional awards are issued 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 funding curve of a term equal to the expected remaining life of the plan.
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data observed over all schemes.

Corporate performance targets (CPTs)

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 to occur, the criteria must be met or exceeded. For the 2017 and 2018 award schemes, the scheme rules allowed the remuneration committee the discretion to determine whether the conditional awards would vest, in full or partially, in circumstances where the performance conditions were not fulfilled. The application of this discretion is limited. For the 2019 award, this discretion is removed and if the performance conditions are not met the award fails. The 2019 scheme introduced graded vesting, the level of vesting is correlated to the earnings growth achieved relative to macroeconomic variables and minimum ROE requirements. For certain non-senior employees eligible for a CIP a portion of the award is not subject to the performance conditions, and only requires continued employment. The vesting outcome is based on the delivery of the performance conditions and this level is finally determined and calculated by the group remuneration committee.

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

25 REMUNERATION SCHEMES continued

The criteria for the expired and currently open schemes are set out below:

Expired schemes

2016 (Vested 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 must deliver a ROE of at least 18% over the performance period. Nominal GDP is advised by the FirstRand Group Treasury, macro strategy unit. For vesting to occur, the criteria had to be met or exceeded. The award vested in September 2019 based on the earnings growth and ROE delivered over the three-year period ended 30 June 2019.

Currently open

2017 (Not vesting at September 2020) – FirstRand Limited must achieve growth in normalised EPS, adjusted for CPI, which equals or exceeds the South African real 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 must deliver a ROE of at least 18% over the performance period. Real GDP and CPI are advised by the Group Treasury, macro strategy unit. For vesting to occur, the criteria must be met or exceeded. However, 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. During the current year, the company failed to achieve the targets set for the cumulative growth in normalised earnings per share and Remco notified qualifying employees that the scheme would consequently not vest.

2018 (Vesting in 2021) – FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus 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 must deliver a 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 and CPI are advised by the Treasury, macro strategy unit. For vesting to occur, the criteria must be met or exceeded. However, 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.

2019 (Vesting in 2022) – The vesting conditions of the 2019 award are set out below, with the apportionment to vesting without conditions described below. The awards for all top and certain senior management have performance conditions applied to 100% of the award. For all other participants, 50% of the award seeks to drive retention and will vest in three years without performance conditions, provided the participant remains in employment and the remaining 50% of the awards remain subject to performance conditions. For the awards subject to performance conditions, graded vesting applies. The awards are subject to the achievement of performance conditions set at award date and these determine the value that will ultimately vest. These performance conditions include a minimum condition to achieve any vesting, a target, a stretch and a super stretch target with linear grading between targets. If the minimum ROE and earnings growth conditions are met, vesting will commence at 70% and if these are not met, the award will lapse.

25 REMUNERATION SCHEMES continued

	Performance conditions		
	ROE target (average over the 3-year performance period)	**Normalised earnings per share growth requirement (3-year compound annual growth rate)** FirstRand Limited must achieve growth in normalised earnings per share relative to the South African CPI plus real GDP growth on a cumulative basis over the performance period from the base year-end, being 30 June 2019 as set out for each vesting level indicated below:	**Vesting level should both conditions be met**
Minimum vesting, below which the award lapses	≥ 20%	Cumulative normalised earnings per share growth rate over 3 years of real GDP growth plus CPI plus >0% or CPI where real GDP growth is negative	70%
On target performance	≥ 20.5%	Cumulative normalised earnings per share growth rate over 3 years of real GDP growth plus CPI plus 1.5% to 3%	100%
Stretch target	≥ 21%	Cumulative normalised earnings per share growth rate over 3 years of real GDP growth plus CPI plus >5% to 7%	120%
Super stretch target	≥ 22%	Cumulative normalised earnings per share growth rate over 3 years of real GDP growth plus CPI plus >7% to 10%	150% (maximum vesting)

Linear vesting applies between each vesting level based on the achieved normalised earnings per share growth rate. The ROE is based on NAV without material adjustments resulting from dividend policy changes, regulatory changes, IFRS changes or volatile reserves. Under the new structure, Remco cannot apply upward vesting judgement if performance criteria are not met.

25 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	
	2020	2019
Award life (years)	**2 - 4**	2 - 3
Risk-free rate (%)	**3.91 - 5.32**	7.08 - 7.78

	Conditional incentive plan (FirstRand shares)	
Share awards outstanding	**2020**	2019
Number of awards in force at the beginning of the year (millions)	**82.1**	81.5
Number of awards granted during the year (millions)	**32.2**	28.7
Number of awards transferred (within the group) during the year (millions)	**(0.3)**	0.8
Number of awards exercised/released during the year (millions)	**(29.8)**	(24.9)
- Market value range at date of exercise/release (cents)*	**3 893 - 6 637**	4 423 - 6 990
- Weighted average (cents)	**6 513**	6 648
Number of share cancelled/lapsed during the year (millions)#	**(27.8)**	(4.0)
Number of awards in force at the end of the year (millions)	**56.4**	82.1

	Conditional share plan (FirstRand shares)			
	2020		2019	
Share awards outstanding**	**Weighted average remaining life (years)**	**Out-standing awards (millions)**	Weighted average remaining life (years)	Out-standing awards (millions)
Vested during 2019			0.32	29.8
Vesting during 2020#	**0.30**	**4.2**	1.30	29.3
Vesting during 2021	**1.30**	**26.7**	2.30	23.0
Vesting during 2022	**2.30**	**25.5**		
Total conditional awards	**-**	**56.4**	-	82.1
Number of participants		**4 271**		4 039

* *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.*

Scheme vesting during 2020 failed to vest due to not achieving the performance conditions attached to the scheme.

26 CONTINGENCIES AND COMMITMENTS

R million	2020	2019
Contingencies and commitments		
Guarantees (endorsements and performance guarantees)	**48 877**	49 443
Letters of credit	**8 285**	8 386
Total contingencies	**57 162**	57 829
Irrevocable commitments*	**115 891**	109 634
Committed capital expenditure	**3 073**	3 315
Operating lease commitments**	**-**	2 119
Other	**8**	6
Total contingencies and commitments	**176 134**	172 903
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 and arise during the normal course of business. On Balance sheet provisions are only taken for claims that are expected to materialise.	**321**	71
Commitments Commitments in respect of capital expenditure and long-term investments approved by directors	**3 073**	3 315
Guarantees Guarantees consist predominantly of endorsements and performance guarantees granted to other FirstRand group companies amount to:	**18 107**	14 939

* *Irrevocable commitments have been restated following an investigation which identified an amount of R7 394 million that had been included in irrevocable commitments in 2019 relating to contracts that provide the group with sole discretion to grant the respective facilities. The ECL on these commitments are immaterial.*

** *The bank elected not to restate comparative information, as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 9 for details.*

26.1 Commitments under operating leases where the bank is the lessee

With the adoption of IFRS 16 in the current year, leases where the bank is the lessee is recognised on the statement of financial position and as such the table presented below represents disclosure as required under IAS 17.

	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

26 CONTINGENCIES AND COMMITMENTS continued

26.2 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 2 to 15 years.

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

	2020			
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Property	**7**	**18**	**10**	**35**
Motor vehicles	**1 400**	**2 175**	**218**	**3 793**
Total receivable under non-cancellable operating leases	**1 407**	**2 193**	**228**	**3 828**

	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

27 FAIR VALUE MEASUREMENTS

27.1 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 an operating business level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At an operating business level, valuation specialists are responsible for the selection and, 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 operating business 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 an operating business level by the required valuation specialists, valuation committees and relevant risk committees annually, or more frequently if considered appropriate.

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

Non-recurring fair value measurements

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

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the standard requires that the asset be held at the lower of its carrying amount and its fair value less costs to sell; and
- IAS 36 where the recoverable amount is based on the fair value less costs to sell.

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

Financial instruments

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

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. Except for the amounts included in section 27.4, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

27 FAIR VALUE MEASUREMENTS continued

27.2 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.

27 FAIR VALUE MEASUREMENTS continued

Measurement of assets and liabilities at level 2

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 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.	Strike price of the option, market-related discount rate spot or forward rate, and the volatility of the underlying
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

27 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Advances to customers			
Other 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, advances are classified as level 2 of the fair value hierarchy.	Market interest rate curves
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 being considered. Future cash flows are discounted using a market-related interest rate. Where the valuation technique incorporates observable inputs for credit risk or the credit risk is an insignificant input, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rate curves
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings, depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place, in which case level 2 classifications are used.	Market transactions

27 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities continued			
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates observable inputs for credit risk or the credit risk is an insignificant input, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rate curves
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 operating business'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)

27 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

27 FAIR VALUE MEASUREMENTS continued

Measurement of assets and liabilities at level 3

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 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
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
Advances to customers			
Investment banking book	Discounted cash flows	Certain of the bank's investment banking advances do not meet the requirements to be carried at amortised cost and are measured 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 a market-related interest rate, adjusted for credit inputs.	Credit inputs
Other 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	Credit inputs

27 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Advances to customers continued			
		traded or observable credit spreads, the bank classifies other advances to customers as level 3 in the fair value hierarchy.	
Advances under repurchase agreements	Discounted cash flow	The valuation entails accounting for the default of the counterparty and the sovereign entity. The effect of these defaults on the exchange rate is also included. Wrong-way risk is incorporated by factoring in the correlation between the foreign exchange rate and the default risk of the counterparty, as well as the default risk of the sovereign entity.	Credit input and market risk correlation factors
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.	Unobservable P/E ratios
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	Growth rates and P/E ratios

27 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Investment securities continued			
		discounted cash flow valuation or by the observation of other market transactions that have taken place.	
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
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 used, minority and marketability adjustments

27 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs
Investment securities continued			
		Third-party valuations are reviewed by the relevant operating business' 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.	
Deposits			
Deposits that represent collateral on credit-linked notes	Discounted cash flows	These deposits represent the collateral leg of credit-linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances
Other deposits	Discounted cash flows	The forward curve 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, market risk and correlation factors
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

27 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 year.

27.2.1 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.

	2020			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	**50**	**119 537**	**924**	**120 511**
Advances	**-**	**21 745**	**43 449**	**65 194**
Investment securities	**65 365**	**31 307**	**2 561**	**99 233**
Commodities	**21 344**	**-**	**-**	**21 344**
Amounts due by holding company and fellow subsidiaries	**-**	**16 081**	**-**	**16 081**
Total assets measured at fair value	**86 759**	**188 670**	**46 934**	**322 363**
Liabilities				
Recurring fair value measurements				
Short trading positions	**4 786**	**-**	**-**	**4 786**
Derivative financial instruments	**292**	**132 340**	**1 856**	**134 488**
Deposits	**1 299**	**39 801**	**4 840**	**45 940**
Other liabilities	**-**	**254**	**323**	**577**
Amounts due to holding company and fellow subsidiaries	**-**	**16 387**	**-**	**16 387**
Total liabilities measured at fair value	**6 377**	**188 782**	**7 019**	**202 178**

27 FAIR VALUE MEASUREMENTS continued

	2019			
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

27 FAIR VALUE MEASUREMENTS continued

27.2.2 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.

	2020		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	**-**	**-**	There were no transfers into level 1.
Level 2	**-**	**(911)**	There were no transfers into level 2.
Level 3	**911**	**-**	Due to market disruption as a result of COVID-19, the market for certain investment securities became illiquid with the assets transferred from level 2 to level 3. In addition, certain inputs used in valuing derivative instruments are no longer observable, hence their transfer from level 2 to level 3.
Total transfers	**911**	**(911)**	

	2019		
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 year, 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 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)	

27 FAIR VALUE MEASUREMENTS continued

27.3 Additional disclosures for level 3 financial instruments

27.3.1 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 2018	563	47 986	1 336	630	344	1 529
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
Net transfer to level 3	63	-	-	(13)	-	-
Exchange rate differences	-	58	-	-	-	-
Balance as at 30 June 2019	**802**	**32 564**	**1 763**	**842**	**1 052**	**322**
Gains/(losses) recognised in profit or loss	**142**	**4 215**	**(144)**	**1 418**	**59**	**219**
Gains/(losses) recognised in other comprehensive income	**-**	**-**	**(180)**	**-**	**-**	**-**
Purchases, sales, issue and settlements	**(88)**	**5 822**	**308**	**(433)**	**3 729**	**(218)**
Net transfer to level 3	**68**	**-**	**814**	**29**	**-**	**-**
Exchange rate differences	**-**	**848**	**-**	**-**	**-**	**-**
Balance as at 30 June 2020	**924**	**43 449**	**2 561**	**1 856**	**4 840**	**323**

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

Gains or losses on advances classified as level 3 of the hierarchy comprise gross interest income on advances, fair value of credit adjustments and adjustments due to changes in currency and base rates. These instruments are funded by liabilities whereby 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.

27 FAIR VALUE MEASUREMENTS continued

27.3.2 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 or losses relating to the 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 held at FVTPL and FVOCI debt instruments, all gains or losses are recognised in NIR.

	2020		2019	
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	**83**	**-**	162	-
Advances*	**4 057**	**-**	1 929	-
Investment securities	**(311)**	**(189)**	54	1
Total	**3 829**	**(189)**	2 145	1
Liabilities				
Derivative financial instruments	**(978)**	**-**	37	-
Deposits	**(59)**	**-**	(3)	-
Other liabilities	**-**	**-**	136	-
Total	**(1 037)**	**-**	170	-

* *Amount is mainly accrued interest on fair value advances and movements in interest rates that has been economically hedged. These advances are classified as level 3 primarily, as credit spreads could be a significant input and are not observable for advances in most of RMB's key markets. Refer to page C75 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.*

27 FAIR VALUE MEASUREMENTS continued

27.3.3 Effect of changes in significant unobservable assumptions of level 3 instruments to reasonable possible alternatives

The table 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 reasonable possible changes are applied**	**Reasonable possible changes applied**
Derivative financial instruments	Volatilities	Volatilities	Increased and decreased by between 5% and 10%, depending on the nature of the instrument.
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 between 7% and 10%, depending on the nature of the instrument.
Deposits	Credit inputs and market correlation factors	Credit inputs, correlation and devaluation parameters	The deposits included in level 3 of the hierarchy represent the collateral leg of credit-linked notes, and deposits under repurchase agreements. The most significant unobservable input in determining the fair value 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%.

27 FAIR VALUE MEASUREMENTS continued

27.3.4 Effect of changes in significant unobservable assumptions of level 3 instruments to reasonable possible alternatives

	2020			2019		
		Reasonable possible alternative fair value			Reasonable possible alternative fair value	
R million	**Fair value**	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions
Assets						
Derivative financial instruments	**924**	**983**	**872**	802	814	792
Advances	**43 449**	**43 618**	**43 277**	32 564	32 705	32 419
Investment securities	**2 561**	**2 679**	**2 446**	1 763	1 836	1 647
Total financial assets measured at fair value in level 3	**46 934**	**47 280**	**46 595**	35 129	35 355	34 858
Liabilities						
Derivative financial instruments	**1 856**	**1 762**	**1 934**	842	835	846
Deposits	**4 840**	**4 789**	**4 907**	1 052	1 035	1 070
Other liabilities	**323**	**319**	**326**	322	319	326
Total financial liabilities measured at fair value in level 3	**7 019**	**6 870**	**7 167**	2 216	2 189	2 242

27 FAIR VALUE MEASUREMENTS continued

27.4 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.

	2020				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**802 746**	**810 193**	**-**	**142 074**	**668 119**
Investment securities	**109 793**	**108 177**	**87 800**	**20 377**	**-**
Total assets at amortised cost	**912 539**	**918 370**	**87 800**	**162 451**	**668 119**
Liabilities					
Deposits	**1 043 012**	**1 043 901**	**-**	**1 043 740**	**161**
Other liabilities	**2 875**	**2 922**	**-**	**2 922**	**-**
Tier 2 liabilities	**22 322**	**22 661**	**-**	**22 661**	**-**
Total liabilities at amortised cost	**1 068 209**	**1 069 484**	**-**	**1 069 323**	**161**

	2019				
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

27 FAIR VALUE MEASUREMENTS continued

27.5 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	2020	2019
Opening balance	**51**	54
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year*	**329**	32
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(182)**	(35)
Closing balance	**198**	51

** Impacted by refinements to the cash flow hedge accounting model following the adoption of IFRS 9.*

27.6 Financial instruments designated at fair value through profit or loss

<table>
<tr><th colspan="2">Financial instruments designated at fair value through profit or loss</th></tr>
<tr><td colspan="2">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.</td></tr>
<tr><td>Financial assets</td><td>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 bank's credit spread pricing matrix), and the fair value of advances based on the most recent credit inputs, where there has been a change in the credit risk of the counterparty. The bank 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.</td></tr>
<tr><td>Financial liabilities</td><td>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.</td></tr>
</table>

27 FAIR VALUE MEASUREMENTS continued

27.6.1 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.

	2020			
			Change in fair value due to credit risk	
R million	**Carrying value**	**Mitigated credit risk**	**Current period**	**Cumulative**
Advances	**7 999**	**180**	**(131)**	**(139)**
Investment securities	**6**	**-**	**-**	**-**
Total	**8 005**	**180**	**(131)**	**(139)**

	2019			
			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)

Losses are indicated in brackets.

	2020		2019	
R million	**Fair value**	**Contractually payable at maturity**	Fair value	Contractually payable at maturity
Deposits	**8 247**	**7 816**	9 587	8 948
Other liabilities	**577**	**577**	746	746
Total	**8 824**	**8 393**	10 333	9 694

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

R million	**2020**	2019
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue*	**4 659**	3 214
Fair value of credit of advances included in the impairment of advances	**(398)**	(35)

* *Refer to note 2.3.*

28 SEGMENT INFORMATION

28.1 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	
RETAIL AND COMMERCIAL	
	Products and services
FNB	FNB represents the bank's activities in the retail and commercial segments in South Africa. 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, investment and savings – and include mortgage loans, credit and debit cards, personal loans, and savings and investment products. Services include transactional and deposit-taking, card acquiring, credit facilities and FNB distribution channels (branch network, ATMs, banking app, call centres, cellphone banking and online). DirectAxis forms part of a personal loans cluster alongside FNB loans.
FNB REST OF AFRICA	Comprises a support division acting as strategic enabler, facilitator and coordinator for FNB's rest of Africa businesses.
	Products and services
WesBank	WesBank represents the group's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa.

28 SEGMENT INFORMATION continued

Reportable segments	
	Products and services
RMB	RMB represents the bank's activities in the corporate and investment banking segments in South Africa, the broader African continent and India. RMB offers advisory, financing, trading, corporate banking and principal investing solutions.
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. This reportable segment includes management accounting entries. The total operational performance of MotoNovo's back book (i.e. business written prior to the integration with Aldermore) is reported in the London branch, which forms part of FCC/Group Treasury (GTSY)

28.2 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.

28 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, 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.

28 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 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 for the share schemes that are not hedge accounted. 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 1/2019 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.

28 SEGMENT INFORMATION continued

28.3 Reportable segments*

	2020			
R million	FNB	FNB Africa	WesBank	
Net interest income before impairment of advances	**33 310**	**(43)**	**4 777**	
Impairment and fair value of credit of advances	**(12 922)**	**(28)**	**(2 948)**	
Net interest income after impairment of advances	**20 388**	**(71)**	**1 829**	
Non-interest revenue	**23 048**	**928**	**2 587**	
Net income from operations	**43 436**	**857**	**4 416**	
Operating expenses	**(28 290)**	**(1 315)**	**(3 946)**	
Income before indirect tax	**15 146**	**(458)**	**470**	
Indirect tax	**(506)**	**(3)**	**(46)**	
Profit before income tax	**14 640**	**(461)**	**424**	
Income tax expense	**(4 100)**	**129**	**(119)**	
Profit for the year	**10 540**	**(332)**	**305**	
The income statement includes				
Depreciation	**(2 408)**	**(1)**	**(852)**	
Amortisation	**(49)**	**-**	**(21)**	
Net impairment charge	**5**	**-**	**(15)**	
Non-interest revenue includes the following revenue from customers:				
Banking fees and commissions	**24 344**	**(4)**	**440**	
Non-banking fees and commissions	**667**	**-**	**14**	
Insurance income (excluding risk related income)	**360**	**-**	**100**	
Management, trust and fiduciary fees	**660**	**-**	**531**	
Other non-interest revenue from customers	**496**	**-**	**195**	
The statement of financial position includes				
Total assets	**418 971**	**280**	**119 442**	
Total liabilities**	**409 094**	**741**	**120 151**	

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

** *Total liabilities are net of interdivisional balances.*

	2020						
		RMB		FCC (including	FirstRand		FirstRand
	Retail and commercial	Investment banking	Corporate banking	Group Treasury)	Bank - normalised	Normalised adjustments	Bank - IFRS
	38 044	4 887	2 177	1 376	46 484	490	46 974
	(15 898)	(1 454)	(623)	(294)	(18 269)	-	(18 269)
	22 146	3 433	1 554	1 082	28 215	490	28 705
	26 563	7 018	1 916	(1 050)	34 447	(880)	33 567
	48 709	10 451	3 470	32	62 662	(390)	62 272
	(33 551)	(5 275)	(2 219)	(3 298)	(44 343)	358	(43 985)
	15 158	5 176	1 251	(3 266)	18 319	(32)	18 287
	(555)	(168)	(8)	(79)	(810)	-	(810)
	14 603	5 008	1 243	(3 345)	17 509	(32)	17 477
	(4 090)	(1 401)	(348)	2 721	(3 118)	9	(3 109)
	10 513	3 607	895	(624)	14 391	(23)	14 368
	-						
	(3 261)	(117)	(8)	(5)	(3 391)	-	(3 391)
	(70)	(123)	-	-	(193)	-	(193)
	(10)	(10)	-	(67)	(87)	(7)	(94)
	24 780	1 704	1 479	394	28 357	-	28 357
	681	(1)	16	64	760	-	760
	460	-	-	(11)	449	-	449
	1 191	233	-	1	1 425	-	1 425
	691	(1)	67	-	757	(16)	741
	-						
	538 693	503 463	69 129	303 427	1 414 712	-	1 414 712
	529 986	499 020	68 993	216 675	1 314 674	-	1 314 674

28 SEGMENT INFORMATION continued

28.3 Reportable segments* continued

	2019			
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	23 285	862	2 413	
Net income from operations	49 036	802	5 138	
Operating expenses	(27 194)	(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	

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

** *Total liabilities are net of interdivisional balances.*

	2019						
		RMB		FCC (including	FirstRand		FirstRand
	Retail and commercial	Investment banking	Corporate banking	Group Treasury)	Bank - normalised	Normalised adjustments	Bank - IFRS
	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
	26 560	6 504	1 829	(452)	34 441	1 371	35 812
	54 976	11 477	3 829	2 634	72 916	1 906	74 822
	(32 235)	(5 548)	(2 330)	(3 362)	(43 475)	16	(43 459)
	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)	1 261	(6 977)	(430)	(7 407)
	15 944	4 169	1 072	450	21 635	1 492	23 127
	-						
	(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

28 SEGMENT INFORMATION continued

Geographical segments

	2020			
R million	**South Africa**	**United Kingdom**	**Asia**	**Total**
Net interest income after impairment of advances	**28 233**	**494**	**(22)**	**28 705**
Non-interest revenue	**32 598**	**796**	**173**	**33 567**
Non-current assets*	**18 311**	**61**	**11**	**18 383**

	2019			
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	34 795	850	167	35 812
Non-current assets*	16 020	30	3	16 053

* *Exclude financial instruments, other assets, deferred income tax assets, current tax assets and post-employment benefit assets.*

29 RELATED PARTIES

29.1 Balances with related parties

R million	**2020**	2019*
Advances		
Entities that have significant influence over the parent and its subsidiaries*	**-**	13 052
Fellow subsidiaries - bank accounts**	**118**	(109)
Associates	**11 632**	8 812
Joint ventures	**1 188**	4 827
Key management personnel	**34**	49
Other assets		
Associates	**363**	851
Joint ventures	**10 020**	17 022
Amounts due by holding company and fellow subsidiaries		
Fellow subsidiaries	**67 309**	53 027
Derivative assets		
Joint ventures	**176**	-
Investments under co-investment scheme		
Key management personnel	**53**	50
Deposits		
Entities that have significant influence over the parent and its subsidiaries	**-**	28
Fellow subsidiaries - bank accounts**	**165**	308
Associates	**1 610**	466
Joint ventures	**2 475**	3 890
Key management personnel	**105**	141
Accounts payable		
Associates	**6**	8
Joint ventures	**-**	9
Amounts due to holding company and fellow subsidiaries		
Parent	**236**	826
Fellow subsidiaries	**36 018**	24 958
Commitments		
Associates	**3 707**	4 857

* *RMB Holdings Limited unbundled its 34.1% holding in the FirstRand Limited group on 27 June 2020. From this date, RMB Holdings Limited no longer has significant influence over the group. All related party transactions up to the date of the unbundling has been included in this note. As the relationship no longer exist at 30 June 2020, the balances due to or due from RMB Holdings Limited and its subsidiaries are not considered to be related party transactions.*

** *To provide improved disclosure, bank accounts held by fellow subsidiaries have been separately disclosed the comparative period has been updated accordingly.*

All joint ventures are those in relation to 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.

29 RELATED PARTIES continued

29.2 Transactions with related parties

R million	2020	2019
Interest received		
Fellow subsidiaries	**1 903**	1 992
Associates	**806**	776
Joint ventures	**986**	1 261
Key management personnel	**3**	4
Interest paid		
Fellow subsidiaries*	**(601)**	(904)
Associates	**(72)**	(4)
Joint ventures	**(66)**	(361)
Key management personnel	**(7)**	-
Non-interest revenue		
Entities that have significant influence over the parent and its subsidiaries	**76**	83
Fellow subsidiaries	**558**	1 807
Associates	**1 048**	565
Joint ventures	**527**	979
Operating expenses		
Fellow subsidiaries (note 3)	**(1 066)**	(1 154)
Associates	**(724)**	(657)
Joint ventures	**(5)**	(1)
Dividends (paid)		
Parent	**(16 667)**	(12 645)
Net interest return credited in respect of investments under the co-investment scheme		
Key management personnel	**3**	5
Financial consulting fees and other		
Key management personnel	**1**	3
Salaries and other employee benefits		
Key management personnel	**83**	96
- Salaries and other short-term benefits	**48**	63
- Share-based payments	**35**	33

* *Interest paid on bank accounts with fellow subsidiaries amounted to R166 million (2019: R171 million).*

All joint ventures are those in relation to FirstRand Limited.

Deferred compensation of R12 million (2019: R20 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.

In the prior year, a portfolio of USD denominated loans held by the bank 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 relevant dates of the transfers.

29 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.

29.3 Post-retirement benefit fund

Details of transactions between the bank and the bank's post-retirement benefit plan are listed below

R million	**2020**	2019
Dividend income	**5**	5
Deposits and current accounts held with the bank	**737**	744
Interest income	**45**	34

Refer to note 21 for details of the closing balance of the group's post-employment benefit plan.

30 INTERESTS IN OTHER ENTITIES (IFRS 12.29)

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, these required disclosures have been included. Refer to accounting policy 8.2 for additional information about the bank's decision not to prepare consolidated financial statements.

30.1 Structured entities

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

Vumela Enterprise Development Fund

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. The investment was fully impaired during the current financial year, resulting in an impairment of R66 million was included in operating expenses.

Sponsorships of unconsolidated structured entities

The bank has provided liquidity facilities and credit enhancement facilities to non-recourse vehicles. The bankruptcy remote non-recourse vehicle is consolidated by the bank's fellow subsidiary, FRIHL. During the current year, assets to the value of R2 438 million were transferred by the bank to this entity. Assets to the value of R3 549 million were transferred in the prior year.

30 INTERESTS IN OTHER ENTITIES (IFRS 12.29) continued

30.2 Liquidity facilities

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

R million	Transaction type	2020	2019
Own transaction		**1 957**	3 094
iVuzi	Conduit	**1 957**	3 094
Total facilities provided		**1 957**	3 094

All liquidity facilities granted in the table above rank senior in terms of payment priority in the event of a drawdown and represent the entity's maximum exposure to loss. 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.

31 FINANCIAL RISKS

Risk governance in the bank

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.

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.

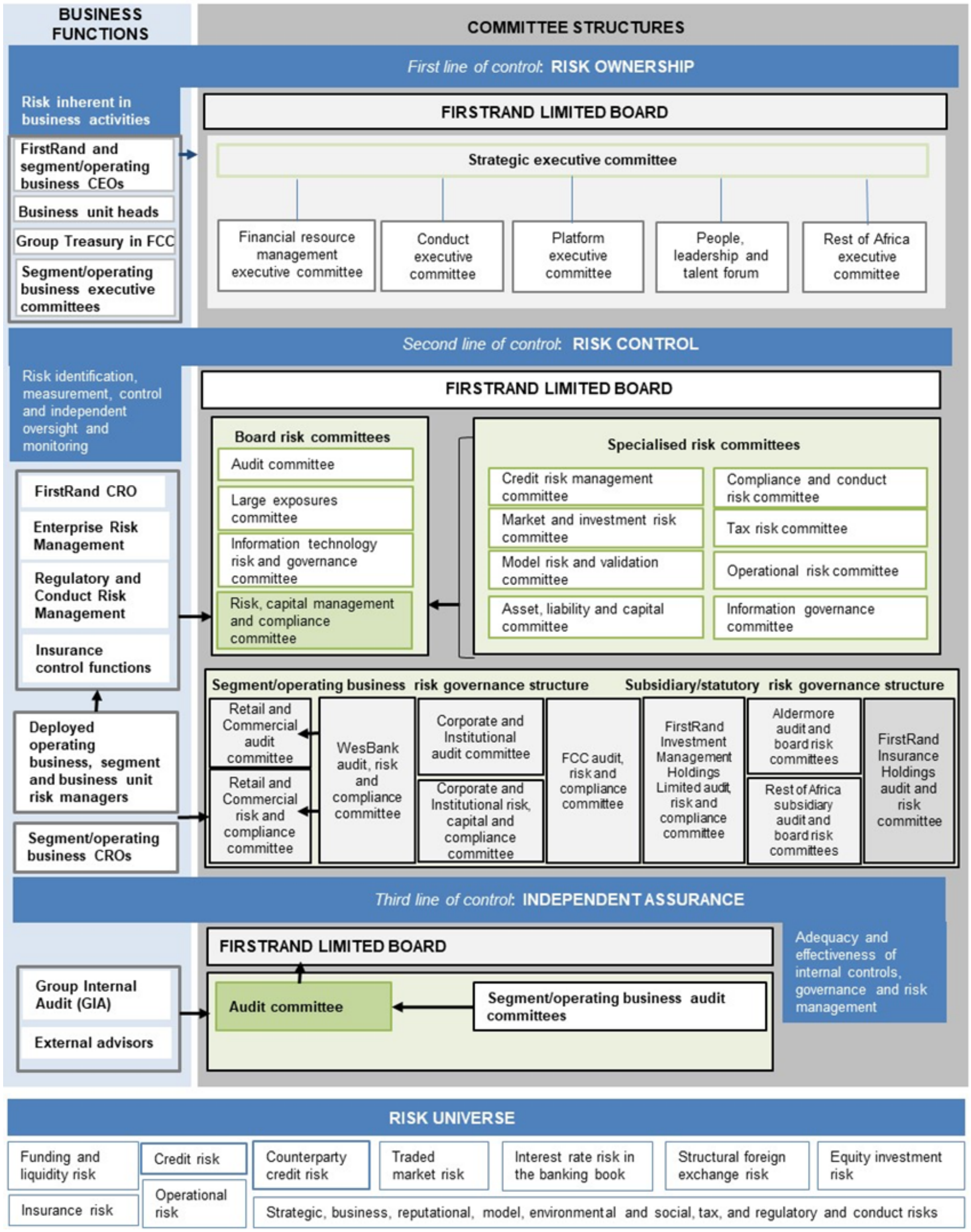
The primary board committee overseeing risk matters across the group and bank is the FirstRand risk, capital management and compliance (RCC) committee. It has delegated responsibility of a number of specialist topics to various subcommittees. Additional risk, audit and compliance committees exist in the bank's businesses, 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 unaudited Pillar 3 disclosure at http://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 the businesses face and how these are addressed across the group. The bank's businesses 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.

31 FINANCIAL RISKS continued

Business performance and risk management framework



31 FINANCIAL RISKS continued

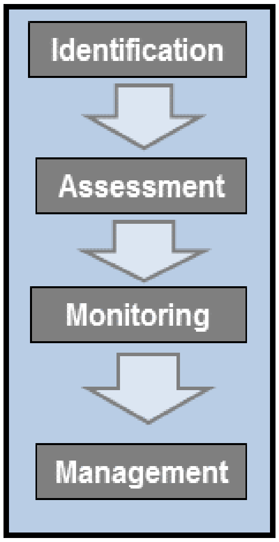
Risk management approach

The group believes a strong balance sheet and resilient earnings streams are key to growth, particularly during periods of uncertainty. The bank'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. The 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 economic cycle on the bank's portfolio; ➢ understand and price appropriately for risk; and ➢ originate within economic cycle-appropriate risk appetite and volatility parameters.	**Key principles:** ➢ allocate capital appropriately; and ➢ drives 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 economic cycle; and ➢ ensure the bank remains appropriately capitalised with an efficient capital structure with appropriate/conservative gearing.

31 FINANCIAL RISKS continued

Core 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 bank's business and the bank 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 bank.

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 bank'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 which determines the group's risk appetite, enables organisational decision-making that 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 "http://www.firstrand.co.za/investors/basel-pillar-3-disclosure/.

31 FINANCIAL RISKS continued

Risk appetite is approved by the board. The bank's return and risk appetite statement, informs organisational decision-making and is integrated with FirstRand's strategic objectives. Business and strategic decisions are aligned with risk appetite measures to ensure business and strategic objectives are met during a normal cyclical economic downturn. Constraints are also set for stressed conditions. At a bank 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. Risk/return targets and risk appetite limits are set to ensure the group achieves its overall strategic objectives, namely to:

- *deliver long-term operating business 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 bank can technically assume given its current available financial resources. Risk capacity provides a reference for risk appetite and is not intended to be reached under any circumstances.

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

The return and risk appetite statement aims to drive the discipline of balancing risk, return and sustainable growth across the portfolio. Through this process, the bank 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 bank's risk/return profile is monitored regularly, using risk appetite targets and limits which are measured on a point-in-time and forward-looking basis. Business performance targets for ROE and NIACC are set to ensure the delivery of the appropriate sustainable return for the risks taken and the financial resource utilisation. Principles are set to ensure appropriate relationship to targets in business pricing.

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

31 FINANCIAL RISKS continued

Financial resource management

The management of the bank'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 bank'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 bank sets targets for different business economic cycles and scenarios to enable FirstRand to deliver on its commitments to stakeholders at a defined confidence level.

The management of the bank'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 bank continues to monitor and proactively manage a fast-changing regulatory environment, competitive landscape and ongoing macroeconomic challenges.

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 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 Basel Pillar 3 disclosure available at https:/www.firstrand.co.za/investors/basel-pillar 3-disclosure.

The COVID-19 pandemic has had far-reaching impacts on the bank's operations and each of the financial risks managed by the bank. Where a material impact due to COVID-19 was experienced, such impact has been described within these financial statements.

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">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.</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 included in other assets;
➢ derivative balances; and
➢ off-balance sheet exposures.</td><td>The following information is presented for these assets:
➢ summary of all credit assets (31.1.1);
➢ information about the quality of credit assets (31.1.2 and 31.1.3);
➢ exposure to concentration risk (31.1.4); and
➢ credit risk mitigation and collateral held (31.1.5).</td></tr>
</table>

31 FINANCIAL RISKS continued

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Liquidity risk</td><td colspan="2">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.</td></tr>
<tr><td>Liquidity risk arises from all assets and liabilities with differing maturity profiles.</td><td>The following information is presented for these assets and liabilities:
➢ undiscounted cash flow analysis of financial liabilities (31.2.1);
➢ discounted cash flow analysis of total assets and liabilities (31.2.2);
➢ collateral pledged (31.2.3); and
➢ concentration analysis of deposits (31.2.4).</td></tr>
<tr><td rowspan="4">Market risk</td><td colspan="2">The bank distinguishes between traded market risk 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.

Traded market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</td></tr>
<tr><td>Traded market risk (31.3.1) emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB.</td><td>The following information is presented for traded market risk:
➢ 1 — day 99% Value-at-Risk (VaR) analysis; and
➢ 10 — day 99% VaR analysis.</td></tr>
<tr><td>Interest rate risk in the banking book (31.4.1) is the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates. It originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book net asset value (NAV) sensitivity to interest rate movements as a percentage of total bank capital.</td></tr>
<tr><td>Structural foreign exchange risk (31.4.2) is the risk of an adverse impact on the group's financial position and earnings or other key ratios as a result of movements in foreign exchange rates impacting balance sheet exposures. It arises from balances denominated in foreign currencies and bank entities with functional currencies other than the South African rand.</td><td>Information on the bank's net structural foreign exposures and sensitivity of these exposures are presented.</td></tr>
</table>

31 FINANCIAL RISKS continued

<table>
<tr><th colspan="3">Overview of financial risks</th></tr>
<tr><td rowspan="2">Equity investment risk</td><td colspan="2">The risk of an adverse change in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instruments.</td></tr>
<tr><td>Equity investment risk (31.5) arises primarily from equity exposures from private equity and investment banking activities in RMB, and strategic investments held by WesBank, FNB and FCC.</td><td>The following information is presented for equity investments:
➢ investment risk exposure, risk weighted assets, and sensitivity analysis of investment risk; and
➢ estimated sensitivity of remaining investment balances.</td></tr>
<tr><td>Tax risk</td><td colspan="2">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.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the bank’s solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The bank, therefore, maintains capitalisation ratios aligned with its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

31 FINANCIAL RISKS continued

31.1 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 bank's risk/return and credit 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 Enterprise Risk Management (ERM) and relevant board committees, fulfil this role.

Based on the bank's credit risk appetite, as measured on a ROE, net income after capital charge (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 bank 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 bank is split into three distinct portfolios which are aligned to customer profiles. These portfolios are retail, commercial and corporate.

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

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

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

The bank employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. FirstRand FR1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

31 FINANCIAL RISKS continued

Mapping of FR grades to rating agency scales

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

31 FINANCIAL RISKS continued

31.1.1 Credit assets

The following assets and off-balance sheet amounts expose the bank to credit risk. For all on-balance sheet exposures, the gross carrying amount disclosed represents the maximum exposure to credit risk, before taking collateral and other credit enhancements into account.

R million	**2020**	2019
On-balance sheet exposures		
Cash and short-term funds	**91 541**	70 419
- Money at call and short notice	**65 155**	44 719
- Balances with central banks	**26 386**	25 700
Gross advances	**905 712**	921 846
Retail secured	**318 428**	311 915
- Residential mortgages	**224 404**	217 164
- WesBank VAF*	**94 024**	94 751
Retail unsecured	**88 816**	85 392
- FNB card	**30 210**	28 115
- Personal loans	**41 874**	39 369
- Other retail	**16 732**	17 908
Corporate and commercial	**457 142**	457 964
- FNB commercial	**107 914**	105 128
- WesBank corporate	**27 114**	27 945
- RMB corporate banking	**68 445**	57 932
- RMB investment banking	**253 669**	266 959
Group Treasury and other	**37 544**	43 080
MotoNovo	**3 782**	23 495
Derivatives	**120 511**	43 181
Debt investment securities	**201 095**	170 119
Financial accounts receivable included in other assets	**2 970**	3 139
Amounts due by holding company and fellow subsidiaries	**67 309**	53 027
Off-balance sheet exposure	**179 927**	172 393
- Total contingencies	**57 162**	57 829
- Guarantees	**48 877**	49 443
- Letters of credit**	**8 285**	8 386
- Irrevocable commitments#	**115 891**	109 634
- Credit derivatives	**6 874**	4 930
Total	**1 569 065**	1 434 124

* *Includes public sector.*

** *Includes acceptances.*

\# *The prior year amount has been restated. Refer to Note 26 Contingencies and commitments for the detail.*

31 FINANCIAL RISKS continued

31.1.2 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 FR91-100 relate to technical cures (performing accounts that have previously defaulted but do not meet the 12-month curing definition and therefore 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.

31 FINANCIAL RISKS continued

	2020					
	FR1-25		FR26-90		FR91-100	
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	**32 335**	**26 548**	**164 503**	**23 345**	**1 007**	**41**
Stage 2	**37**	**24**	**9 514**	**582**	**5 346**	**71**
Stage 3	**-**	**3**	**857**	**21**	**10 805**	**112**
Total residential mortgages	**32 372**	**26 575**	**174 874**	**23 948**	**17 158**	**224**
WesBank VAF						
Stage 1	**-**	**-**	**70 643**	**-**	**2 756**	**-**
Stage 2	**-**	**-**	**4 188**	**-**	**6 627**	**-**
Stage 3	**-**	**-**	**-**	**-**	**9 810**	**-**
Total WesBank VAF	**-**	**-**	**74 831**	**-**	**19 193**	**-**
Retail unsecured						
FNB card						
Stage 1	**64**	**-**	**23 982**	**-**	**306**	**-**
Stage 2	**-**	**-**	**1 671**	**-**	**512**	**-**
Stage 3	**-**	**-**	**-**	**-**	**3 675**	**-**
Total FNB card	**64**	**-**	**25 653**	**-**	**4 493**	**-**
Personal loans						
Stage 1	**620**	**-**	**25 851**	**1 246**	**1 900**	**256**
Stage 2	**13**	**-**	**2 497**	**-**	**3 569**	**-**
Stage 3	**-**	**-**	**-**	**-**	**7 424**	**-**
Total personal loans	**633**	**-**	**28 348**	**1 246**	**12 893**	**256**
Other retail unsecured						
Stage 1	**457**	**141**	**11 147**	**285**	**1 275**	**133**
Stage 2	**-**	**-**	**93**	**-**	**1 553**	**-**
Stage 3	**4**	**-**	**2**	**-**	**2 201**	**-**
Total other retail unsecured	**461**	**141**	**11 242**	**285**	**5 029**	**133**
Corporate and commercial						
FNB commercial						
Stage 1	**106**	**421**	**91 444**	**12 412**	**1 089**	**105**
Stage 2	**-**	**-**	**4 563**	**732**	**3 682**	**51**
Stage 3	**-**	**-**	**527**	**1**	**6 503**	**140**
Total FNB commercial	**106**	**421**	**96 534**	**13 145**	**11 274**	**296**
WesBank corporate						
Stage 1	**9 340**	**3 707**	**14 308**	**-**	**737**	**-**
Stage 2	**8**	**-**	**1 317**	**-**	**530**	**-**
Stage 3	**-**	**-**	**-**	**-**	**874**	**-**
Total WesBank corporate	**9 348**	**3 707**	**15 625**	**-**	**2 141**	**-**

31 FINANCIAL RISKS continued

R million	2020					
	FR1-25		FR26-90		FR91-100	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
RMB corporate banking						
Stage 1	31 167	23 943	28 680	23 653	-	117
Stage 2	-	-	7 410	6 105	335	417
Stage 3	-	-	-	-	726	314
Purchased or originated credit impaired	-	-	-	-	127	-
Total RMB corporate banking	31 167	23 943	36 090	29 758	1 188	848
RMB investment banking						
Stage 1	89 885	13 757	138 353	12 561	481	-
Stage 2	-	-	21 658	814	269	-
Stage 3	-	-	-	-	2 122	10
Purchased or originated credit impaired	-	-	-	-	901	-
Total RMB investment banking	89 885	13 757	160 011	13 375	3 773	10
Group Treasury and other						
Stage 1	33 185	-	4 064	1 000	109	-
Stage 2	-	-	44	-	-	-
Stage 3	-	-	-	-	142	-
Total Group Treasury and other	33 185	-	4 108	1 000	251	-
MotoNovo						
Stage 1	-	-	2 873	374	-	-
Stage 2	-	-	356	-	-	-
Stage 3	-	-	553	-	-	-
Total MotoNovo	-	-	3 782	374	-	-
Stage 1	197 159	68 517	575 848	74 876	9 660	652
Stage 2	58	24	53 311	8 233	22 423	539
Stage 3	4	3	1 939	22	44 282	576
Purchased or originated credit impaired	-	-	-	-	1 028	-
Total advances	197 221	68 544	631 098	83 131	77 393	1 767

31 FINANCIAL RISKS continued

	2019					
	FR1-25		FR26-90		FR91-100	
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
WesBank VAF						
Stage 1	-	-	78 381	-	175	-
Stage 2	-	-	3 767	-	5 554	-
Stage 3	-	-	-	-	6 874	-
Total WesBank VAF	-	-	82 148	-	12 603	-
Retail unsecured						
FNB Card						
Stage 1	11	-	23 795	-	515	-
Stage 2	-	-	1 047	-	475	-
Stage 3	-	-	-	-	2 272	-
Total FNB Card	11	-	24 842	-	3 262	-
Personal loans						
Stage 1	262	-	29 259	-	723	-
Stage 2	-	-	1 088	-	2 194	-
Stage 3	-	-	27	-	5 816	-
Total personal loans	262	-	30 374	-	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	-

31 FINANCIAL RISKS continued

	2019					
	FR1-25		FR26-90		FR91-100	
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	7 115	-	161	-
Stage 2	-	-	206	-	3	-
Stage 3	-	-	-	-	137	-
Total Group Treasury and other	35 458	1 250	7 321	-	301	-
MotoNovo						
Stage 1	-	-	21 426	198	-	-
Stage 2	-	-	1 465	-	-	-
Stage 3	-	-	604	-	-	-
Total MotoNovo	-	-	23 495	198	-	-
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

31 FINANCIAL RISKS continued

Analysis of impaired advances (stage 3)

The following table represents an analysis of impaired advances (stage 3) for financial assets measured at amortised cost and debt instruments measured at both fair value through other comprehensive income and fair value through profit or loss, in line with the manner in which the bank manages credit risk.

	2020		
R million	Total	Security held and expected recoveries	Stage 3 impairment
Stage 3			
Total retail secured	21 472	15 225	6 247
- Residential mortgages	11 662	9 254	2 408
- WesBank VAF	9 810	5 971	3 839
Total retail unsecured	13 306	3 696	9 610
- FNB card	3 675	953	2 722
- Personal loans	7 424	2 192	5 232
- Retail other	2 207	551	1 656
Total corporate and commercial	11 780	6 876	4 904
- FNB commercial	7 030	3 735	3 295
- WesBank corporate	874	593	281
- RMB corporate banking	853	620	233
- RMB investment banking	3 023	1 928	1 095
Group Treasury and other	142	26	116
MotoNovo	553	303	250
Total stage 3	47 253	26 126	21 127
Stage 3 by category			
Overdrafts and cash management accounts	4 726	1 963	2 763
Term loans	2 488	1 114	1 374
Card loans	4 171	1 012	3 159
Instalment sales and hire purchase agreements	11 582	7 066	4 516
Lease payments receivable	206	154	52
Property finance	13 049	10 310	2 739
- Home loans	11 353	8 978	2 375
- Commercial property finance	1 696	1 332	364
Personal loans	8 335	2 282	6 053
Preference share agreements	-	-	-
Investment bank term loans	2 250	1 928	322
Long-term loans to group associates and joint ventures	-	-	-
Other	446	297	149
Total stage 3	47 253	26 126	21 127

31 FINANCIAL RISKS continued

R million	2019 Total	Security held and expected recoveries	Stage 3 impairment
Stage 3 by class			
Retail secured	15 512	11 498	4 014
- Residential mortgages	8 638	6 967	1 671
- WesBank VAF	6 874	4 531	2 343
Retail unsecured	10 097	2 383	7 714
- FNB card	2 272	524	1 748
- Personal loans	5 843	1 414	4 429
- 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
Group Treasury and other	137	16	121
MotoNovo	604	364	240
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
- Home loans	8 426	6 776	1 650
- Commercial property finance	548	377	171
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

31 FINANCIAL RISKS continued

31.1.3 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.

	2020		
R million	AAA to BBB	BB+ to B-	CCC
Investment securities at amortised cost			
Stage 1	**10 012**	**98 509**	**-**
Stage 2	**-**	**1 316**	**-**
Investment securities at fair value through comprehensive income			
Stage 1	**762**	**5 285**	**-**
Total investment securities	**10 774**	**105 110**	**-**
Other financial assets			
Stage 2	**733**	**2 220**	**45**
Stage 3	**-**	**83**	**-**
Total other financial assets	**733**	**2 303**	**45**
Cash and cash equivalents			
Stage 1	**34 576**	**56 918**	**47**
Total cash and cash equivalents	**34 576**	**56 918**	**47**
Derivative assets	**65 640**	**54 865**	**6**

	2019		
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	-
Other financial assets			
Stage 2	155	3 055	14
Stage 3	-	2	-
Total other financial assets	155	3 057	14
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	-

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31.1.4 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, and this is achieved through setting maximum exposure guidelines to individual counterparties. The bank regularly 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.

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The following tables provide a breakdown of credit exposure across geographical areas.

Geographic concentration of significant credit asset exposure

	2020							
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	**61 677**	**15**	**14 622**	**6 086**	**8 816**	**113**	**212**	**91 541**
Total advances	**831 552**	**34 081**	**13 895**	**11 528**	**6 678**	**3**	**7 975**	**905 712**
Stage 3 advances	**45 678**	**159**	**553**	**1**	**773**	**-**	**89**	**47 253**
Derivatives	**72 609**	**671**	**43 238**	**3 861**	**110**	**-**	**22**	**120 511**
Debt investment securities (excluding recourse investments)	**171 223**	**4 749**	**14 053**	**1 079**	**4 987**	**-**	**5 004**	**201 095**
Accounts receivable	**4 741**	**14**	**40**	**10**	**329**	**-**	**15**	**5 149**
Off-balance sheet exposures								
Guarantees, and letters of credit	**30 842**	**21 674**	**1 875**	**449**	**76**	**-**	**2 246**	**57 162**
Irrevocable commitments	**106 930**	**4 259**	**623**	**2 245**	**492**	**-**	**1 342**	**115 891**

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R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
	2019							
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 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, and letters of credit	33 107	18 505	1 488	436	66	93	4 134	57 829
Irrevocable commitments*	102 148	2 192	815	2 267	818	-	1 394	109 634

* *Irrevocable commitments have been restated to include contingent credit lines as uncommitted.*

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Sector analysis concentration of advances

Advances expose the bank to concentration risk in the various industry sectors. The following tables set out the bank's exposure to various industry sectors for total advances and credit-impaired advances.

	2020			
		Stage 3		
R million	Total advances	Advances	Security held and expected recoveries	Impairment
Sector analysis				
Agriculture	**40 930**	**2 253**	**1 624**	**629**
Banks	**13 626**	**-**	**-**	**-**
Financial institutions	**145 528**	**278**	**87**	**191**
Building and property development	**55 268**	**1 396**	**615**	**781**
Government, Land Bank and public authorities	**20 491**	**1 191**	**1 164**	**27**
Individuals	**396 396**	**33 370**	**17 995**	**15 375**
Manufacturing and commerce	**110 855**	**2 909**	**1 873**	**1 036**
Mining	**21 694**	**887**	**57**	**830**
Transport and communication	**22 895**	**859**	**583**	**276**
Other services	**78 029**	**4 110**	**2 128**	**1 982**
Total advances	**905 712**	**47 253**	**26 126**	**21 127**

31 FINANCIAL RISKS continued

R million	2019			
		Stage 3		
	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

31 FINANCIAL RISKS continued

31.1.5 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, which results 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 and WesBank are secured by the underlying assets financed.
- FNB commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- For FNB and WesBank Retail customers, insurance against disability, life and retrenchment is prescribed, where applicable.
- 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 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 C249.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and securities.
- Working capital facilities in RMB corporate banking are secured and unsecured.

The bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently, where necessary, through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection is performed 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 segment level, in line with the requirements of the bank credit risk/return 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.

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31.1.5 Credit risk mitigation and collateral held continued

The table below represents an analysis of the maximum exposure to credit risk for financial assets at 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.

	2020				
R million	Gross carrying amount	Off-balance sheet exposure	Loss allowance	Maximum exposure to credit risk	
Residential mortgages	**224 404**	**50 747**	**(3 916)**	**271 235**	
WesBank VAF	**94 024**	**-**	**(5 647)**	**88 377**	
FNB card	**30 210**	**-**	**(4 201)**	**26 009**	
Personal loans	**41 874**	**1 502**	**(8 697)**	**34 679**	
Other retail	**16 732**	**559**	**(3 139)**	**14 152**	
FNB commercial	**107 914**	**13 862**	**(6 028)**	**115 748**	
WesBank corporate	**27 114**	**3 707**	**(506)**	**30 315**	
RMB corporate banking	**68 445**	**54 549**	**(1 203)**	**121 791**	
RMB investment banking	**253 669**	**27 142**	**(3 690)**	**277 121**	
Group Treasury and other	**37 544**	**1 000**	**(380)**	**38 164**	
MotoNovo	**3 782**	**374**	**(365)**	**3 791**	
Total advances	**905 712**	**153 442**	**(37 772)**	**1 021 382**	
Investment securities**	**201 138**	**-**	**(43)**	**201 095**	
Cash and cash equivalents	**91 541**	**-**	**-**	**91 541**	
Other assets	**3 081**	**-**	**(111)**	**2 970**	
Derivatives	**120 511**	**-**	**-**	**120 511**	

** Secured represents balances which have non-financial collateral attached to the financial asset.*

***Includes debt instruments measured at fair value but excludes equity.*

	2020		
	Netting and financial collateral	Unsecured	Secured*
	3 136	1 084	267 015
	-	-	88 377
	-	26 009	-
	-	34 679	-
	-	12 719	1 433
	4 731	15 206	95 811
	-	-	30 315
	10	62 571	59 210
	3 696	28 585	244 840
	109	27 990	10 065
	-	271	3 520
	11 682	209 114	800 586
	25	195 119	5 951
	20 024	71 517	-
	-	2 251	719
	-	120 511	-

31 FINANCIAL RISKS

R million	2019 Gross carrying amount	Off-balance sheet exposure	Loss allowance	Maximum exposure to credit risk	
Residential mortgages	217 164	53 107	(2 541)	267 730	
WesBank VAF	94 751	-	(4 181)	90 570	
FNB card	28 115	-	(2 650)	25 465	
Personal loans	39 369	-	(6 815)	32 554	
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	43 080	1 250	(434)	43 896	
MotoNovo	23 495	198	(602)	23 091	
Total advances	921 846	157 990	(27 303)	1 052 533	
Investment securities**	170 163	-	(44)	170 119	
Cash and cash equivalents	70 419	-	-	70 419	
Accounts receivable	3 225	-	(86)	3 139	
Derivatives	43 181	-	-	43 181	

* *Secured represents balances which have non-financial collateral attached to the financial asset.*

***Includes debt instruments measured at fair value but excludes equity.*

	2019		
	Netting and financial collateral	Unsecured	Secured*
	3 270	618	263 842
	-	-	90 570
	-	25 465	-
	-	32 554	-
	-	14 456	1 387
	1 447	24 711	86 391
	-	-	32 464
	-	67 232	45 413
	5 294	27 316	263 116
	89	37 535	6 272
	-	-	23 091
	10 100	229 887	812 546
	-	162 827	7 292
	19 835	50 584	-
	-	3 139	-
	-	43 181	-

31 FINANCIAL RISKS continued

The financial effect of collateral and other credit enhancements has been calculated separately per class of advance. 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.

Collateral held against derivative positions

The table below sets out the cash collateral held against the net derivative position.

R million	**2020**	2019
Cash collateral held	**5 047**	10 164

The table below sets out the collateral that the bank holds where it has the ability to sell or repledge in the absence of default by the owner of the collateral.

Collateral held in structured transactions

	2020		2019	
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	**12 397**	**3 358**	7 166	1 802
Investment securities and other investments - held under reverse repurchase agreements	**26 618**	**7 304**	44 077	24 624
Investment securities and other investments — other	**317**	**-**	-	-
Total collateral pledged	**39 332**	**10 662**	51 243	26 426

Investment securities exclude securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.

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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 master netting agreements (MNAs), guarantees and credit derivatives. In addition, the bank has set up a function to clear over the counter derivatives centrally as part of its risk mitigation strategy.

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 (CSAs) 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 offset or MNA.

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R million	Derivatives 2020	Derivatives 2019	Structured transactions 2020	Structured transactions 2019
Assets				
Offsetting applied				
Gross amount	**169 153**	57 307	**39 517**	41 445
Amount offset	**(53 578)**	(14 321)	**(15 673)**	(9 697)
Net amount reported on the statement of financial position	**115 575**	42 986	**23 844**	31 748
Offsetting not applied				
Financial instruments subject to MNA and similar agreements	**(102 688)**	(33 874)	**(9)**	(5 419)
Financial collateral	**(2 875)**	(2 526)	**(23 835)**	(26 329)
Net amount	**10 012**	6 586	**-**	-
Financial instruments not subject to offset or MNA	**4 936**	195	**2 774**	12 515
Total as per statement of financial position	**120 511**	43 181	**26 618**	44 263
Liabilities				
Offsetting applied				
Gross amount	**183 841**	59 744	**40 962**	42 982
Amount offset	**(53 578)**	(14 321)	**(15 673)**	(9 697)
Net amount reported on the statement of financial position	**130 263**	45 423	**25 289**	33 285
Offsetting not applied				
Financial instruments subject to MNA and similar agreements	**(102 688)**	(33 874)	**(9)**	(5 419)
Financial collateral	**(7 585)**	(1 248)	**(25 266)**	(27 866)
Net amount	**19 990**	10 301	**14**	-
Financial instruments not subject to offset or MNA	**4 225**	2 630	**2 175**	9 413
Total as per statement of financial position	**134 488**	48 053	**27 464**	42 698

	Other advances/ (deposits)		Intercompany	
	2020	2019	**2020**	2019
	-	-	**26 541**	3 332
	-	-	**(8 709)**	(629)
	-	-	**17 832**	2 703
	-	-	**(15 856)**	(2 104)
	-	-	**-**	-
	-	-	**1 976**	599
	841 322	850 280	**49 477**	50 324
	841 322	850 280	**67 309**	53 027
	-	-	**26 663**	3 062
	-	-	**(8 709)**	(629)
	-	-	**17 954**	2 433
	-	-	**(15 856)**	(2 104)
	-	-	**-**	-
	-	-	**2 098**	329
	1 061 488	1 015 741	**18 300**	23 351
	1 061 488	1 015 741	**36 254**	25 784

31 FINANCIAL RISKS continued

31.2 Liquidity risk

Objective

The bank aims to fund its activities in an efficient and flexible manner, from diverse and sustainable funding pools, whilst operating within prudential limits. The bank'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 bank'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 bank's funding strategy, particularly as it seeks to price appropriately for liquidity on a risk-adjusted basis. The bank continues to offer innovative and competitive products to further grow its deposit operating business whilst also optimising its institutional funding profile. These initiatives continue to improve the funding and liquidity profile of the bank.

Liquidity risk arises from all assets and liabilities with differing maturity profiles.

Assessment and management

The bank focuses on continuously monitoring and analysing the potential impact of other risks and events on its funding and liquidity position to ensure business activities are preserved and funding stability is improved. This ensures the bank can 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 bank'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 as illustrated in the following table.

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 several contingency funding sources to draw upon in times of economic stress.

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

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- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the bank.

Impact of COVID-19

The bank entered the crisis in a strong liquidity position and has remained well funded and within prudential liquidity requirements and internal risk appetite levels throughout the stress period. The interventions introduced by the global regulators have ensured that markets continue to operate smoothly through the crisis. The bank remains in a strong funding and liquidity position, however, the crisis has not yet come to an end and key risk metrics and early warning indicators continue to be closely monitored. The bank regularly forecasts its liquidity position and uses scenario analysis to inform decision-making. The bank has appropriate liquidity buffers and access to funding to withstand the anticipated liquidity risks in the near term.

31.2.1 Undiscounted cash flow

The following table presents the bank's undiscounted cash flows of financial liabilities and off-balance sheet amounts and includes all cash outflows related to principal amounts, as well as future payments. These balances will not reconcile to the balance sheet for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- the table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call-to-three-month bucket and not by maturity, as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

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	2020			
		Term to maturity		
R million	Carrying amount	Call to 3 months	4-12 months	> 12 months and non-contractual
On-balance sheet amounts				
Deposits and current accounts	**1 165 924**	**813 103**	**118 280**	**234 541**
Short trading positions	**4 786**	**4 786**	**-**	**-**
Derivative financial instruments	**134 430**	**121 555**	**4 664**	**8 211**
Creditors, accruals and provisions	**14 355**	**11 300**	**425**	**2 630**
Tier 2 liabilities	**25 326**	**1 978**	**4 112**	**19 236**
Other liabilities	**3 762**	**532**	**66**	**3 164**
Lease liabilities	**1 953**	**209**	**538**	**1 206**
Amounts due to holding company and fellow subsidiaries	**36 116**	**34 935**	**1 126**	**55**
Off-balance sheet amounts				
Financial and other guarantees	**38 679**	**36 950**	**771**	**958**
Operating lease commitments	**-**	**-**	**-**	**-**
Other contingencies and commitments	**3 081**	**572**	**2 030**	**479**
Undrawn facilities	**115 891**	**115 891**	**-**	**-**

	2019			
		Term to maturity		
R million	Carrying amount	Call to 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
Lease liabilities	-	-	-	-
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
Undrawn facilities*	109 634	109 634	-	-

** The prior year amount has been restated. Refer to Note 26 Contingencies and commitments for the detail.*

31 FINANCIAL RISKS continued

31.2.2 Discounted cash flow analysis

The following table represents the bank's contractual discounted cash flows of total assets, liabilities and equity. Relying solely on the contractual liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents worst-case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative gap in the shorter term due to short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

Discounted cash flow analysis – maturity analysis of total assets, liabilities and equity based on the present value of the expected payment

	2020			
		Term to maturity		
R million	**Carrying amount**	**Call to 3 months**	**4-12 months**	**> 12**
Total assets	**1 414 712**	**558 438**	**135 127**	**721 146**
Total equity and liabilities	**1 414 712**	**991 726**	**117 331**	**305 654**
Net liquidity gap	**-**	**(433 288)**	**17 796**	**415 492**
Cumulative liquidity gap	**-**	**(433 288)**	**(415 492)**	**-**

	2019			
		Term to maturity		
R million	Carrying amount	Call to 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)	-

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 operating business via transactional deposit accounts. Management continues to align stress-funding buffers both locally and offshore, taking prevailing economic and market conditions into account.

31 FINANCIAL RISKS continued

31.2.3 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	**2020**	2019
Cash and cash equivalents	**20 056**	20 193
Advances	**2 431**	3 830
Investment securities — held under repurchase agreements	**19 862**	21 918
Investment securities — other	**10 990**	15 929
Total assets pledged	**53 339**	61 870

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	**2020**	2019
Short-trading positions	**4 786**	5 355
Total deposits	**36 205**	55 081
- Deposits under repurchase agreements	**23 559**	40 896
- Deposits in securities lending transactions*	**3 905**	1 802
- Other secured deposits	**8 741**	12 383
Amounts due to holding company and fellow subsidiaries	**-**	35
Other	**21 647**	23 368
Total	**62 638**	83 839

* *Securities lending transactions include only those where cash is placed against the securities borrowed. Transactions where securities are lent and borrowed and other securities placed against the borrowing and lending are excluded.*

31 FINANCIAL RISKS continued

31.2.4 Concentration analysis of deposits

R million	2020	2019
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**106 236**	103 346
Public sector entities	**28 829**	30 046
Local authorities	**13 677**	14 011
Banks	**45 253**	49 105
Securities firms	**8 506**	8 768
Corporate customers	**572 558**	579 486
Retail customers	**311 788**	268 029
Other	**2 105**	5 648
Total deposits	**1 088 952**	1 058 439
Geographical analysis		
South Africa	**1 001 095**	968 293
Rest of Africa	**18 449**	21 275
UK	**31 991**	43 090
Other	**37 417**	25 781
Total deposits	**1 088 952**	1 058 439

31 FINANCIAL RISKS continued

31.3 Market risk

The bank distinguishes between traded market risk and non-traded market risk.

31.3.1 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 business units in RMB function as the centres of expertise for all market risk-related activities. Market risk is managed and contained within the bank's risk 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.

Traded market risk 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 interest rate risk in the banking book are split between the RMB banking book and the remaining domestic banking book. RMB manages most 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 R136 million on a 10-day expected tail loss (ETL) basis at 30 June 2020 (2019: R55 million). Interest rate risk in the remaining domestic banking book is discussed under the Interest rate risk section on page C261.

During March and April 2020, global financial markets experienced heightened volatility related to the COVID-19 pandemic. The market risk measurement framework performed as expected and market risk tolerances remained within expected limits. Trading revenue continued to perform as expected.

The risk related to market risk-taking activities is measured as the height of the bank's internal ETL measure (as a proxy for economic capital) and regulatory capital based on 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 (2008/2009). The 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. The market history of the past 260 trading days was updated during the COVID-19 crisis to reflect the current market volatility.
VaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days.

31 FINANCIAL RISKS continued

31.3.1 Market risk in the trading book

VaR analysis by risk type

The following table reflects the 1-day VaR at the 99% confidence level at 30 June 2020.

	2020				2019			
R million	**Min***	**Max***	**Average**	**Period end**	Min*	Max*	Average	Period end
Risk type**								
Equities	**1.9**	**43.9**	**8.0**	**11.2**	0.4	47.3	7.4	5.9
Interest rates#	**27.4**	**197.2**	**89.6**	**134.3**	10.2	82.5	34.6	59.9
Foreign exchange	**7.3**	**252.4**	**22.1**	**17.1**	2.8	85.6	25.9	15.8
Commodities	**1.8**	**18.4**	**7.5**	**8.3**	1.4	17.5	8.3	6.1
Traded credit	**5.1**	**26.6**	**12.8**	**11.4**	3.6	31.0	14.7	10.6
Diversification effect				**(67.2)**				(12.0)
Diversified total	**28.2**	**199.9**	**94.5**	**115.2**	5.9	105.6	52.1	91.8

**The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*
***Exclude foreign branches, which are reported on in the standardised approach for market risk section of this document.*
#Interest rate risk in the trading book.

31 FINANCIAL RISKS continued

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.

	2020							
	Period end							
	VaR				**sVaR**			
R million	**Min***	**Max***	**Average**	**Period end**	**Min***	**Max***	**Average**	**Period end**
Risk type**								
Equities	**4.6**	**164.6**	**20.8**	**17.3**	**0.7**	**105.5**	**25.3**	**12.4**
Interest rates#	**72.1**	**355.0**	**178.7**	**300.4**	**110.4**	**356.8**	**171.4**	**199.9**
Foreign exchange	**11.4**	**103.4**	**41.4**	**76.2**	**12.5**	**247.0**	**74.6**	**47.7**
Commodities	**6.2**	**32.6**	**14.5**	**14.7**	**5.0**	**42.8**	**19.2**	**20.6**
Traded credit	**7.5**	**56.4**	**18.9**	**14.1**	**7.1**	**31.5**	**20.5**	**12.1**
Diversification effect				**(128.2)**				**(137.7)**
Diversified total	**58.3**	**381.1**	**152.4**	**294.6**	**97.7**	**437.4**	**192.7**	**155.0**

	2019							
	Period end							
	VaR				sVaR			
R million	Min*	Max*	Average	Period end	Min*	Max*	Average	Period end
Risk type**								
Equities	1.0	132.3	18.1	15.4	1.9	96.5	25.5	10.9
Interest rates#	29.4	169.5	85.3	152.5	52.7	388.9	138.8	318.4
Foreign exchange	3.3	164.3	71.2	46.2	8.5	228.1	91.6	142.5
Commodities	3.9	38.6	21.4	11.3	7.1	74.8	37.6	10.6
Traded credit	10.1	99.7	36.1	20.8	8.7	30.4	17.2	15.8
Diversification effect				(120.8)				(102.8)
Diversified total	19.9	329.9	141.6	125.4	71.4	455.7	192.0	395.4

* *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.*

** *Exclude foreign branches, which are reported on the standardised approach for market risk. sVaR numbers relates to FirstRand Bank South Africa only.*

\# *Interest rate risk in the trading book.*

31 FINANCIAL RISKS continued

31.4 Non-traded market risk

31.4.1 Interest rate risk in the banking book

IRRBB originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

Assessment and management

FRB South Africa

The measurement techniques used to monitor interest rate risk in the banking book include NII sensitivity/earnings risk and PV01/economic value of equity (EVE) sensitivity. 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 internal funds transfer pricing process is used to transfer interest rate risk from the operating businesses to Group Treasury. This process allows risk to be managed centrally and holistically in line with the bank'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 any accounting mismatches that may arise. 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. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

Sensitivity analysis

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as the economic value/PV01 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 could cause a change in rates.

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book to shocks in interest rates. Underlying transactions are modelled on a contractual basis and behavioural adjustments are applied where relevant. The calculation assumes a constant balance sheet size and product mix over the forecast horizon. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the bank's discretion. This assumption is based on historical product behaviour.

31 FINANCIAL RISKS 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 the bank's NII sensitivity is a result of the endowment book mismatch. The bank's average endowment book was R274 billion for the year (2019: R230 billion).

Projected ZAR NII sensitivity to interest rate movements

	Change in projected 12-month NII	
R million	**2020**	2019
Downward 200 bps	**(3 270)**	(3 678)
Upward 200 bps	**2 387**	3 118

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 R (3 270) million (2019: R3 678 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R 2 387 million (2019: R3 118 million).

Effect of IBOR reform

The reform and replacement of benchmark interest rates such as interbank offered rates (IBORs) with alternative risk-free rates (ARRs) has become a priority for global regulators. These reforms are at various stages globally. At present, the SONIA (Sterling Overnight Index Average) and the SOFR (Secured Overnight Financing Rate) are set to replace the GBP/USD IBOR. Due to the differences in the manner in which the GBP/USD IBOR rate and the SONIA/SOFR are determined, adjustments may have to be applied to contracts that reference the GBP/USD IBOR when the SONIA/SOFR becomes the official reference rate, so as to ensure economic equivalence on transition. Currently the Financial Conduct Authority in the UK and industry working groups are reviewing various methodologies for calculating these adjustments, to ensure an orderly transition to SONIA/SOFR and to minimise the risks arising from transition. The bank currently has a number of contracts, including derivatives, which reference GBP/USD LIBOR which extend beyond 2021.

The bank has established a steering committee consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the bank's IBOR reform transition plan. This steering committee has put in place a transition project for affected contracts with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. With respect to derivative contracts, ISDA is currently reviewing its definitions in light of global IBOR reforms and the bank expects it to issue standardised amendments to all impacted derivative contracts at a future date.

31 FINANCIAL RISKS 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 the total risk limit, appetite levels and current economic conditions.

The EVE shock applied is based on regulatory guidelines and comprises 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, capture 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

%	**2020**	2019
Downward 200 bps	**3.96**	1.98
Upward 200 bps	**(3.53)**	(1.77)

31 FINANCIAL RISKS continued

31.4.2 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 structural foreign exchange risk from translation of its foreign operations' 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. It can be a source of both investor value through diversified earnings, and unwanted volatility as a result of currency fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the rand value of any capital investments and dividend distributions. Reporting on and management of the bank's foreign exchange exposure and macro-prudential limit utilisation is centrally owned by Group Treasury as the clearer of all bank currency positions. Group Treasury is also responsible for oversight of structural foreign exchange risk and produces reports that are submitted to 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 the macro-prudential and regulatory limits. In the bank, additional board limits and management risk appetite levels are set for this exposure. The impact of any residual on-balance positions is managed as part of the market risk reporting process (see Traded market risk section). Group Treasury is responsible for consolidated bank reporting and the monitoring of utilisation against the approved limits and risk appetite levels.

Foreign exchange risk in the banking book impacts funding and liquidity management, and other risk mitigating activities. To minimise funding risk across the bank, foreign currency transactions are matched, where possible, with residual liquidity risk managed centrally by Group Treasury, and usually to low levels. Structural foreign exchange risk impacts both the current NAV of the bank as well as future profitability and earnings potential. Economic hedging is undertaken where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open positions are included as part of Traded market risk.

The following table provides an overview of the bank's exposure to entities with functional currencies other than the rand and the pre-tax impact on equity of a 15% change in the exchange rate between the rand and the relevant functional foreign currencies. There were no significant structural hedging strategies employed by the bank in the current financial year.

31 FINANCIAL RISKS continued

Net structural foreign exposures

	2020		2019	
	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
US dollar	**4 570**	**685**	3 333	500
Sterling	**1 672**	**251**	1 877	281
Indian rupee	**823**	**123**	684	103
Total	**7 065**	**1 059**	5 894	884

31.5 Equity investment risk

Equity investment risk in the bank arises primarily from equity exposures from investment banking 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 in FCC. These investments are, by their nature, core to the individual businesses' daily operations and are managed as such.

Assessment and management

The equity investment risk portfolio is managed through a rigorous evaluation and review process from the inception to exit of a transaction. All investments are subject to a comprehensive due diligence process, 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 bank seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations and financial discipline.

31 FINANCIAL RISKS 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 performed 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 those subject to the ETL process and includes the carrying value of investments in associates and joint ventures.

Investment risk exposure and sensitivity of investment risk

R million	**2020**	2019
Listed investment risk exposure included in the equity investment risk ETL	**4**	170
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value	**126**	160

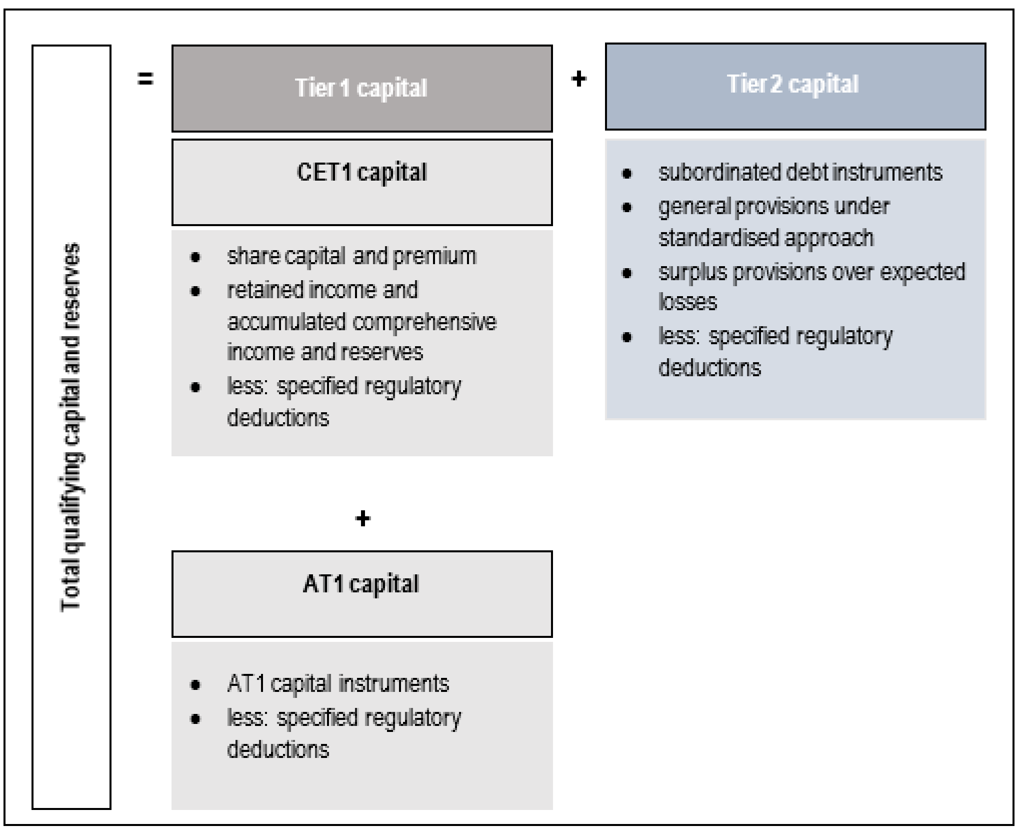
31 FINANCIAL RISKS continued

31.6 Capital management

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 include a range of normal and severe stress scenarios. The bank aims to mitigate all economic risks with loss-absorbing capital and remains well capitalised in the current economic environment.

In response to the current COVID-19 pandemic, the Prudential Authority (PA) has implemented the following temporary measures to provide capital relief to enable banks to counter economic risks to the financial system as a whole. Directive 2 of 2020, Matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic, temporarily reduced the Pillar 2A requirement from 1 per cent to 0 per cent, effective 6 April 2020.

The following diagram defines the main components of qualifying capital and reserves.



The bank's capital ratios remain strong and above the regulatory minimums and internal targets. The internal targets are subject to ongoing review and take various stakeholder requirements in account which is as follows: CET 1 (11.0% - 12.0%); Tier 1 (>12%) and total internal target of >14.25%.

31 FINANCIAL RISKS continued

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 mix.

Capital adequacy for the bank's foreign branches

The bank's foreign branches must comply with the PA's Regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet regulatory and economic capital requirements. Capital generated by branches in excess of targeted levels is returned to the 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.

31.7 Financial resource management and the stress test process

The management of the bank'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.

The bank 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 bank's financial performance and risk position. The macroeconomic outlook for South Africa and a number of other jurisdictions where the bank operates, is reviewed on a monthly basis over a three-year forecast horizon. Business plans for the next three years are captured in the budget and forecasting process. Scenario planning or stress tests is then used to assess whether the desired profile can be delivered and whether the bank 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 bank. 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.

Stress testing and scenario planning serve a number of regulatory and internal business purposes and are conducted for the bank across different risk types, factors and indicators. The bank employs a comprehensive, consistent and integrated approach to stress testing and scenario analysis. The bank evaluates the impact of various macroeconomic scenarios on the business and considers the need for adjustment to origination and takes appropriate actions. More severe macroeconomic scenarios are run less frequently, but are critical to determine or test capital buffers and other risk appetite measures, enhance capital and liquidity planning, validate existing quantitative risk models and improve the understanding of required management actions/responses.

Stress tests are conducted throughout the group for most legal entities, whether regulated or not. The various stress test processes are supported by a robust and holistic framework, underpinned by principles and sound governance, and aligned to regulatory requirements and best practice.

31 FINANCIAL RISKS continued

Stress testing and scenario analysis provide the board and management with useful insight into the bank's financial position, level of earnings volatility, risk profile and future capital position. Results are used to challenge and review certain of the bank's risk appetite measures which, over time, influence the allocation of financial resources across businesses and impact performance measurement.

From a regulatory perspective, stress testing and scenario analysis feed into the bank's internal capital adequacy assessment process (ICAAP) and recovery plan. The ICAAP stress test is an enterprise-wide, macroeconomic stress test covering material risks that the bank is exposed to. It typically covers a three-year horizon, with separate ICAAP submissions completed for the bank's regulated banking entities which are subject to Basel II requirements. The severity of the macroeconomic scenarios ranges from a mild downturn to severe stress scenarios. In addition to macroeconomic scenarios, the bank incorporates event risks and reverse stress test scenarios that highlight contagion between risk types. Techniques and methodologies range from multi-factor and regression analyses for macroeconomic stress tests to single-factor sensitivities and qualitative impact analysis for event risks and reverse stress tests. The bank regularly runs additional ad hoc stress tests for both internal and regulatory purposes.

31.5 Financial resource management and the stress test process continued

The risk, capital and compliance committee (RCC) committee is a board-designated committee mandated to provide oversight of risk and capital management. Its role includes:

- having ultimate responsibility for the stress test and risk-reward frameworks;
- retaining effective oversight of the overall stress test programme and risk appetite process; and
- considering the impact of the stress test results on the business and strategic direction of the group.

The RCC delegates some of its responsibilities to its sub-committee, ALCCO, which is responsible for:

- considering the results of the stress tests and assessing them against capital targets and capital adequacy ratios as well as high-level risk appetite measures as articulated in the risk-reward framework;
- approving buffers over regulatory capital and monitoring capital adequacy ratios based on the results; and
- recommending management actions for capital adequacy purposes.

The stress testing function is further delegated to Group Treasury, enterprise risk management, group-finance, group internal audit and operating business, segments and business units.

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES

As noted in Note 10 Advances, the bank defines a class firstly by the nature of the customer relationship, in other words, whether the ultimate customer is retail, corporate and commercial or within the UK operations. Within the main classes identified, the group then further categorises the main class into sub-classes that are appropriate to the nature of the credit risk management information and which reflects similar characteristics of the financial instrument.

During the current year, the group reclassified advances between classes, and elected to voluntarily restate its comparative information both in Note 10 Advances, Note 11 Impairment of Advances and Note 32 Financial Risks. To allow the user to compare the restated comparatives provided in these notes to the information previously presented, the affected notes included in the 2019 annual financial statements have been included below.

Note 10 – Advances

Analysis of advances per class

	2019 (IFRS 9)			
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)**

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 11 – Impairment of advances

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

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 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

Modified advances measured at amortised cost

	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)

	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

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 31 – Financial Risks

Credit assets

R million	2019 IFRS 9
On-balance sheet exposures	
Cash and short-term funds	70 419
- Money at call and short notice	44 719
- Balances with central banks	25 700
Gross advances	921 846
Retail secured	334 832
- Residential mortgages	217 164
Vehicle asset finance	117 668
Retail unsecured	90 298
- Credit card	32 443
- Personal loans	39 947
- Other retail	17 908
Corporate and commercial	457 964
- FNB commercial	105 128
- WesBank corporate	27 945
- RMB corporate banking	57 932
- RMB investment banking	266 959
Group Treasury and other	38 752
Derivatives	43 181
Debt investment securities	170 119
Financial accounts receivable included in other assets	3 139
Amounts due by holding company and fellow subsidiaries	53 027
Off-balance sheet exposure	179 787
- Total contingencies	57 829
- Guarantees	49 443
- Letters of credit	8 386
- Irrevocable commitments	117 028
- Credit derivatives	4 930
Total	1 441 518

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 31 – Financial Risks continued

Quality of credit assets

	2019 (IFRS 9)					
	FR1-25		FR26-90		FR91-100	
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

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 31 – Financial Risks continued

Quality of credit assets continued

	2019 (IFRS 9)					
	FR1-25		FR26-90		FR91-100	
R million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
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	-
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

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 31 – Financial Risks 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
- Home loans	8 426	6 776	1 650
- Commercial property finance	548	377	171
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

32 IMPACT DUE TO MOVEMENTS IN THE CLASSES OF ADVANCES continued

Note 31 – Financial Risks continued

Credit risk mitigation and collateral held

	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 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	

** Secured represents balances which have non-financial collateral attached to the financial asset.*
***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.

	2019 (IFRS 9)		
	Netting and financial collateral	Unsecured	Secured*
	3 270	618	263 842
	-	-	113 121
	-	29 560	-
	-	32 557	537
	-	14 456	1 387
	1 447	24 711	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
	-	162 826	7 292
	19 835	50 584	-
	-	3 139	-
	-	43 181	-

33 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
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 bank'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 only applicable for business combinations for which the acquisition date is on or after the effective date going forward and the clarified requirements will be applied on a transaction by transaction basis.	Business combinations entered into on or after 1 January 2020
IAS 1 and **IAS 8**	**Amendments regarding the definition of material** The amendments aligns the definition of material across the IFRS Standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendment must be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2020

33 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB issued amendments to the following standards as part of the interest rate (IBOR) benchmark reform that has a direct impact on the bank’s hedging relationships. These impacts are - ➢ The highly probable requirement under IFRS 9 and IAS 39 - when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. ➢ Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based are not altered as a result of the interest rate benchmark reform. ➢ Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment allows for hedges of a non-contractually specified benchmark component of interest rate risk. A company shall apply the separately identifiable requirement only at the inception of such hedging relationships. These reliefs are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new ARRs. The bank has evaluated the impact of these amendments and concluded that the amendments will benefit future hedging transactions the bank is likely to enter into. The IASB is now finalising phase two of the IBOR reform project, which addresses issues that could affect financial reporting when an existing interest rate benchmark is replaced with an ARR.	Annual periods commencing on or after 1 January 2020
Annual improvements 2016 - 2018	**Improvements to IFRS** The IASB issued the *Annual improvements to IFRS standards 2016-2018 Cycle*. These annual improvements include amendments to the following standards. ➢ IFRS 9 – The amendment clarifies that fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2022

33 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 3	**Reference to the Conceptual Framework – Amendment to IFRS 3** The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are intended to update a reference to the Conceptual Framework without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2022
IAS 16	**Property, plant and equipment: Proceeds before intended use – Amendment to IAS 16** The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2022
IAS 37	**Onerous contracts – cost of fulfilling a contract. Amendment to IAS 37** The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.	Annual periods commencing on or after 1 January 2022

33 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
	The amendment is not expected to have a significant impact on the annual financial statements.	
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. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived from the movement in liability for the remaining insurance coverage period. The insurance contract liability is initially made up of: • 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 2023
IAS 1	**Amendments to classification of liabilities as current or non-current** The IAS 1 amendments clarify the requirements for classifying liabilities as current or non-current. More specifically: • The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. • Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. • The amendments clarify the situations that are considered settlement of a liability. The bank presents its assets and liabilities in order of liquidity in its statement of financial position. This amendment will only affect the disclosures and the bank does not expect this amendment to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2023

34 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

Company information

DIRECTORS

WR Jardine (chairman), AP Pullinger (chief executive officer), HS Kellan (financial director), M Vilakazi (chief operating officer), MS Bomela, JP Burger, GG Gelink, F Knoetze, RM Loubser, TS Mashego, AT Nzimande, Z Roscherr, LL von Zeuner, T Winterboer

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2090

Listed financial instruments of the bank

LISTED DEBT INSTRUMENTS

JSE

Domestic medium-term note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Subordinated debt					
FRB13	ZAG000116286	FRB19	ZAG000135310	FRB24	ZAG000155102
FRB14	ZAG000116294	FRB20	ZAG000135385	FRB25	ZAG000157512
FRB16	ZAG000127622	FRB21	ZAG000140856	FRB26	ZAG000159955
FRB17	ZAG000127630	FRB22	ZAG000141219	FRB27	ZAG000159963
FRB18	ZAG000135229	FRB23	ZAG000146754		
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	FRJ022	ZAG000163775	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

Listed financial instruments of the bank continued

Note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Structured notes					
FRS36	ZAG000077397	FRS135	ZAG000126608	FRS180	ZAG000154147
FRS37	ZAG000077793	FRS136	ZAG000126780	FRS182	ZAG000154386
FRS43	ZAG000078643	FRS137	ZAG000127549	FRS183	ZAG000154568
FRS46	ZAG000079807	FRS138	ZAG000127556	FRS184	ZAG000155490
FRS49	ZAG000081787	FRS142	ZAG000130782	FRS186	ZAG000156522
FRS51	ZAG000086117	FRS143	ZAG000130790	FRS187	ZAG000156514
FRS62	ZAG000090614	FRS145	ZAG000134263	FRS188	ZAG000156506
FRS64	ZAG000092529	FRS146	ZAG000134636	FRS194	ZAG000160516
FRS81	ZAG000100892	FRS147	ZAG000135724	FRS195	ZAG000160524
FRS85	ZAG000104985	FRS149	ZAG000136573	FRS197	ZAG000161373
FRS87	ZAG000105420	FRS150	ZAG000136615	FRS198	ZAG000161365
FRS90	ZAG000106410	FRS151	ZAG000136987	FRS199	ZAG000161381
FRS100	ZAG000111634	FRS152	ZAG000136995	FRS200	ZAG000161571
FRS101	ZAG000111774	FRS153	ZAG000137670	FRS201	ZAG000162025
FRS103	ZAG000111840	FRS158	ZAG000145012	FRS202	ZAG000162066
FRS104	ZAG000111857	FRS159	ZAG000145020	FRS204	ZAG000162538
FRS108	ZAG000113515	FRS160	ZAG000145038	FRS205	ZAG000162546
FRS109	ZAG000113564	FRS161	ZAG000145046	FRS206	ZAG000163304
FRS110	ZAG000113663	FRS162	ZAG000145111	FRS207	ZAG000164385
FRS112	ZAG000115395	FRS163	ZAG000145129	FRS208	ZAG000164377
FRS114	ZAG000116070	FRS164	ZAG000145160	FRS209	ZAG000164344
FRS119	ZAG000118951	FRS165	ZAG000145178	FRS211	ZAG000165762
FRS120	ZAG000119298	FRS167	ZAG000145764	FRS212	ZAG000166786
FRS121	ZAG000120643	FRS168	ZAG000145772	FRS213	ZAG000166802
FRS122	ZAG000121062	FRS169	ZAG000145780	FRS214	ZAG000166778
FRS123	ZAG000121328	FRS170	ZAG000145954	FRS215	ZAG000167339
FRS124	ZAG000122953	FRS171	ZAG000147448	FRS217	ZAG000167826
FRS126	ZAG000125188	FRS172	ZAG000147455	FRS218	ZAG000168527
FRS127	ZAG000125394	FRS173	ZAG000148180	FRS219	ZAG000168683
FRS129	ZAG000125865	FRS174	ZAG000148198	FRS220	ZAG000168717
FRS131	ZAG000126186	FRS175	ZAG000149451	FRS221	ZAG000169038
FRS132	ZAG000126194	FRS176	ZAG000149444	RMBI02	ZAG000052986
FRS134	ZAG000126574	FRS177	ZAG000152885		

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Credit-linked notes					
FRC169	ZAG000104852	FRC277	ZAG000153552	FRC311	ZAG000161977
FRC181	ZAG000108549	FRC279	ZAG000153578	FRC312	ZAG000161985
FRC207	ZAG000117649	FRC280	ZAG000153776	FRC313	ZAG000161993
FRC208	ZAG000117656	FRC282	ZAG000154063	FRC314	ZAG000162033
FRC209	ZAG000118613	FRC283	ZAG000154394	FRC315	ZAG000163155
FRC213	ZAG000121047	FRC284	ZAG000154642	FRC316	ZAG000163460
FRC221	ZAG000121229	FRC285	ZAG000155201	FRC317	ZAG000163551
FRC233	ZAG000128752	FRC286	ZAG000156548	FRC318	ZAG000163684
FRC234	ZAG000130816	FRC289	ZAG000157108	FRC319	ZAG000163700
FRC237	ZAG000135203	FRC290	ZAG000157447	FRC320	ZAG000163718
FRC239	ZAG000135245	FRC291	ZAG000157629	FRC321	ZAG000163759
FRC240	ZAG000135252	FRC292	ZAG000157777	FRC323	ZAG000163874
FRC243	ZAG000135419	FRC293	ZAG000158783	FRC324	ZAG000164021
FRC245	ZAG000135468	FRC294	ZAG000158791	FRC325	ZAG000164302
FRC246	ZAG000135476	FRC296	ZAG000159369	FRC326	ZAG000164310
FRC249	ZAG000135542	FRC297	ZAG000159351	FRC327	ZAG000164880
FRC250	ZAG000135559	FRC298	ZAG000159427	FRC328	ZAG000164898
FRC251	ZAG000141813	FRC299	ZAG000159575	FRC329	ZAG000165945
FRC252	ZAG000142225	FRC300	ZAG000159674	FRC330	ZAG000166133
FRC256	ZAG000145806	FRC301	ZAG000159872	FRC331	ZAG000166620
FRC261	ZAG000147653	FRC302	ZAG000160029	FRC332	ZAG000166687
FRC262	ZAG000147646	FRC303	ZAG000160425	FRC334	ZAG000166810
FRC265	ZAG000149485	FRC304	ZAG000160565	FRC335	ZAG000166950
FRC267	ZAG000150004	FRC305	ZAG000160920	FRC336	ZAG000166968
FRC271	ZAG000151556	FRC306	ZAG000160938	FRC337	ZAG000167297
FRC272	ZAG000151564	FRC307	ZAG000161597	FRC338	ZAG000168535
FRC274	ZAG000151952	FRC308	ZAG000161605	FRC339	ZAG000168626
FRC275	ZAG000152372	FRC309	ZAG000161738	FRC340	ZAG000168659
FRC276	ZAG000152430	FRC310	ZAG000161936	FRC341	ZAG000168675

Preference share programme

Bond code	ISIN code
Class A cumulative redeemable non-participating preference shares	
FRBP01	ZAE000279469

London Stock Exchange (LSE)

European medium-term note programme

ISIN code	
Senior unsecured	**Subordinated debt**
XS1954121031 (unlisted)	XS1810806395

Other

Bond code	ISIN code
Exchange-traded funds	
DCCUSD	ZAE000234977
DCCUS2	ZAE000251179
KCCGLD	ZAE000195830

Bond code	ISIN code	Bond code	ISIN code
Other			
FRK02	ZAE000275533	FRPT01	ZAE000205480

Definitions

Additional Tier 1 (AT1) capital	AT1 capital instruments less specified regulatory deductions.
Age distribution	The number of months between the loan completion and the end of the reporting period plus one (in line with the banding requirements). Percentage for each age band is based on the current exposure.
Arrears	A percentage that expresses the current exposure of the loans with one or more months in arrears to the total current book exposure for the reporting period.
Balance-to-market value	The current exposure divided by the indexed valuation (indexing model uses Nationwide and IPD indices). Percentage for each balance-to-market value band is based on the current exposure.
Balance-to-original value	The current exposure divided by the original valuation. Percentage for each balance-to-original value band is based on the current exposure.
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 group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares, including treasury shares.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share.
Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Shares in issue	Number of ordinary shares listed on the JSE.
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 plus qualifying provisions less specified regulatory deductions.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.
Vintage analysis	A percentage that expresses the origination balance of the loans in particular year/quarter of origination, that have ever been one or more (1+ Ever Vintage)/3 or more (3+ Ever Vintage) months in arrears (within 3/6/12-month outcome window), regardless if account is redeemed, to the origination balance of all loans booked in that year/quarter of origination.
Weighted average number of ordinary shares	Weighted average number of ordinary shares in issue during the year as listed on the JSE.

Abbreviations

AC and FV	Amortised cost and fair value
ABF	Asset-backed finance
AT1	Additional Tier 1
AUM	Assets under management
BASA	Banking Association of South Africa
CAGR	Compound annual growth rate
Capex	Capital expenditure
CB	RMB corporate banking
CCyB	Countercyclical buffer
CET1	Common Equity Tier 1
CIB	Corporate and investment banking
CLF	Committed liquidity facility
CLR	Credit loss ratio
CoDI	Corporation for Deposit Insurance
COVID-19	Coronavirus disease
CSI	Corporate social investment
DA	DirectAxis
DIC	Dealer incentive costs
DM	Developed market
D-SIB	Domestic systemically important bank
EAD	Exposure at default
EC	Economic capital
ECL	Expected credit loss
EMTN	European medium-term note
FCC/GTSY	FirstRand Corporate Centre and Group Treasury
FLI	Forward-looking information
FML	Full maintenance leasing
FRB	FirstRand Bank Limited
FREMA	FirstRand EMA Holdings (Pty) Ltd
FRIHL	FirstRand Investment Holdings (Pty) Ltd
FRM	Financial resource management
FRN	Floating rate note
FSLAB	Financial Sector Laws Amendment Bill
FSR	FirstRand Limited
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
HQLA	High-quality liquid assets
IB	Investment banking
ISA	International Standard on Auditing
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange

LCR	Liquidity coverage ratio
LGD	Loss given default
LSE	London Stock Exchange
LTV	Loan to value
Moody's	Moody's Investors Service
MTM	Mark-to-market
MVNO	Mobile virtual network operator
NCD	Negotiable certificate of deposit
NAV	Net asset value
NIACC	Net income after cost of capital
NII	Net interest income
NIM	Net interest margin
NIR	Non-interest revenue
NPLs	Non-performing loans
NSFR	Net stable funding ratio
NSX	Namibian Stock Exchange
PA	Prudential Authority
PBT	Profit before tax
PD	Probability of default
P/E	Price/earnings
PRA	Prudential Regulation Authority
ROA	Return on assets
ROE	Return on equity
RWA	Risk weighted assets
S&P	S&P Global Ratings
SA-CCR	Standardised approach for measuring counterparty credit risk
SACU	Southern African Customs Union
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SICR	Significant increase in credit risk
SME	Small and medium enterprises
SPIRE	SA Pandemic Intervention and Relief Effort
TFS	Toyota Financial Services (Pty) Ltd
TRS	Total return swap
TTC	Through-the-cycle
UK	United Kingdom
VAF	Vehicle asset finance
VAPS	Value-added products and services
VWFS	Volkswagen Financial Services (Pty) Ltd
WIM	Wealth and investment management

Abbreviations of financial reporting standards

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1	IFRS 1 – First-time Adoption of International Financial Reporting Standards
IFRS 2	IFRS 2 – Share-based Payment
IFRS 3	IFRS 3 – Business Combinations
IFRS 4	IFRS 4 – Insurance Contracts
IFRS 5	IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	IFRS 7 – Financial Instruments – Disclosures
IFRS 8	IFRS 8 – Operating Segments
IFRS 9	IFRS 9 – Financial Instruments
IFRS 13	IFRS 13 – Fair Value Measurement
IFRS 15	IFRS 15 – Revenue
IFRS 16	IFRS 16 – Leases
IFRS 17	IFRS 17 – Insurance Contracts

INTERNATIONAL ACCOUNTING STANDARDS

IAS 1	IAS 1 – Presentation of Financial Statements
IAS 2	IAS 2 – Inventories
IAS 7	IAS 7 – Statement of Cash Flows
IAS 8	IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	IAS 10 – Events After the Reporting Period
IAS 12	IAS 12 – Income Taxes
IAS 16	IAS 16 – Property, Plant and Equipment
IAS 17	IAS 17 – Leases
IAS 18	IAS 18 – Revenue
IAS 19	IAS 19 – Employee Benefits
IAS 20	IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	IAS 21 – The Effects of Changes in Foreign Exchange Rates
IAS 23	IAS 23 – Borrowing Costs
IAS 24	IAS 24 – Related Party Disclosures
IAS 27	IAS 27 – Consolidated and Separate Financial Statements
IAS 28	IAS 28 – Investments in Associates and Joint Ventures
IAS 29	IAS 29 – Financial Reporting in Hyperinflationary Economies
IAS 32	IAS 32 – Financial Instruments – Presentation
IAS 33	IAS 33 – Earnings Per Share
IAS 34	IAS 34 – Interim Financial Reporting
IAS 36	IAS 36 – Impairment of Assets
IAS 37	IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
IAS 38	IAS 38 – Intangible Assets
IAS 39	IAS 39 – Financial Instruments – Recognition and Measurement
IAS 40	IAS 40 – Investment Property

IFRS INTERPRETATIONS COMMITTEE INTERPRETATIONS

IFRIC 17	IFRIC 17 – Distributions of Non-cash Assets to Owners
IFRIC 22	IFRIC 22 – Foreign Currency Transactions and Advance Consideration
IFRIC 23	IFRIC 23 – Uncertainty over Income Tax Treatments

STUDIO⑤

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