FirstRand

’18 IFRS 9 financial instruments transition report

as at 1 July

about this report

This report covers the audited transition impact of the adoption of IFRS 9 on 1 July 2018.

All references to date of initial application (DIA) refer to 1 July 2018.

The transition impact and commentary are presented on an IFRS basis because the difference between IFRS and normalised is immaterial on adoption. Refer to page 64 for a description of the amended normalised adjustments and a reconciliation between IFRS and normalised. The reconciliation constitutes pro-forma financial information in terms of the JSE Listings Requirements. The pro-forma consolidated financial information is the responsibility of the group's board of directors and is presented for illustrative purposes. Due to the nature of pro-forma financial information it may not fairly present the group's consolidated financial position and changes in equity. Deloitte & Touche and PricewaterhouseCoopers Inc. (the auditors) issued an ISAE 3420 reasonable assurance independent reporting accountants' report on the normalised information, which is available for inspection at the group's registered office.

The IFRS financial information in this report should be read in conjunction with the auditors' ISA 805 audit report on pages 60 and 61. The IFRS consolidated financial information contained in this report has been audited, unless specifically stated otherwise.

FirstRand

1966/010753/06
Certain entities within the FirstRand group are Authorised Financial Services and Credit Providers.
This booklet is available on the group's website:
www.firstrand.co.za

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

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FirstRand

FirstRand's portfolio of integrated financial services businesses comprises FNB, RMB, WesBank, Aldermore and Ashburton Investments. The group operates in South Africa, certain markets in sub-Saharan Africa and the UK, and offers a universal set of transactional, lending, investment and insurance products and services.

FNB RMB WesBank Aldermore ASHBURTON INVESTMENTS

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executive summary

INTRODUCTION

From 1 July 2018, the group adopted two new financial reporting standards relating to how it classifies and measures financial instruments, and how it recognises revenue received from customers.

The first standard, IFRS 9, replaces IAS 39 on the recognition and measurement of financial instruments. It has fundamentally changed the way FirstRand accounts for financial assets and liabilities, such as advances to customers. This document deals only with the effect of the group's IFRS 9 adoption.

The second standard is IFRS 15, which impacts how revenue is recognised. It resulted in a R75 million reduction in the group's capital and reserves.

These fundamental changes in FirstRand's accounting framework relating to financial instruments, and impairment methodology in particular, came into effect from the beginning of the 2018/19 financial year. The group's interim results for the six months to December 2018 and subsequent results will be prepared according to this new accounting framework.

Given the changes, FirstRand is publishing this report to explain the differences between IFRS 9 and IAS 39, and how the adoption of IFRS 9 changes key financial metrics. It is important to note that these are accounting changes, the economic performance remains the same. The adoption of IFRS 9 **does not change the credit quality** of the various financial instruments, but results in the **earlier recognition of credit losses** by the group.

IFRS 9 affects FirstRand's impairment allowances for financial instruments, the classification and measurement of these instruments, and hedge accounting. FirstRand is compelled to adjust its impairment provision upwards from the **date of initial application, being 1 July 2018**, which has in turn affected capital and reserves. A graphical representation of the high-level financial impact of these adjustments is provided below.

Impairment of advances (pre-tax)	**Common Equity Tier 1 (CET1) ratio***	**Group's total equity**** (including minorities)
+39% (including ISP) *+54% (excluding ISP)*	**-50 bps**	**-4.2%**
IFRS 9: R29 078 million	IFRS 9: 11.0%	IFRS 9: R125 289 million
IAS 39: R18 835 million	IAS 39: 11.5%	IAS 39: R130 798 million

* *The full impact of IFRS 9 on the group's CET1 ratio on the date of initial adoption is a 50 bps reduction to 11.0%. The SARB allows a three-year phase-in period for the full impact. For the first year of phase-in, the CET1 ratio declined 0.1% (12 bps rounded to one decimal point) to 11.4%.*

** *Total equity includes ordinary shares, share premium, retained earnings, defined benefit post-employment reserve, cash flow hedge reserve, share-based payment reserve, available-for-sale reserve, foreign currency translation reserve, other reserves, NCNR preference shares, and non-controlling interests.*

The key policy changes with the adoption of IFRS 9 are:

1. Classification of financial assets has changed for certain RMB advances which were previously recorded at fair value advances, and are now recorded at amortised cost.
2. The recognised value of NPLs has changed whereby the interest suspended on these accounts was, under IAS 39, set-off against the advance balance but is now reflected at gross value with the suspended interest reflected as part of the IFRS 9 provision.
3. NPL balances have further been affected by changes in definition relating to cure and write off. Therefore FirstRand has had to lengthen its write-off parameters and NPL balances will increase going forward.
4. Credit impairment changes across all components of advances is detailed later (pages 48 to 57).

A high level summary of the retained earnings impact of each of the key policy changes are set out in the table below.

R million	DIA: 1 July 2018
Impact on total equity	
ECL impairment	**(6 835)**
Stage 1	**(2 440)**
Stage 2	**(3 452)**
Stage 3	**(2 706)**
Current and deferred tax	**2 161**
Other	**(398)**
Reclassification	**–**
Remeasurement	**896**
ISP due to difference in coverage ratio	**430**
Total equity adjustments	**(5 509)**

KEY REQUIREMENTS OF IFRS 9

CLASSIFICATION AND MEASUREMENT

IFRS 9 requires all financial assets to be classified and measured based on the entity's business model for managing these financial assets, and the contractual cash flows from those assets.

The treatment of financial liabilities is largely unchanged, except for liabilities designated at fair value, as explained on page 14.

On adoption of IFRS 9, one of the most significant reclassifications relates to a portion of RMB's investment banking advances book.
The book is now measured at amortised cost, where it was previously measured at fair value through profit or loss. A portion of FirstRand's liquid asset portfolio previously classified as available-for-sale has also been reclassified to amortised cost.

CREDIT IMPAIRMENTS

IFRS 9 introduces the concept of an **expected credit loss (ECL)**, which uses forward-looking information and results in the earlier recognition of credit impairments for reporting purposes. This differs from IAS 39, which used an incurred loss model requiring the occurrence of a loss event before a credit loss could be recorded.

To start with, IFRS 9 requires a significant increase in credit impairments on performing financial assets, even when there has not been a significant increase in credit risk. Impairments are calculated based on any possible defaults within the next 12 months (12-month measurement period). This is known as a **stage 1** impairment.

Where there has been a significant increase in credit risk since the initial recognition of the financial asset, a **lifetime expected credit loss (LECL)** allowance is calculated. This is calculated as the present value of all losses that would arise from a full default throughout the expected life of the asset. The asset then goes into **stage 2** impairment.

If the asset is credit-impaired, a **stage 3** impairment is recognised.

The graphic below compares impairment recognition under IFRS 9 with IAS 39.

IAS 39	Incurred but not reported (IBNR)	Portfolio-specific impairments (PSI)	NPL
	> Includes all accounts less than one payment/30 days in arrears > Relatively low loss provisions held (incurred loss model – short emergence periods)	> Accounts between one and three payments/30 and 90 days in arrears > Provisions held for incurred losses	> Accounts in default > LECL provisions held

IFRS 9	Stage 1	Stage 2	Stage 3
	> Includes all accounts that have not significantly deteriorated in credit risk since origination > 12-month ECL provisions held	> Accounts that show significant deterioration (with one instalment/ 30 days in arrears backstop) > Watchlist client > Provisions held for LECL	> Accounts in default > LECL provisions held

Stage 1 and stage 2 advances are considered to be performing, thus stage 1 and stage 2 impairments are referred to as performing provisions.

The combination of stage 1 and 2 impairments results in significantly higher levels of credit impairments on performing financial assets than under IAS 39.

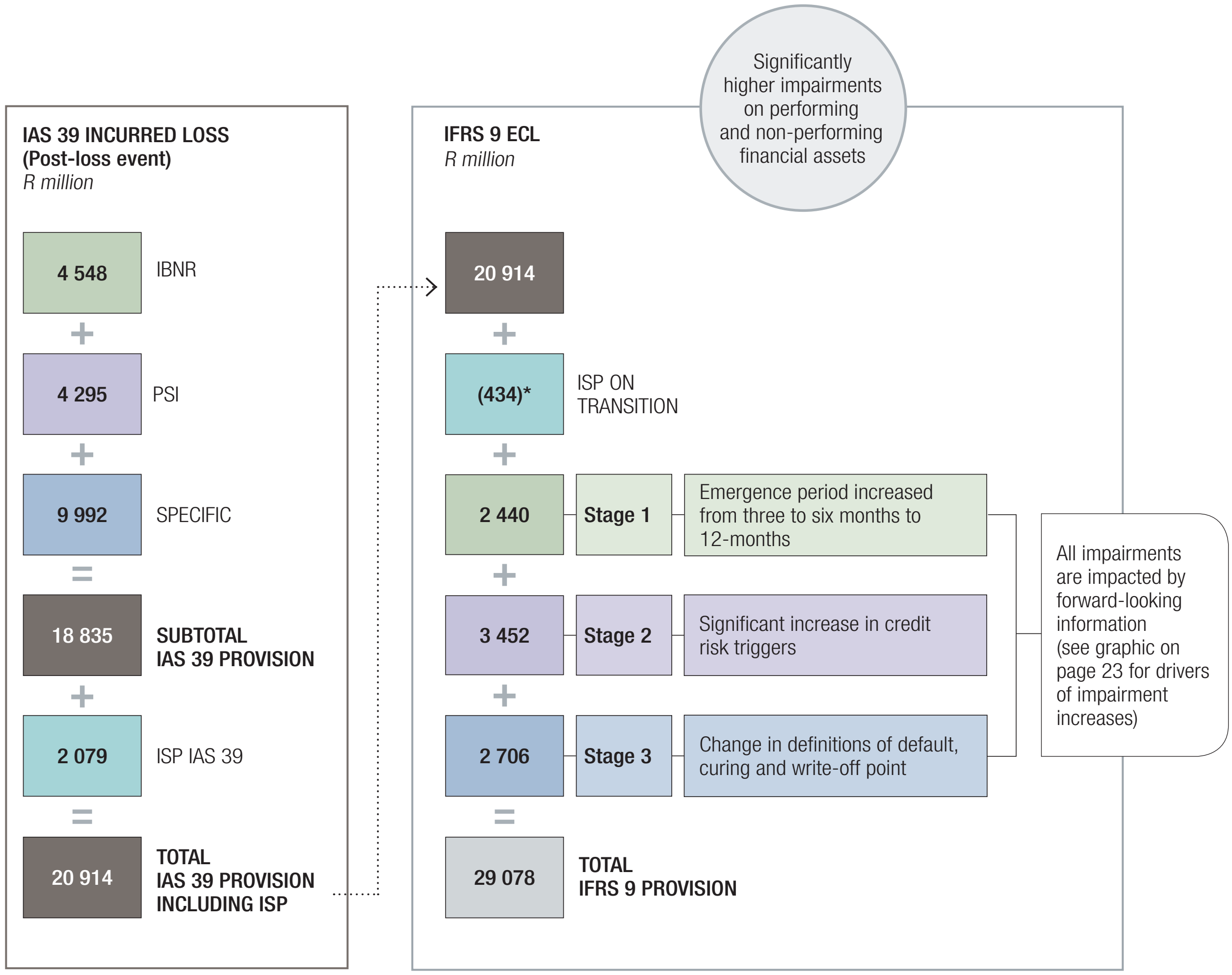
The scope of IFRS 9 is broader than that of IAS 39, and includes taking off-balance sheet exposures, such as unutilised facilities, into account in determining the level of credit impairments. These were not included in the determination of credit impairments under IAS 39.

IFRS 9 requires the use of forward-looking information in determining the expected credit loss amount, which introduces a measure of risk and uncertainty as it involves macroeconomic projections, and scenario testing and planning.

IMPACT ON FIRSTRAND

The graphic below illustrates the increase of 39% (including ISP) in credit impairments from IAS 39 to IFRS 9 at the date of initial application.

CREDIT IMPAIRMENT ADJUSTMENTS AS AT 1 JULY 2018

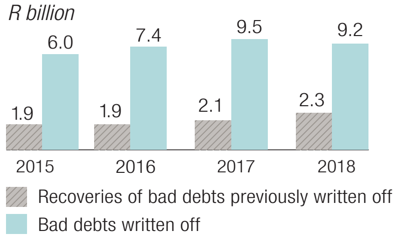


* *Refer to pages 15 to 16 for detailed information on interest in suspense (ISP). IFRS 9 ISP adjustment of R596 million due to the difference in coverage ratio less ISP of the reclassified book of R162 million.*

Write-off point of non-performing loans (NPLs) and post write-off recoveries

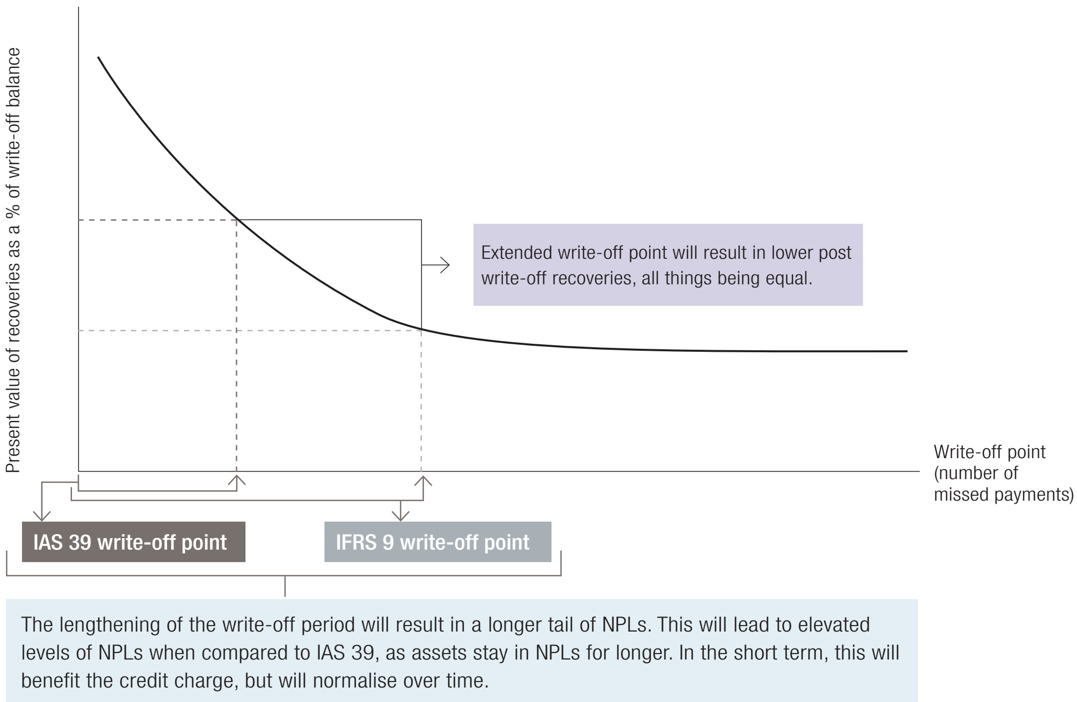
The group previously followed a conservative approach to writing off unsecured NPLs. In the case of non-debt review NPLs, in general a write-off point of a maximum of six months after classification as an NPL was allowed. In other words, the group wrote off NPLs which were still subject to collection strategies if these NPLs were older than six months. This resulted in successful collection strategies delivering high levels of post write-off recoveries after the write-off period, as reflected in the graph alongside.

IAS 39: Bad debts written off and post write-off recoveries
R billion



IFRS 9 now requires the group to write off NPLs at the point where there is no reasonable expectation of further material recoveries. This requirement has no impact on secured assets. However, the write-off point for all unsecured lending portfolios will be extended, as illustrated in the graphic below.

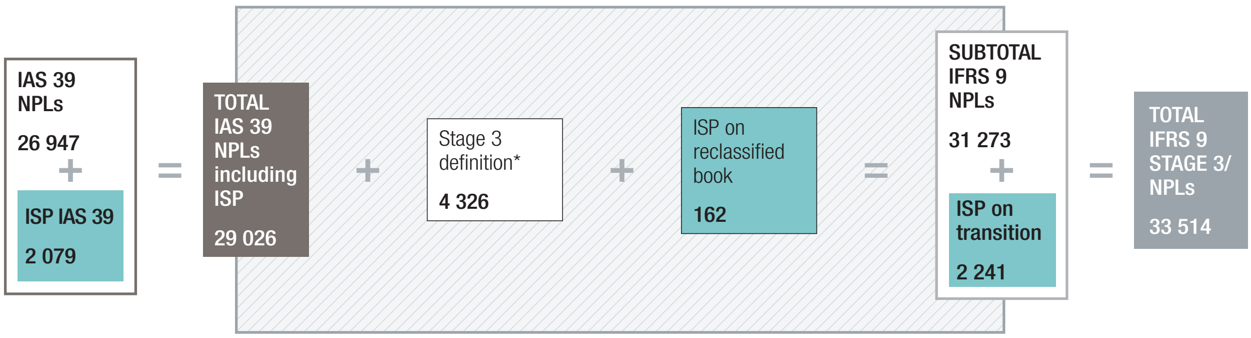
RECOVERIES EXAMPLE



The chart below illustrates the drivers of the increase in NPLs.

DRIVERS OF INCREASE IN STAGE 3/NPLs AS AT 1 JULY 2018

R million



* *Includes changes to definition of default, cure and write-off point.*

Performing book coverage ratio

The performing book coverage ratio, a measure of the group's ability to absorb potential losses on the performing book, was, under IAS 39, calculated as the ratio of total portfolio impairments on the balance sheet as a percentage of performing advances.

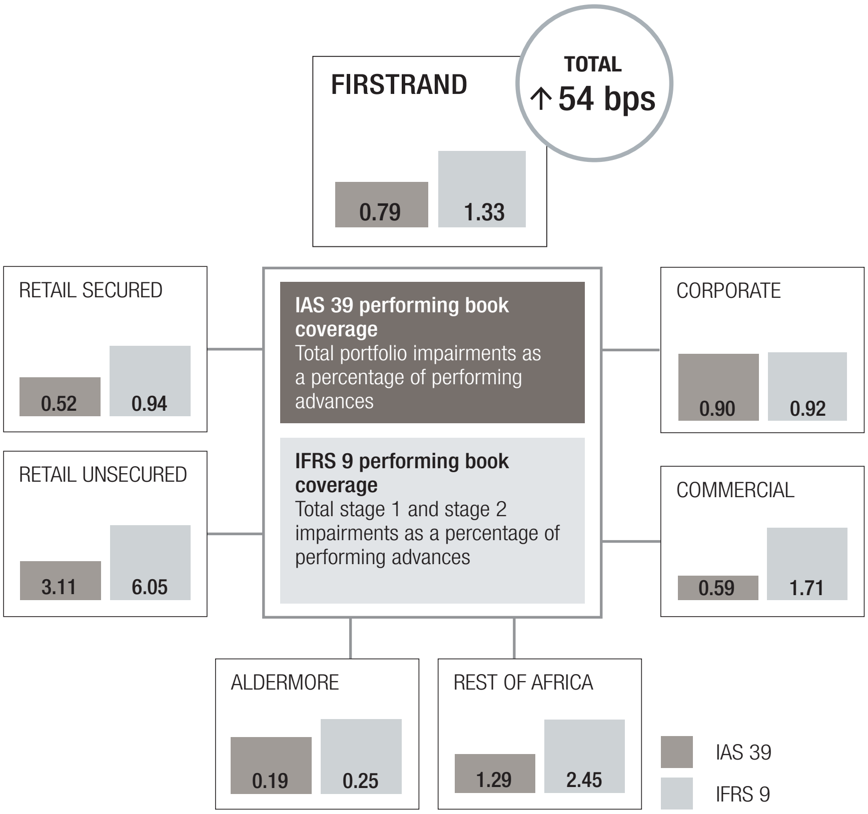
IFRS 9 performing loan impairments are similar and aligned to the general provisions as set out in SARB Directive 5/2017, namely impairments on advances which are not credit impaired, and include impairments on stage 1 advances calculated based on a 12-month ECL, and stage 2 advances calculated based on a LECL.

For IFRS 9, the performing book coverage ratio is calculated as stage 1 and stage 2 (or performing) impairments divided by performing advances (stage 1 and stage 2 advances).

These are similar concepts to FirstRand's previously reported incurred but not reported and portfolio-specific impairment provisions, i.e. total portfolio impairments.

The following graph provides a high-level comparison of the performing loan coverage ratio based on IAS 39 at 30 June 2018 and IFRS 9 at 1 July 2018.

PERFORMING BOOK COVERAGE AS AT 1 JULY 2018 (IAS 39 AND IFRS 9)
%



The group has disclosed the performing coverage ratio on the group's major advances categories as set out on pages 54 and 55.

Specific coverage ratio

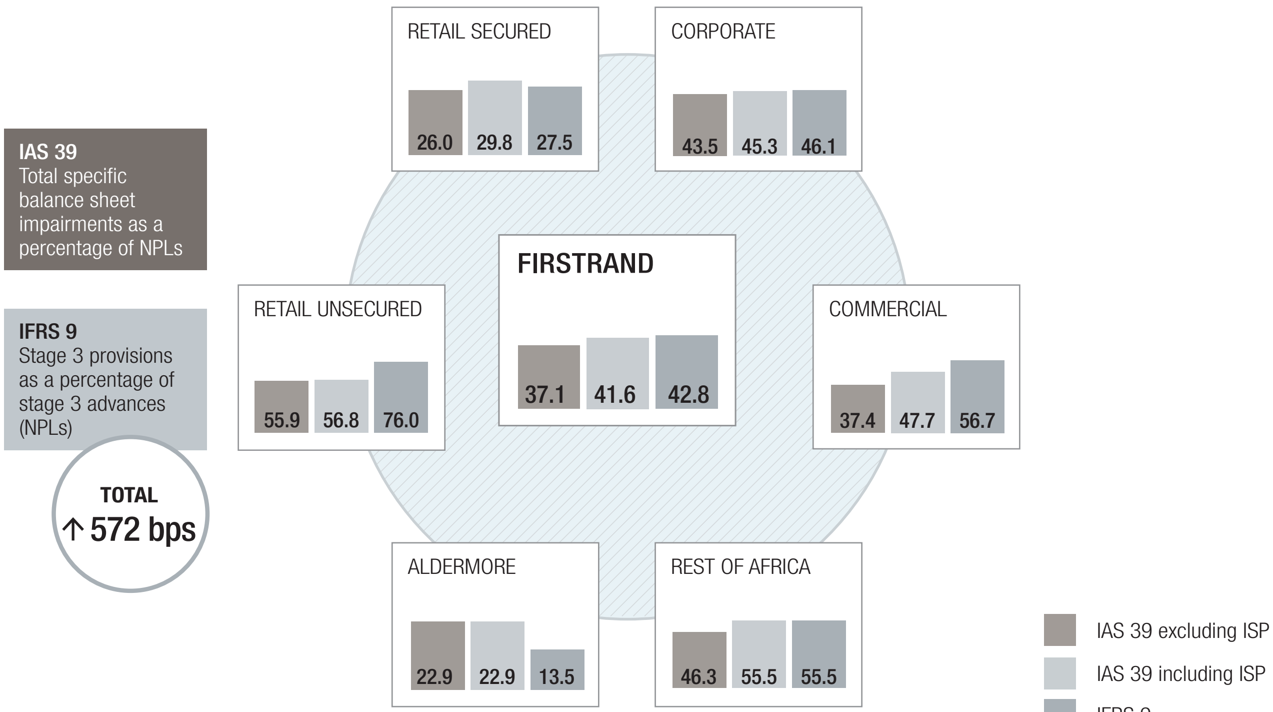
The group previously calculated the specific coverage ratio, a measure of its ability to absorb losses arising from the default of specific individual assets, as the ratio of total specific balance sheet impairments as a percentage of NPLs.

IFRS 9 specific impairments are aligned with SARB Directive 5/2017 and are calculated using stage 3 provisions dividend by stage 3 advances (NPLs).

The IFRS 9 specific coverage ratio, is comparable to the specific coverage ratio reported in terms of IAS 39 including ISP (refer to pages 15 and 16 for more information). The increase in this ratio, including ISP, is primarily due to the extension of the write-off point and more stringent curing definitions (refer to pages 30 and 31). In the case of Aldermore, the decrease was primarily due to a change in the definition of default being applied to the mortgage portfolio resulting in the migration of certain underlying highly collaterised advances from stage 2 to stage 3. Given the high levels of collateral, the expected loss given default is low resulting in a reduction in specific coverage.

The following graph compares the specific coverage ratio under IAS 39 (excluding ISP), IAS 39 (including ISP) and IFRS 9.

SPECIFIC COVERAGE RATIO AS AT 1 JULY 2018 (IAS 39 AND IFRS 9)
%



Refer to page 56 for additional information.

02 ifrs 9 transition impact

ABOUT THIS REPORT

The report covers the transition impact on the DIA. There are no material differences between the group's consolidated statement of financial position on an IFRS and normalised basis on the DIA, as reflected on page 64.

BASIS OF PRESENTATION

The primary purpose of this transition report is to explain the impact of the IFRS 9 adjustments on the DIA. The 30 June 2018 financial information included in this transition report is based on the group's accounting policies as disclosed in the consolidated annual financial statements for the year ended 30 June 2018. Significant changes to these accounting policies, specifically related to the implementation of IFRS 9, are included on pages 65 to 68.

The transition report is a special purpose report which includes a consolidated statement of financial position, statement of changes in equity, IFRS 9 summary accounting policies and explanatory notes on the impact that adopting IFRS 9 had on the group's opening reserves on the DIA. This is in terms of the South African Reserve Bank Directive 5/2017.

The directors take full responsibility for the preparation of this report.

PricewaterhouseCoopers Inc. and Deloitte & Touche, the group's external auditors, have issued an unmodified audit opinion on the IFRS 9 transition information presented in this report. The audit opinion is presented on pages 60 and 61.

Items marked with and a indicate other information that was not subject to external audit, and is therefore unaudited.

Where applicable, the definitions of the disclosures and abbreviations used within this booklet are outlined on pages 72 and 73.

KEY FINANCIAL IMPACTS, RATIOS AND STATISTICS

The group has, as permitted by IFRS 9, elected to not restate any comparative information. Accordingly, the impact of adopting IFRS 9 has been applied retrospectively with an adjustment to the group's 1 July 2018 opening reserves. Reported financial information in terms of IAS 39 for the financial year ended 30 June 2018 and all previous financial years were unaffected by the application of IFRS 9. The adoption of IFRS 9 resulted in the following financial impacts for the group on the DIA.

	DIA		
R million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Capital adequacy*			
Capital adequacy ratio (%)	**14.6**	(0.1)	14.7
Tier 1 ratio (%)	**11.6**	(0.5)	12.1
CET1 (%)	**11.0**	(0.5)	11.5
Ratios and key statistics			
Average gross loans-to-deposits	**91.1**	–	91.1
Gross advances	**1 142 476**	2 414	1 140 062
Total balance sheet provisions	**29 078**	10 243	18 835
– Stage 1 provision/IBNR	**6 988**	2 440	4 548
– Stage 2 provision/PSI	**7 747**	3 452	4 295
– Stage 3 provision/specific	**14 343**	4 351**	9 992
Stage 3/NPLs	**33 514**	6 567#	26 947
Stage 3/NPLs as a % of advances	**2.93**	0.57	2.36
Total coverage ratio %	**86.8**	16.9	69.9
Specific coverage ratio %	**42.8**	5.7	37.1
Performing book coverage ratio %	**1.33**	0.54	0.79
Net asset value	**115 614**	(5 411)	121 025
Net asset value per share (cents)	**2 061.4**	(96.5)	2 157.9
Tangible net asset value	**104 767**	(5 411)	110 178
Tangible net asset value per share (cents)	**1 868.0**	(96.5)	1 964.5
Average net asset value	**112 249**	(2 706)	114 955
Total assets	**1 527 571**	(4 718)	1 532 289
Advances (net of credit impairment)	**1 113 398**	(7 829)	1 121 227
Number of shares in issue (after treasury shares)	**5 608 442 486**	–	5 608 442 486

* *Including unappropriated profits. The IFRS 9 ratios reflect the fully-loaded impact.*
** *Of which R1 645 million relates to ISP.*
# *Of which R2 241 million relates to ISP.*

The tables have been prepared in accordance with the basis of preparation and overview of IFRS 9 as outlined on page 12.

EXPLAINING THE KEY IMPACTS OF IFRS 9

NOTES	ITEM	REQUIREMENT	IMPACT ON THE GROUP
1 and 2	**Classification and remeasurement**	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate solely to payments of principal and interest (SPPI), are classified at amortised cost. Financial assets held in a mixed business model (for example held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL). The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income. IFRS 9 also allows for the once-off reclassification of financial liabilities.	The group's approach was to first reclassify the items, as indicated in the reclassification column, and then to remeasure the item included in the remeasurement column. Based on the business model assessments performed, the following were the significant reclassifications and remeasurements: > R143 690 million of advances (net of IAS 39 impairments) in the RMB investment banking (RMBIB) division (refer to page 38 for more information) and a minor portfolio within FNB commercial were reclassified from FVTPL to amortised cost. These advances are held with the intention of collecting the cash flows that meet the SPPI test, resulting in a measurement adjustment of R238 million. > Advances to empowerment development funds were reclassified from amortised cost to FVTPL as these advances do not meet the SPPI test and the off-market impact of R65 million was reclassified to investment in associates. > R66 194 million investment securities held in the group's liquid asset portfolio were reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows that meet the SPPI test. R16 224 million was reclassified to FVOCI as it is held in a mixed business model, resulting in a R1 844 million (pre-tax) release of available-for-sale reserve. > R1 010 million net interest in post-retirement employee liability first party cell captives was reclassified from accounts receivable to investment securities classified as FVTPL because it does not meet the SPPI test, with no change in measurement. > Deposits worth R59 237 million were reclassified from FVTPL to amortised cost to ensure that the measurement of liabilities matches the measurement of the assets which they fund, resulting in a R796 million remeasurement.
3	**ECL impairment**	IFRS 9 introduced an ECL model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as off-balance sheet exposures. The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12-month ECL. If there has been a significant increase in credit risk (SICR), impairment is based on LECL.	The revised impairment requirements increased impairments by R8 598 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period. Refer to pages 27 to 33 for detailed information.

Refer to the detailed reconciliations on pages 17 to 22.

NOTES	ITEM	REQUIREMENT	IMPACT ON THE GROUP
3.1	**Other ECL**	Investment securities and non-advances	Debt investment securities comprising government and corporate bonds were classified as available-for-sale under IAS 39. These securities are short dated and held under a business model to collect contractual cash flows until maturity. These contractual cash flows are SPPI and these debt investment securities have therefore been classified at amortised cost under IFRS 9. Accordingly, an ECL provision of R117 million has been raised against these securities, referenced to the sovereign credit rating where these relate to government bonds. As a result of the reclassification, the available-for-sale reserve of R1 844 million (net of tax R1 361 million) was released, resulting in an adjustment to the carrying amount of the investment securities and the non-distributable reserves. An ECL provision of R27 million has been raised on non-advances with credit risk, such as accounts receivable, which were not previously provided for under IAS 39.
3.2	**Associates and joint ventures**	Investments in associates and joint ventures	The impact of IFRS 9 adoption by associates and joint ventures of the group resulted in a R258 million reduction of the group's equity accounted investment in associates due to ECL impairment of the financial assets held by the associates and joint ventures.
4	**Hedge accounting**	IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted.	The revised hedge accounting requirements were applied by the group prospectively, as required by IFRS 9, to its existing hedge accounting relationships and as such did not have an impact on the amounts recognised on DIA. However, hedge documentation was updated to comply with the requirements of IFRS 9.
5	**ISP**	In terms of IAS 39 ISP was not capitalised to advances and interest suspended was tracked and managed separately off balance sheet. Under IFRS 9, interest revenue is calculated by applying the effective interest rate to the amortised cost of financial assets classified in stage 3. The difference between the contractual interest and the interest recognised in line with IFRS 9 is therefore suspended. This suspended interest is capitalised to the advance and immediately impaired.	ISP is recognised against the ECL allowance, reflecting the fact that it is unrecoverable and therefore impaired. To the extent that the impairment coverage ratio under IAS 39 is identical to that under IFRS 9, the impact of ISP on transition to IFRS 9 is a gross-up of the advance and loss allowance by the amount of the suspended interest, with no impact on retained earnings. Where the coverage ratios under the two standards differ, the difference is reflected in retained earnings. The amount of ISP recognised under IFRS 9 was also impacted by the reclassification of RMBIB and certain FNB commercial advances from FVTPL to amortised cost. ISP is not calculated on advances at FVTPL. The amount of ISP under IAS 39 was R2 079 million and the ISP on the reclassified book amounted to R162 million. The impact of these amounts resulted in a gross-up of advances amounting to R2 241 million. The change in ISP due to the difference in coverage ratio was R596 million, with a deferred tax impact of R166 million. ISP under IFRS 9 is R1 645 million and is recognised against the credit loss allowance. Refer to page 16 for a more detailed breakdown of ISP.

The table below provides an overview of the treatment and measurement of ISP under IAS 39 and IFRS 9.

R million	**IAS 39 ISP 30 June 2018**	ISP on the reclassified book	**IFRS 9 adjustment due to change in advances**	IFRS 9 ISP adjustment due to change in coverage ratio	Tax on IFRS 9 ISP adjustment to coverage ratio	**ISP adjustment to provisions (stage 3)**	**Net ISP movement**
	Note 6	Note 7		Note 8		**Note 9**	
Reconciliation of ISP							
FirstRand	**2 079**	162	**2 241**	(596)	–	**1 645**	**(434)**
FNB	**1 935**	39	**1 974**	(596)	–	**1 378**	**(557)**
RMB	**76**	123	**199**	–	–	**199**	**123**
WesBank	**68**	–	**68**	–	–	**68**	**–**
ISP impact on retained earnings							
FirstRand	**–**	–	**–**	596	(166)	**–**	**430**
FNB	**–**	–	**–**	596	(166)	**–**	**430**

Notes:

6. *The amount of ISP recognised under IAS 39.*
7. *Relates to the ISP on the book that was classified from FVTPL to amortised cost, where ISP was not separately determined and disclosed on the FVTPL advance under IAS 39.*
8. *The adjustment required to ensure that the ISP amount is aligned to the coverage ratio.*
9. *Total amount of ISP recognised under IFRS 9 in stage 3.*

TRANSITION IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION – IFRS

as at DIA

R million	Notes	IFRS 9	Reclassi-fication	Remeasure-ment	ECL impairment	ISP due to change in coverage ratio	Total adjustments	IAS 39
			Note 1	Note 2	Note 3	Note 5		
Investment securities	3.1	**211 674**	1 010	1 844	(117)	–	2 737	**208 937**
Advances		**1 113 398**	(65)	238	(8 598)*	596	(7 829)	**1 121 227**
Accounts receivable	3.1	**8 847**	(1 010)	–	(27)	–	(1 037)	**9 884**
Current tax asset		**850**	2	(8)	478	–	472	**378**
Investments in associates	3.2	**5 343**	65	–	(259)	–	(194)	**5 537**
Investments in joint ventures		**1 726**	–	–	–	–	–	**1 726**
Deferred income tax asset		**4 017**	(2)	(382)	1 683	(166)	1 133	**2 884**
Other financial assets		**138 523**	–	–	–	–	–	**138 523**
Non-financial assets		**43 193**	–	–	–	–	–	**43 193**
Total assets		**1 527 571**	–	1 692	(6 840)	430	(4 718)	**1 532 289**
EQUITY AND LIABILITIES								
Liabilities								
Creditors, accruals and provisions		**19 626**	–	–	6	–	6	**19 620**
Current tax liability		**438**	–	–	–	–	–	**438**
Deposits		**1 268 244**	–	796	–	–	796	**1 267 448**
Other liabilities		**6 989**	–	–	–	–	–	**6 989**
Deferred income tax liability		**1 466**	–	–	(11)	–	(11)	**1 477**
Other financial liabilities		**79 393**	–	–	–	–	–	**79 393**
Non-financial liabilities		**26 126**	–	–	–	–	–	**26 126**
Total liabilities		**1 402 282**	–	796	(5)	–	791	**1 401 491**
Equity								
Ordinary shares		**56**	–	–	–	–	–	**56**
Share premium		**7 994**	–	–	–	–	–	**7 994**
Reserves		**107 564**	9	887	(6 737)	430	(5 411)	**112 975**
Capital and reserves attributable to ordinary equityholders		**115 614**	9	887	(6 737)	430	(5 411)	**121 025**
Contingent convertible securities		**1 250**	–	–	–	–	–	**1 250**
NCNR preference shares		**4 519**	–	–	–	–	–	**4 519**
Capital and reserves attributable to equityholders of the group		**121 383**	9	887	(6 737)	430	(5 411)	**126 794**
Non-controlling interests		**3 906**	(9)	9	(98)	–	(98)	**4 004**
Total equity		**125 289**	–	896	(6 835)	430	(5 509)	**130 798**
Total equity and liabilities		**1 527 571**	–	1 692	(6 840)	430	(4 718)	**1 532 289**

* *Net of ISP of R2 241 million. Refer to pages 15 and 16 for more information.*

Refer to detailed note explanations on pages 14 and 15.

TRANSITION IMPACT ON CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – IFRS

as at DIA

		Ordinary share capital and ordinary equityholders' funds			
R million	Notes	Share capital and share premium	Defined benefit post-employment reserve	Cash flow hedge reserve	Share-based payment reserve
Balance as at 30 June 2018		8 050	(723)	343	4
Opening retained earnings adjustment for IFRS 9		–	–	–	–
Reclassification		–	–	–	–
Investment securities	3.1	–	–	–	–
Current tax		–	–	–	–
Deferred tax		–	–	–	–
Remeasurement		–	–	–	–
Advances		–	–	–	–
Investment securities		–	–	–	–
Deposits		–	–	–	–
Current tax		–	–	–	–
Deferred tax		–	–	–	–
ECL impairment		–	–	–	–
Advances		–	–	–	–
Investment in associates		–	–	–	–
Non-advances		–	–	–	–
Current tax		–	–	–	–
Deferred tax		–	–	–	–
ISP		–	–	–	–
Advances		–	–	–	–
Current tax		–	–	–	–
Deferred tax		–	–	–	–
Balance as at 1 July 2018		8 050	(723)	343	4

* *Other reserves include the FVOCI reserve.*

Refer to page 15 for an explanation of the note.

Ordinary share capital and ordinary equityholders' funds							
Available-for-sale reserve	Foreign currency translation reserve	Other reserves*	Retained earnings	Reserves attributable to ordinary equityholders	NCNR preference shares and contingent convertible securities	Non-controlling interests	Total equity
(1 361)	2 832	599	111 281	112 975	5 769	4 004	130 798
1 361	–	87	(6 859)	(5 411)	–	(98)	(5 509)
1 361	–	84	(1 436)	9	–	(9)	–
1 844	–	103	(1 938)	9	–	(9)	–
–	–	–	–	–	–	–	–
(483)	–	(19)	502	–	–	–	–
–	–	–	887	887	–	9	896
–	–	–	238	238	–	–	238
–	–	–	1 835	1 835	–	9	1 844
–	–	–	(796)	(796)	–	–	(796)
–	–	–	(8)	(8)	–	–	(8)
–	–	–	(382)	(382)	–	–	(382)
–	–	3	(6 740)	(6 737)	–	(98)	(6 835)
–	–	–	(8 506)	(8 506)	–	(98)	(8 604)
–	–	–	(259)	(259)	–	–	(259)
–	–	3	(147)	(144)	–	–	(144)
–	–	–	478	478	–	–	478
–	–	–	1 694	1 694	–	–	1 694
–	–	–	430	430	–	–	430
–	–	–	596	596	–	–	596
–	–	–	–	–	–	–	–
–	–	–	(166)	(166)	–	–	(166)
–	2 832	686	104 422	107 564	5 769	3 906	125 289

SUMMARY OF DIFFERENCES BETWEEN IAS 39 AND IFRS 9

The table below represents a reconciliation of the statement of financial position under IAS 39 to IFRS 9 and sets out the impact of both the revised classification and measurement requirements of IFRS 9.

R million	New classification under IFRS 9	Original classification under IAS 39
ASSETS		
Investment securities		
	Mandatory FVTPL	Held for trading
	Mandatory FVTPL	Designated at FVTPL
	Amortised cost	Loans and receivables/held-to-maturity
	Amortised cost	Available-for-sale
	FVOCI	
Advances		
	Amortised cost	Loans and receivables/held-to-maturity
	Mandatory FVTPL	
	Designated at FVTPL	Designated at FVTPL
	Mandatory FVTPL	Available-for-sale
Accounts receivable		
Current tax asset		
Investments in associates		
Investments in joint ventures		
Deferred income tax asset		
Other financial assets		
Non-financial assets		
Total assets		
LIABILITIES		
Creditors, accruals and provisions		
Current tax liability		
Deposits		
	Amortised cost	Amortised cost
	Designated at FVTPL	Designated at FVTPL
	Mandatory FVTPL	Designated at FVTPL
Other liabilities		
Deferred income tax liability		
Other financial liabilities		
Non-financial liabilities		
Total liabilities		
Equity adjustment as at 1 July 2018		

* *Refer to pages 14 and 15 for an explanation of the notes.*

Notes*	IFRS 9 carrying amount	Reclassification	Remeasurement	ECL impairment	ISP due to change in coverage ratio	IAS 39 carrying amount
	211 674	1 010	1 844	(117)	–	**208 937**
	58 087	7 312	–	–	–	**50 775**
	33 377	(9 697)	–	–	–	**43 074**
1 and 3.1	**103 986**	66 194	1 844	(117)	–	**36 065**
	–	(79 023)	–		–	**79 023**
	16 224	16 224	–	–	–	**–**
	1 113 398	(65)	238	(8 598)	596	**1 121 227**
1	**1 060 090**	143 690	238	(8 598)	596	**924 164**
	45 187	45 187	–	–	–	**–**
	8 121	(165 268)	–	–	–	**173 389**
	–	(23 674)	–	–	–	**23 674**
3.1	**8 847**	(1 010)	–	(27)	–	**9 884**
1 and 3.2	**850**	2	(8)	478	–	**378**
	5 343	65	–	(259)	–	**5 537**
	1 726	–	–	–	–	**1 726**
	4 017	(2)	(382)	1 683	(166)	**2 884**
	138 523	–	–	–	–	**138 523**
	43 193	–	–	–	–	**43 193**
	1 527 571	**–**	**1 692**	**(6 840)**	**430**	**1 532 289**
	19 626	–	–	6	–	**19 620**
	438	–	–	–	–	**438**
	1 268 244	–	796	–	–	**1 267 448**
1	**1 221 227**	59 237	796	–	–	**1 161 194**
	19 918	(86 336)	–	–	–	**106 254**
	27 099	27 099	–	–	–	**–**
	6 989	–	–	–	–	**6 989**
	1 466	–	–	(11)	–	**1 477**
	79 393	–	–	–	–	**79 393**
	26 126	–	–	–	–	**26 126**
	1 402 282	**–**	**796**	**(5)**	**–**	**1 401 491**
	125 289	**–**	**896**	**(6 835)**	**430**	**130 798**

The table below provides a further analysis of the reclassifications, specifically the categories from which the reclassifications took place.

R million	Notes	Total	Reclassification From available-for-sale	Reclassification From designated at FVTPL	Reclassification From accounts receivable
Investment securities classified into					
Mandatory FVTPL		**7 312**	–	6 302	1 010
Mandatory FVTPL		**(9 697)**	–	(9 697)	–
Amortised cost	1 and 2	**66 194**	64 554	1 640	–
Amortised cost	1 and 2	**(79 023)**	(79 023)	–	–
FVOCI		**16 224**	14 469	1 755	–
Total investment securities	1 and 2	**1 010**	–	–	1 010
Accounts receivable		**(1 010)**	–	–	(1 010)

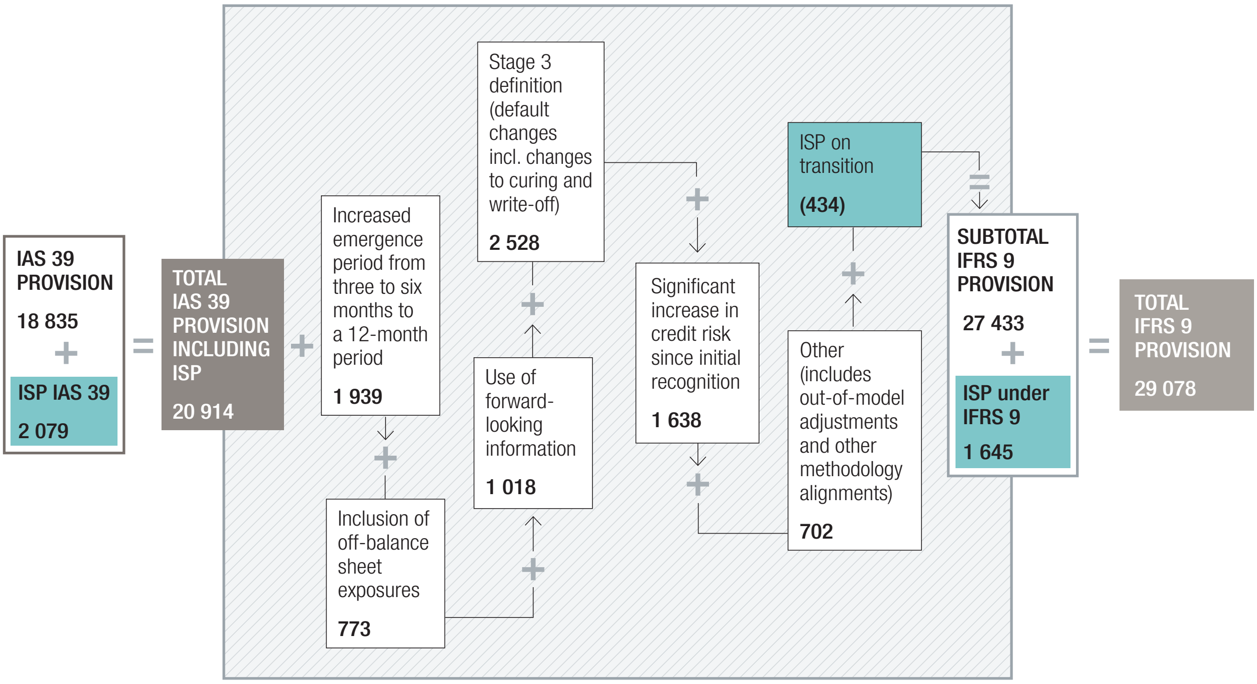
R million	Notes	Total	Reclassification From available-for-sale	Reclassification From designated at FVTPL	Reclassification To investment in associates
Advances classified into					
Amortised cost	1 and 2	**143 690**	–	143 755	(65)
Mandatory FVTPL		**45 187**	23 674	21 513	–
Designated at FVTPL		**(165 268)**	–	(165 268)	–
Mandatory FVTPL		**(23 674)**	(23 674)	–	–
Total advances		**(65)**	–	–	(65)
Investments in associates		**65**	–	–	65

Refer to the explanation of key impacts of IFRS 9 on pages 14 and 15.

The drivers of the increase in the overall impairment charge are detailed in the graphic below.

DRIVERS OF INCREASE IN TOTAL CREDIT IMPAIRMENT CHARGE AS AT 1 JULY 2018

R million

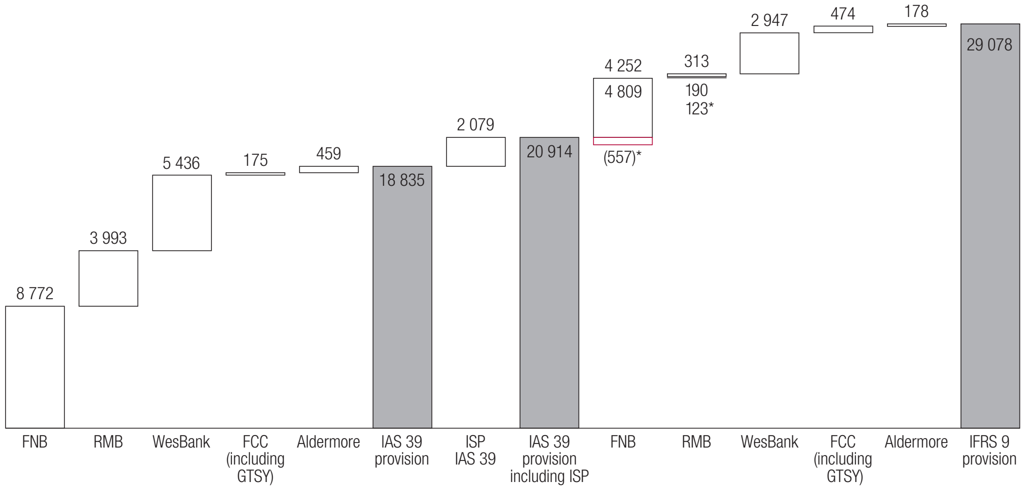


Refer to pages 15 and 16 for detailed information on ISP.

OVERVIEW OF THE GROUP'S IFRS 9 TRANSITION IMPACT

TOTAL IMPAIRMENTS BY OPERATING BUSINESS – DIA

R million



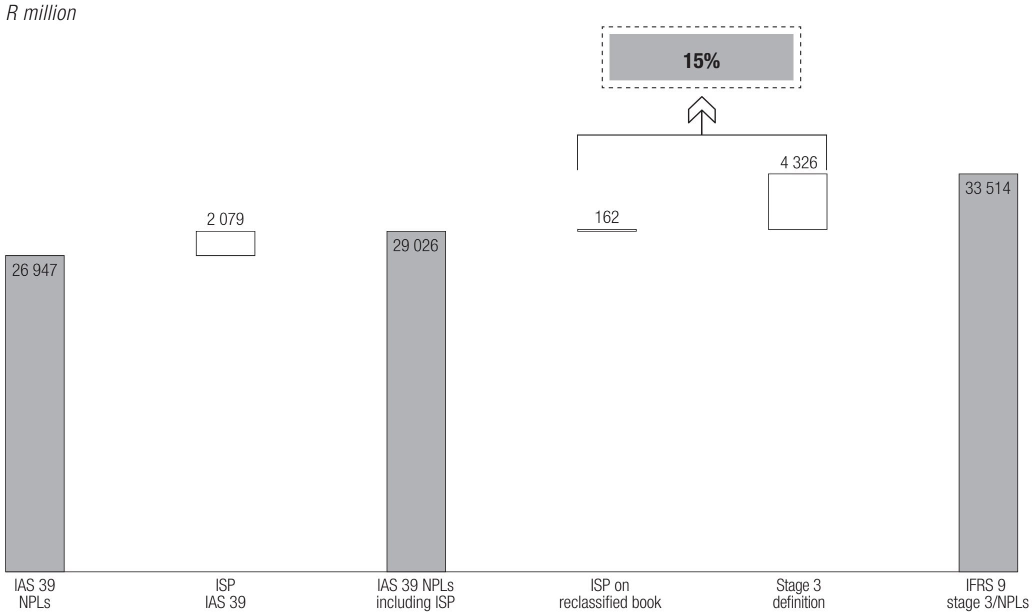
* *ISP on transition.*

Total impairments by franchise

- Limited impact on RMB due to its IAS 39 fair value methodology being closely aligned to ECL, for example off-balance sheet exposures included in fair value of credit under IAS 39 with the highest impact on RMB corporate bank (RMBCB).
- FNB and WesBank impacted by extended measurement period, application of SICR and inclusion of off-balance sheet facilities in FNB.

GROWTH IN STAGE 3/NPLs – DIA

R million



Growth in stage 3/NPLs

- The stage 3 definition bar includes the impact of the raised IFRS 9 requirements relating to the write-off point, the treatment of technical cures, distressed restructures and the application of the curing definition.
- The implementation of stringent curing definitions across portfolios increased the size of the NPL book.
- Extension in write-off periods will continue to impact stage 3/NPL formation in the future.
- The increase in the size of the stage 3/NPL book attributed to definition of default relates primarily to treatment of distressed restructures and technical cures.

CAPITAL AND TAX IMPACT

FirstRand actively manages its capital base commensurate with its strategy, risk appetite and risk profile. Capital planning is undertaken on a forward-looking basis, and the level and composition of capital is determined taking into account businesses' organic growth plans, corporate transactions and stress-tested scenario outcomes. In addition, the group considers external issues which could affect capital levels, including regulatory, accounting and tax changes, and macroeconomic conditions and outlook. The group continues to actively manage its capital levels and composition.

Effective 1 July 2018, the group's capital position was affected by both the change in tax legislation relating to impairment allowances, and the day 1 impact of IFRS 9.

CHANGE IN TAX LEGISLATION

The South African Revenue Service (SARS) amended impairment allowances as follows:

IFRS 9	IAS 39
Stage 1 – 25%	IBNR – 25%
Stage 2 – 40%	PSI – 80%
Stage 3 – 85%	Specific – 100%

The change in tax treatment of impairment allowances affects the current tax charge due to amended allowances. The higher provision levels resulted in increased deferred tax assets relating to temporary differences. Deferred tax assets are risk weighted at 250% (subject to the requirements of Regulation 38).

IFRS 9 IMPACT

The SARB issued Directive 5 of 2017, *Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects*, allowing banks to apply a three-year transition of the day 1 impact, with the net impact on CET1, total capital adequacy and risk weighted assets (RWA) phased-in on a straight-line basis over three years. The group adopted the transitional phase-in, which is summarised in the table below.

PHASE-IN APPROACH

	Phase-in %
Year 1 (1 July 2018)	25
Year 2 (1 July 2019)	50
Year 3 (1 July 2020)	75
From year 4 onwards (1 July 2021)	100

The phase-in and fully-loaded impact will be disclosed on a quarterly basis.

CAPITAL POSITION

The tables below illustrate the impact of IFRS 9 (after tax) on the capital positions of the group.

CAPITAL ADEQUACY POSITION

	Capital		
%	CET1	Tier 1	Total
Regulatory minimum*	7.5	9.0	11.2
Internal target	10.0 – 11.0	>12.0	>14.0
June 2018 – published**	11.5	12.1	14.7
June 2018 – fully loaded[#]	**11.0**	**11.6**	**14.6**
June 2018 – transitional[#]	**11.4**	**11.9**	**14.7**

* *Excludes the bank-specific requirements, but includes the countercyclical buffer.*

** *Ratios include unappropriated profits.*

[#] *Fully loaded refers to 100% of the day 1 impact, whilst transitional includes 25% of the day 1 impact.*

KEY DRIVERS

		CET1	Total
June 2018 – published		11.5	14.7
Net impact on retained income and other reserves		(0.6)	(0.6)
Reversal of expected losses over provisions impairment		0.1	0.1
General provisions recognised in Tier 2		–	0.1
Surplus provisions over expected losses		–	0.3
June 2018 fully-loaded position		**11.0**	**14.6**
June 2018 transitional position		**11.4**	**14.7**

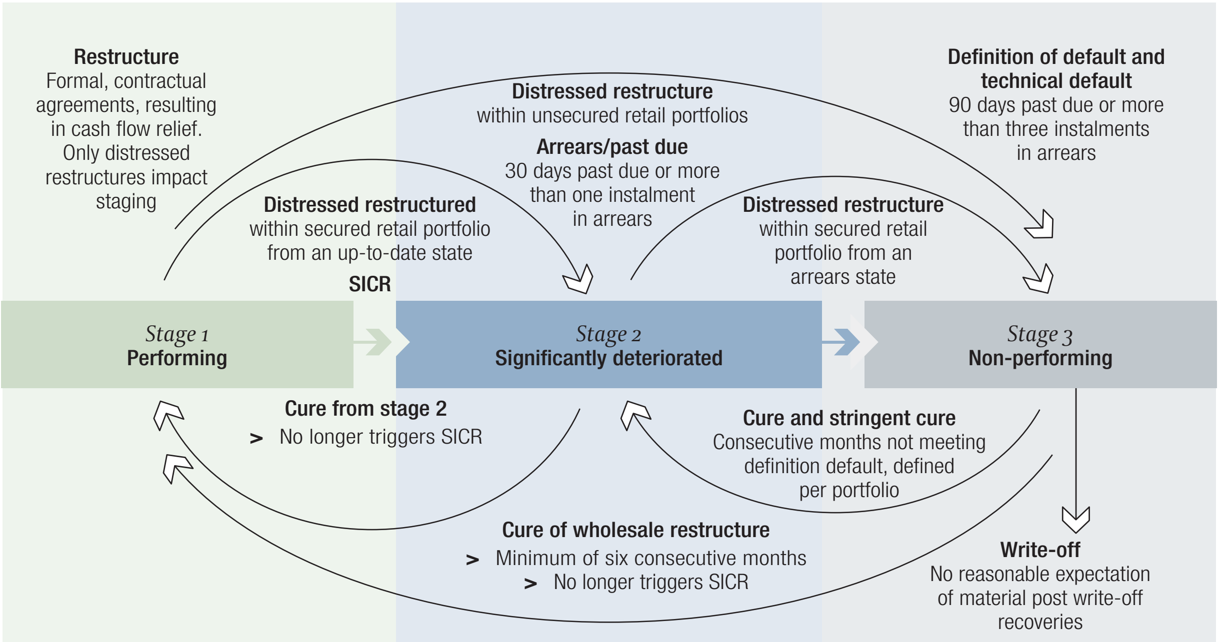
Note: The RWA impact of the deferred tax assets and other assets is immaterial.

UNPACKING THE IFRS 9 ECL IMPACT IN MORE DETAIL

IFRS 9 establishes a three-stage approach to the impairment of financial assets.

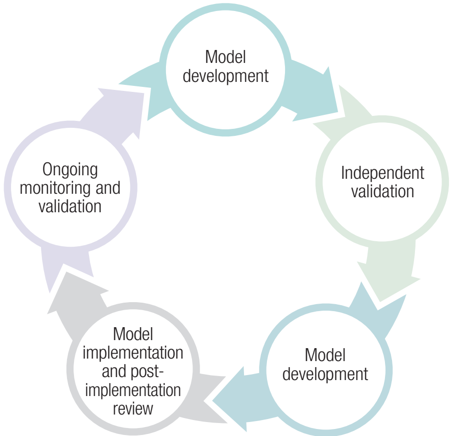
In response, the group developed and/or amended the applicable credit and accounting policies to incorporate the new requirements of IFRS 9. In addition, group-wide definitions, such as the definition of default and SICR, have been established to ensure the consistent application of key terms in model development across the group.

The following diagram illustrates definitions applied by the group in the application of IFRS 9, and how these definitions are used to drive the allocation of exposures between stages.



The following table summarises key drivers of the change in provisions on application of IFRS 9.

ECL MEASUREMENT
The group adopted the probability of default (PD)/loss given default (LGD) approach for the calculation of ECL for material advances and a simplified approach for non-advances such as accounts receivable. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence. This has resulted in the need for the development of the appropriate ECL models, including underlying PD, LGD and exposure at default (EAD) models, and parameter term structures, to facilitate the calculation of ECL.



All required models have been developed within the group, with the exception of the Aldermore models, which were developed externally prior to the acquisition by FirstRand. Model development has been guided by appropriate frameworks, which articulate minimum required standards and reference industry guidance and best practice. All models have undergone review by the independent validation team in FirstRand's Enterprise Risk Management unit, with all models except for the Aldermore models having undergone full internal independent validation, as illustrated in the diagram. The Aldermore models were subjected to a detailed FirstRand review.

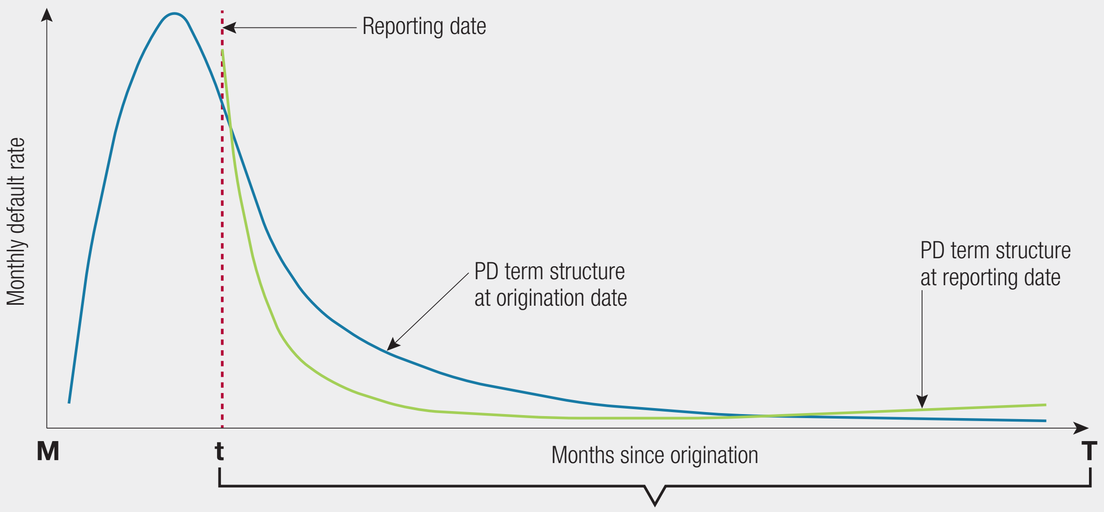
Calculation of 12-month expected losses, rather than IBNR losses, for up-to-date accounts, has resulted in increases in provisions commensurate with the required extension in measurement periods.

In addition, the requirement to allow for expected losses on off-balance sheet exposures, including unutilised limits, has resulted in increased provisions under IFRS 9. The ECL measurement methodology for off-balance sheet items such as unutilised facilities, guarantees and letters of credit aligns to that of advances.

SICR

In order to determine whether an advance has experienced a SICR, the lifetime PD of the asset calculated at the origination date (represented by the blue curve below) is compared to that calculated on the reporting date (represented by the green curve). The difference between the lifetime PDs is compared to a threshold, with thresholds specified at portfolio level or more granularly. If the threshold is exceeded i.e. credit quality has deteriorated, the account is migrated to stage 2.

PD TERM STRUCTURE REPRESENTED BY MARGINAL MONTHLY DEFAULT RATES



The origination date is defined as the most recent date on which the group had an opportunity to price or reprice the advance, based on the outcome of either the original or an up-to-date risk assessment.

Any facility that is more than 30 days past due or, in the case of instalment-based products, one instalment past due, is automatically considered to have experienced a SICR. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list.

Any up-to-date facility that has undergone a distressed restructure (such as a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a SICR.

The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a SICR are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a SICR has occurred.

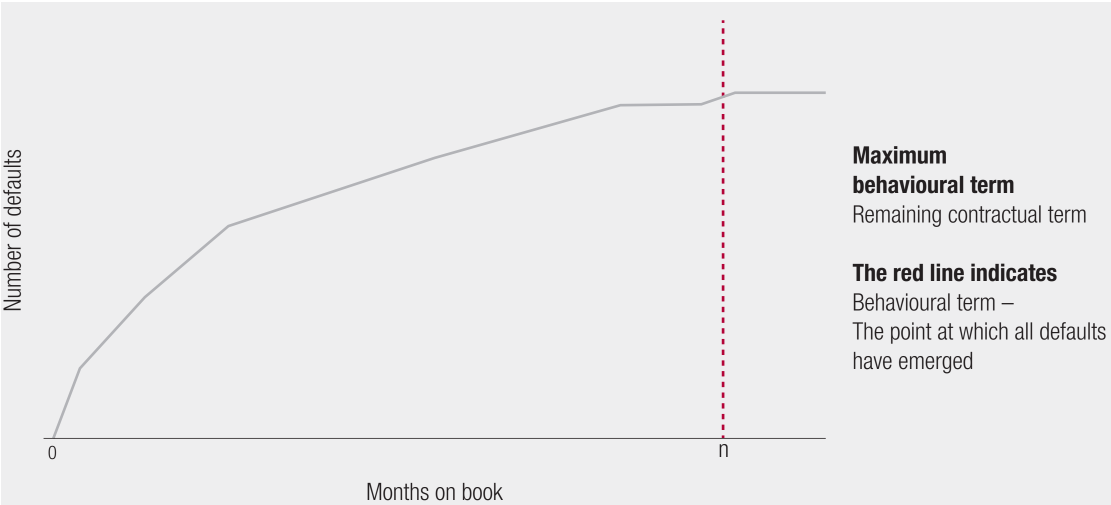
Application of the SICR test has resulted in up-to-date exposures being migrated to stage 2, with lifetime expected losses held on these exposures.

The group has not applied the low credit risk practical expedient, and performs the SICR test for all exposures.

PERIOD OF EXPOSURE TO CREDIT RISK

Lifetime expected losses are measured over the period that the entity is exposed to credit risk. This period is determined through analysis of historical behavioural data, taking into account pre-payments and early settlements. For non-revolving products, this period is capped at the remaining contractual term of the financial instrument. For revolving products, such as credit cards and overdrafts, the group measures ECL over the period that the group is exposed to the credit risk and expected credit losses would not be mitigated by credit risk actions, even if that period extends beyond the maximum contract period. No restrictions are imposed on the length of the period of credit risk exposure.

CUMULATIVE NUMBER OF DEFAULTS CONSIDERED FOR CREDIT IMPAIRMENT



For retail portfolios, the period of exposure to credit risk is typically longer than the loss identification periods applied in the calculation of IAS 39 provisions, as loss identification periods are calculated on the basis that only incurred losses should be allowed for.

CALCULATION OF LIFETIME LGDs

LGDs are calculated by considering the probability that an account will be written off and estimating the present value of the loss that will be incurred on write-off. Losses related to default events included in the probability of default estimation are included in the estimation of LGD.

The group applies a stringent cure definition within retail portfolios, and an account is only allowed to cure from stage 3 into either stage 2 or stage 1 if the account has demonstrated performance for several consecutive months, determined analytically on portfolio level through reference to re-default rates.

Technical cures, defined as performing accounts that have previously defaulted but don't meet the stringent cure definition, are now classified as stage 3. However, the difference between the IAS 39 and IFRS 9 impairment is insignificant.

Default events are only considered to be separate default events if an account has defaulted and met the stringent curing definition before subsequently re-defaulting. Multiple defaults that occur without an account meeting the stringent cure definition between these defaults are considered to be a single default event.

Month (t)	0	1	2	3	4	5	6	7	8	9	10	11	12
Payments in arrears	2	3	2	3	2	2	2	2	2	2	3	4	5

Since the stringent cure definition has not been met between these default events, they count as a single default event and the account is reflected in stage 3.

The work-out period considered for LGD calculation is equal to the write-off period, and post write-off recoveries are not included when estimating LGDs.

In the total impairment drivers graphs the impact of these items are included in the stage 3 definition bar category.

INCORPORATION OF FLI

Forward-looking macroeconomic information has been incorporated into expected loss estimates through the application of quantitative modelling and expert-judgement-based adjustments. Refer to pages 32 and 33 for more information on the process followed to determine the macroeconomic forecasts.

Where credit experts have determined that the three macroeconomic scenarios catered for through the quantitative modelling process are not adequately reflective of potential macroeconomic event risk, expert-judgement-based adjustments have been made to staging and/or ECL estimates to better reflect potential portfolio-specific impacts. In addition to forward-looking macroeconomic information, other types of FLI, such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustments.

ISP

Given that the gross stage 3 exposure under IFRS 9 includes ISP, the group will report ISP as a separate reconciling item within provisions when calculating net exposure to loans and advances.

DEFINITION OF WRITE-OFF

Write-off has been defined as the point at which there is no reasonable expectation of further material recoveries.

Within wholesale portfolios, expectations for further recoveries are assessed on a case-by-case basis, and write-off is performed judgementally.

For retail secured portfolios, write-off typically takes place on collateral perfection. Write-off definitions for unsecured retail portfolios have been determined on portfolio level, based on analysis of the materiality of historical post write-off recoveries.

In the total impairment drivers graphs the impact of the change in write-off point is included in the stage 3 definition category.

ECL ON INVESTMENT SECURITIES

ECL on investment securities is calculated using the same methodology as that applied to other classes of advances, with credit ratings assigned to investment securities used to determine the PDs applied within the ECL model.

ECL ON NON-ADVANCES

ECL for non-advances is calculated using a simplified loss rate approach, with parameters determined judgementally with reference to any available historical loss rates, macroeconomic forecasts over the period during which the non-advances are exposed to credit risk and minimum loss rate estimates established in group policies.

JUDGEMENTS

ECL under IFRS 9 requires application of judgement in various areas, including the selection of the methodology applied to calculate ECL and the estimation of parameters applied within the selected methodology. Estimation of impairment parameters is also reliant on the application of statistical methods and economic forecasting, which introduce an element of uncertainty into the final ECL estimates.

MACROECONOMIC APPROACH

The FirstRand macro forum is responsible for the oversight of macroeconomic inputs that are used to inform the ECL provisions, risk appetite, earnings volatility and internal capital adequacy assessment process (ICAAP) in the group. This forum is independent of the credit and modelling functions and operates under the direction of the asset, liability and capital management committee (ALCCO), with ultimate oversight by the FirstRand risk, capital management and compliance committee (RCCC).

The macroeconomic scenarios are defined by taking global and domestic macroeconomic considerations into account, and forecasts are developed for baseline, downside, upside and stress scenarios.

To arrive at the macroeconomic forecasts, a bottom-up and top-down process is followed. The bottom-up process is conducted by teams of economists both locally and within the various subsidiaries. These economists assess the micro- and macroeconomic developments to formulate and adjust a macroeconomic forecast.

The top-down forecast process is run by FirstRand Group Treasury and the macro team in FNB using a macroeconomic model. The top-down and bottom-up forecasts are discussed and debated at the monthly macro forum and a final set of forecasts is agreed upon. Forecast differences between the top-down and bottom-up processes are discussed and reasons for the differences identified.

Similar processes are followed in India and in the other countries in the rest of Africa where the group operates.

A number of economists within and outside of the FirstRand group are requested to assign a probability to each scenario. Based on this process, the macro forum will attribute a probability to each scenario. Large discrepancies between the forum's assessment and that of the external economists are noted and explained, where required. Once finalised, the macro forum recommends the macroeconomic scenarios for approval by the RCCC, and the in-country risk committee in the case of foreign operations.

The macroeconomic team in Group Treasury is responsible for the development and monthly updating of a database that contains the historical and forecast values of the macro variables that are included in the house view forecast process.

The UK business (Aldermore and MotoNovo) currently uses Oxford Economics for macroeconomic inputs. The FirstRand macro forum will, over time, develop processes to include the UK macro inputs and scenarios in the group's process.

INCORPORATION INTO ECL CALCULATION

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

The following assumptions were applied on DIA.

Baseline regime	Assumes that global growth remains above trend but begins to slow down, developed market (DM) inflation and interest rates lift gradually while domestic policy uncertainty reduces relative to 2017 and meaningful structural change remains absent.
Upside regime	Assumes that the global economy expands at a solid pace, whilst DM inflation and interest rates lift gradually and domestic policy certainty improves substantially, opening the door for positive structural change to drive growth higher.
Downside regime	Assumes that the global economy expands at a solid pace whilst DM inflation and interest rates lift gradually. Increased policy uncertainty, a collapse in corporate governance at state-owned enterprises (SOEs), increased populism and fiscal recklessness drive South Africa's growth lower.

The macro forum currently assigns a probability of c.60% to the baseline macroeconomic regime. A slowdown in global growth, along with a deterioration in fiscal metrics providing significant obstacles to structural reform, has seen the probability attached to the upside regime decline slightly over the course of the year. Low economic growth and weak economic indicators combined with signs of the global slowdown have contributed to a slight uptick in the probability of the downside regime over the course of the year.

Sub-Saharan Africa

In the rest of the sub-Saharan region the macro forum noted that Namibia's economy is particularly weak. Both first and second quarter GDP numbers contracted in response to low domestic demand and low government spending. The group expects growth to recover only slightly in the face of ongoing income and confidence challenges. The forum also expressed concern about macroeconomic conditions in eSwatini (previously Swaziland), where persistent fiscal slippage amid structurally low Southern African Customs Union revenues have resulted in an escalating debt to GDP ratio and a build-up of domestic arrears. In contrast, improving economic conditions should support growth in the financial services sector of Botswana. This improvement includes an uptick in demand for credit and financial products, improved infrastructure and supportive global diamond demand.

UK

The macroeconomic outlook for the UK remains heavily dependent on the agreement reached with the European Union on the way the UK will exit the EU at the end of March next year (Brexit). The macro forum's baseline forecasts assumed that a transitional agreement would be reached which would allow the UK more time to bed down the details of bilateral relations ("soft Brexit"). It is also assumed that the transitional agreement would commit both parties to a path which would eventually result in an agreement permitting free trade in goods, restrictions on the flow of services and UK independence from the European Court of Justice. The increased restrictions on services would, however, include the loss of passporting rights for UK financial services firms. If the assumption of a "soft Brexit" holds, UK economic growth should trend between 1.5% and 2.0% over the forecast horizon. On the positive side, low unemployment rates should support a gradual increase in wage and nominal income growth. The extent to which the economy can lift in this scenario would, however, be constrained by persistently low productivity growth.

03 transition impact on operating businesses

FNB

RESTATED RATIOS/AMOUNTS

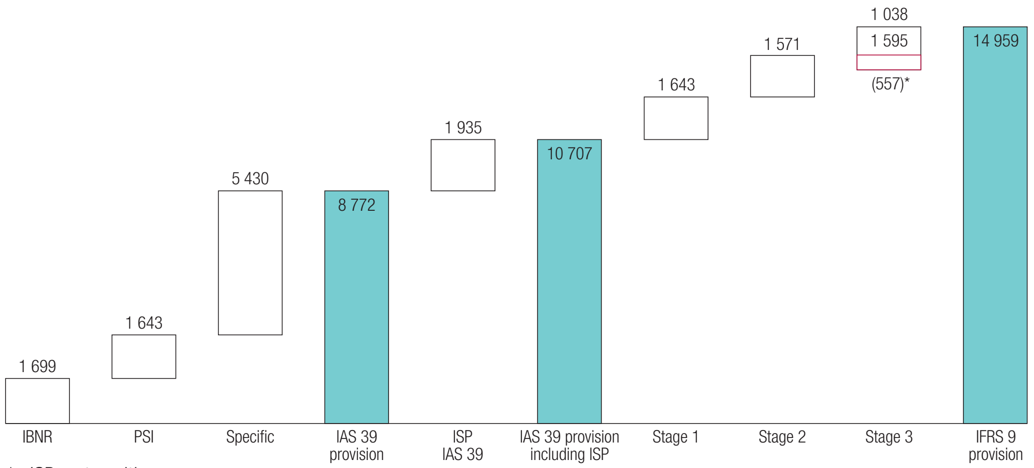
	DIA		
R million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Gross advances	**406 328**	1 974	404 354
Total balance sheet provisions	**14 959**	6 187	8 772
– Stage 1 provision/IBNR	**3 342**	1 643	1 699
– Stage 2 provision/PSI	**3 214**	1 571	1 643
– Stage 3 provision/specific	**8 403**	2 973*	5 430
Stage 3/NPLs	**18 525**	4 459	14 066
Stage 3/NPLs as a % of advances	**4.56**	1.08	3.48
Total coverage ratio (%)	**80.8**	18.4	62.4
Specific coverage ratio (%)	**45.4**	6.8	38.6
Performing book coverage ratio (%)	**1.69**	0.83	0.86

* *Of which R1 378 million relates to ISP, being R1 935 million IAS 39 ISP less R557 million ISP on transition.*

- The increase in stage 1 provisions is driven primarily by an increase from a three- to six-month emergence period under IAS 39, to a 12-month measurement period, with the most significant impact being on the commercial and personal loans products. In addition, the inclusion of unutilised facilities impacted the revolving portfolios such as card, retail other and commercial and the approved mortgage facilities not yet paid out, as well as prepaid mortgage facilities where the client has access to the prepaid funds.
- The increase in stage 2 provisions is the result of applying the SICR test and the inclusion of off-balance sheet exposures. The most significant SICR impact is in commercial due to watchlist classification being a SICR event. In addition, a significant increase in FNB Africa due to the implementation of more statistically driven provisioning methodologies and the incorporation of FLI.
- The change in stage 3 provisions is primarily due to:
  - changes in the treatment of technical cures, which were previously disclosed according to actual arrears status but are now disclosed in stage 3/NPLs, impacting the stage classification, although the impact on impairments is insignificant;
  - the change in the write-off point for unsecured products; and
  - the revised treatment of ISP.
- The weighted average of all FLI scenarios produced different results in the various portfolios, depending on the applicable variable.
- The movement in other includes various items across different products due to out-of-model adjustments and other methodology alignments.

TOTAL FNB IMPAIRMENTS BY STAGE – DIA

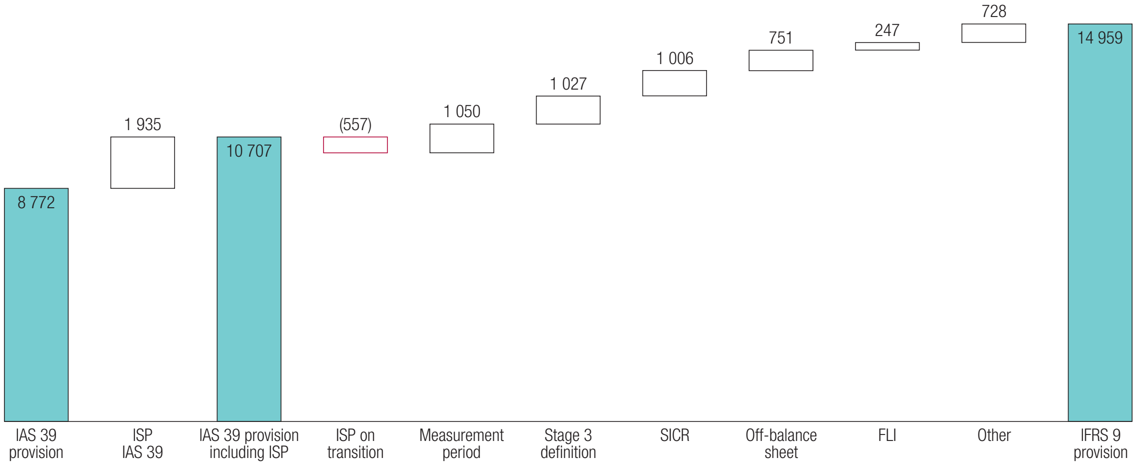
R million



* *ISP on transition.*

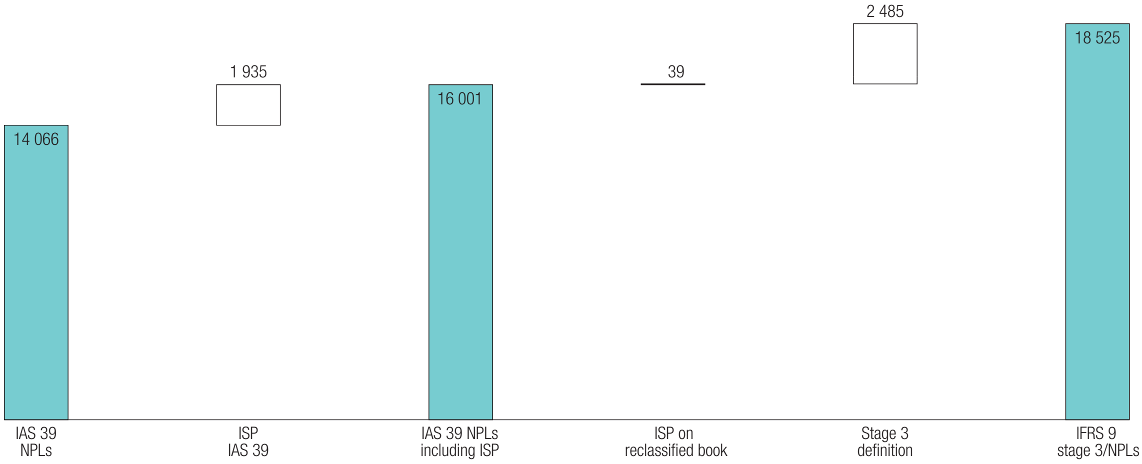
TOTAL FNB IMPAIRMENT DRIVERS – DIA

R million



GROWTH IN FNB STAGE 3/NPLs – DIA

R million



RMB

RESTATED RATIOS/AMOUNTS

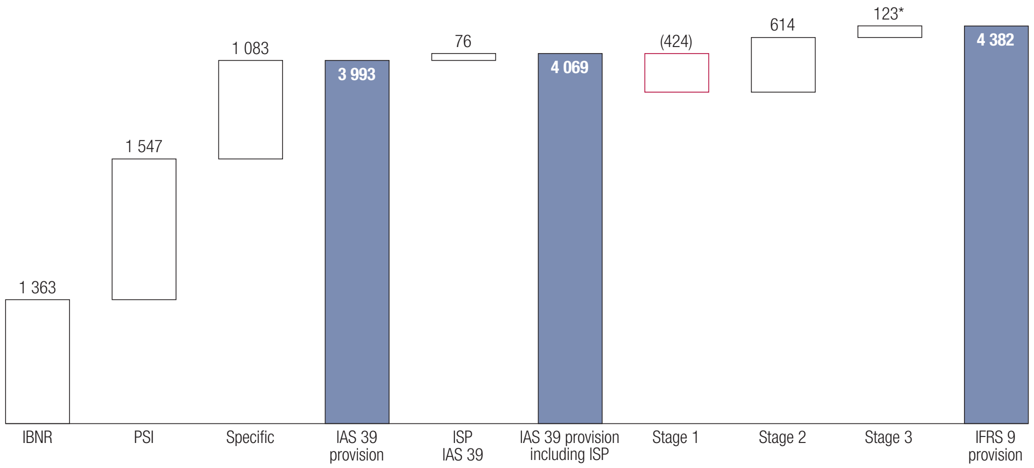
R million	DIA		
	IFRS 9	IFRS 9 adjustment	IAS 39
Gross advances	**295 333**	432	294 901
Total balance sheet provisions	**4 382**	389	3 993
– Stage 1 provision/IBNR	**939**	(424)	1 363
– Stage 2 provision/PSI	**2 161**	614	1 547
– Stage 3 provision/specific	**1 282**	199*	1 083
Stage 3/NPLs	**2 704**	199	2 505
Stage 3/NPLs as a % of advances	**0.92**	0.07	0.85
Total coverage ratio (%)	**>100**	2.7	>100
Specific coverage ratio (%)	**47.4**	4.2	43.2
Performing book coverage ratio (%)	**1.06**	0.06	1.00

* *Of which R199 million relates to ISP, being R76 million IAS 39 ISP plus R123 million ISP on transition.*

- The RMBIB advances were previously managed on a fair value basis. On adoption of IFRS 9, the group decided to change the business model by managing a part of the advances based on the intention to collect contractual cash flows. These assets were reclassified to amortised cost. The remaining part of the book is managed on a fair value basis.
- Under IAS 39, the RMBIB portfolio was segmented on an industry basis, with point-in-time PDs updated for those in distress. Under IFRS 9, segmentation is assessed at a loan level and individual risk parameters are calculated per industry, impacting the stage 1 and 2 allocation and resulting in the decrease from IBNR to stage 1 provision. In addition, the methodology related to certain non-core banking entities was harmonised to a 12-month measurement period, leading to the reduction in the stage 1 provision.
- Due to the predominantly fair value methodology under IAS 39, the impact of FLI and off-balance sheet exposures were limited to RMBCB.
- Under IAS 39 the RMB rest of Africa portfolio applied the group's commercial impairment methodology, which was updated on adoption of IFRS 9 to be consistent with the corporate methodology, with the most significant impact being attributable to SICR and FLI.

TOTAL RMB IMPAIRMENTS PER STAGE – DIA

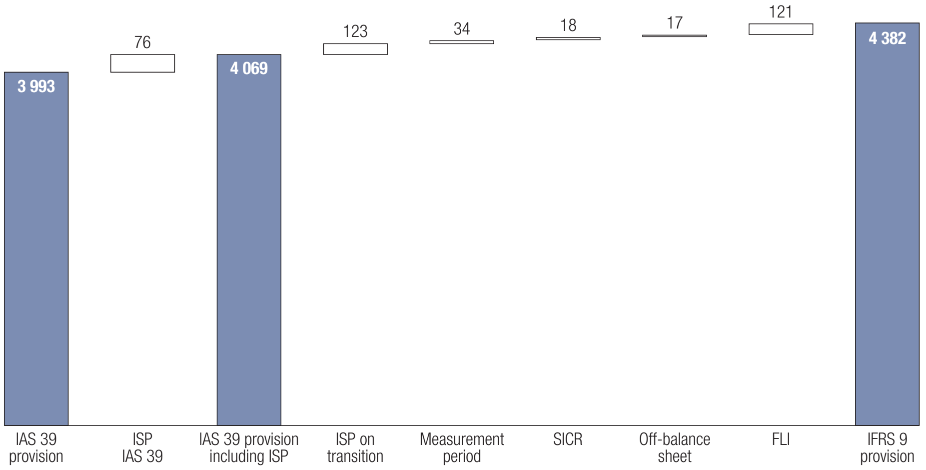
R million



* *ISP on transition.*

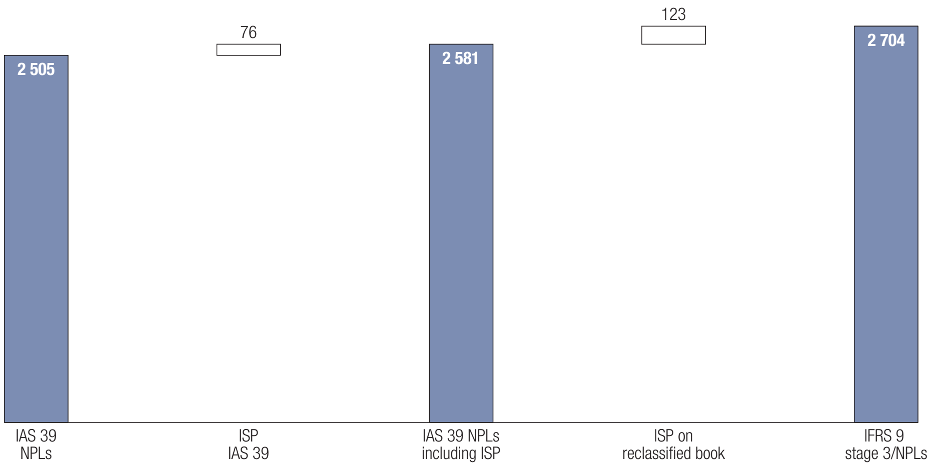
TOTAL RMB IMPAIRMENT DRIVERS – DIA

R million



GROWTH IN RMB STAGE 3/NPLs – DIA

R million



WESBANK

RESTATED RATIOS/AMOUNTS

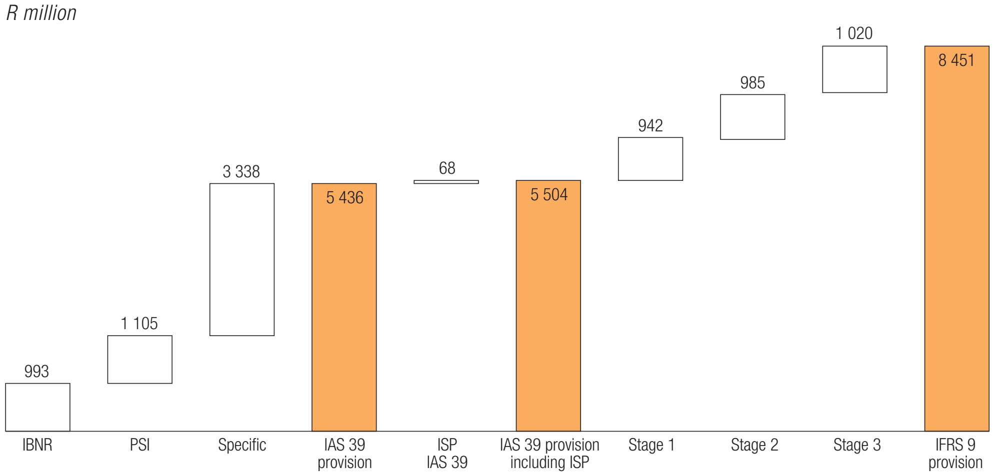
	DIA		
R million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Gross advances	**221 301**	68	221 233
Total balance sheet provisions	**8 451**	3 015	5 436
– Stage 1 provision/IBNR	**1 935**	942	993
– Stage 2 provision/PSI	**2 090**	985	1 105
– Stage 3 provision/specific	**4 426**	1 088*	3 338
Stage 3/NPLs	**10 561**	801	9 760
Stage 3/NPLs as a % of advances	**4.77**	0.36	4.41
Total coverage ratio (%)	**80.0**	24.3	55.7
Specific coverage ratio (%)	**41.9**	7.7	34.2
Performing book coverage ratio (%)	**1.91**	0.92	0.99

* *Of which R68 million relates to IAS 39 ISP.*

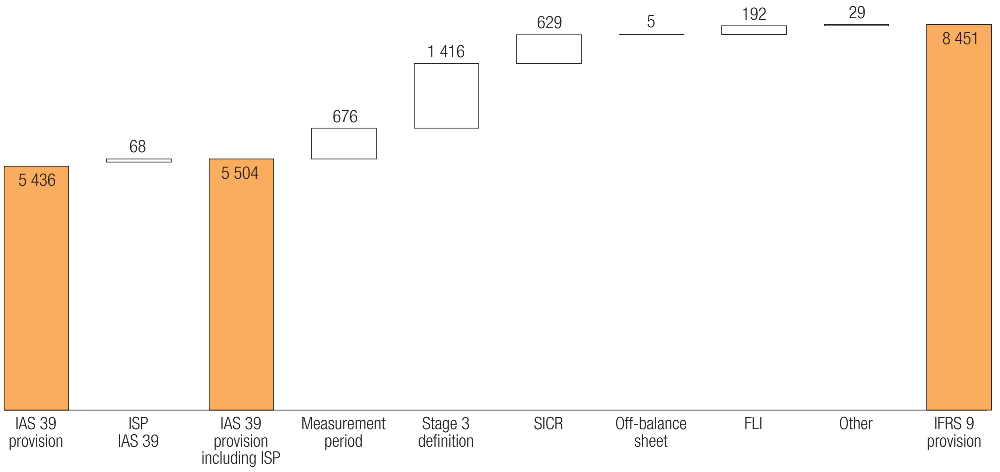
- The increase in stage 1 provisions is driven primarily by an increase from a three-month emergence period under IAS 39 to a 12-month measurement period, with the most significant impact being on retail SA VAF and MotoNovo.
- The primary increase in stage 2 provisions is the result of applying the SICR test. The most significant SICR impact was in retail SA VAF and MotoNovo. It also includes a recalibration of LGDs on restructured debt-review accounts for the secured portfolio.
- The change in stage 3 provisions is primarily due to:
  - changes in the treatment of technical cures, which were previously disclosed according to actual arrears status but are now disclosed in stage 3/NPLs;
  - the recalibration of LGDs on restructured debt-review accounts; and
  - the change in the write-off point for unsecured products.
- FLI impacted mainly retail SA VAF, with the impact on the other products not being material.
- The movement in other includes various offsetting items across different products due to out-of-model adjustments and other methodology alignments.

TOTAL WESBANK IMPAIRMENTS BY STAGE – DIA

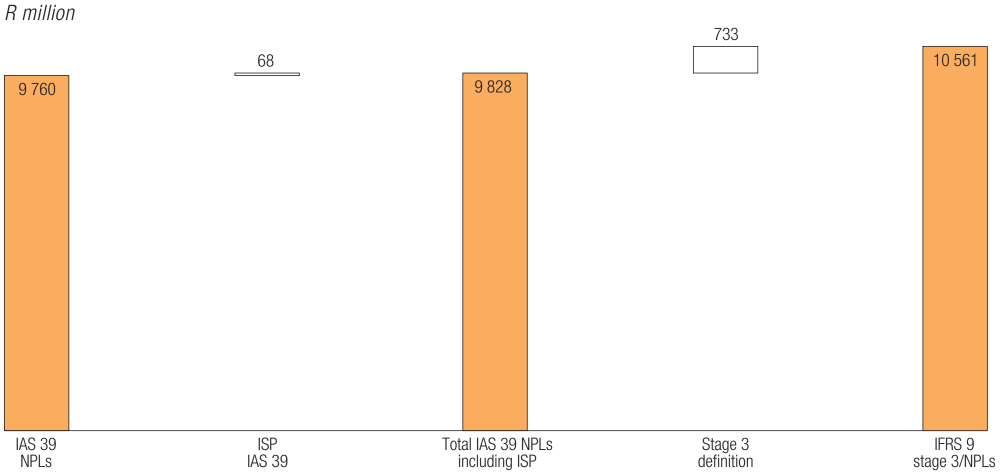
R million



TOTAL WESBANK IMPAIRMENT DRIVERS – DIA
R million



GROWTH IN WESBANK STAGE 3/NPLs – DIA
R million



ALDERMORE

RESTATED RATIOS/AMOUNTS

	DIA		
R million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Gross advances	**163 876**	–	163 876
Total balance sheet provisions	**637**	178	459
– Stage 1 provision/IBNR	**273**	(45)	318
– Stage 2 provision/PSI	**132**	132	–
– Stage 3 provision/specific	**232**	91	141
Stage 3/NPLs	**1 724**	1 108	616
Stage 3/NPLs as a % of advances	**1.05**	0.67	0.38
Total coverage ratio (%)	**36.9**	(37.7)	74.6
Specific coverage ratio (%)	**13.5**	(9.4)	22.9
Performing book coverage ratio (%)	**0.25**	0.06	0.19

	DIA		
£ million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Gross advances	**9 016**	–	9 016
Total balance sheet provisions	**35**	10	25
– Stage 1 provision/IBNR	**15**	(2)	17
– Stage 2 provision/PSI	**7**	7	–
– Stage 3 provision/specific	**13**	5	8
Stage 3/NPLs	**95**	61	34
Stage 3/NPLs as a % of advances	**1.05**	0.67	0.38
Total coverage ratio (%)	**36.9**	(37.7)	74.6
Specific coverage ratio (%)	**13.5**	(9.4)	22.9
Performing book coverage ratio (%)	**0.25**	0.06	0.19

Exchange rate used for translation: £1 = R18.1766.

PERFORMING LOAN COVERAGE RATIOS

	R based %		£ based %	
	IFRS 9	IAS 39	**IFRS 9**	IAS 39
Asset finance	**0.68**	0.27	**0.68**	0.27
Invoice finance	**0.79**	0.89	**0.79**	0.89
SME commercial mortgages	**0.19**	0.38	**0.19**	0.38
Buy-to-let	**0.10**	0.09	**0.10**	0.09
Residential mortgages	**0.10**	0.18	**0.10**	0.18
Total Aldermore	**0.25**	0.19	**0.25**	0.19

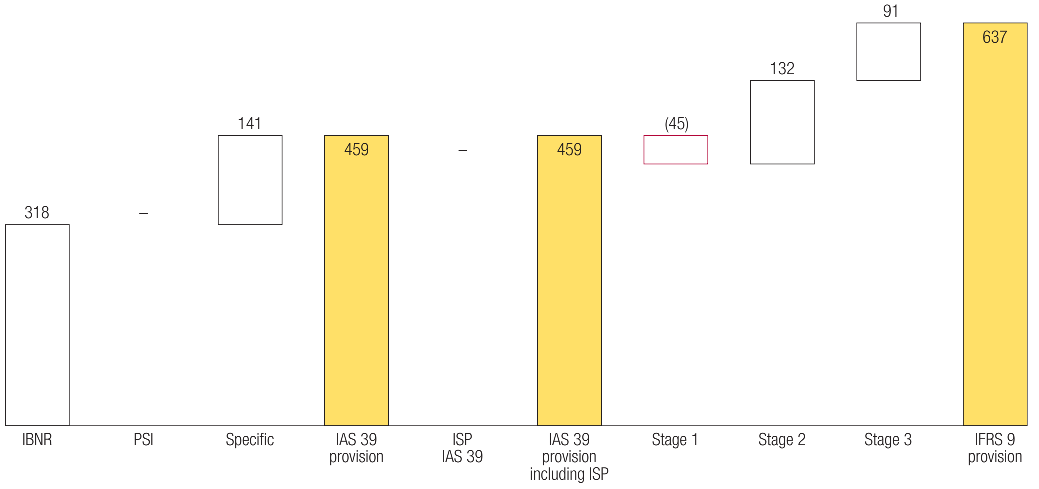
SPECIFIC COVERAGE RATIOS

	R based %		£ based %	
	IFRS 9	IAS 39	**IFRS 9**	IAS 39
Asset finance	**38.2**	60.9	**38.2**	60.9
Invoice finance	**22.6**	100.0	**22.6**	100.0
SME commercial mortgages	**4.4**	11.4	**4.4**	11.4
Buy-to-let	**11.8**	15.3	**11.8**	15.3
Residential mortgages	**3.9**	7.7	**3.9**	7.7
Total Aldermore	**13.5**	22.9	**13.5**	22.9

- The change in measurement period does not impact the mortgage portfolios as these portfolios were modelled on a 12-month measurement period under IAS 39. The impact on asset finance and invoice finance is evidenced with these portfolios moving from a measurement period of five months and six months, respectively, to 12 months under IFRS 9.
- The stage 2 increase is primarily a result of the number of accounts moving from stage 1 to stage 2 due to SICR. Therefore they are provided for using the LECL as opposed to the 12-month ECL, with the most significant impact on asset finance.
- The increases in NPLs/stage 3 advances are due to the change in default definition from 3+ missed payments, to 90+ days past due or where an account is deemed to be unlikely to pay. Unlikeliness to pay indicators include permanent forbearance, foreclosure, if a corporate entity has failed or where an individual is noted as bankrupt. The increase in stage 3 provisions was not in line with the increase in stage 3 advances because most accounts are highly collateralised and therefore have a low LGD.
- The use of macroeconomic variables does not have a significant impact on the overall ECL. This is because the economic scenarios carrying the highest weighting predict a relatively stable macro environment on the assumption of an orderly Brexit. Expectations are that interest rates will rise gradually and employment rates will remain stable. A severe stress scenario, representing a significant downturn, has been incorporated using a low weighting. The house price index (HPI) is the most sensitive and has the most significant impact on the ECL. This variable only impacts the residential, buy-to-let and commercial mortgage portfolios.
- Other is a combination of out-of-model adjustments and changes in underlying parameter models.

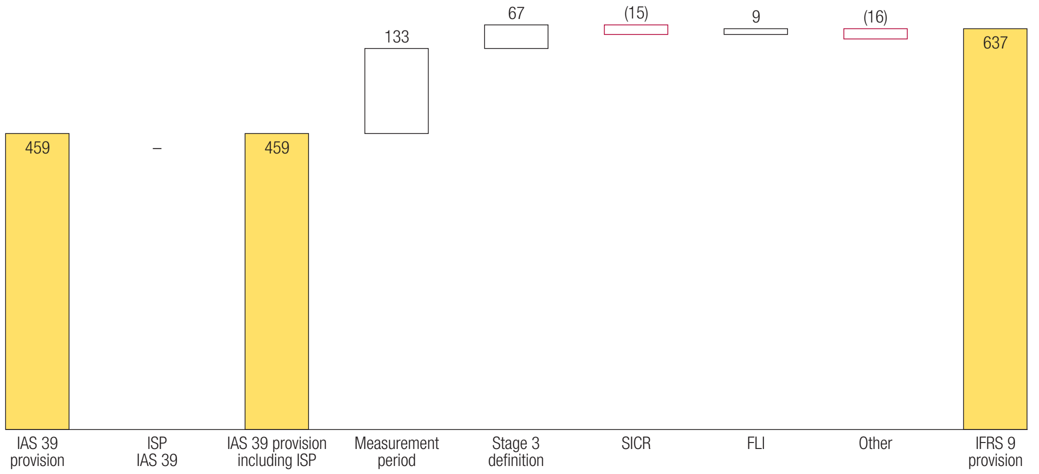
TOTAL ALDERMORE IMPAIRMENTS BY STAGE – DIA

R million



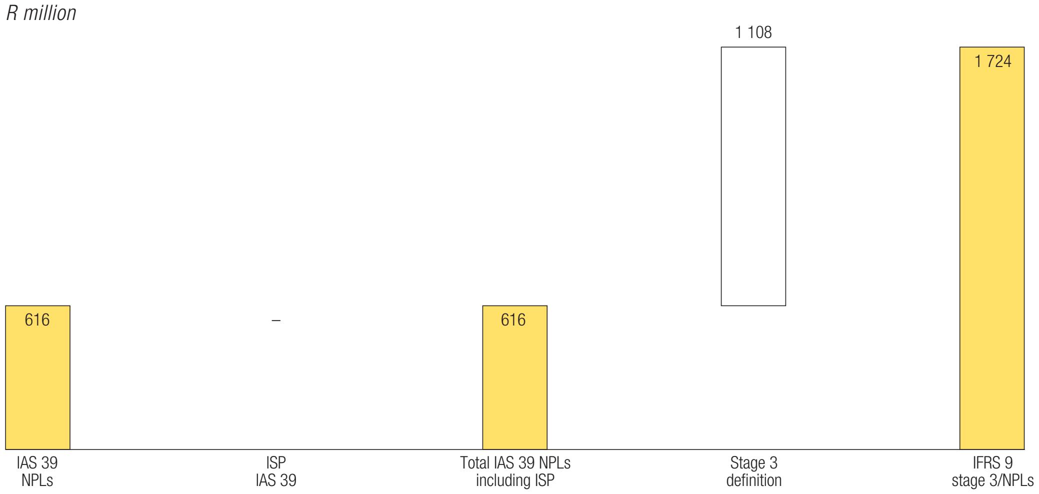
TOTAL ALDERMORE IMPAIRMENT DRIVERS – DIA

R million



GROWTH IN ALDERMORE STAGE 3/NPLs – DIA

R million



FCC

RECLASSIFICATION OF LIQUID ASSET PORTFOLIO

- One of the fundamental roles of a bank is to manage liquidity and interest rate risk. In Group Treasury (GTSY), investments are acquired to manage this risk, including government bonds, treasury bills and investment-grade corporate assets.
- The financial assets are held to collect contractual cash flows but are also available to be pledged as collateral, or sold if required for liquidity management purposes. Sales are often in the form of a repurchase transaction (repo) where, although this is considered a legal sale, it is not accounted for as such because the risks and rewards have not transferred.
- Certain investment securities and marketable advances were measured as available-for-sale under IAS 39. On transition to IFRS 9, these assets form part of the held to collect business model and are reclassified and remeasured to amortised cost.

INFLATION BOOK RECLASSIFICATION

- Inflation-linked advances with a carrying value of R3 764 million were measured at FVTPL under IAS 39. On transition to IFRS 9, these assets form part of the held to collect business model and are remeasured at amortised cost, which resulted in a R369 million increase in retained income.
- To match fund the assets, inflation-linked liabilities with a carrying value of R5 148 million measured at FVTPL under IAS 39 were transitioned to amortised cost on adoption of IFRS 9, reflecting a remeasurement of R800 million, reducing retained income.
- The transition ensured that inflation risk is materially matched post adoption of IFRS 9, with minimal inflation risk remaining in GTSY in line with risk limit tolerances. The net impact of the above is a R431 million reduction in retained income.

ECL ON INVESTMENTS

- For the adoption of IFRS 9 the group considered the guidance from industry implementation working groups, specifically related to sovereign advances. Sovereign advances are treated no differently from a credit perspective, with independent ratings and LGDs assigned and approved by the relevant committee. ECL is held against these advances across the group’s various legal entities.

OTHER

- The reclassification of advances to empowerment development funds and first party cell captives are included in FCC. The centre also recognised a central overlay to provide for areas of uncertainty associated with the initial IFRS 9 implementation.

04 balance sheet analysis

CREDIT HIGHLIGHTS AT A GLANCE

INCLUDING ALDERMORE
RESTATED RATIOS/AMOUNTS

	DIA		
R million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Gross advances	**1 142 476**	2 414	1 140 062
Total balance sheet provisions	**29 078**	10 243	18 835
– Stage 1 provision/IBNR	**6 988**	2 440	4 548
– Stage 2 provision/PSI	**7 747**	3 452	4 295
– Stage 3 provision/specific	**14 343**	4 351*	9 992
Stage 3/NPLs	**33 514**	6 567	26 947
Stage 3/NPLs as a % of advances	**2.93**	0.57	2.36
Total coverage ratio (%)	**86.8**	16.9	69.9
Specific coverage ratio (%)	**42.8**	5.7	37.1
Performing book coverage ratio (%)	**1.33**	0.54	0.79

* *Of which R1 645 million relates to ISP, being R2 079 million IAS 39 ISP less R434 million ISP on transition.*

EXCLUDING ALDERMORE
RESTATED RATIOS/AMOUNTS

	DIA		
R million	**IFRS 9**	IFRS 9 adjustment	IAS 39
Gross advances	**978 600**	2 414	976 186
Total balance sheet provisions	**28 441**	10 065	18 376
– Stage 1 provision/IBNR	**6 715**	2 485	4 230
– Stage 2 provision/PSI	**7 615**	3 320	4 295
– Stage 3 provision/specific	**14 111**	4 260*	9 851
Stage 3/NPLs	**31 790**	5 459	26 331
Stage 3/NPLs as a % of advances	**3.25**	0.55	2.70
Total coverage ratio (%)	**89.5**	19.7	69.8
Specific coverage ratio (%)	**44.4**	7.0	37.4
Performing book coverage ratio (%)	**1.51**	0.61	0.90

* *Of which R1 645 million relates to ISP, being R2 079 million IAS 39 ISP less R434 million ISP on transition.*

ADVANCES

	Segmental analysis of advances				
	DIA		%	% composition	
R million	IFRS 9	IAS 39	change	IFRS 9	IAS 39
Retail	**447 141**	446 356	–	**39**	39
Retail – secured	**370 863**	370 183	–	**32**	32
Residential mortgages	**205 631**	204 969	–	**18**	18
VAF	**165 232**	165 214	–	**14**	14
– SA	**104 885**	104 864	–	**9**	9
– MotoNovo	**60 347**	60 350	–	**5**	5
Retail – unsecured	**76 278**	76 173	–	**7**	7
Card	**27 155**	27 140	–	**2**	2
Personal loans	**33 222**	33 181	–	**3**	3
– FNB	**17 200**	17 161	–	**2**	2
– WesBank	**14 985**	14 985	–	**1**	1
– MotoNovo	**1 037**	1 035	–	**–**	–
Retail other	**15 901**	15 852	–	**2**	2
Corporate and commercial	**432 729**	431 713	–	**38**	38
FNB commercial	**94 559**	93 987	1	**8**	8
WesBank corporate	**32 164**	32 150	–	**3**	3
RMB investment banking	**240 736**	240 355	–	**21**	21
RMB corporate banking	**46 636**	46 592	–	**4**	4
HQLA corporate advances	**18 634**	18 629	–	**2**	2
Rest of Africa	**61 726**	61 048	1	**6**	6
FNB	**45 882**	45 245	1	**4**	4
WesBank	**7 883**	7 849	–	**1**	1
RMB (corporate and investment banking)	**7 961**	7 954	–	**1**	1
FCC (including Group Treasury)	**37 004**	37 069	–	**3**	3
Securitisation notes	**23 674**	23 674	–	**2**	2
Other	**13 330**	13 395	–	**1**	1
Total advances excluding Aldermore	**978 600**	976 186	–	**86**	86
Aldermore	**163 876**	163 876	–	**14**	14
Total advances including Aldermore	**1 142 476**	1 140 062	–	**100**	100

ADVANCES *continued*

	Segmental analysis of advances				
	DIA	Adjustments			DIA
R million	IFRS 9	ISP	Reclassification and remeasurement	Subtotal	IAS 39
Retail	**447 141**	785	–	785	**446 356**
Retail – secured	**370 863**	678	2	680	**370 183**
Residential mortgages	**205 631**	661	1	662	**204 969**
VAF	**165 232**	17	1	18	**165 214**
– SA	**104 885**	17	4	21	**104 864**
– MotoNovo	**60 347**	–	(3)	(3)	**60 350**
Retail – unsecured	**76 278**	107	(2)	105	**76 173**
Card	**27 155**	15	–	15	**27 140**
Personal loans	**33 222**	41	–	41	**33 181**
– FNB	**17 200**	39	–	39	**17 161**
– WesBank	**14 985**	2	(2)	–	**14 985**
– MotoNovo	**1 037**	–	2	2	**1 035**
Retail other	**15 901**	51	(2)	49	**15 852**
Corporate and commercial	**432 729**	779	237	1 016	**431 713**
FNB commercial	**94 559**	572	–	572	**93 987**
WesBank corporate	**32 164**	15	(1)	14	**32 150**
RMB investment banking	**240 736**	148	233	381	**240 355**
RMB corporate banking	**46 636**	44	–	44	**46 592**
HQLA corporate advances	**18 634**	–	5	5	**18 629**
Rest of Africa	**61 726**	677	1	678	**61 048**
FNB	**45 882**	636	1	637	**45 245**
WesBank	**7 883**	34	–	34	**7 849**
RMB (corporate and investment banking)	**7 961**	7	–	7	**7 954**
FCC (including Group Treasury)	**37 004**	–	(65)	(65)	**37 069**
Securitisation notes	**23 674**	–	–	–	**23 674**
Other	**13 330**	–	(65)	(65)	**13 395**
Total advances excluding Aldermore	**978 600**	2 241	173	2 414	**976 186**
Aldermore	**163 876**	–	–	–	**163 876**
Total advances including Aldermore	**1 142 476**	2 241	173	2 414	**1 140 062**

ADVANCES *continued*

	Segmental analysis of advances				
	DIA		IFRS 9		
R million	**IFRS 9**	IAS 39	**Stage 1**	**Stage 2**	**Stage 3/NPLs**
Retail	**447 141**	446 356	**395 485**	**30 172**	**21 484**
Retail – secured	**370 863**	370 183	**330 331**	**24 683**	**15 849**
Residential mortgages	**205 631**	204 969	**186 281**	**11 416**	**7 934**
VAF	**165 232**	165 214	**144 050**	**13 267**	**7 915**
– SA	**104 885**	104 864	**87 696**	**10 312**	**6 877**
– MotoNovo	**60 347**	60 350	**56 354**	**2 955**	**1 038**
Retail – unsecured	**76 278**	76 173	**65 154**	**5 489**	**5 635**
Card	**27 155**	27 140	**24 668**	**1 327**	**1 160**
Personal loans	**33 222**	33 181	**26 779**	**3 016**	**3 427**
– FNB	**17 200**	17 161	**13 980**	**1 689**	**1 531**
– WesBank	**14 985**	14 985	**11 851**	**1 260**	**1 874**
– MotoNovo	**1 037**	1 035	**948**	**67**	**22**
Retail other	**15 901**	15 852	**13 707**	**1 146**	**1 048**
Corporate and commercial	**432 729**	431 713	**383 606**	**42 758**	**6 365**
FNB commercial	**94 559**	93 987	**83 946**	**7 263**	**3 350**
WesBank corporate	**32 164**	32 150	**29 638**	**2 132**	**394**
RMB investment banking	**240 736**	240 355	**206 831**	**31 458**	**2 447**
RMB corporate banking	**46 636**	46 592	**44 557**	**1 905**	**174**
HQLA corporate advances	**18 634**	18 629	**18 634**	**–**	**–**
Rest of Africa	**61 726**	61 048	**54 191**	**3 594**	**3 941**
FNB	**45 882**	45 245	**39 403**	**2 977**	**3 502**
WesBank	**7 883**	7 849	**7 122**	**405**	**356**
RMB (corporate and investment banking)	**7 961**	7 954	**7 666**	**212**	**83**
FCC (including Group Treasury)	**37 004**	37 069	**37 004**	**–**	**–**
Securitisation notes	**23 674**	23 674	**23 674**	**–**	**–**
Other	**13 330**	13 395	**13 330**	**–**	**–**
Total advances excluding Aldermore	**978 600**	976 186	**870 286**	**76 524**	**31 790**
Aldermore	**163 876**	163 876	**152 153**	**9 999**	**1 724**
Total advances including Aldermore	**1 142 476**	1 140 062	**1 022 439**	**86 523**	**33 514**

STAGE 3/NPLs

	Stage 3/NPLs					Stage 3/NPLs as a % of advances	
	DIA		% change	% composition		DIA	
R million	IFRS 9	IAS 39		IFRS 9	IAS 39	IFRS 9	IAS 39
Retail	**21 484**	17 681	22	**65**	66	**4.80**	3.96
Retail – secured	**15 849**	12 448	27	**48**	46	**4.27**	3.36
Residential mortgages	**7 934**	5 075	56	**24**	19	**3.86**	2.48
VAF	**7 915**	7 373	7	**24**	27	**4.79**	4.46
– SA	**6 877**	6 818	1	**21**	25	**6.56**	6.50
– MotoNovo	**1 038**	555	87	**3**	2	**1.72**	0.92
Retail – unsecured	**5 635**	5 233	8	**17**	20	**7.39**	6.87
Card	**1 160**	1 082	7	**3**	4	**4.27**	3.99
Personal loans	**3 427**	3 159	8	**11**	12	**10.32**	9.52
– FNB	**1 531**	1 337	15	**5**	5	**8.90**	7.79
– WesBank	**1 874**	1 800	4	**6**	7	**12.51**	12.01
– MotoNovo	**22**	22	–	**–**	–	**2.12**	2.13
Retail other	**1 048**	992	6	**3**	4	**6.59**	6.26
Corporate and commercial	**6 365**	5 387	18	**19**	20	**1.47**	1.25
FNB commercial	**3 350**	2 714	23	**10**	10	**3.54**	2.89
WesBank corporate	**394**	244	61	**1**	1	**1.22**	0.76
RMB investment banking	**2 447**	2 299	6	**7**	9	**1.02**	0.96
RMB corporate banking	**174**	130	34	**1**	–	**0.37**	0.28
HQLA corporate advances	**–**	–	–	**–**	–	**–**	–
Rest of Africa	**3 941**	3 263	21	**11**	12	**6.38**	5.34
FNB	**3 502**	2 866	22	**10**	11	**7.63**	6.33
WesBank	**356**	321	11	**1**	1	**4.52**	4.09
RMB (corporate and investment banking)	**83**	76	9	**–**	–	**1.04**	0.96
FCC (including Group Treasury)	**–**	–	–	**–**	–	**–**	–
Securitisation notes	**–**	–	–	**–**	–	**–**	–
Other	**–**	–	–	**–**	–	**–**	–
Total stage 3/NPLs excluding Aldermore	**31 790**	26 331	21	**95**	98	**3.25**	2.70
Aldermore	**1 724**	616	>100	**5**	2	**1.05**	0.38
Total stage3/NPLs including Aldermore	**33 514**	26 947	24	**100**	100	**2.93**	2.36

STAGE 3/NPLs *continued*

	Stage 3/NPLs				
	DIA	IFRS 9 adjustments DIA			DIA
R million	**IFRS 9**	ISP	Stage 3 definition	Subtotal	**IAS 39**
Retail	**21 484**	785	3 018	3 803	**17 681**
Retail – secured	**15 849**	678	2 723	3 401	**12 448**
Residential mortgages	**7 934**	661	2 198	2 859	**5 075**
VAF	**7 915**	17	525	542	**7 373**
– SA	**6 877**	17	42	59	**6 818**
– MotoNovo	**1 038**	–	483	483	**555**
Retail – unsecured	**5 635**	107	295	402	**5 233**
Card	**1 160**	15	63	78	**1 082**
Personal loans	**3 427**	41	227	268	**3 159**
– FNB	**1 531**	39	155	194	**1 337**
– WesBank	**1 874**	2	72	74	**1 800**
– MotoNovo	**22**	–	–	–	**22**
Retail other	**1 048**	51	5	56	**992**
Corporate and commercial	**6 365**	779	199	978	**5 387**
FNB commercial	**3 350**	572	64	636	**2 714**
WesBank corporate	**394**	15	135	150	**244**
RMB investment banking	**2 447**	148	–	148	**2 299**
RMB corporate banking	**174**	44	–	44	**130**
HQLA corporate advances	**–**	–	–	–	**–**
Rest of Africa	**3 941**	677	1	678	**3 263**
FNB	**3 502**	636	–	636	**2 866**
WesBank	**356**	34	1	35	**321**
RMB (corporate and investment banking)	**83**	7	–	7	**76**
FCC (including Group Treasury)	**–**	–	–	–	**–**
Securitisation notes	**–**	–	–	–	**–**
Other	**–**	–	–	–	**–**
Total stage 3/NPLs excluding Aldermore	**31 790**	2 241	3 218	5 459	**26 331**
Aldermore	**1 724**	–	1 108	1 108	**616**
Total stage 3/NPLs including Aldermore	**33 514**	2 241	4 326	6 567	**26 947**

BALANCE SHEET PORTFOLIO IMPAIRMENTS AND COVERAGE RATIOS

	Total portfolio impairments			
	DIA			
		IFRS 9		
R million	IFRS 9	Stage 1	Stage 2	IAS 39
Portfolio impairments				
Retail	7 629	3 887	3 742	4 059
Retail – secured	3 353	1 448	1 905	1 850
Residential mortgages	647	269	378	566
VAF	2 706	1 179	1 527	1 284
– SA	1 916	676	1 240	918
– MotoNovo	790	503	287	366
Retail – unsecured	4 276	2 439	1 837	2 209
Card	808	534	274	407
Personal loans	2 285	1 268	1 017	1 309
– FNB	1 289	676	613	751
– WesBank	894	546	348	536
– MotoNovo	102	46	56	22
Retail other	1 183	637	546	493
Corporate and commercial	4 637	1 599	3 038	3 546
FNB commercial	1 559	680	879	537
WesBank corporate	185	94	91	196
RMB investment banking	2 007	662	1 345	1 930
RMB corporate banking	886	163	723	883
HQLA corporate advances	–	–	–	–
Rest of Africa	1 415	730	685	745
FNB	1 070	546	524	588
WesBank	138	70	68	60
RMB (corporate and investment banking)	207	114	93	97
FCC (including Group Treasury)	649	499	150	175
Securitisation notes	25	25	–	–
Other	624	474	150	175
Total portfolio impairments excluding Aldermore	14 330	6 715	7 615	8 525
Aldermore	405	273	132	318
Total portfolio impairments including Aldermore	14 735	6 988	7 747	8 843

Total portfolio impairments			
DIA			
Performing book coverage ratios (% of stage 3/NPLs)			
Stage 1	**Stage 2**	**Performing book IFRS 9**	Performing book IAS 39
0.91	**0.88**	**1.79**	0.95
0.40	**0.54**	**0.94**	0.52
0.14	**0.19**	**0.33**	0.28
0.75	**0.97**	**1.72**	0.81
0.68	**1.27**	**1.95**	0.94
0.85	**0.48**	**1.33**	0.61
3.45	**2.60**	**6.05**	3.11
2.06	**1.05**	**3.11**	1.56
4.26	**3.41**	**7.67**	4.36
4.32	**3.91**	**8.23**	4.75
4.17	**2.65**	**6.82**	4.07
4.53	**5.52**	**10.05**	2.17
4.28	**3.68**	**7.96**	3.32
0.38	**0.71**	**1.09**	0.83
0.75	**0.96**	**1.71**	0.59
0.29	**0.29**	**0.58**	0.61
0.28	**0.56**	**0.84**	0.81
0.35	**1.56**	**1.91**	1.90
–	**–**	**–**	–
1.26	**1.19**	**2.45**	1.29
1.28	**1.24**	**2.52**	1.39
0.93	**0.90**	**1.83**	0.80
1.45	**1.18**	**2.63**	1.23
1.34	**0.41**	**1.75**	0.47
0.11	**–**	**0.11**	–
3.55	**1.13**	**4.68**	1.31
0.71	**0.80**	**1.51**	0.90
0.17	**0.08**	**0.25**	0.19
0.63	**0.70**	**1.33**	0.79

BALANCE SHEET SPECIFIC IMPAIRMENTS AND COVERAGE RATIOS

	Balance sheet impairments			Coverage ratios (% of stage 3/NPLs)	
	DIA			DIA	
R million	**IFRS 9**	IAS 39	% change	**IFRS 9**	IAS 39
Specific impairments/stage 3					
Retail	**8 637**	6 161	40	**40.2**	34.8
Retail – secured	**4 353**	3 234	35	**27.5**	26.0
Residential mortgages	**1 715**	905	90	**21.6**	17.8
VAF	**2 638**	2 329	13	**33.3**	31.6
– SA	**2 203**	2 010	10	**32.0**	29.5
– MotoNovo	**435**	319	36	**41.9**	57.5
Retail – unsecured	**4 284**	2 927	46	**76.0**	55.9
Card	**996**	724	38	**85.9**	66.9
Personal loans	**2 448**	1 485	65	**71.4**	47.0
– FNB	**1 051**	800	31	**68.6**	59.8
– WesBank	**1 365**	665	>100	**72.8**	36.9
– MotoNovo	**32**	20	60	**145.5**	90.9
Retail other	**840**	718	17	**80.2**	72.4
Corporate and commercial	**3 287**	2 179	51	**51.6**	40.4
FNB commercial	**1 898**	1 015	87	**56.7**	37.4
WesBank corporate	**149**	116	28	**37.8**	47.5
RMB investment banking	**1 181**	1 034	14	**48.3**	45.0
RMB corporate banking	**59**	14	>100	**33.9**	10.8
HQLA corporate advances	**–**	–	–	**–**	–
Rest of Africa	**2 187**	1 511	45	**55.5**	46.3
FNB	**1 903**	1 268	50	**54.3**	44.2
WesBank	**242**	208	16	**68.0**	64.8
RMB (corporate and investment banking)	**42**	35	20	**50.6**	46.1
FCC (including Group Treasury)	**–**	–	–	**–**	–
Securitisation notes	**–**	–	–	**–**	–
Other	**–**	–	–	**–**	–
Total specific impairments/stage 3/implied LGD excluding Aldermore	**14 111**	9 851	43	**44.4**	37.4
Aldermore	**232**	141	65	**13.5**	22.9
Total specific impairments/stage 3/implied LGD including Aldermore	**14 343**	9 992	44	**42.8**	37.1
Portfolio impairments excluding Aldermore	**14 330**	8 525	68	**45.1**	32.4
Portfolio impairments including Aldermore	**14 735**	8 843	67	**44.0**	32.8
Total impairments/total impairment coverage ratio excluding Aldermore	**28 441**	18 376	55	**89.5**	69.8
Total impairments/total impairment coverage ratio including Aldermore	**29 078**	18 835	54	**86.8**	69.9

BALANCE SHEET TOTAL IMPAIRMENTS

	Balance sheet impairments								
R million	**IFRS 9**	Measurement period	ISP	Off-balance sheet	FLI	SICR	Stage 3 definition	Other	**IAS 39**
Total impairments									
Retail	**16 266**	1 327	377	594	(129)	997	2 107	773	**10 220**
Retail – secured	**7 706**	612	294	229	(102)	574	599	416	**5 084**
Residential mortgages	**2 362**	168	277	224	(254)	131	6	339	**1 471**
VAF	**5 344**	444	17	5	152	443	593	77	**3 613**
– SA	**4 119**	236	17	–	152	250	534	2	**2 928**
– MotoNovo	**1 225**	208	–	5	–	193	59	75	**685**
Retail – unsecured	**8 560**	715	83	365	(27)	423	1 508	357	**5 136**
Card	**1 804**	184	12	87	(15)	108	239	58	**1 131**
Personal loans	**4 733**	391	30	–	(71)	197	1 181	211	**2 794**
– FNB	**2 340**	262	28	–	(84)	40	360	183	**1 551**
– WesBank	**2 259**	101	2	–	13	105	809	28	**1 201**
– MotoNovo	**134**	28	–	–	–	52	12	–	**42**
Retail other	**2 023**	140	41	278	59	118	88	88	**1 211**
Corporate and commercial	**7 924**	359	591	155	420	355	336	(17)	**5 725**
FNB commercial	**3 457**	237	384	154	368	372	334	56	**1 552**
WesBank corporate	**334**	88	15	–	(22)	12	2	(73)	**312**
RMB investment banking	**3 188**	34	148	–	11	31	–	–	**2 964**
RMB corporate banking	**945**	–	44	1	63	(60)	–	–	**897**
HQLA corporate advances	**–**	–	–	–	–	–	–	–	**–**
Rest of Africa	**3 602**	74	677	24	269	301	–	1	**2 256**
FNB	**2 973**	59	636	8	173	237	–	4	**1 856**
WesBank	**380**	15	34	–	49	17	–	(3)	**268**
RMB (corporate and investment banking)	**249**	–	7	16	47	47	–	–	**132**
FCC (including Group Treasury)	**649**	46	–	–	449	–	18	(39)	**175**
Securitisation notes	**25**	25	–	–	–	–	–	–	**–**
Other	**624**	21	–	–	449	–	18	(39)	**175**
Total impairments excluding Aldermore	**28 441**	1 806	1 645	773	1 009	1 653	2 461	718	**18 376**
Aldermore	**637**	133	–	–	9	(15)	67	(16)	**459**
Total impairments including Aldermore	**29 078**	1 939	1 645	773	1 018	1 638	2 528	702	**18 835**

05 independent auditors' report

TO THE DIRECTORS OF FIRSTRAND LIMITED

OPINION

We have audited the accompanying consolidated special purpose financial information, set out on pages 13 to 57 and pages 65 to 68, consisting of the consolidated opening retained earnings, relevant notes and a summary of significant accounting policies (the "consolidated special purpose financial information") which reflects the impact of the adoption of the International Financial Reporting Standard (IFRS) 9, Financial Instruments, on FirstRand Limited, and its subsidiaries (together the "group") consolidated opening retained earnings as at 1 July 2018. We have audited the information included on these pages unless specifically stated as unaudited.

In our opinion, the consolidated special purpose financial information of the group as at 1 July 2018 is prepared, in all material respects, in accordance with the basis of presentation set out on page 12 to the consolidated special purpose financial information.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under these standards are further described in the Auditors' responsibilities for the audit of the consolidated special purpose financial information section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER – BASIS OF ACCOUNTING

Without modifying our opinion, we draw attention to the basis of presentation set out on page 12 of the consolidated special purpose financial information which describes the basis of accounting of the consolidated special purpose financial information. The consolidated special purpose financial information is prepared by the group in order to meet its reporting obligations to the South African Reserve Bank pursuant to paragraph 2.8 of the South African Reserve Bank Directive D5/2017. As a result, the consolidated special purpose financial information may not be suitable for another purpose.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included on pages 3 to 9 and pages 25 and 26. Other information does not include the consolidated special purpose financial information and our auditors' report thereon.

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL INFORMATION

The directors are responsible for the preparation of the consolidated special purpose financial information in accordance with the basis of presentation set out on page 12 of the consolidated special purpose financial information, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated special purpose financial information, that is free from material misstatement, whether due to fraud or error.

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED SPECIAL PURPOSE FINANCIAL INFORMATION

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

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

- Identify and assess the risks of material misstatement of the consolidated special purpose financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated special purpose financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated special purpose financial information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Deloitte & Touche

Deloitte & Touche

Registered Auditor
Per: Darren Shipp CA(SA)

Woodlands Office Park
Johannesburg

20 November 2018

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Registered Auditor
Director: Francois Prinsloo CA(SA)

4 Lisbon lane
Johannesburg

20 November 2018

06 supplementary information

NORMALISED INFORMATION

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS

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 group 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. The only normalised entry impacting the statement of financial position relates to FirstRand shares held for client trading activities.

The normalised impact on advances as at 30 June 2018 is outlined below.

R million	Normalised	Normalised adjustment	IFRS
Advances	1 121 227	–	1 121 227
– Gross advances	1 140 482	(420)	1 140 062
– Impairments	(19 255)	420	(18 835)

RECONCILIATION OF NORMALISED TO IFRS CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DIA

R million	Normalised	Treasury shares	IFRS
ASSETS			
Investment securities	211 741	(67)	211 674
Investments in joint ventures	1 680	46	1 726
Other assets	1 314 171	–	1 314 171
Total assets	1 527 592	(21)	1 527 571
EQUITY AND LIABILITIES			
Total liabilities	1 402 282	–	1 402 282
Equity			
Ordinary shares	56	–	56
Share premium	8 056	(62)	7 994
Reserves	107 523	41	107 564
Capital and reserves attributable to ordinary equityholders	115 635	(21)	115 614
Contingent convertible securities and NCNR preference shares	5 769	–	5 769
Capital and reserves attributable to equityholders of the group	121 404	(21)	121 383
Non-controlling interests	3 906	–	3 906
Total equity	125 310	(21)	125 289
Total equity and liabilities	1 527 592	(21)	1 527 571

RECONCILIATION OF NORMALISED TO IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT DIA

	Ordinary share capital and ordinary equityholders' funds				
R million	Share capital and share premium	Other reserves	Retained earnings	NCNR preference shares and contingent convertible securities and non-controlling interest	Total equity
Normalised balance as at 1 July 2018	8 112	3 791	103 732	9 675	125 310
Normalised adjustments	(62)	(649)	690	–	(21)
IFRS balance as at 1 July 2018	8 050	3 142	104 422	9 675	125 289

SUMMARY ACCOUNTING POLICIES

The following is summary of accounting policy changes resulting from the implementation of IFRS 9.

FINANCIAL INSTRUMENTS

CLASSIFICATION AND MEASUREMENT	
Initial measurement	All financial instruments are initially measured at fair value, including transaction costs, except for those classified as FVTPL where the transaction costs are expensed on the transaction date. Immediately after initial recognition, an ECL allowance is recognised for newly originated financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income.
Subsequent measurement of financial assets	Management determines the classification of its financial assets at initial recognition based on: > the group's business model for managing the financial assets; and > the contractual cash flow characteristics of the financial asset.
Subsequent measurement of financial liabilities	Financial liabilities are subsequently measured at amortised cost, unless they meet the definition of mandatory FVTPL or are specifically designated at FVTPL.
Business model	The group distinguishes three main business models for managing financial assets: > holding financial assets to collect contractual cash flows; > managing financial assets on a fair value basis or selling financial assets; and > a mixed business model of collecting contractual cash flows and selling financial assets. The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done at a business level for each legal reporting entity, although businesses could perform the assessment on a portfolio or subportfolio level, depending on the manner in which groups of financial assets are managed. The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities. One of the factors considered, when determining whether the business objective is achieved primarily through collecting contractual cash flows, is the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the group only considers a transaction a sale if the asset is derecognised for accounting purposes. If sales of financial assets are not infrequent, the significance of these sales is determined by comparing the amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows. A change in one or more business models of the group only occurs on the rare occasion when the group genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.
Cash flow characteristics	In order for a debt instrument to be measured at amortised cost or FVOCI, the cash flows on the asset have to be SPPI, consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any pre-payment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation, which would not cause these assets to fail the SPPI test. For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at FVTPL include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains pre-payment penalties, the amount of the pre-payment penalty is compared to the present value of the margin that would be earned if the loan was not prepaid. If the amount of the pre-payment penalty is lower than or equal to the margin lost due to pre-payment, this is considered reasonable compensation and the loan passes the SPPI test.

IMPAIRMENT OF FINANCIAL ASSETS	
This policy applies to: > financial assets measured at amortised cost, including financial accounts receivable and cash; > debt instruments measured at FVOCI; > loan commitments; > financial guarantees; and > finance lease debtors where the group is the lessor. IFRS 9 establishes a three-stage approach to the impairment of financial assets:	
Stage 1	At initial recognition, the financial asset is classified as stage 1 and a 12-month ECL is recognised. This is a credit loss related to default events expected to occur within the next 12 months.
Stage 2	If the asset has experienced a SICR since initial recognition but the asset is not credit impaired, it is classified as stage 2, and LECL is recognised.
Stage 3	If the asset has become credit impaired since initial recognition, it is classified as stage 3, with ECL measured and recognised on a lifetime basis.
ECL is calculated by multiplying the EAD of a financial asset by the PD and the LGD of the asset and by discounting this figure to the reporting date using the original effective interest rate. Impairment losses are recognised in profit or loss. The loss allowance on debt instruments measured at FVOCI is recognised in other comprehensive income. In the section below the term financial asset also refers to loan commitments, finance lease debtors where the group is the lessor and financial guarantees, unless stated otherwise.	

DEFINITIONS	
SICR since initial recognition	In order to determine whether an advance has experienced a SICR, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the group had an opportunity to price or reprice the advance based on the outcome of either the original or an up-to-date risk assessment. SICR test thresholds have been determined at a portfolio level and are reassessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products, one instalment past due, is automatically considered to have experienced a SICR. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watchlist. Any up-to-date facility that has undergone a distressed restructure (such as a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a SICR. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a SICR are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a SICR has occurred. When it no longer meets SICR requirements it cures back from stage 2 to stage 1, with the exception of distressed restructured exposures, which are required to remain in stage 2 for a defined minimum period before re-entering stage 1.
Low credit risk	Financial assets with low credit risk are assumed to not have experienced a SICR since initial recognition. The group does not use the low credit risk assumption.

DEFINITIONS continued	
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The definition of default applied by the group for calculating provisions under IFRS 9 has been aligned to the definition applied to regulatory capital calculations across all portfolios, to operational management of credit and to internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the group to actions such as the realisation of security. Indicators of the unlikelihood to pay are determined based on the requirements of Regulation 67 of the Banks Act. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events. Accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on an analysis of redefault rates.
Write-offs	Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised). > By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account. > Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post-write-off recoveries. > Within wholesale portfolios, a judgemental approach to write-off is followed, based on case-by-case assessment by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.
Modifications and derecognition	Financial instruments are derecognised when: > the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement; > they are transferred and the derecognition criteria of IFRS 9 are met; or > the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met. Financial assets are derecognised when the group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (such as the pass-through arrangement under IFRS 9). If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the group determines whether this is a substantial modification, which results in the derecognition of the existing asset and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition. A modification of a financial asset is substantial, and thus results in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised. Derecognition of financial liabilities includes when there is a substantial modification of the terms and conditions of an existing financial liability. A substantial modification of the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

STAGE CLASSIFICATION AND ECL OF OTHER FINANCIAL ASSETS	
Cash and cash equivalents	All physical cash is classified as stage 1. Cash equivalents are classified as stage 1 unless specific evidence of impairment exists, in which case these assets are classified as stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach.
Accounts receivable	ECL for accounts receivable is calculated using the loss rate approach. This results in LECL being recognised.
Investment securities	Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined regarding the issuer of the security and the nature of the debt instrument. The tests for a SICR and default definitions are then applied and the ECL calculated in the same way as for advances. The SICR thresholds applied for investment securities are the same as those applied within the wholesale credit portfolio, to ensure consistency in the way that a SICR is identified for a counterparty and for similar exposures. The group does not use the low credit risk assumption for investment securities, including government bonds.

HEDGE ACCOUNTING

The requirements for general hedge accounting under IFRS 9 do not fundamentally change the requirements of IAS 39. The requirements will be applied by the group prospectively and as such will not have a quantitative impact on the amounts recognised in the annual financial statements upon adoption of IFRS 9.

COMPARISON BETWEEN ACCOUNTING STANDARDS AND THE REGULATORY FRAMEWORK

COMPONENT	IAS 39	IFRS 9	BASEL ACCORD
Measurement objective	Estimation of incurred credit losses	Estimation of ECL, with measurement period dependent on stage classification (12-month for stage 1, lifetime for stage 2)	Estimation of 12-month ECL
Allowance for macro-economic conditions	Point-in-time estimates reflective of current macroeconomic conditions	Estimates incorporating forward-looking macroeconomic expectations	PD estimates reflective of through-the-cycle expectations, LGD and EAD estimates reflective of downturn expectations
Default definition	Aligned to regulatory capital definition	Aligned to regulatory capital definition	Aligned to requirements of Regulation 23 of the Banks Act and SARB Directive 7 of 2015
PD	Estimation based on recent history of movement of accounts from performing to default, with reference to a defined emergence period	Estimated as the expected rate of default over the next 12 months for accounts in stage 1, and over the remaining lifetime for accounts in stage 2	Estimation based on the long-run average 12-month default rate
LGD	Estimation of expected losses on EAD, based on historically observed recoveries on similar exposures. Long-run estimates are applied	Estimation of expected losses on EAD, based on historically observed recoveries on similar exposures, adjusted to take forward-looking macroeconomic expectations into account	Estimation of expected losses on EAD, based on historically observed recoveries on similar exposures during a downturn period
EAD	Incurred losses are calculated with reference to the drawn exposure	Estimated exposure at the point of default, taking undrawn commitments into account	Estimated exposure at the point of default, taking undrawn commitments into account

07 definitions, abbreviations and company information

DEFINITIONS

Additional Tier 1 capital (AT1)	Non-cumulative non-redeemable (NCNR) preference share capital plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
Average gross loans to deposits	Opening advances balance (IAS 39) plus closing advances balance (IAS 39/IFRS 9) divided by two, as a ratio of opening deposit balance (IAS 39) plus closing deposit balance (IAS 39/IFRS 9) divided by two.
Average net asset value	Opening net asset value (IAS 39) plus closing net asset value (IAS 39/IFRS 9) divided by two.
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA.
Common Equity Tier 1 (CET1) capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
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).
Impairment charge	Amortised cost impairment charge and credit fair value adjustments.
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 asset value	Capital and reserves attributable to ordinary equityholders.
Net asset value per share	Capital and reserves attributable to ordinary equityholders divided by the number of ordinary shares in issue (after treasury shares).
NPLs	Refer to stage 3/NPLs.
Performing book coverage ratio	Stages 1 and 2 as % of the performing book.
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.
Specific coverage ratio	Specific/stage 3 provisions as % of stage 3/NPLs.
Stage 3/NPLs	Under IAS 39, loans that were defined as not performing were classified as NPLs. Under IFRS 9 these loans are classified as being in stage 3. The terms NPLs and stage 3 are both used and refer to loans that are credit impaired.
Tangible net asset value	Capital and reserves attributable to ordinary equityholders less intangible assets.
Tangible net assets per share	The tangible net asset value divided by the number of ordinary shares in issue (after treasury shares).
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	CET1 capital plus AT1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less specified regulatory deductions.
Total coverage ratio	Total impairments as % of Stage 3/NPLs.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.

ABBREVIATIONS

ALCCO	Asset, liability and capital management committee
AT1	Additional Tier 1 capital
BCBS	Basel Committee for Banking Supervision
C&TB	RMB Corporate and transactional banking
CAGR	Compound annual growth rate
CAR	Capital adequacy ratio
CB	RMB corporate banking
CET1	Common Equity Tier 1 capital
CIB	RMB corporate and investment banking
DIA	Date of initial application
DM	Developed markets
EAD	Exposure at default
ECL	Expected credit loss
EPS	Earnings per share
FLI	Forward-looking financial information
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GTSY	Group treasury
HQLA	High quality liquid assets
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IB	RMB investment banking
ICAAP	Internal capital adequacy assessment process
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standard
ISAs	International Standards on Auditing
ISP	Interest in suspense
LECL	Lifetime expected credit losses
LGD	Loss given default
MTM	Mark-to-market
NCNR	Non-cumulative non-redeemable
NPLs	Non-performing loans
PA	Prudential authority
PD	Probability of default
PSI	Portfolio specific impairments
RCCC	FirstRand risk, capital and compliance committee
RFS	Required stable funding
RMBCB	RMB corporate bank
RMBIB	RMB investment bank
ROE	Return on equity
ROE	Return on equity
RWA	Risk weighted assets
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SARS	The South African Revenue Service
SICR	Significant increase in credit risk
SOE	State-owned enterprises
SPPI	Solely to payments of principal and interest
VAF	Vehicle asset finance

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