FirstRand Bank

'19

analysis of financial results

for the year ended 30 June

about this report

This report covers the audited summary financial results of FirstRand Bank Limited (FRB or the bank) based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2019. Some of the information relating to the statement of financial position at 1 July 2018 was restated following the adoption of IFRS 9 and IFRS 15. The restated information is included in the IFRS 9 transition report and the analysis of financial results for the six months ended 31 December 2018, available on the group's website at www.firstrand.co.za/investors/other-shareholder-documents/ and www.firstrand.co.za/investors/financial-results/.

The primary results and accompanying commentary are presented on a normalised basis as the bank believes this most accurately reflects its economic performance. The normalised results have been derived from the IFRS financial results.

Normalised results include a summary income statement, statement of comprehensive income and statement of financial position. A detailed description of the difference between normalised and IFRS results is provided on page 109. Detailed reconciliations of normalised to IFRS results are provided on pages 118 and 119. Commentary is based on normalised results, unless indicated otherwise.

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

FirstRand Bank

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

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

contents

01

overview of results

02

income statement analysis

03

balance sheet analysis and financial resource management

04

ifrs information

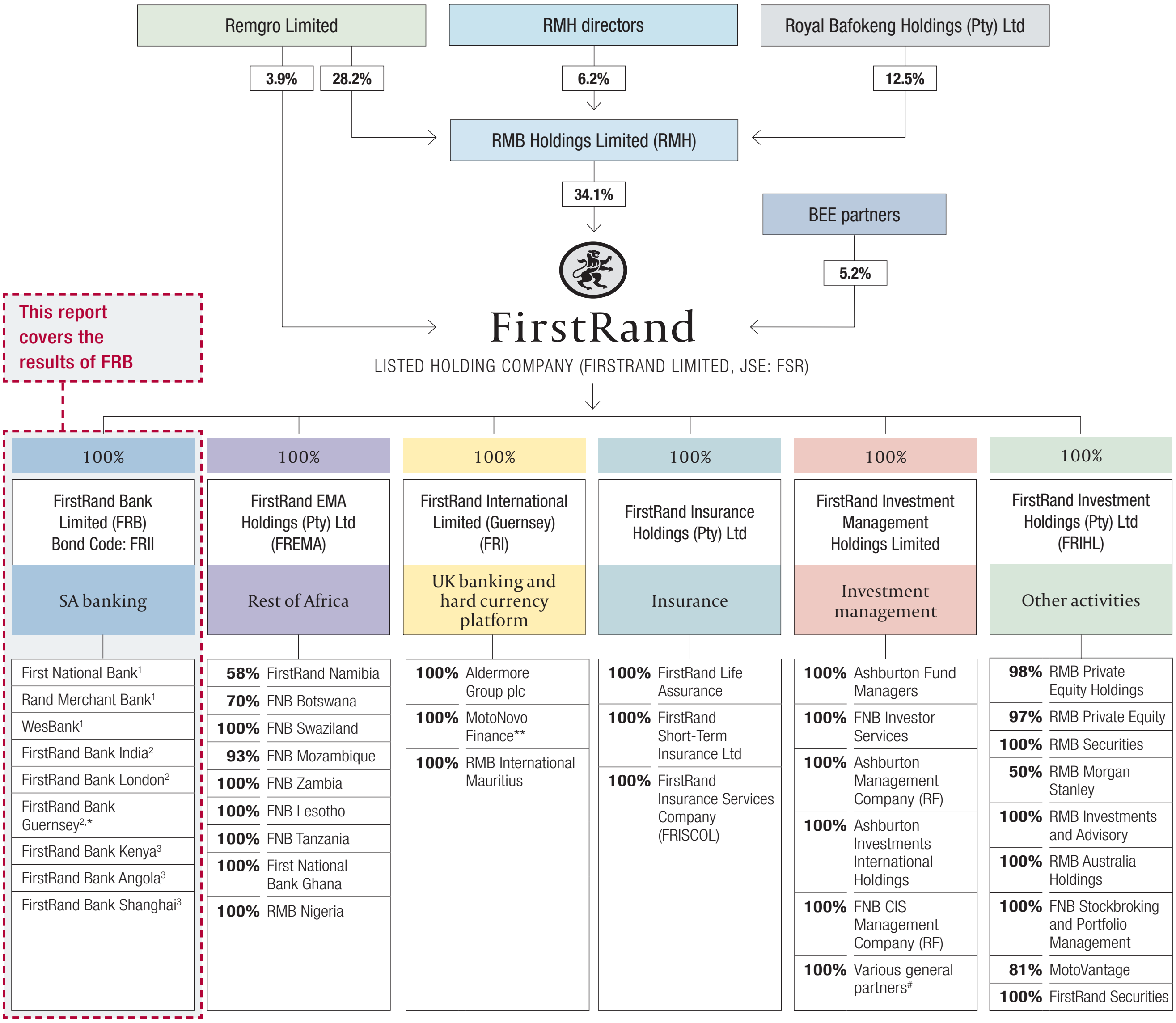
05

supplementary information

01

overview of results

Simplified group and shareholding structure



1. Division.
2. Branch.
3. Representative office.
DirectAxis is a business unit of FirstRand Bank Limited.

* *Trading as FNB Channel Islands.*
** *Wholly-owned subsidiary of Aldermore Group plc.*
\# *Ashburton Investments has a number of general partners for fund seeding purposes. All of these entities fall under FirstRand Investment Management Holdings Limited.*

Structure shows effective consolidated shareholding

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

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.

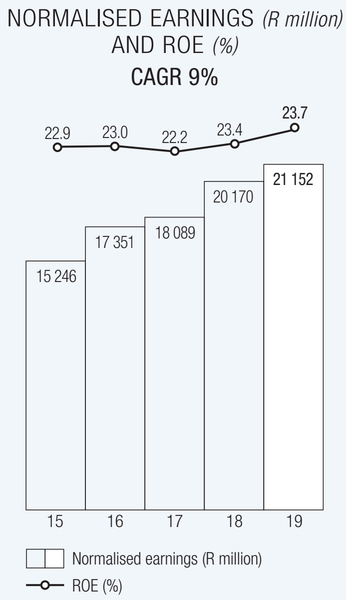
Normalised earnings	Normalised return on equity	Normalised return on assets
↑ 5%	23.7%	1.70%
2018: 12%	2018: 23.4%	2018: 1.76%

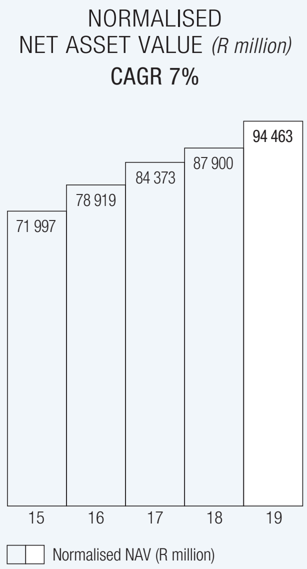
CET1 ratio	LCR ratio	NSFR ratio
13.4%	133%	117%
2018: 12.7%	2018: 118%	2018: 111%

Advances (net of impairments)	Deposits	Credit loss ratio
↑ 7%	↑ 8%	0.95%
2018: 6%	2018: 11%	2018: 0.80%

FNB RMB WesBank

Track record





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

Key financial results, ratios and statistics – normalised

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages 118 and 119. IFRS 9 and IFRS 15 were adopted effective 1 July 2018 and the statement of financial position at 1 July 2018 was restated. The adoption of IFRS 15 had no impact on the bank. Other comparatives were not restated, as allowed by IFRS 9. The income statement and statement of comprehensive income for the year ended 30 June 2018 and earnings-related ratios were not restated. The column headings indicate the basis of presentation.

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

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Earnings performance				
Attributable earnings – IFRS (refer page 111)	**22 644**	20 283	12	
Headline earnings	**21 169**	20 076	5	
Normalised earnings	**21 152**	20 170	5	
Normalised net asset value	**94 463**	87 900	7	84 117*
Average normalised net asset value	**89 290**	86 137	4	
Ratios and key statistics				
ROE (%)	**23.7**	23.4		
ROA (%)	**1.70**	1.76		
Diversity ratio (%)	**42.5**	42.5		
Credit impairment charge	**8 460**	6 659	27	
Stage3/NPLs as a % of advances	**3.71**	2.47		3.01
Credit loss ratio (%)	**0.95**	0.80		
Total impairment coverage ratio (%)	**79.8**	72.8		89.2
Specific coverage ratio (%)	**45.8**	36.2		43.6
Performing book coverage ratio (%)	**1.31**	0.93		1.41
Cost-to-income ratio (%)	**53.6**	54.3		
Effective tax rate (%)	**24.6**	23.0		
Number of employees	**38 328**	36 449	5	

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

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

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

Summary income statement – normalised

for the year ended 30 June

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

Summary statement of other comprehensive income – normalised

for the year ended 30 June

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

Summary statement of financial position – normalised

as at 30 June

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

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

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

Flow of funds analysis – normalised

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

"FirstRand Bank produced quality growth in earnings despite a challenging operating environment. The bank also delivered a superior ROE of 23.7%.

The underlying growth momentum in FNB and RMB remains strong, and WesBank continues to weather tough conditions.

FirstRand's strategy to deliver **customer-centric integrated financial services** will ensure future franchise value and sustainable superior returns."

ALAN PULLINGER
CEO

INTRODUCTION

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

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

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

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

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

GROUP STRATEGY

FirstRand's strategy accommodates a broad set of growth opportunities across the entire financial services universe from a product, market, segment and geographic perspective. Its ambition is to deliver a fully integrated financial services value proposition across its regional portfolio, built on a customer-centric focus and underpinned by leading digital platforms and capabilities. In the UK the group aims to build further franchise value through scaling, digitisation and disruption.

South Africa

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

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

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

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

Rest of Africa

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

In the rest of Africa, the bank's balance sheet is utilised in RMB's cross-border lending and trade finance activities. The group's subsidiaries in the rest of Africa form part of FREMA (refer to the simplified group structure on page 03, which outlines the group's various legal entities, including FRB) and thus fall outside the bank.

UK

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

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

OVERVIEW OF RESULTS

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

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

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

Comparatives for 2018 have been restated to reflect these changes.

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

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

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

SOURCES OF NORMALISED EARNINGS

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

* *30 June 2018 figures have been restated to reflect the changes to the composition of earnings at an operating business level as described, as well as for Group Treasury reallocations. Refer to pages 34 and 35 for a detailed reconciliation.*

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

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

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

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

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

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

Fee, commission and insurance income represents 76% NIR.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OPERATING REVIEWS

FNB

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

FNB FINANCIAL HIGHLIGHTS

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

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

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

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

SEGMENT RESULTS

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

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

A breakdown of key performance measures is shown below.

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

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

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

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

SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

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

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

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

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

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

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

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

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

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

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

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

CUSTOMERS

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

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

CHANNEL VOLUMES

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

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

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

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

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

RMB

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

RMB FINANCIAL HIGHLIGHTS

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

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

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

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

* *Refer to additional activity and business unit disclosure on page 33. To improve peer group comparability, core activities now include the associated endowment earned on capital invested net of group cost allocations. Comparatives have been restated accordingly.*

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

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

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

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

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

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

WesBank

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

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

* *Refer to additional segmental disclosure on page 32.*

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

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

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

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

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

SEGMENT ANALYSIS OF NORMALISED EARNINGS

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

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

MANAGEMENT OF FINANCIAL RESOURCES

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

The management of the group's financial resources is executed through Group Treasury and is independent of the operating businesses. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the portfolio's growth, return and volatility targets to deliver shareholder value. The group continues to monitor and proactively manage a fast-changing regulatory environment, competitive landscape and ongoing macroeconomic challenges.

The group adopts a disciplined approach to the management of its foreign currency balance sheet. The framework for the management of external debt takes into account sources of sovereign risk and foreign currency funding capacity, as well as the macroeconomic vulnerabilities of South Africa. The group employs self-imposed structural borrowing and liquidity risk limits, which are more onerous than those required in terms of regulations. The group's philosophy is that, in the longer term, foreign currency assets should be supported by foreign currency liabilities, primarily in the same jurisdiction. It aligns with one of the group's strategic priorities to increase diversification by jurisdiction, which is evidenced by the integration of the MotoNovo business with Aldermore Group in the UK, as well as the utilisation of the RMB International Mauritius platform for the group's rest of Africa dollar exposures.

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

BALANCE SHEET STRENGTH

Capital position

Capital ratios as at 30 June 2019 are summarised below.

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

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

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

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

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

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

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

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

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

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

Liquidity position

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

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

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

* *The bank's LCR and NSFR reflects its operations in South Africa only.*
** *Exceeds regulatory minimum requirements with appropriate buffers.*

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

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

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

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

PROSPECTS

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

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

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

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

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

DISCOVERY CARD

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

EVENTS AFTER REPORTING PERIOD

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

BOARD CHANGES

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

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

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

Changes to the directorate are outlined below.

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

WR JARDINE
Chairman

AP PULLINGER
CEO

C LOW
Company secretary

4 September 2019

Segment report

for the year ended 30 June 2019 IFRS 9

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

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page 03) and are not reported in bank.*

** *Refer to additional segmental information on page 32.*

Refer to additional activity and business unit disclosure on page 33.

† *FCC represents group-wide functions.*

Notes:

During the current financial period:

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

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

Segment report continued

for the year ended 30 June 2019 IFRS 9

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

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page 03) and are not reported in bank.*

** *Refer to additional segmental information on page 32.*

Refer to additional activity and business unit disclosure on page 33.

† *FCC represents group-wide functions.*

‡ *Total liabilities are net of interdivisional balances.*

Notes:

During the current financial period:

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

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

Segment report continued

for the year ended 30 June 2018 IAS 39

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

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page 03) and are not reported in bank.*

** *Refer to additional segmental information on page 32.*

\# *Refer to additional activity and business disclosure on page 33.*

† *FCC represents group-wide functions.*

Notes:

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

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

The effect of these transfers can be found on pages 34 and 35.

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

Segment report continued

for the year ended 30 June 2018 IAS 39

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

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

* *FNB Africa results reported above relate to head office costs. Earnings of the African subsidiaries form part of FREMA (see simplified group structure on page 03) and are not reported in bank.*

** *Refer to additional segmental information on page 32.*

Refer to additional activity and business disclosure on page 33.

† *FCC represents group-wide functions.*

‡ *1 July 2018 IFRS 9 figures.*

^ *Total liabilities are net of interdivisional balances.*

Notes:

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

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

The effect of these transfers can be found on pages 34 and 35.

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

Additional segmental disclosure – WesBank

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

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

* *1 July 2018 IFRS 9.*

Additional activity and business unit disclosure – RMB

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

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

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

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

Note:

IB&A – investment banking and advisory

C&TB – corporate and transactional banking

M&S – markets and structuring

INV – investing

IM – investment management

Additional information on the internal restructure

for the year ended 30 June 2018 IAS 39

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

* *1 July 2018 IFRS 9.*

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

02

income statement analysis

Introduction

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

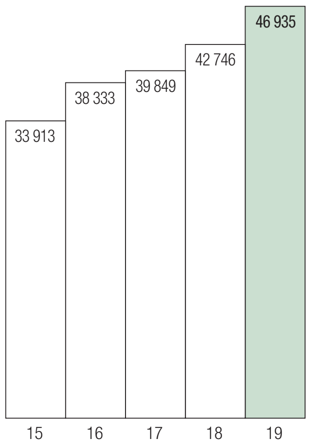
FRB disclosed comprehensive IFRS 9 transition information on 21 November 2018 in the transition report. IFRS 15 had no impact on the bank. The IFRS 9 transition information was also included in the analysis of financial results for the six months ended 31 December 2018. Both reports are available on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

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

Net interest income (before impairment of advances)

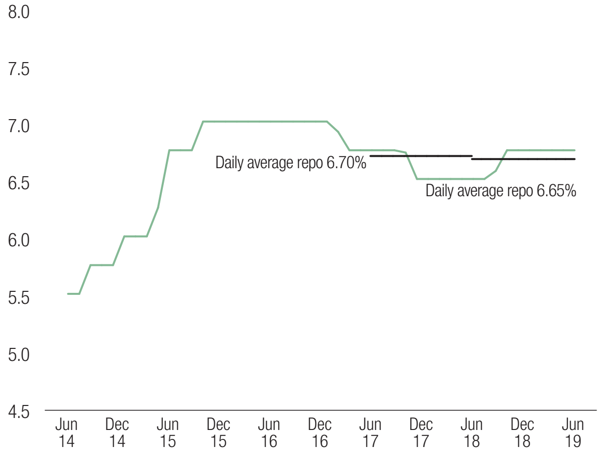
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 10%

NET INTEREST INCOME
R million
CAGR 8%



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

REPO RATE – SOUTH AFRICA
%



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

MARGIN CASCADE TABLE

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

** Includes impact of securitisation.*

Net interest income (before impairment of advances) continued

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

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

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

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

KEY DRIVERS

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

Net interest income (before impairment of advances) continued

AVERAGE BALANCE SHEET

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

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

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

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

Include trading liabilities.

NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

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

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

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

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

The group operates a transfer pricing framework that incorporates liquidity cost and benefits into product pricing, including any regulatory costs for all significant business activities on- and off-balance sheet. This aligns liquidity risk-taking incentives of the individual business units with the liquidity risk exposure created for the group as a whole.

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

Net interest income (before impairment of advances) continued

NOTE 2 – MARGIN ANALYSIS ON DEPOSITS DUE TO CUSTOMERS

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

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

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

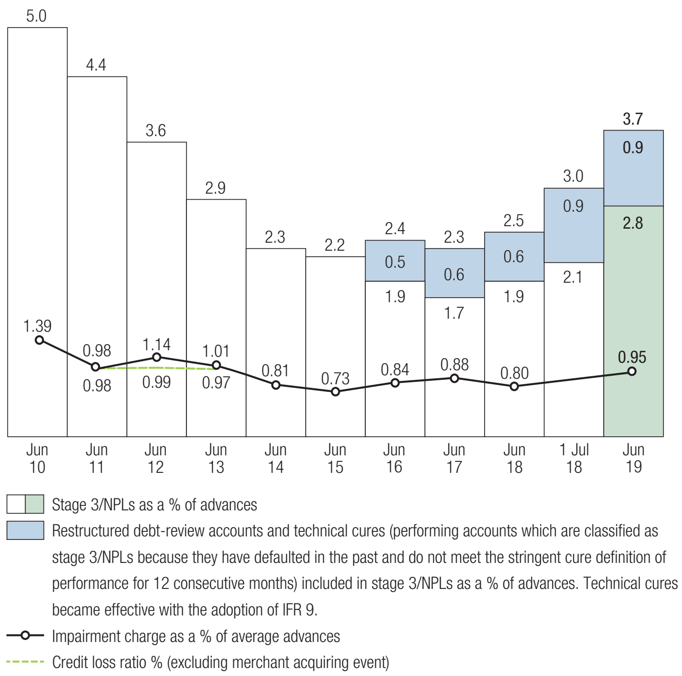
Credit highlights

CREDIT HIGHLIGHTS AT A GLANCE

R million	Notes	As at 30 June 2019 IFRS 9	As at 1 July 2018 IFRS 9	% change
Total gross advances*	1 on p. 66	**921 846**	860 961	7
– Stage 1		**829 844**	764 890	8
– Stage 2		**57 797**	70 192	(18)
– Stage 3/NPLs*,**	2 on p. 70	**34 205**	25 879	32
Stage 3/NPLs as a % of advances	2 on p. 70	**3.71**	3.01	
Impairment charge	3 on p. 76	**8 460**	6 659#	27
Credit loss ratio (%)	3 on p. 76	**0.95**	0.80#	
Total impairments	4 on p. 82	**27 303**	23 078	18
Portfolio impairments	4 on p. 78	**11 622**	11 793	(1)
– Stage 1		**5 959**	5 260	13
– Stage 2		**5 663**	6 533	(13)
Stage 3 impairments†		**15 681**	11 285	39
Specific coverage ratio (%)‡	4 on p. 80	**45.8**	43.6	
Total impairment coverage ratio (%)^	4 on p. 82	**79.8**	89.2	
Performing book (stage 1 and 2) coverage ratio (%)◊	4 on p. 78	**1.31**	1.41	

* *Total gross advances and stage 3/NPLs at 1 July 2018 include an IFRS 9 transitional ISP adjustment of R1 661 million.*
** *A detailed analysis of the growth in stage 3/NPLs is provided on page 47.*
# *IAS 39 for the year ended 30 June 2018.*
† *Stage 3 impairments at 1 July 2018 include an IFRS 9 transitional ISP adjustment of R1 065 million.*
‡ *Specific impairments as % of stage3/NPLs.*
^ *Total impairments as % of stage3/NPLs.*
◊ *Portfolio impairments as % of the performing book.*

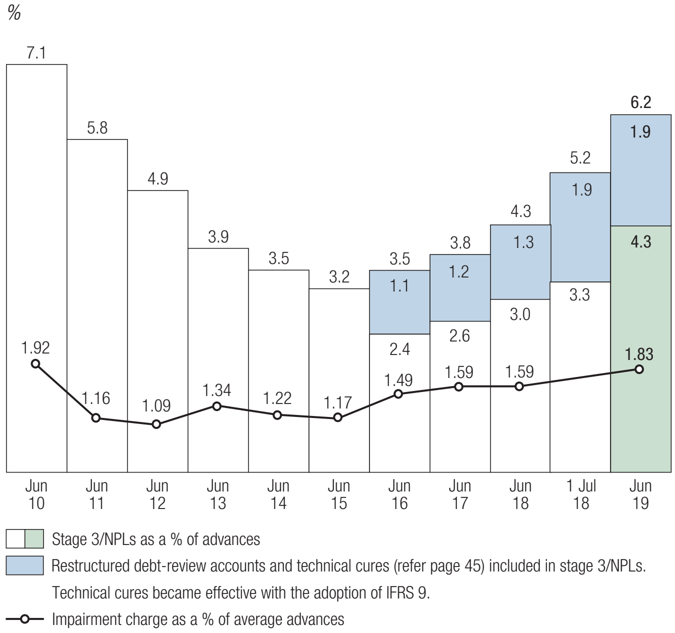
NPL AND IMPAIRMENT HISTORY
%



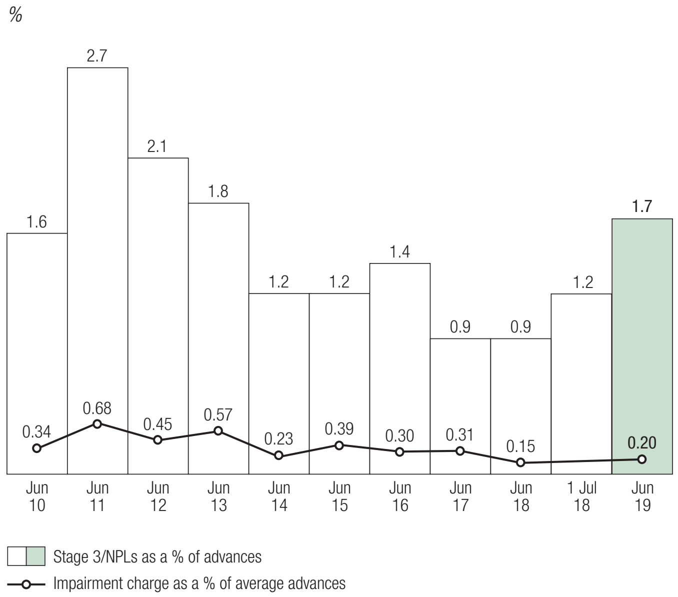
Note: 30 June 2010 to 30 June 2018 figures are presented on an IAS 39 basis. 1 July 2018 figures were restated and therefore 1 July 2018 and 30 June 2019 figures are presented on an IFRS 9 basis.

Credit highlights continued

RETAIL NPLs AND IMPAIRMENTS



CORPORATE AND COMMERCIAL NPLs AND IMPAIRMENTS



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

BASIS OF PRESENTATION AND ANALYSIS OF CREDIT INFORMATION

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

HIGH-LEVEL OVERVIEW OF CREDIT PERFORMANCE

NPLs

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

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

> extending the write-off point of unsecured NPLs, with the most pronounced impact in the current financial year, with the write-off point for the unsecured retail lending portfolios changing from six months to 12 months; and

> more conservative curing rules under IFRS 9 (on all retail portfolios – 12 consecutive payments must occur before curing).

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

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

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

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

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

A detailed analysis of the product-level NPL drivers for specific retail products and the bank in total, is provided on pages 48 to 57.

Coverage

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

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

Credit highlights continued

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

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

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

DETAILED PRODUCT ANALYSIS OF CREDIT PERFORMANCE

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

Income statement impairment charge

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

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

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

STAGE 3/NPLS AND COVERAGE

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

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

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

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

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

IMPAIRMENT CHARGE

- The SA retail impairment charge increased to 181 bps, driven by card and personal loans.
- Modest increase in impairment charge to 11 bps, reflecting a normalisation of the credit cycle, but remaining below TTC levels.

Credit highlights continued

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

STAGE 3/NPLS AND COVERAGE	IMPAIRMENT CHARGE
> The increase in operational NPLs reflects expected new business strain given the seasoning of the book following strong advances growth over previous years. Debt-review and technical cure NPLs comprise 10% of NPLs. > The increase in the card NPLs since 1 July 2018 is analysed below:	> Card reported a charge of 3.68% (June 2018: 2.83%), reflecting an increase in operational NPLs on the back of strong book growth, as well as the impact of the extension of write-off point (as NPLs age, they carry a higher coverage), although partially benefiting from improved curing in the second half of the year. The charge remains within TTC appetite. > Further risk cuts have been implemented in the second half of the financial year to mitigate increasing arrears and elevated vintages.

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

STAGE 3/NPLS AND COVERAGE	IMPAIRMENT CHARGE
> The increase in operational NPLs reflects expected new business strain given the seasoning of the book following strong advances growth over previous years. Debt-review and technical cure NPLs comprise 20% of NPLs. > The increase in FNB loans NPLs since 1 July 2018 is analysed below:	> FNB loans reflected an impairment charge of 6.39% (June 2018: 5.03%) partly reflective of operational process impacts, but remaining within TTC appetite.

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

STAGE 3/NPLS AND COVERAGE	IMPAIRMENT CHARGE
> DirectAxis NPLs increased 29% since 1 July 2018, compared to the 34% increase recorded in the financial year to June 2018. The increase was impacted by:	> The DirectAxis credit loss ratio of 8.93% (June 2018: 7.93%) reflects the seasoning of the book and ongoing advances growth.

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

STAGE 3/NPLS AND COVERAGE	IMPAIRMENT CHARGE
> NPLs grew 36% due to increases in highly collateralised NPLs in agric and increases in commercial property and specialised finance.	> FNB commercial's income statement impairment change deteriorated 12% in line with book growth and conservative provisioning, resulting in a credit loss ratio of 75 bps.

Credit highlights continued

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

* *Core advances.*

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

Credit highlights continued

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

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

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

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

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

Formerly called WesBank loans.

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

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

Credit highlights continued

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

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

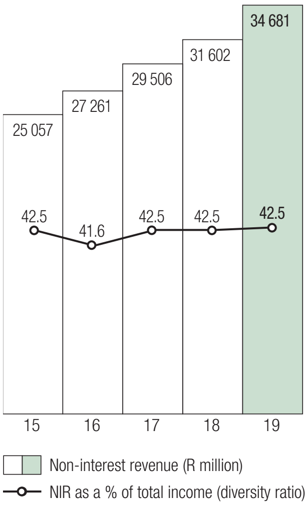
** *Effective prospectively with the adoption of IFRS 9.*

\# *Formerly called WesBank loans.*

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

Non-interest revenue – up 10%

NON-INTEREST REVENUE AND DIVERSITY RATIO
NIR CAGR 8%



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

ANALYSIS OF NON-INTEREST REVENUE

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

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

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

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

NII

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

NIR

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

NOTE 1 – FEE AND COMMISSION INCOME – UP 10%

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

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

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

KEY DRIVERS

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

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

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

Non-interest revenue continued

NOTE 2 – INSURANCE COMMISSION INCOME – DOWN 21%

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

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

KEY DRIVERS

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

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

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

KEY DRIVERS

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

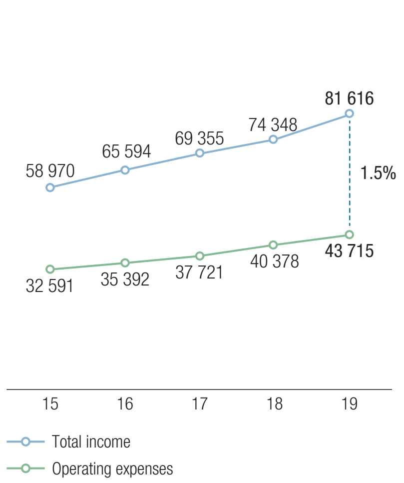
NOTE 4 – OTHER NON-INTEREST REVENUE – UP 14%

KEY DRIVERS

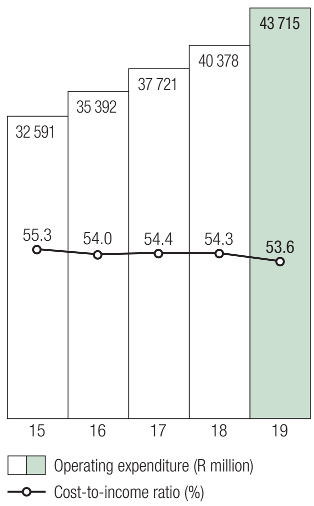
- The most significant other non-interest revenue item relates to various intercompany charges to other FirstRand group companies for the provision of services. These eliminate at a group level.
- The remaining significant other non-interest revenue item relates to various rental income streams. Rental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

Operating expenses – up 8%

OPERATING JAWS
R million



OPERATING EFFICIENCY



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

OPERATING EXPENSES

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

KEY DRIVERS

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

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

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

03

balance sheet analysis and financial resource management

Economic view of the balance sheet

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

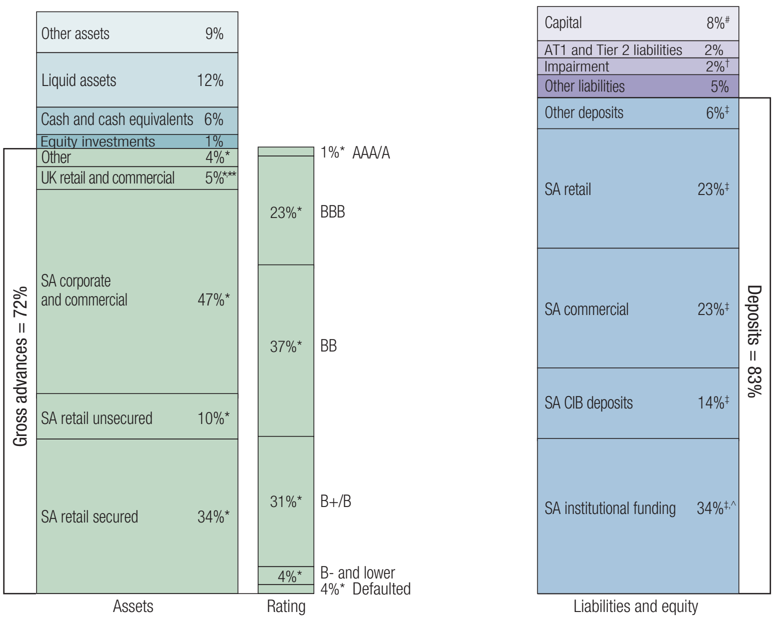
When assessing the underlying risk in the balance sheet, the bank's asset profile is dominated by a balanced advances portfolio, which constitutes 72% of total assets. The composition of the gross advances portfolio consists mostly of SA retail secured (34%), SA retail unsecured (10%), SA corporate and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

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

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

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

ECONOMIC VIEW OF THE BALANCE SHEET
%

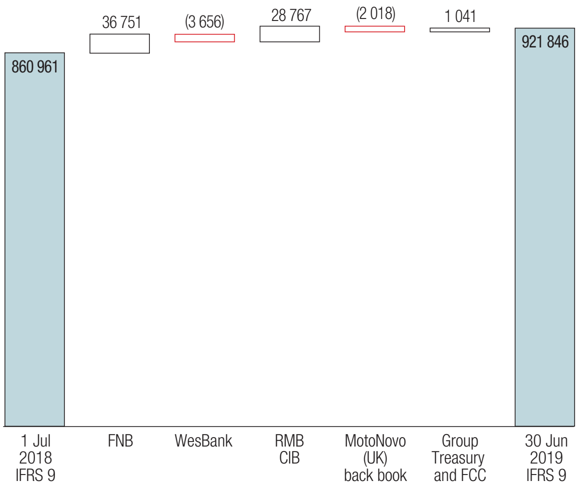


* *As a proportion of net advances.*
** *Based on advances originated in London branch (including MotoNovo back book).*
\# *Ordinary equity.*
† *Includes impairment (IFRS 9 provisions) of advances and investment securities.*
‡ *As a proportion of deposits.*
^ *Includes CIB institutional funding.*

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

Gross advances – up 7%

GROSS ADVANCES GROWTH BY BUSINESS
R million



ADVANCES

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

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

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

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

Credit

NOTE 1: ANALYSIS OF ADVANCES

SEGMENTAL ANALYSIS OF ADVANCES

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

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

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

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

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

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

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

Credit continued

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

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

* *Include HQLA advances.*

** *Restated to include HQLA.*

STRATEGY VIEW OF CORPORATE AND INVESTMENT BANKING ADVANCES

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

* *Managed by the Group Treasurer.*

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

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

SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

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

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

Credit continued

NOTE 2: ANALYSIS OF STAGE 3/NPLs

SEGMENTAL ANALYSIS OF STAGE 3/NPLs

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

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

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

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

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

Credit continued

SECTOR AND GEOGRAPHIC ANALYSIS OF STAGE 3/NPLs

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

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

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

Credit continued

SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

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

* *Formerly called WesBank loans.*

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

Managed by the Group Treasurer.

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

Credit continued

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

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

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

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

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

Credit continued

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

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

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

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

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

Credit continued

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

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

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

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

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

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

Credit continued

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

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

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

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

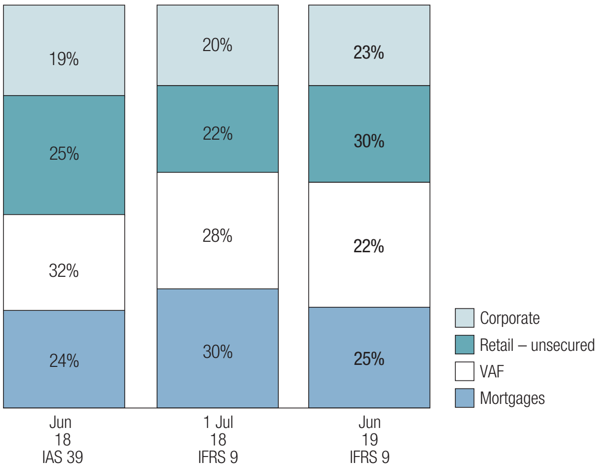
‡ *Stage 3 impairments at 1 July 2018 include R1 065 million ISP recognised on IFRS 9 transition.*

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

Credit continued

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

NPL DISTRIBUTION



RECONCILIATION OF IMPAIRMENTS

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

BALANCE SHEET AMORTISED COST IMPAIRMENTS AND CREDIT FAIR VALUE ADJUSTMENTS

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

* *1 July.*

TOTAL BALANCE SHEET IMPAIRMENTS

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

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

INCOME STATEMENT IMPAIRMENTS

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

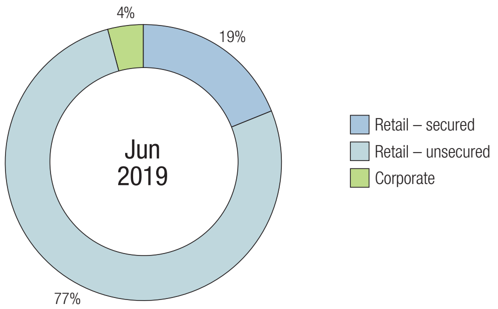
	Year ended 30 June		
R million	**2019 IFRS 9**	2018 IAS 39*	% change
Specific impairment charge	**8 515**	8 852	(4)
Specific impairment charge – amortised cost	**8 515**	8 840	(4)
Credit fair value adjustments – non-performing book	**–**	12	(100)
Portfolio impairment charge	**1 736**	96	>100
Portfolio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

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

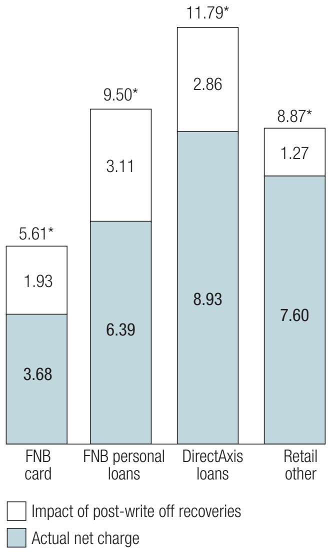
IMPACT OF POST WRITE-OFF RECOVERIES

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

POST WRITE-OFF RECOVERIES



RETAIL UNSECURED CREDIT LOSS RATIOS AND RECOVERIES
%



* *Gross of recoveries (%).*

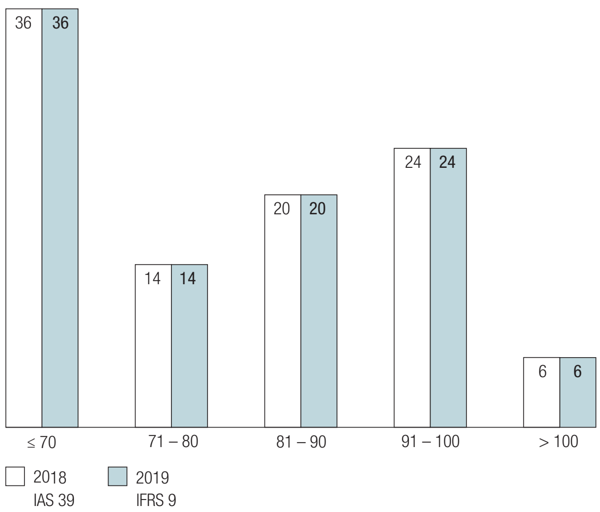
Credit continued

RISK ANALYSIS

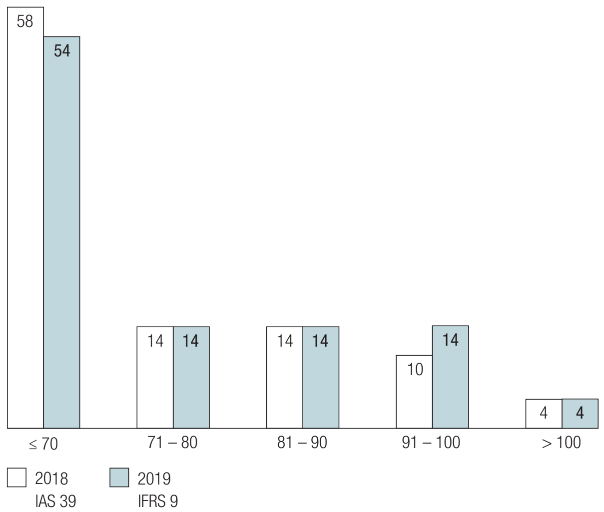
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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

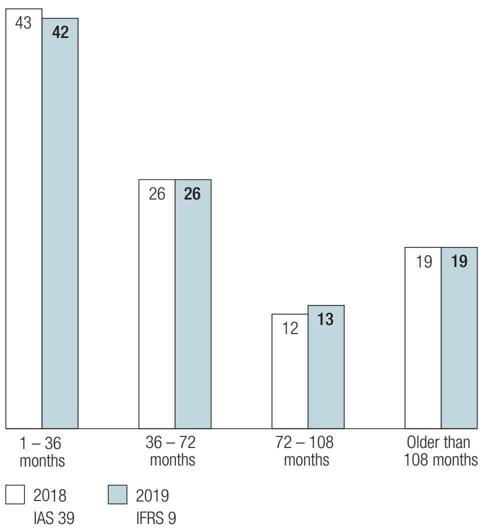
FNB RESIDENTIAL MORTGAGES
BALANCE-TO-ORIGINAL VALUE
%



FNB RESIDENTIAL MORTGAGES
BALANCE-TO-MARKET VALUE
%

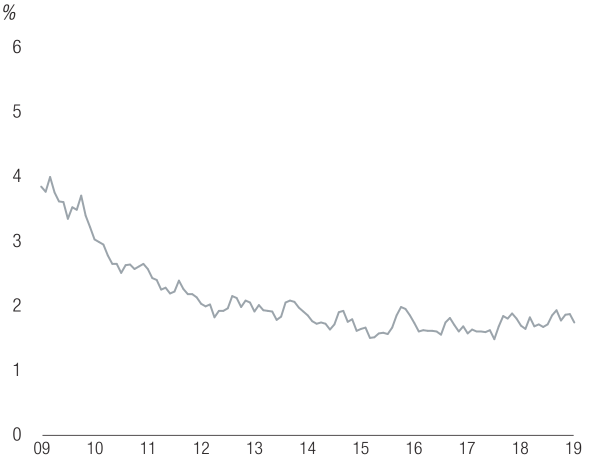


FNB RESIDENTIAL MORTGAGES
AGE DISTRIBUTION
%



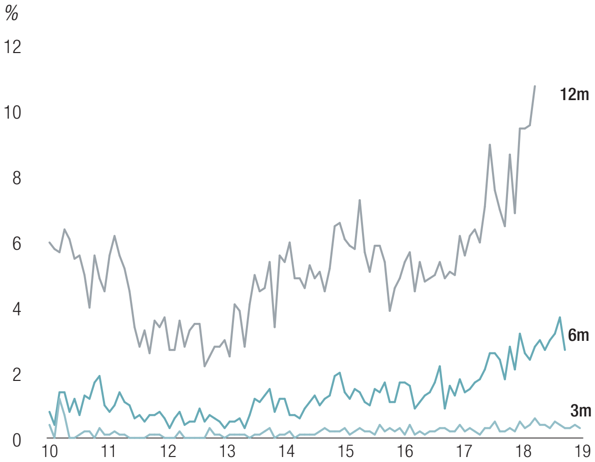
The following graph shows arrears in the FNB HomeLoans portfolio. It includes accounts where more than one full payment is in arrears, expressed as a percentage of total advances. Collections performance has been strong in the portfolio.

FNB HOMELOANS ARREARS



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

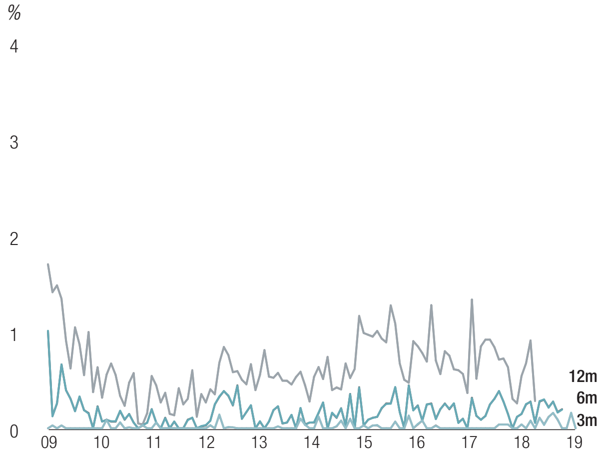
FNB CARD VINTAGE ANALYSIS



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

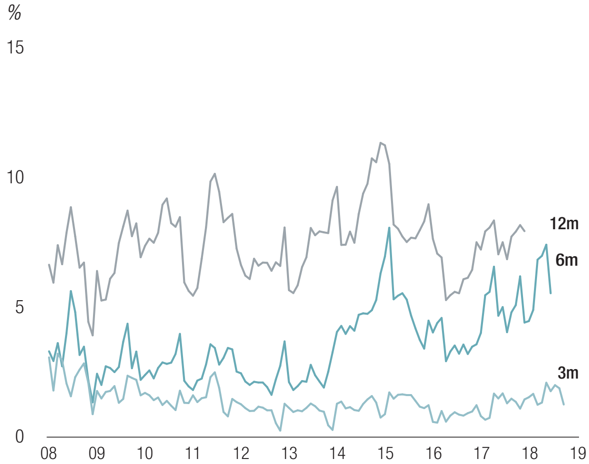
Vintages in FNB HomeLoans has remained stable as collections were stronger. Lower new business volumes constrained book growth.

FNB HOMELOANS VINTAGE ANALYSIS



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

FNB PERSONAL LOANS VINTAGE ANALYSIS



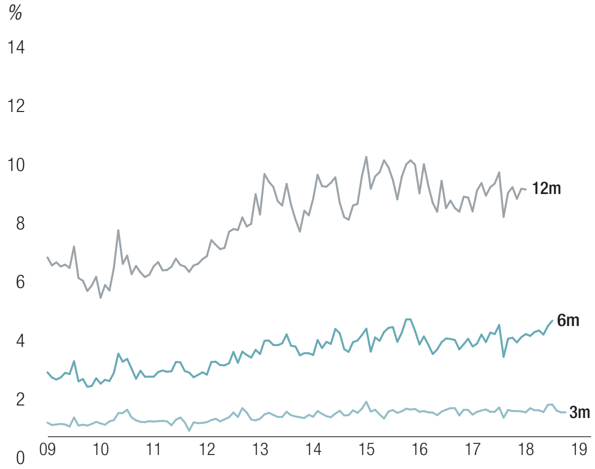
Note: Personal loans vintage has been restated to normalise for "take a break" (in January customers do not need to make a payment). The vintage points were therefore restated to accommodate fewer payments due when the period includes a "take a break" month.

Credit continued

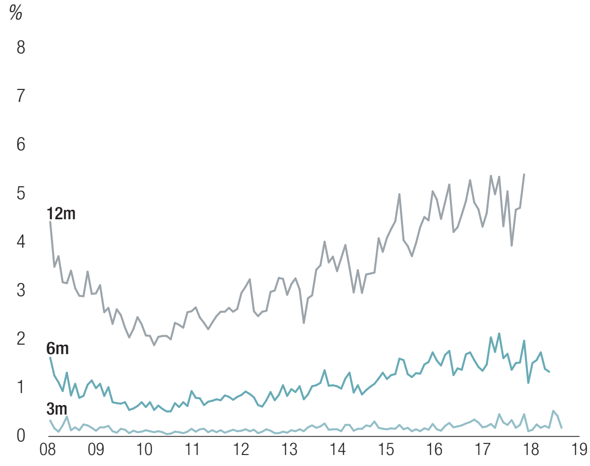
DirectAxis loans' vintages have remained stable on a TTC basis since December 2013 while the business continued to see positive growth in disbursements. This is due to active credit origination management within the portfolio.

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

DIRECTAXIS LOANS VINTAGE ANALYSIS

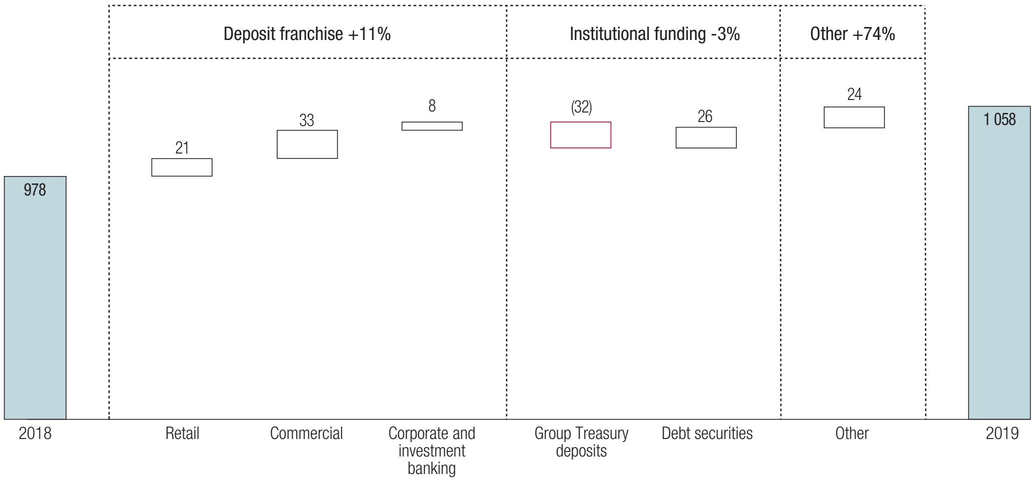


WESBANK RETAIL VAF VINTAGE ANALYSIS



Deposits – up 8%

FUNDING PORTFOLIO GROWTH BY SEGMENT
R billion



KEY DRIVERS

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

Funding and liquidity

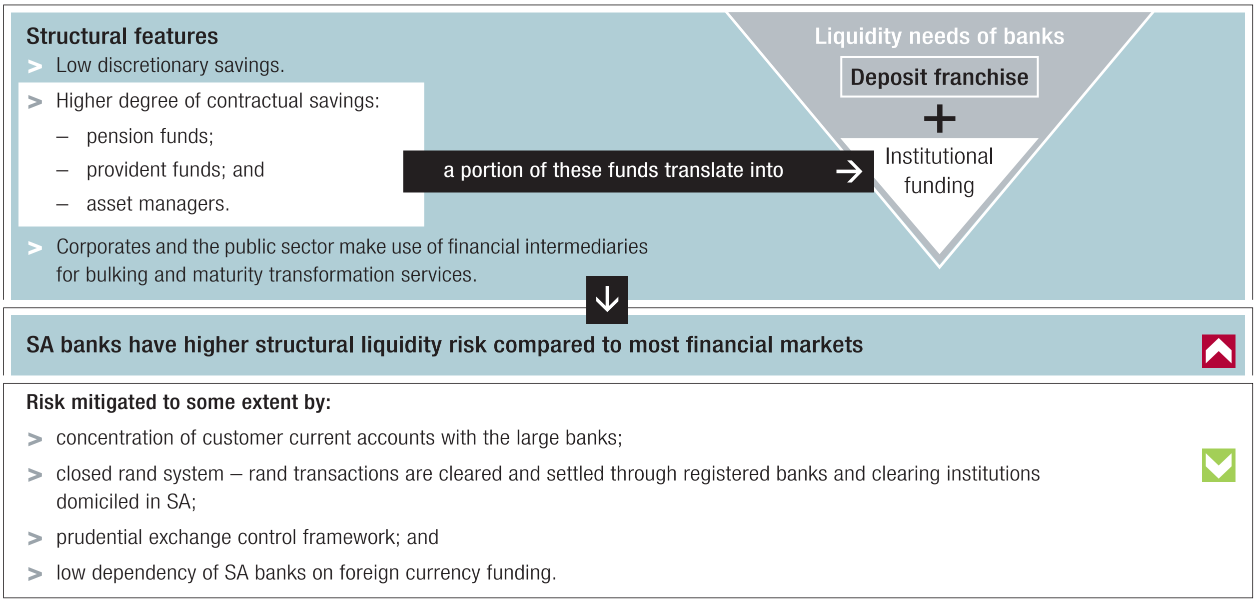
INTRODUCTION AND OBJECTIVES

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

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

FUNDING MANAGEMENT

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

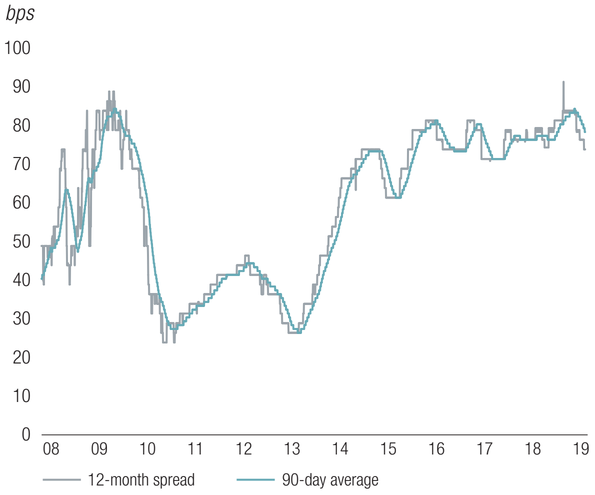


Considering the structural features of the South African market described above, the group's focus remains on achieving an improved risk-adjusted and diversified funding profile, which also enables it to meet Basel III liquidity requirements. Consequently, the group aims to fund the balance sheet in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

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

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

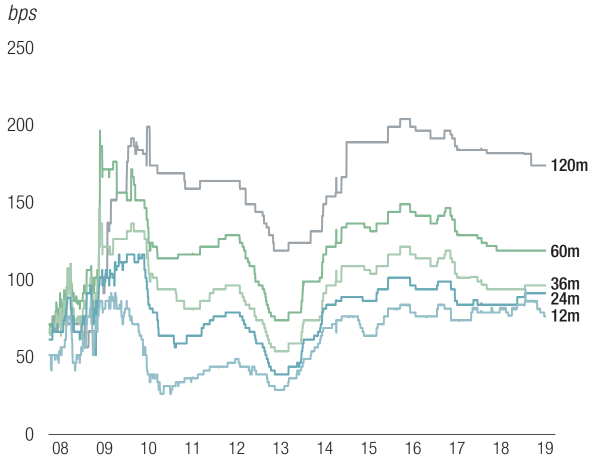
12-MONTH MID-MARKET FUNDING SPREAD



Sources: Bloomberg (RMBP screen) and Reuters.

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

LONG-TERM FUNDING SPREADS



Sources: Bloomberg (RMBP screen) and Reuters.

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

Funding measurement and activity

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

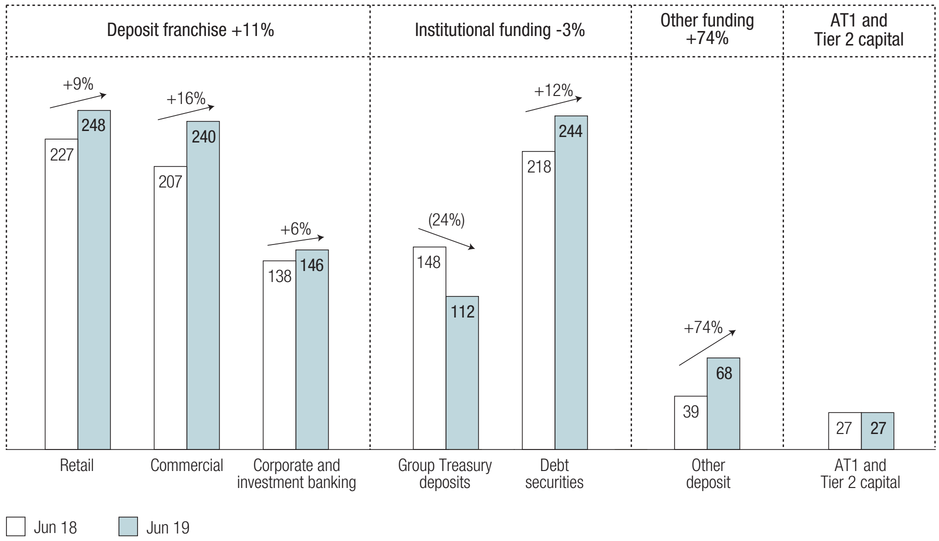
The group manages its funding profile by source, counterparty type, market, product and currency. The deposit franchise is the most efficient and stable source of funding, representing 59% of total bank funding liabilities at 30 June 2019 (June 2018: 57%).

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

Funding and liquidity continued

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

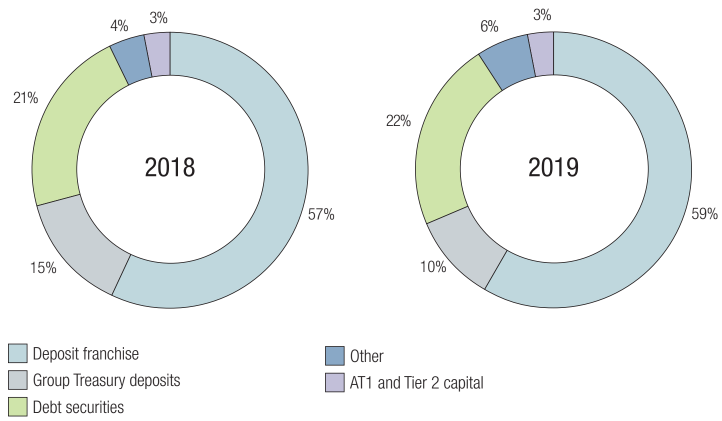
FUNDING PORTFOLIO GROWTH
R billion



Note 1: Percentage change is based on actual, not rounded, numbers shown in the bar graphs above.
Note 2: The above graph is completed using the bank segmental reporting split based on funding product type. The segment breakdown above differs from the risk counterparty view on page 89, which is segment and product neutral. These views primarily highlight the bank's strength in raising deposits across segments, as well as the diversification of funding from a counterparty perspective.

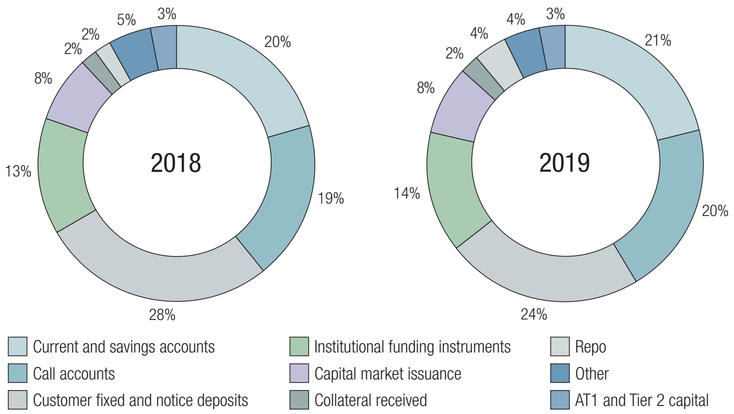
The graphs below show that the bank's funding mix has remained relatively stable over the last year.

FUNDING MIX



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

FUNDING ANALYSIS BY INSTRUMENT TYPE



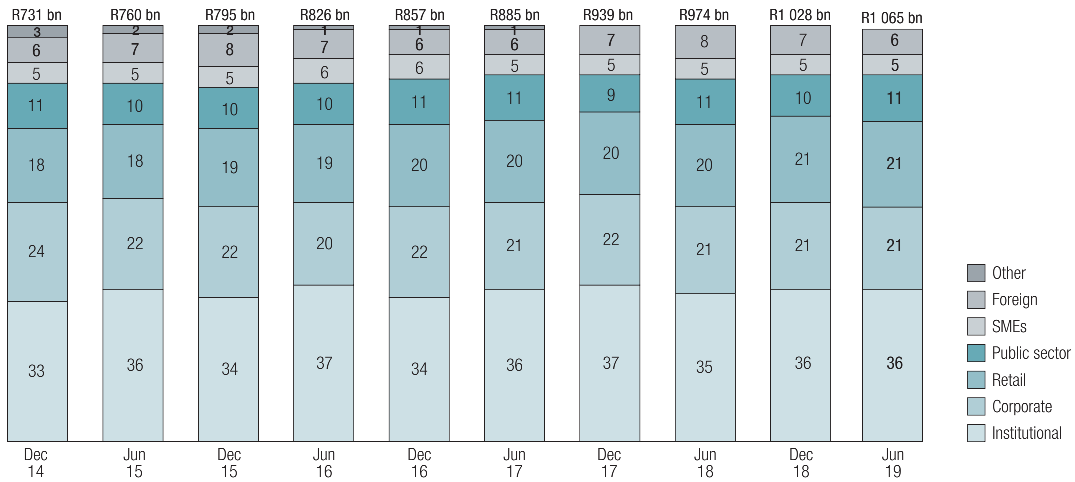
The bank's strategy to grow its deposit and transactional banking franchise results in a significant proportion of contractually short-dated funding. As these deposits are anchored to clients' cyclical transactional and savings requirements and, given the balance granularity created by individual customers'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

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

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

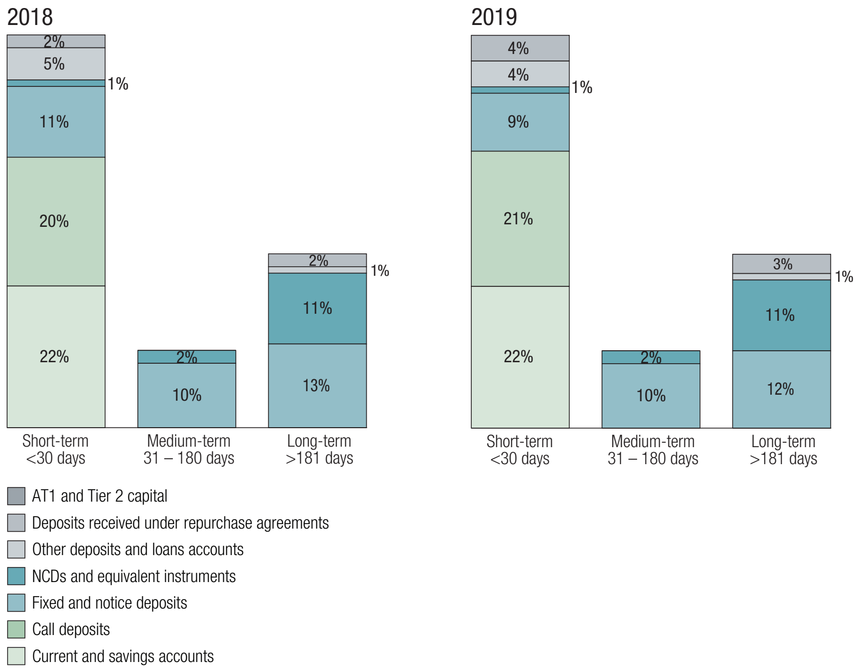
Funding and liquidity continued

FUNDING ANALYSIS FOR FIRSTRAND BANK BY SOURCE*



* *Excludes foreign branches.*

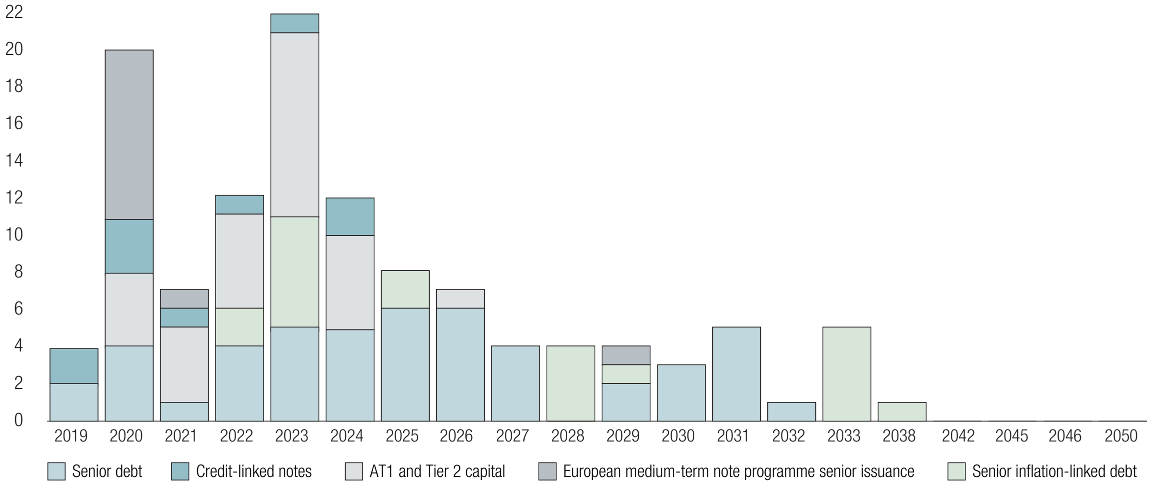
FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM



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

MATURITY PROFILE OF CAPITAL MARKET INSTRUMENTS OF FIRSTRAND BANK*

R billion



* *Includes foreign branches.*

Funds transfer pricing

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits, as well as regulatory friction costs, into product pricing and performance measurement for all on- and off-balance sheet activities. Where fixed-rate commitments are undertaken (fixed-rate loans or fixed-rate deposits), transfer pricing will also include the fixed interest rate transfer. Businesses are effectively incentivised to:

> enhance and preserve funding stability;

> ensure that asset pricing is aligned to liquidity risk appetite;

> reward liabilities in accordance with behavioural characteristics and maturity profile; and

> manage contingencies with respect to potential funding drawdowns.

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

FOREIGN CURRENCY BALANCE SHEET

MotoNovo

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

Funding and liquidity continued

Risk management approach

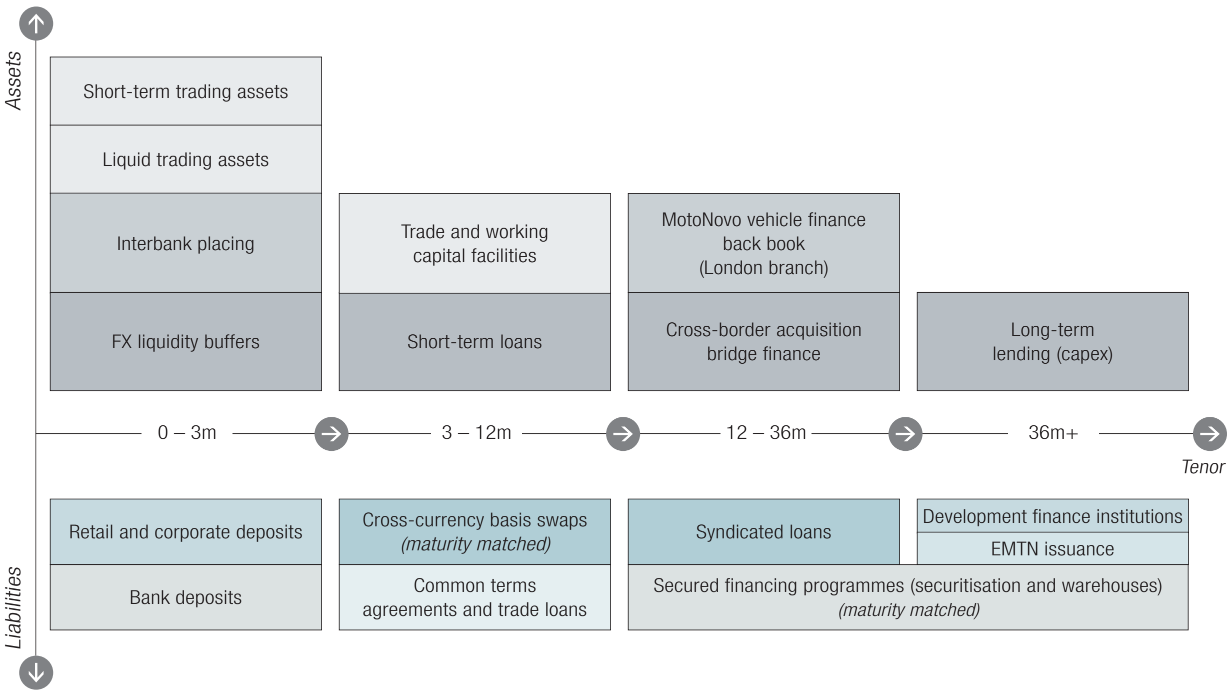
The group seeks to avoid undue liquidity risk exposure and thus maintains liquidity risk within the risk appetite approved by the board and risk committee. As an authorised dealer, the bank is subject to foreign currency macro-prudential limits as set out in the *Exchange Control Circular 6/2010*, issued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

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

Philosophy on foreign currency external debt

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

GRAPHICAL REPRESENTATION OF THE BANK'S FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK POSITION

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

COMPOSITION OF LIQUID ASSETS

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

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

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

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

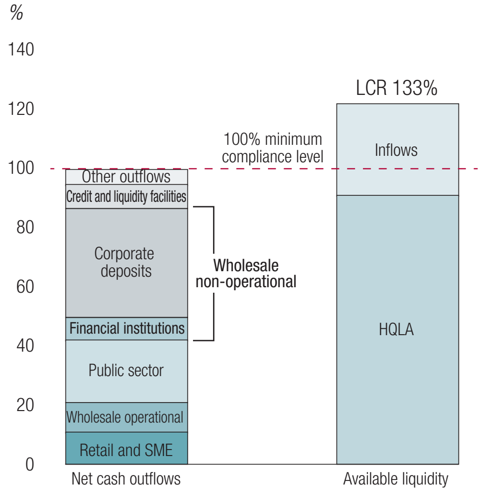
	LCR*	**NSFR**
Regulatory minimum	100%	100%
Actual**	133%	117%

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

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

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

FRB LCR (excluding foreign branches)



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

Capital

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

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

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

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

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

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

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

YEAR UNDER REVIEW

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

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

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

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

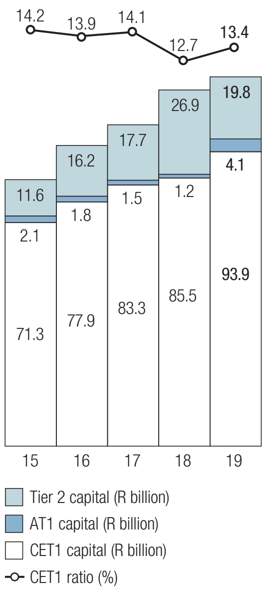
** *Includes the transitional Day 1 impact of IFRS 9, and unappropriated profits of R8.5 billion for FRB (including foreign branches). Refer to the Pillar 3 standardised disclosure templates for ratios excluding unappropriated profits (www.firstrand.co.za/investors/basel-pillar-3-disclosure/).*

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

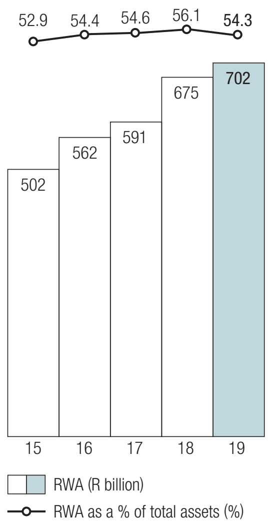
Capital

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

CAPITAL ADEQUACY*



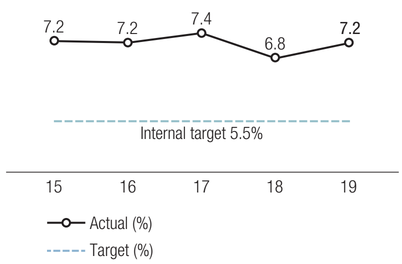
RWA HISTORY



** Includes unappropriated profits.*

LEVERAGE

LEVERAGE*



** Includes unappropriated profits.*

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

Capital continued

Supply of capital

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

COMPOSITION OF CAPITAL ANALYSIS*

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

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

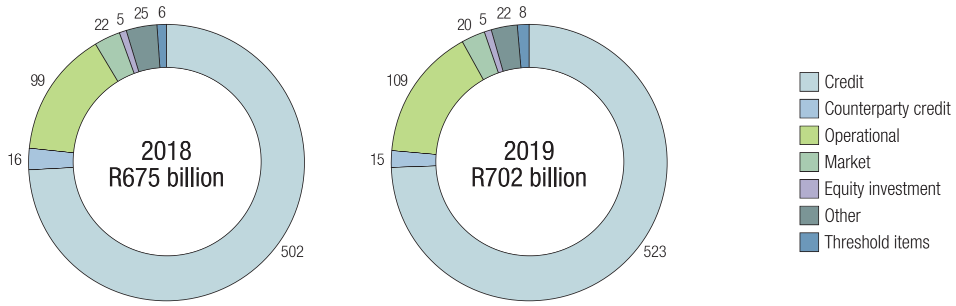
KEY DRIVERS: 2019 vs 2018

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

Demand for capital

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

RWA ANALYSIS
R billion



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

Capital continued

Capital adequacy position for the bank and its foreign branches

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

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

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

RWA AND CAPITAL ADEQUACY POSITIONS OF FRB AND ITS FOREIGN BRANCHES

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

* *Includes unappropriated profits.*

** *Includes foreign branches.*

\# *Trading as FNB Channel Islands.*

Standardised disclosures

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

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

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

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

Regulatory update

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

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

Credit ratings

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

SOUTH AFRICAN SOVEREIGN LONG-TERM RATINGS

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

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

FIRSTRAND BANK LIMITED RATINGS

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

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

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

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

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

04

ifrs information

Presentation

BASIS OF PRESENTATION

The summary financial statements contained in this *Analysis of financial results* booklet are prepared in accordance with the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

FirstRand Bank prepares its summary financial statements in accordance with:

- framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS);
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee;
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council; and
- as a minimum contain the information required by IAS 34.

The directors take full responsibility and confirm that this information has been correctly extracted from the annual financial statements from which the summary financial statements were derived.

ACCOUNTING POLICIES

The accounting policies applied and other methods of computation applied in the preparation of the financial statements from which the summary financial statements were derived, are in terms of IFRS and are consistent with those of the previous financial statements except for the implementation of new standards as detailed below.

The financial statements, from which these summary financial statements are extracted, are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

IFRS 9 and IFRS 15 became effective in the current year. IFRS 9, which replaces IAS 39, had a significant impact on the bank, as IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model. It changed the way impairments are calculated on financial assets at amortised cost from the incurred loss model to the expected credit loss model.

IFRS 15, which contains a single model that is applied when accounting for contracts with customers, replaced revenue recognition guidance previously included in IAS 18 and IFRS 13. The adoption of IFRS 15 had no impact on the bank's results.

The adoption of IFRS 9 impacted the bank's results on the date of initial adoption, being 1 July 2018, with IFRS 9 having a significant impact on the bank's accounting policies. FRB prepared an IFRS 9 transitional report, on which a reasonable assurance audit report was provided by the external auditors. The IFRS 9 transitional report is available at www.firstrand.co.za/investors/other-shareholder-documents/.

No other new or amended IFRS became effective for the year ended 30 June 2019 that impacted the bank's reported earnings, financial position or reserves, or the accounting policies.

AUDITORS' REPORT

The summary financial statements for the year ended 30 June 2019 contained in this booklet have been audited by PricewaterhouseCoopers Inc. and Deloitte & Touche, who expressed an unmodified opinion thereon, in terms of ISA 810 (Revised). Refer to page 110.

The auditors also expressed an unmodified opinion on the financial statements from which the summary financial statements were derived. Unless the financial information is specifically stated as audited, it should be assumed it is unaudited.

A copy of the auditors' report on the financial statements is available for inspection at FirstRand Bank's registered office, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, together with the financial statements identified in the auditors' report.

The auditors' report does not necessarily report on all of the information contained in these summary financial statements. Stakeholders are therefore advised that, in order to obtain a full understanding of the nature of the auditors' engagement, they should review the auditors' report together with the accompanying financial information from the issuer's registered office.

The forward-looking information has not been commented or reported on by the bank's external auditors. FirstRand's board of directors take full responsibility for the preparation of this *Analysis of financial results* booklet.

NORMALISED RESULTS

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

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

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

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

Margin-related items included in fair value income

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

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

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

IAS 19 Remeasurement of plan assets

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

Cash-settled share-based payments and the economic hedge

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

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

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

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

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

Headline earnings adjustments

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

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page 117.

Independent auditors' report on the summary financial statements

TO THE SHAREHOLDERS OF FIRSTRAND BANK LIMITED

Opinion

The summary financial statements of FirstRand Bank Limited, set out on page 108 and page 111 to 143 of the accompanying provisional report, which comprise the summary statement of financial position as at 30 June 2019, the summary income statement, the summary statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited financial statements of FirstRand Bank Limited for the year ended 30 June 2019.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in the basis of presentation to the summary financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary consolidated financial statements

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary financial statements and the auditors' report thereon, therefore, is not a substitute for reading the audited financial statements and the auditors' report thereon.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 4 September 2019. That report also includes the communication of 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.

Directors' responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in the basis of presentation to the summary financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per Partner: Darren Shipp

Woodlands Office Park
Johannesburg
4 September 2019

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered Auditor
Director: Johannes Grosskopf

4 Lisbon Lane
Johannesburg
4 September 2019

Summary income statement – IFRS (audited)

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39*	% change
Interest income calculated using effective interest rate	**100 943**	79 442	27
Interest on other financial instruments and similar income	**498**	–	–
Interest and similar income	**101 441**	79 442	28
Interest expense and similar charges	**(53 971)**	(38 279)	41
Net interest income before impairment of advances	**47 470**	41 163	15
Impairment and fair value of credit on advances	**(8 460)**	(6 659)	27
– Impairment on amortised cost advances	**(8 425)**	(7 445)	13
– Fair value of credit on advances	**(35)**	786	(>100)
Net interest income after impairment of advances	**39 010**	34 504	13
Non-interest revenue**	**36 052**	33 687	7
– Net fee and commission income	**25 956**	23 554	10
– Fee and commission income	**30 960**	28 222	10
– Fee and commission expense	**(5 004)**	(4 668)	7
– Insurance income	**560**	709	(21)
– Fair value gains or losses	**3 214**	5 364	(40)
– Fair value gains or losses	**7 965**	18 635	(57)
– Interest expense on fair value activities reallocated	**(4 751)**	(13 271)	(64)
– Gains less losses from investing activities	**2 033**	399	>100
– Other non-interest revenue	**4 289**	3 661	17
Income from operations	**75 062**	68 191	10
Operating expenses	**(43 699)**	(40 697)	7
Income before indirect tax	**31 363**	27 494	14
Indirect tax	**(829)**	(805)	3
Profit before income tax	**30 534**	26 689	14
Income tax expense	**(7 465)**	(6 172)	21
Profit for the year	**23 069**	20 517	12
Attributable to			
Ordinary equityholders	**22 644**	20 283	12
Other equity instrument holders	**425**	234	82
Profit for the year	**23 069**	20 517	12

* *The bank elected not to restate comparatives as permitted by IFRS 9. Certain amounts will therefore not be comparable, as the amounts for 30 June 2019 have been prepared on an IFRS 9 basis and the amounts for 30 June 2018 on an IAS 39 basis. Refer to the IFRS 9 transition report, available on the group's website, for more details on the changes in classification and presentation of certain amounts.*

** *Non-interest revenue on the face of the income statement has been expanded to show more granular information to align with industry practice. The following line items, previously included in the notes to the annual financial statements, are now included on the face of the income statement: fee and commission income and fee and commission expense, insurance income, fair value gains or losses and the related interest expense on fair value activities, gains less losses from investing activities and other non-interest revenue. The additional information is also presented for the comparative year. Management believes the additional information provides more relevant information given the different nature of the line items.*

Summary statement of other comprehensive income – IFRS (audited)

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39	% change
Profit for the year	**23 069**	20 517	12
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**498**	185	>100
Gains arising during the year	**943**	325	>100
Reclassification adjustments for amounts included in profit or loss	**(251)**	(68)	>100
Deferred income tax	**(194)**	(72)	>100
FVOCI debt reserve/available-for-sale financial assets	**7**	(731)	(>100)
Gains/(losses) arising during the year	**11**	(848)	(>100)
Reclassification adjustments for amounts included in profit or loss	**(1)**	(144)	(99)
Deferred income tax	**(3)**	261	(>100)
Exchange differences on translating foreign operations	**42**	285	(85)
Gains arising during the year	**58**	285	(80)
Deferred income tax	**(16)**	–	–
Items that may not subsequently be reclassified to profit or loss			
FVOCI equity reserve	**1**	–	
Gains arising during the year	**1**	–	–
Remeasurements on defined benefit post-employment plans	**(201)**	13	(>100)
(Losses)/gains arising during the year	**(279)**	18	(>100)
Deferred income tax	**78**	(5)	(>100)
Other comprehensive income/(loss) for the year	**347**	(248)	(>100)
Total comprehensive income for the year	**23 416**	20 269	16
Attributable to			
Ordinary equityholders	**22 991**	20 035	15
Other equity instrument holders	**425**	234	82
Total comprehensive income for the year	**23 416**	20 269	16

Summary statement of financial position – IFRS (audited)

as at 30 June

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

Summary statement of changes in equity – IFRS (audited)

for the year ended 30 June

	Ordinary share capital and ordinary equityholders' funds					
R million	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve	
Balance as at 1 July 2017	4	16 804	**16 808**	(727)	158	
Ordinary dividends	–	–	**–**	–	–	
Distributions on other equity instruments	–	–	**–**	–	–	
Total comprehensive income for the year	–	–	**–**	13	185	
Balance as at 30 June 2018	4	16 804	**16 808**	(714)	343	
Adjustment for adoption of IFRS 9	–	–	**–**	–	–	
Restated balance as at 1 July 2018#	4	16 804	**16 808**	(714)	343	
Ordinary dividends	–	–	**–**	–	–	
Distributions on other equity instruments	–	–	**–**	–	–	
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	

* *Other reserves include FVOCI reserve.*

** *Other equity instruments at 30 June 2019 include R4 965 million AT1 instruments and Rnil preference shares. NCNR preference share were reflected separately at 30 June 2018 and were redeemed during the current year.*

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

	Ordinary share capital and ordinary equityholders' funds							
	Available-for-sale reserve	Foreign currency translation reserve	Other reserves*	Retained earnings	**Reserves attributable to ordinary equityholders**	**Other equity instruments****	**Total equity**
	(493)	446	1 345	66 836	**67 565**	**3 000**	**87 373**
	–	–	–	(16 508)	**(16 508)**	**–**	**(16 508)**
	–	–	–	–	**–**	**(234)**	**(234)**
	(731)	285	–	20 283	**20 035**	**234**	**20 269**
	(1 224)	731	1 345	70 611	**71 092**	**3 000**	**90 900**
	1 224	–	60	(5 067)	**(3 783)**	**–**	**(3 783)**
	–	731	1 405	65 544	**67 309**	**3 000**	**87 117**
	–	–	–	(12 645)	**(12 645)**	**–**	**(12 645)**
	–	–	–	–	**–**	**(425)**	**(425)**
	–	42	8	22 644	**22 991**	**425**	**23 416**
	–	–	–	–	**–**	**(3 000)**	**(3 000)**
	–	–	–	–	**–**	**4 965**	**4 965**
	–	773	1 413	75 543	**77 655**	**4 965**	**99 428**

Summary statement of cash flows – IFRS (audited)

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39
Cash flow from operating activities		
Interest, fee and commission receipts	**128 628**	102 413
Trading and other income	**4 302**	3 681
Interest payments*	**(52 649)**	(37 104)
Other operating expenses	**(35 322)**	(31 571)
Dividends received	**640**	3 368
Dividends paid	**(13 070)**	(16 742)
Taxation paid	**(8 018)**	(7 244)
Cash generated from operating activities	**24 511**	16 801
Movements in operating assets and liabilities	**(13 240)**	(3 201)
Liquid assets and trading securities	**(16 183)**	(28 339)
Advances	**(64 534)**	(47 181)
Deposits	**79 911**	98 888
Movement in accounts receivable and creditors	**2 676**	(153)
Employee liabilities	**(4 962)**	(4 595)
Other operating liabilities**	**(10 148)**	(21 821)
Net cash generated from operating activities	**11 271**	13 600
Cash flows from investing activities		
Acquisition of property and equipment	**(3 271)**	(3 208)
Proceeds on disposal of property and equipment	**840**	416
Acquisition of intangible assets	**(447)**	(241)
Net cash outflow from investing activities	**(2 878)**	(3 033)
Cash flows from financing activities		
Proceeds on the issue of other liabilities	**936**	439
Redemption of other liabilities	**(73)**	(413)
Proceeds from issue of Tier 2 liabilities	**2 625**	8 815
Capital repaid on Tier 2 liabilities	**(7 488)**	(1 857)
Proceeds from issue of other equity instruments	**1 965**	–
Net cash (outflow)/inflow from financing activities	**(2 035)**	6 984
Net increase in cash and cash equivalents	**6 358**	17 551
Cash and cash equivalents at the beginning of the year	**71 511**	53 924
Effect of exchange rate changes on cash and cash equivalents	**18**	36
Cash and cash equivalents at the end of the year	**77 887**	71 511
Mandatory reserve balances included above#	**25 559**	23 478

* *Interest payments relating to Tier 2 liabilities (R165 million) and other liabilities (R393 million) have been reclassified from financing activities and included in interest payments under cash generated from operating activities to align with how the bank is classifying interest payments in the cash flow statement.*

** *Include the proceeds on the sale of the MotoNovo business.*

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. The deposit bears no or low interest. Money at short notice constitutes amounts withdrawable in 32 days or less.

Statement of headline earnings – IFRS

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39	% change
Profit for the year (refer to page 111)	**23 069**	20 517	12
Other equity instruments	**(425)**	(234)	82
Earnings attributable to ordinary equityholders	**22 644**	20 283	12
Adjusted for	**(1 475)**	(207)	>100
Gain on investment activities of a capital nature*	**(1 928)**	(29)	
Gain on disposal of available-for-sale assets	**–**	(144)	
Gain on the disposal of property and equipment	**(53)**	(9)	
Impairment of intangible assets	**63**	–	
Impairment of assets in terms of IAS 36	**19**	–	
Other	**–**	(31)	
Tax effects of adjustments	**424**	6	
Headline earnings	**21 169**	20 076	5

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

Reconciliation from headline to normalised earnings

for the year ended 30 June

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

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

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

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

This resulted in a mark-to-market fair value volatility year-on-year being included in the bank's IFRS attributable earnings. The normalised results reflect the adjustment to normalise this year-on-year IFRS fair value volatility from the TRS, as described in more detail on page 109.

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2019 IFRS 9

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

Reconciliation of normalised to IFRS summary income statement

for the year ended 30 June 2018 IAS 39

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

Advances (audited)

R million	2019 IFRS 9	2018 IAS 39
Value of advances	**921 846**	860 453
IAS 39 contractual interest suspended	**–**	(1 499)
Gross value of advances	**921 846**	858 954
Category analysis		
Overdrafts and cash management accounts	**73 823**	66 226
Term loans	**48 218**	43 407
Card loans	**34 829**	29 154
Instalment sales, hire purchase agreements and lease payments receivable	**144 623**	144 518
Property finance	**240 650**	224 057
Personal loans	**49 470**	41 273
Preference share agreements	**41 808**	42 587
Assets under agreement to resell	**44 263**	32 203
Investment bank term loans	**144 837**	147 388
Long-term loans to group associates and joint ventures	**449**	515
Other	**35 430**	31 261
Total customer advances	**858 400**	802 589
Marketable advances	**63 446**	56 365
Gross value of advances	**921 846**	858 954
Impairment of advances	**(27 303)**	(15 148)
Net advances	**894 543**	843 806

Advances (audited) continued

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)

Impairment of advances (audited)

R million	2019 IFRS 9 Amortised cost	2019 IFRS 9 Fair value	2018 IAS 39 Amortised cost	2018 IAS 39 Fair value
Increase in loss allowance (IAS 39 impairment provision)	**(10 216)**	**(35)**	(9 733)	785
Recoveries of bad debts	**2 416**	**–**	2 288	1
Modification loss	**(625)**	**–**	–	–
Impairment of advances recognised during the year	**(8 425)**	**(35)**	(7 445)	786

RECONCILIATION OF THE LOSS ALLOWANCE ON FAIR VALUE ADVANCES PER CLASS

R million	RMB investment banking	Group Treasury and other	Total
Amount as at 1 July 2018 (IFRS 9)	106	174	280
– Stage 1	93	174	267
– Stage 2	13	–	13
– Stage 3	–	–	–
Current period provision created/(released)	30	5	35
– Stage 1	(76)	(20)	(96)
– Stage 2	106	25	131
– Stage 3	–	–	–
Amount as at 30 June 2019	136	179	315
– Stage 1	89	177	266
– Stage 2	47	2	49
– Stage 3	–	–	–

Impairment of advances (audited) continued

RECONCILIATION OF THE LOSS ALLOWANCE ON AMORTISED COST ADVANCES PER CLASS

	Retail secured		Retail unsecured		
R million	**Residential mortgages**	**Vehicle asset finance**	**Credit card**	**Personal loans**	**Other retail**
Amount as at 1 July 2018 IFRS 9	2 362	4 557	1 805	4 688	2 023
– Stage 1	269	841	535	1 223	637
– Stage 2	378	1 328	274	1 017	546
– Stage 3	1 715	2 388	996	2 448	840
Acquisition/(disposal) of advances	–	38	–	–	–
Exchange rate differences	122	(20)	4	4	(124)
Bad debts written off	(362)	(2 741)	(611)	(1 518)	(885)
Current period provision created/(released)*	317	2 587	1 540	3 362	1 453
– Stage 1	(96)	(291)	16	165	20
– Stage 2	322	568	326	405	273
– Stage 3	91	2 310	1 198	2 792	1 160
Interest on stage 3 advances	102	324	145	317	258
Amount as at 30 June 2019	2 541	4 745	2 883	6 853	2 725
Stage 1	360	764	631	1 440	724
Stage 2	510	1 403	383	979	464
Stage 3	1 671	2 578	1 869	4 434	1 537

* *Current period provision created/(released) reflects the net of the following items:*

- *flow on ECL impact of net settlements and changes in exposures of advances included in the opening balance, including changes in ECL on amended off-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	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

Impairment of advances (audited) continued

	2018 IAS 39			
	FNB		RMB	
R million	Retail	Commercial	Investment banking	Corporate banking
Analysis of movement in impairment of advances per class of advance				
Balance as at 1 July 2017	5 011	1 558	2 795	891
Amounts written off	(3 904)	(750)	(251)	–
Acquisition of business	–	–	–	–
Disposal of advances	–	–	–	–
Transfers from/(to) other divisions	(2)	2	–	–
Reclassifications	–	–	–	–
Exchange rate differences	(1)	1	37	–
Unwinding of discounted present value on NPLs	(105)	–	–	–
Net new impairments created/(released)	4 365	741	(105)	5
Balance at 30 June 2018	5 364	1 552	2 476	896

	2018 IAS 39				
	WesBank	FCC and other	Total impairment	Specific impairment	Portfolio impairment
	3 918	405	14 578	7 148	7 430
	(3 445)	–	(8 350)	(8 350)	–
	16	–	16	16	–
	–	–	–	–	–
	–	–	–	–	–
	–	–	–	72	(72)
	25	(1)	61	35	26
	–	–	(105)	(105)	–
	4 172	(230)	8 948	8 852	96
	4 686	174	15 148	7 668	7 480

Fair value measurements (audited)

VALUATION METHODOLOGY

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

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

Non-recurring fair value measurements

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

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the recoverable amount is based on the fair value less costs to sell; and
- IAS 36 where the recoverable amount is based on the fair value less costs to sell. These fair value measurements are determined on a case-by-case basis as they occur within each reporting period.

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

There were no non-recurring fair value measurements during the current and prior years.

Financial instruments

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

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

Financial instruments not measured at fair value

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

FAIR VALUE HIERARCHY AND MEASUREMENTS

The 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.

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

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

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

Fair value measurements (audited) continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	OBSERVABLE INPUTS
INVESTMENT SECURITIES continued			
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rate curves
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings, depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place, in which case level 2 classifications are used.	Market transactions
Negotiable certificates of deposit	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Inputs to these models include information that is consistent with similar market-quoted instruments, where available.	Market interest rate curves
Treasury bills and other government and government guaranteed stock	JSE Debt Market bond pricing model	The JSE Debt Market bond pricing model uses the JSE Debt Market mark-to-market bond yield.	Market interest rate curves
Investments in funds and unit trusts	Third-party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties, such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third-party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are listed, these third-party valuations can be corroborated with reference to listed share prices and other market data and are thus classified as level 2 of the fair value hierarchy.	Market transactions (listed)

FAIR VALUE HIERARCHY AND 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

Fair value measurements (audited) continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

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

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

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	SIGNIFICANT UNOBSERVABLE INPUTS
INVESTMENT SECURITIES			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates.	Unobservable P/E ratios
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings, depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount rate for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Growth rates and P/E ratios
Investments in funds and unit trusts	Third-party valuations	In the case of certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the bank places reliance on valuations from third parties, such as broker quotes or valuations from asset managers. Where considered necessary, the bank applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third-party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are unlisted, the bank has classified them as level 3 of the fair value hierarchy, as there is no observable market data to compare the third-party valuations to.	None (unlisted) – third-party valuations used, minority and marketability adjustments

Fair value measurements (audited) continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	SIGNIFICANT UNOBSERVABLE INPUTS
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
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 classified as level 3. Future cash flows are discounted using market-related interest rates, adjusted for the performance of the underlying contracts.	Performance of underlying contracts
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Credit inputs

Non-recurring fair value measurements

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table.

There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior year.

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

Fair value hierarchy

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

	2019 IFRS 9			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	75	42 304	802	43 181
Advances	–	44 117	32 564	76 681
Investment securities	34 155	33 312	1 763	69 230
Commodities	21 176	–	–	21 176
Amounts due by holding company and fellow subsidiaries	–	2 333	–	2 333
Total assets measured at fair value	55 406	122 066	35 129	212 601
Liabilities				
Recurring fair value measurements				
Short trading positions	5 334	21	–	5 355
Derivative financial instruments	27	47 184	842	48 053
Deposits	1 378	54 637	1 052	57 067
Other liabilities	–	424	322	746
Amounts due to holding company and fellow subsidiaries	–	2 688	–	2 688
Total liabilities measured at fair value	6 739	104 954	2 216	113 909

	2018 IAS 39			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	244	40 579	563	41 386
Advances	–	26 958	167 052	194 010
Investment securities	94 672	29 872	1 468	126 012
Commodities	13 424	–	–	13 424
Amounts due by holding company and fellow subsidiaries	–	603	–	603
Total assets measured at fair value	108 340	98 012	169 083	375 435
Liabilities				
Recurring fair value measurements				
Short trading positions	9 981	–	–	9 981
Derivative financial instruments	21	49 587	630	50 238
Deposits	1 354	93 006	344	94 704
Other liabilities	–	2 079	1 529	3 608
Amounts due to holding company and fellow subsidiaries	–	336	–	336
Total liabilities measured at fair value	11 356	145 008	2 503	158 867

Fair value measurements (audited) continued

FAIR VALUE HIERARCHY AND MEASUREMENTS *continued*

Transfers between fair value hierarchy levels

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

	2019 IFRS 9		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	**–**	**–**	There were no transfers into level 1.
Level 2	**101**	**(151)**	During the 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 the Botswana pula were valued on an internally created curve, whose inputs are longer observable. These changes in inputs resulted in a transfer out of level 2 to level 3.
Total transfers	**252**	**(252)**	

	2018 IAS 39		
R million	Transfers in	Transfers out	Reasons for significant transfer in
Level 1	–	–	There were no transfers into level 1.
Level 2	34	(1 070)	Certain over-the-counter equity options have been transferred into level 2 in the current year because the inputs used in the valuation of these positions have become observable as the maturity of these trades are less than 12 months.
Level 3	1 070	(34)	Market volatilities are only available for a limited range of strike prices. The further away over-the-counter equity options are from their trade date, the more likely it becomes that their strike prices are outside the prevailing range of strike prices for which volatilities are available. During the current year, the observability of volatilities used in determining the fair value of certain over-the-counter equity options became unobservable and resulted in the transfer into level 3 of the fair value hierarchy.
Total transfers	1 104	(1 104)	

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS

Changes in level 3 instruments with recurring fair value measurements

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

R million	Derivative financial assets	Advances	Investment securities	Derivative financial liabilities	Deposits	Other liabilities
Balance as at 30 June 2017	8	195 376	1 989	233	386	1 519
Gains/(losses) recognised in profit or loss	(17)	15 480	(66)	(109)	9	159
Gains/(losses) recognised in other comprehensive income	–	(2)	(31)	–	–	–
Purchases, sales, issues and settlements	40	(44 079)	(424)	2	(51)	(149)
Net transfer to level 3	532	–	–	504	–	–
Exchange rate differences	–	277	–	–	–	–
Balance as at 30 June 2018	**563**	**167 052**	**1 468**	**630**	**344**	**1 529**
IFRS 9 adjustment	**–**	**(119 066)**	**(132)**	**–**	**–**	**–**
Gains/(losses) recognised in profit or loss	**226**	**2 003**	**179**	**66**	**(13)**	**(1 777)**
Gains/(losses) recognised in other comprehensive income	**–**	**–**	**1**	**–**	**–**	**–**
Purchases, sales, issues 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**

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

Gains/losses on advances classified as level 3 of the hierarchy comprise gross interest income on advances, fair value of credit adjustments and adjustments to changes in currency and base rates. These instruments are funded by liabilities and the risk inherent is hedged by interest rate or foreign currency swaps. The corresponding gross interest expense is not disclosed in the fair value note as these items are typically measured at amortised cost.

Fair value measurements (audited) continued

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS *continued*

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

The valuation model for level 3 assets or liabilities typically relies on a number of inputs that are not readily observable, either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The table below presents the total gains/losses relating to remeasurement of assets and liabilities carried at fair value on a recurring basis classified as level 3 that are still held at reporting date. With the exception of interest on funding instruments, FVOCI debt instruments (IFRS 9) and available-for-sale financial assets (IAS 39), all gains or losses are recognised in non-interest revenue.

	2019 IFRS 9		2018 IAS 39	
R million	**Gains/(losses) recognised in the income statement**	**Gains/(losses) recognised in other comprehensive income**	Gains/(losses) recognised in the income statement	Gains/(losses) recognised in other comprehensive income
Assets				
Derivative financial instruments	**162**	**–**	11	–
Advances*	**1 929**	**–**	11 667	–
Investment securities	**54**	**1**	(25)	11
Total	**2 145**	**1**	11 653	11
Liabilities				
Derivative financial instruments	**37**	**–**	(299)	–
Deposits	**(3)**	**–**	11	–
Other liabilities	**136**	**–**	41	–
Total	**170**	**–**	(247)	–

* *Amount is mainly accrued interest on fair value loans and advances and movements in interest rates that have been economically hedged. These loans and advances are classified as level 3 primarily, as credit spreads could be a significant input and are not observable for loans and advances in most of RMB's key markets. Inputs relating to interest rates and foreign currencies are regarded as observable.*

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

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS *continued*

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

The tables below illustrate the sensitivity of the significant inputs when changed to reasonably possible alternative inputs.

IFRS 9			
ASSET/LIABILITY	SIGNIFICANT UNOBSERVABLE INPUTS	UNOBSERVABLE INPUT TO WHICH REASONABLY POSSIBLE CHANGES ARE APPLIED	REASONABLY POSSIBLE CHANGES APPLIED
Derivative financial instruments	Volatilities	Volatilities	Increased and decreased by 10%.
Advances	Credit	Credit	A range of scenarios are run as part of the group's credit risk management process for advances measured at fair value through profit or loss to determine credit losses and change in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case.
Investment securities	Credit, growth rates and P/E ratios of unlisted investments	Credit, growth rates or P/E ratios of unlisted investments	Increased and decreased by 10%.
Deposits	Credit risk of the cash collateral leg of credit-linked notes	Credit migration matrix	The deposits included in level 3 of the hierarchy represent the collateral leg of credit-linked notes. The most significant unobservable input in determining the fair value of the credit-linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances, using the credit migration matrix, with the deposit representing the cash collateral component thereof.
Other liabilities	Performance of underlying contracts	Profits on the underlying contracts	Increased and decreased by 1%.

	Reasonably possible alternative fair value					
	2019 IFRS 9			2018 IAS 39		
R million	**Fair value**	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions
Assets						
Derivative financial instruments	**802**	**814**	**792**	563	569	556
Advances	**32 564**	**32 705**	**32 419**	167 052	167 445	166 738
Investment securities	**1 763**	**1 836**	**1 647**	1 468	1 617	1 383
Total financial assets measured at fair value in level 3	**35 129**	**35 355**	**34 858**	169 083	169 631	168 677
Liabilities						
Derivative financial instruments	**842**	**835**	**846**	630	622	636
Deposits	**1 052**	**1 035**	**1 070**	344	310	379
Other liabilities	**322**	**319**	**326**	1 529	1 513	1 544
Total financial liabilities measured at fair value in level 3	**2 216**	**2 189**	**2 242**	2 503	2 445	2 559

Fair value measurements (audited) continued

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

	2019 IFRS 9				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**817 862**	**826 917**	**–**	**110 535**	**716 382**
Investment securities	**107 712**	**107 312**	**81 443**	**25 869**	**–**
Total assets at amortised cost	**925 574**	**934 229**	**81 443**	**136 404**	**716 382**
Liabilities					
Deposits	**1 001 372**	**1 002 090**	**–**	**1 000 471**	**1 619**
Other liabilities	**2 576**	**2 575**	**–**	**2 575**	**–**
Tier 2 liabilities	**22 428**	**22 913**	**–**	**22 913**	**–**
Total liabilities at amortised cost	**1 026 376**	**1 027 578**	**–**	**1 025 959**	**1 619**

	2018 IAS 39				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	649 796	656 550	–	104 283	552 267
Investment securities	31 226	31 166	28 370	2 796	–
Total assets at amortised cost	681 022	687 716	28 370	107 079	552 267
Liabilities					
Deposits	882 554	882 480	2 534	878 571	1 375
Other liabilities	773	773	–	773	–
Tier 2 liabilities	26 668	27 036	–	27 036	–
Total liabilities at amortised cost	909 995	910 289	2 534	906 380	1 375

DAY 1 PROFIT OR LOSS

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

R million	**2019 IFRS 9**	2018 IAS 39
Opening balance	**54**	51
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**32**	13
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(35)**	(10)
Closing balance	**51**	54

Contingencies and commitment (audited)

as at 30 June

R million	2019 IFRS 9	2018 IAS 39	% change
Contingencies and commitments			
Guarantees (endorsements and performance guarantees)	**49 443**	34 711	42
Letters of credit	**8 386**	9 969	(16)
Total contingencies	**57 829**	44 680	29
Irrevocable commitments	**117 028**	111 642	5
Committed capital expenditure approved by the directors	**3 315**	2 592	28
Operating lease commitments	**2 119**	2 504	(15)
Other	**6**	3	100
Contingencies and commitments	**180 297**	161 421	12
Legal proceedings			
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities that are expected to materialise.	**71**	125	(43)
Commitments			
Commitments in respect of capital expenditure and long-term investments approved by directors.	**3 315**	2 592	28

Events after the reporting period (audited)

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.

Summary segment report (audited)

for the year ended 30 June

	2019 IFRS 9											
	FNB					RMB						
R million	FNB SA	FNB Africa	**Total FNB**	**WesBank**	**Retail and commercial**	Investment banking	Corporate banking	**Total RMB**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
Profit before tax	21 255	(362)	**20 893**	1 251	**22 144**	5 789	1 490	**7 279**	(811)	**28 612**	1 922	**30 534**
Total assets	411 372	594	**411 966**	121 816	**533 782**	407 507	60 197	**467 704**	289 918	**1 291 404**	–	**1 291 404**
Total liabilities*	394 934	955	**395 889**	121 690	**517 579**	402 578	59 603	**462 181**	212 216	**1 191 976**	–	**1 191 976**

* *Total liabilities are net of interdivisional balances.*

	2018 IAS 39											
	FNB					RMB						
R million	FNB SA	FNB Africa	**Total FNB**	**WesBank**	**Retail and commercial**	Investment banking	Corporate banking	**Total RMB**	FCC (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
Profit before tax	18 979	(491)	**18 488**	1 456	**19 944**	5 204	1 351	**6 555**	7	**26 506**	183	**26 689**
Total assets	383 196	590	**383 786**	126 868	**510 654**	376 138	49 467	**425 605**	267 618	**1 203 877**	–	**1 203 877**
Total liabilities*	364 140	1 051	**365 191**	125 412	**490 603**	371 819	49 004	**420 823**	201 551	**1 112 977**	–	**1 112 977**

* *Total liabilities are net of interdivisional balances.*

05

supplementary information

Company information

DIRECTORS

WR Jardine (chairman), AP Pullinger (chief executive officer), HS Kellan (financial director), M Vilakazi (chief operating officer), MS Bomela, HL Bosman, JP Burger, JJ Durand (alternate), GG Gelink, NN Gwagwa, F Knoetze, RM Loubser, PJ Makosholo, TS Mashego, EG Matenge-Sebesho, AT Nzimande, LL von Zeuner, T Winterboer

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Woodmead, Sandton
2052

Listed debt instruments of the bank

at 30 June 2019

Issuer: FirstRand Bank Limited

JSE

Domestic medium-term note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Subordinated debt					
FRB13	ZAG000116286	FRB18	ZAG000135229	FRB23	ZAG000146754
FRB14	ZAG000116294	FRB19	ZAG000135310	FRB24	ZAG000155102
FRB15	ZAG000124199	FRB20	ZAG000135385	FRB25	ZAG000157512
FRB16	ZAG000127622	FRB21	ZAG000140856	FRB26	ZAG000159955
FRB17	ZAG000127630	FRB22	ZAG000141219	FRB27	ZAG000159963
Senior unsecured					
FRBZ01	ZAG000049255	FRJ25	ZAG000124256	FRX25	ZAG000152828
FRBZ02	ZAG000072711	FRJ26	ZAG000156969	FRX26	ZAG000112160
FRBZ03	ZAG000080029	FRJ27	ZAG000141912	FRX27	ZAG000142506
FRJ20	ZAG000109596	FRJ29	ZAG000156951	FRX28	ZAG000152836
FRJ21	ZAG000115858	FRX19	ZAG000073685	FRX30	ZAG000124264
FRJ22	ZAG000142498	FRX20	ZAG000109604	FRX31	ZAG000084195
FRJ23	ZAG000149436	FRX23	ZAG000104969	FRX32	ZAG000142514
FRJ24	ZAG000156977	FRX24	ZAG000073693	FRX45	ZAG000076480
Inflation-linked bonds					
FRBI22	ZAG000079666	FRBI29	ZAG000145608	FRI33	ZAG000141706
FRBI23	ZAG000076498	FRBI33	ZAG000079245	FRI38	ZAG000141862
FRBI25	ZAG000109588	FRBI46	ZAG000135302		
FRBI28	ZAG000079237	FRBI50	ZAG000141649		

Structured note and preference share programme

Credit-linked notes					
FRC66	ZAG000088485	FRC69	ZAG000088766	FRC71	ZAG000088923

Listed debt instruments of the bank continued

Note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Structured notes					
FRS36	ZAG000077397	FRS129	ZAG000125865	FRS169	ZAG000145780
FRS37	ZAG000077793	FRS131	ZAG000126186	FRS170	ZAG000145954
FRS43	ZAG000078643	FRS132	ZAG000126194	FRS171	ZAG000147448
FRS46	ZAG000079807	FRS133	ZAG000126541	FRS172	ZAG000147455
FRS49	ZAG000081787	FRS134	ZAG000126574	FRS173	ZAG000148180
FRS51	ZAG000086117	FRS135	ZAG000126608	FRS174	ZAG000148198
FRS62	ZAG000090614	FRS136	ZAG000126780	FRS175	ZAG000149451
FRS64	ZAG000092529	FRS137	ZAG000127549	FRS176	ZAG000149444
FRS81	ZAG000100892	FRS138	ZAG000127556	FRS177	ZAG000152885
FRS85	ZAG000104985	FRS142	ZAG000130782	FRS178	ZAG000153107
FRS87	ZAG000105420	FRS143	ZAG000130790	FRS179	ZAG000153321
FRS90	ZAG000106410	FRS145	ZAG000134263	FRS180	ZAG000154147
FRS100	ZAG000111634	FRS146	ZAG000134636	FRS181	ZAG000154188
FRS101	ZAG000111774	FRS147	ZAG000135724	FRS182	ZAG000154386
FRS103	ZAG000111840	FRS149	ZAG000136573	FRS183	ZAG000154568
FRS104	ZAG000111857	FRS150	ZAG000136615	FRS184	ZAG000155490
FRS108	ZAG000113515	FRS151	ZAG000136987	FRS185	ZAG000155540
FRS109	ZAG000113564	FRS152	ZAG000136995	FRS186	ZAG000156522
FRS110	ZAG000113663	FRS153	ZAG000137670	FRS187	ZAG000156514
FRS112	ZAG000115395	FRS158	ZAG000145012	FRS188	ZAG000156506
FRS114	ZAG000116070	FRS159	ZAG000145020	FRS189	ZAG000157462
FRS119	ZAG000118951	FRS160	ZAG000145038	FRS190	ZAG000157835
FRS120	ZAG000119298	FRS161	ZAG000145046	FRS191	ZAG000157827
FRS121	ZAG000120643	FRS162	ZAG000145111	FRS192	ZAG000157850
FRS122	ZAG000121062	FRS163	ZAG000145129	FRS193	ZAG000157892
FRS123	ZAG000121328	FRS164	ZAG000145160	FRS194	ZAG000160516
FRS124	ZAG000122953	FRS165	ZAG000145178	FRS195	ZAG000160524
FRS126	ZAG000125188	FRS167	ZAG000145764	RMBI01	ZAG000050865
FRS127	ZAG000125394	FRS168	ZAG000145772	RMBI02	ZAG000052986
Credit-linked notes					
FRC169	ZAG000104852	FRC246	ZAG000135476	FRC278	ZAG000153560
FRC178	ZAG000107897	FRC247	ZAG000135484	FRC279	ZAG000153578
FRC179	ZAG000108168	FRC248	ZAG000135450	FRC280	ZAG000153776
FRC181	ZAG000108549	FRC249	ZAG000135542	FRC281	ZAG000153834
FRC195	ZAG000114745	FRC250	ZAG000135559	FRC282	ZAG000154063
FRC207	ZAG000117649	FRC251	ZAG000141813	FRC283	ZAG000154394
FRC208	ZAG000117656	FRC252	ZAG000142225	FRC284	ZAG000154642
FRC209	ZAG000118613	FRC254	ZAG000144825	FRC285	ZAG000155201
FRC210	ZAG000120296	FRC256	ZAG000145806	FRC286	ZAG000156548
FRC212	ZAG000121054	FRC257	ZAG000146564	FRC287	ZAG000156860

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Credit-linked notes *continued*					
FRC213	ZAG000121047	FRC258	ZAG000146580	FRC288	ZAG000156852
FRC215	ZAG000121021	FRC259	ZAG000147414	FRC289	ZAG000157108
FRC219	ZAG000121138	FRC260	ZAG000147596	FRC290	ZAG000157447
FRC221	ZAG000121229	FRC261	ZAG000147653	FRC291	ZAG000157629
FRC225	ZAG000121435	FRC262	ZAG000147646	FRC292	ZAG000157777
FRC233	ZAG000128752	FRC264	ZAG000149345	FRC293	ZAG000158783
FRC234	ZAG000130816	FRC265	ZAG000149485	FRC294	ZAG000158791
FRC236	ZAG000135211	FRC266	ZAG000149824	FRC295	ZAG000159310
FRC237	ZAG000135203	FRC267	ZAG000150004	FRC296	ZAG000159369
FRC238	ZAG000135237	FRC269	ZAG000150806	FRC297	ZAG000159351
FRC239	ZAG000135245	FRC270	ZAG000151234	FRC298	ZAG000159427
FRC240	ZAG000135252	FRC271	ZAG000151556	FRC299	ZAG000159575
FRC241	ZAG000135393	FRC272	ZAG000151564	FRC300	ZAG000159674
FRC242	ZAG000135401	FRC274	ZAG000151952	FRC301	ZAG000159872
FRC243	ZAG000135419	FRC275	ZAG000152372	FRC302	ZAG000160029
FRC244	ZAG000135427	FRC276	ZAG000152430	FRC303	ZAG000160425
FRC245	ZAG000135468	FRC277	ZAG000153552	FRC304	ZAG000160565

Other

Bond code	ISIN code	Bond code	ISIN code
FRK01	ZAE000193959	FRPT01	ZAE000205480

London Stock Exchange (LSE)

European medium-term note programme

ISIN code	
Senior unsecured	**Subordinated debt**
XS1178685084	XS1810806395
XS0610341967	
XS1225512026	

Definitions

Additional Tier 1 (AT1) capital	AT1 capital instruments less specified regulatory deductions
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA
Common Equity Tier 1 (CET1) capital	Share capital and premium and qualifying reserves, less specified regulatory deductions
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year)
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures
Dividend cover	Normalised earnings per share divided by dividend per share
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement
Impairment charge	Amortised cost impairment charge and credit fair value adjustments
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves
Normalised earnings	The bank believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares, including treasury shares
Normalised net asset value	Normalised equity attributable to ordinary equityholders
Return on assets (ROA)	Normalised earnings divided by average assets
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets
Technical cures	Performing accounts that are classified as stage 3/NPL because they have defaulted in the past and do not meet the stringent cure definition of performance for several consecutive months
Tier 1 ratio	Tier 1 capital divided by RWA
Tier 1 capital	CET1 capital plus AT1 capital
Tier 2 capital	Qualifying subordinated debt instruments and general provisions for entities on the standardised approach less specified regulatory deductions
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital

Abbreviations

ALM	Asset and liability management
APE	Annual premium equivalent
ASF	Available stable funding
AT1	Additional Tier 1
AUA	Assets under administration
AUE	Assets under execution
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BEE	Black economic empowerment
BIS	Bank for International Settlements
BSE	Botswana Stock Exchange
BTL	Buy-to-let
C&TB	Corporate and transactional banking
CAGR	Compound annual growth rate
Capex	Capital expenditure
CAR	Capital adequacy ratio
CB	RMB corporate banking
CCyB	Countercyclical buffer
CET1	Common Equity Tier 1
CIB	Corporate and investment banking
CIS	Collective investment scheme
CLF	Committed liquidity facility
DA	DirectAxis
DIA	Date of initial application
DIS	Deposit insurance scheme
D-SIB	Domestic systemically important bank
DWT	Dividend withholding tax
ECL	Expected credit loss
ELI	Employee liability insurance
EMTN	European medium-term note
EPS	Earnings per share
FLAC	First loss-absorbing capacity
FLI	Forward-looking information
FML	Full maintenance leasing
FRB	FirstRand Bank Limited
FREMA	FirstRand EMA Holdings (Pty) Ltd
FRI	FirstRand International Limited (Guernsey)
FRIHL	FirstRand Investment Holdings (Pty) Ltd
FRNs	Floating rate notes
FSB	Financial Services Board
FSLAB	Financial Sector Laws Amendment Bill
FSR	FirstRand Limited
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
HQLA	High-quality liquid assets
IB	Investment banking
IB&A	Investment banking and advisory
IFRS-IC	IFRS Interpretation Committee
IM	Investment management
INV	Investing
ISP	Interest in suspense
JSE	Johannesburg Stock Exchange
JV	Joint venture
LCR	Liquidity coverage ratio
LGD	Loss given default
LISP	Linked investment service provider
LSE	London Stock Exchange
LTV	Loan to value
M&S	Markets and structuring
MCA	Market Conduct Authority
Moody's	Moody's Investors Service
MTM	Mark-to-market
NCAA	National Credit Amendment Act
NCDs	Negotiable certificate of deposits
NCNR	Non-cumulative non-redeemable
NIACC	Net income after cost of capital
NII	Net interest income
NIR	Non-interest revenue
NPLs	Non-performing loans
NSFR	Net stable funding ratio
NSX	Namibian Stock Exchange
PA	Prudential Authority
PD	Probability of default
P/E	Price/earnings
PN	Promissory note
RA	Resolution Authority
RMBS	Residential mortgage-backed securities
ROA	Return on assets
ROE	Return on equity
RSF	Required stable funding
RWA	Risk weighted assets
S&P	S&P Global Ratings
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SICR	Significant increase in credit risk
SME	Small and medium enterprises
SPPI	Solely payments of principal and interest
SRB	Special Resolution Bill
TLAC	Total loss-absorbing capacity
TRS	Total return swap
TTC	Through-the-cycle
UK	United Kingdom
VAF	Vehicle asset finance
VAPS	Value-added products and services
WIM	Wealth and investment management

Abbreviations of financial reporting standards

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1	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 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

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