FirstRand

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ANNUAL
FINANCIAL
STATEMENTS

owner-manager philosophy : innovation : entrepreneurship : franchise value

contents

FirstRand

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

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

A

summary risk and capital management report

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

Risk reporting

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

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

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

Risk governance

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

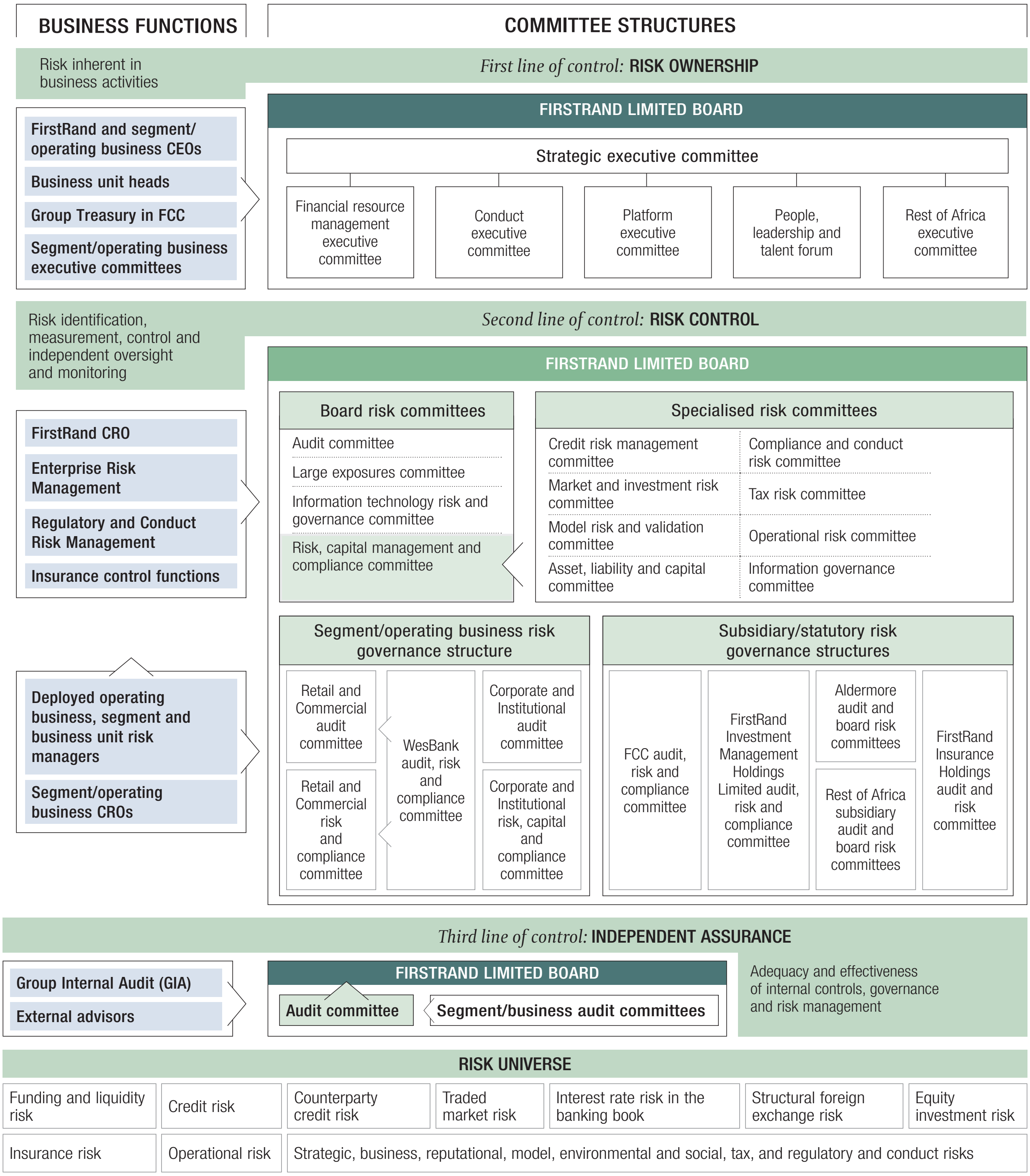
The group's business performance and risk management framework (BPRMF) describes the group's risk management structure and approach to risk management. Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation.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

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

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

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

BUSINESS PERFORMANCE AND RISK MANAGEMENT FRAMEWORK

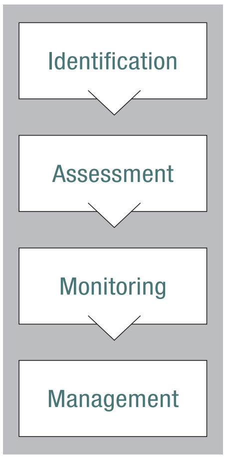


Risk management approach

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

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

CORE RISK COMPETENCIES



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

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

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

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

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

Risk appetite

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

RETURN AND RISK APPETITE STATEMENT

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

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

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

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

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

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

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

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

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

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

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

RISK/RETURN FRAMEWORK

QUANTITATIVE MEASURES

Normal cycle

Performance targets		Resource objectives and constraints		
Returns	ROE **18% – 22%**	Solvency	CET1 capital **10% – 11%**	Leverage **>5.5%**
Earnings growth	Normalised earnings growth **Nominal GDP plus >0% – 3%**	Liquidity	To exceed minimum regulatory requirements with appropriate buffers	

Credit rating*:
Equal to highest in SA banking industry

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

Normal downturn and stressed downturn

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

RISK LIMITS

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

QUALITATIVE PRINCIPLES

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

Financial resource management

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

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

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

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

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

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

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

Business activities and resultant risks

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

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

* *Value-added products and services.*

** *Mobile virtual network operator.*

\# *For risk definitions refer to pages A13 to A15.*

Risk profile

The following table provides a high-level overview of the group's risk profile in relation to its quantitative return and risk appetite measures.

	YEAR ENDED 30 JUNE 2019	RETURN AND RISK APPETITE – QUANTITATIVE MEASURES	YEAR UNDER REVIEW
GROWTH AND RETURNS	**Normalised ROE** **22.8%** 2018: 23.0%	**Normalised ROE** Long-term target **18% – 22%**	The quality of FirstRand's operating businesses' growth strategies and the disciplined allocation of financial resources have over time enabled the group to deliver on its earnings growth and return targets. The *CFO's report* in the FirstRand annual integrated report provides an overview of the group's financial position and performance for the year ended 30 June 2019.
	Normalised earnings growth **6%** 2018: 8%	**Normalised earnings growth** Long-term target **Nominal GDP plus >0% – 3%**	
SOLVENCY	**Capital adequacy** **15.2%** 2018: 14.7%	**Capital adequacy** Target **>14%**	The Common Equity Tier 1 (CET1) ratio strengthened to 12.1% at 30 June 2019 and exceeded the group's internal target. The group continues to actively manage its capital stack, and to this end issued R5 billion of Additional Tier 1 (AT1) instruments and R2.6 billion of Tier 2 instruments in the domestic market. This resulted in an efficient capital structure, which is closely aligned with the group's internal targets. The Basel III leverage ratio is a supplementary measure to the risk-based capital ratios, and is a function of the Tier 1 capital measure, and total on- and off-balance sheet exposures. The group's leverage ratio exceeded its internal targets.
	Tier 1 **12.9%** 2018: 12.1%	**Tier 1** Target **>12%**	
	CET1 **12.1%** 2018: 11.5%	**CET1** Target **10% – 11%**	
	Leverage **7.5%** 2018: 7.1%	**Leverage** Target **>5.5%**	

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

LIQUIDITY	**LCR** **122%** 2018: 115%	**LCR** Minimum regulatory requirement: **100%** 2018: 90%	FirstRand continued to actively manage liquidity buffers through high-quality, highly liquid assets that are available as protection against unexpected liquidity stress events or market disruptions. As of 1 January 2019, the liquidity coverage ratio (LCR) requirement stepped up to the end-state minimum requirement of 100% from 90%. The group exceeded the minimum LCR with an average LCR of 122% over the quarter ended 30 June 2019. At 30 June 2019, the group's average available high-quality liquid assets (HQLA) holdings amounted to R249 billion.
	NSFR **118%** 2018: 112%	**NSFR** Minimum regulatory requirement: **100%**	The group exceeded the 100% minimum requirement with a net stable funding ratio (NSFR) of 118% at 30 June 2019.

EXPOSURES PER RISK TYPE

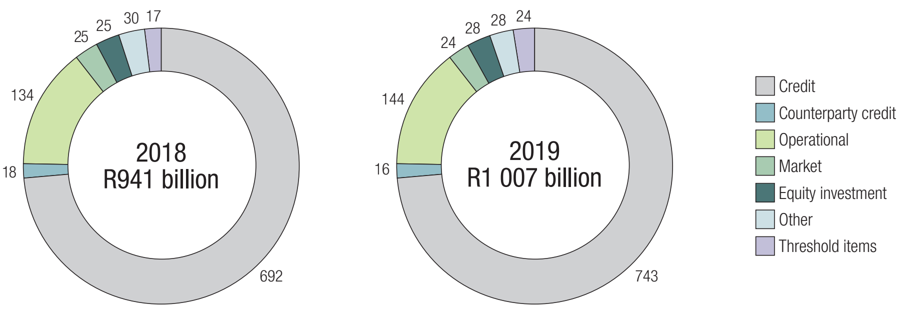
YEAR ENDED 30 JUNE 2019	RETURN AND RISK APPETITE – QUANTITATIVE MEASURES	YEAR UNDER REVIEW
Credit risk	**NPLs** **3.33%** 2018 (IAS 39): 2.36% 1 July 2018 (IFRS 9): 2.93% **Credit loss ratio** **88 bps** (including Aldermore) 2018: 84 bps* **99 bps** (excluding Aldermore) 2018: 90 bps* Long-run average **100 – 110 bps**	IFRS 9 contributed a material increase in NPLs mainly due to: → the lengthening of the write-off period from six to 12 months, particularly in unsecured; and → a more stringent definition for customer rehabilitation (technical cures). These IFRS 9-related changes, particularly the lengthening of the write-off period, accounted for more than half of the growth in NPLs. The underlying credit performance is captured under the operational NPLs definition. Taking into account the above context, total NPLs have increased 23% or R7 835 million since 1 July 2018, with operational NPLs increasing 14%. The increase in operational NPLs reflects strong book growth in certain unsecured portfolios, as well as macro pressures in some sectors affecting WesBank corporate, and drought-related impacts in FNB commercial's agric portfolio. This increase is within expectations and trend rate, given growth in underlying advances. The group's credit loss ratio of 99 bps (88 bps including Aldermore) increased 18% (excluding Aldermore) and remains below the group's through-the-cycle (TTC) range of 100 – 110 bps. Most of the group's lending books are trending in line with expectations.
Market risk	**10-day expected tail loss** **R631 million** 2018: R464 million	The interest rate asset class represented the most significant traded market risk exposure at 30 June 2019. The group's market risk profile remained within risk appetite.
Equity investment risk	**Equity investment carrying value as % of Tier 1** **9.6%** 2018: 11.7%	The 2019 financial year was characterised by significantly lower realisations relative to the prior year and R1.2 billion of new investments in the private equity portfolio. The quality of the investment portfolio remains acceptable and within risk appetite. The decrease in equity investment carrying value as a percentage of Tier 1 is due to a higher Tier 1 balance at 30 June 2019. The unrealised value in the portfolio was R3.5 billion (2018: R3.7 billion).
Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R4.4 billion** 2018: -R3.4 billion **Up 200 bps** **R3.5 billion** 2018: R3.1 billion	Assuming no change in the balance sheet nor any management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month net interest income (NII) of R4.4 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R3.5 billion. The group's average endowment book was R240 billion (excluding Aldermore) for the year.

* *IAS 39 basis.*

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

RWA ANALYSIS

R billion



Note: 2018 restated to include RWA relating to Aldermore under each risk type.

Current and emerging challenges and opportunities

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

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

POLITICAL AND MACROECONOMIC ENVIRONMENT

Political and social risk in South Africa is increasing, exacerbated by scarcity of skill, youth unemployment, lack of new economic activity and challenges in the delivery of electricity, water and sanitation.

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

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

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

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

FINANCIAL RISKS

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

NON-FINANCIAL RISKS

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

Disclosure of key risks

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

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

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

FINANCIAL AND INSURANCE RISKS

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

FINANCIAL AND INSURANCE RISKS continued

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

NON-FINANCIAL RISKS

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

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

B

five-year review and corporate governance

B

five-year review and corporate governance

FIVE-YEAR REVIEW

R million	2015*	2016*	2017	2018	**2019**	Compound growth %
Statement of financial position						
Total assets	1 059 266	1 149 277	1 217 707	1 532 289	**1 669 062**	12
Average assets	1 002 401	1 104 272	1 183 492	1 374 998	**1 600 676**	12
Advances	779 171	851 405	893 106	1 121 227	**1 205 752**	12
Average advances	732 549	815 288	872 256	1 007 167	**1 163 490**	12
Impairment and fair value of credit of advances	14 373	16 157	16 540	18 835	**34 162**	24
NPLs	17 501	21 282	21 905	26 947	**41 349**	24
Gross advances before impairments	793 544	867 562	909 646	1 140 062	**1 239 914**	12
Deposits	865 616	920 074	983 529	1 267 448	**1 393 104**	13
Capital and reserves attributable to equityholders of the group	95 297	104 264	113 403	126 794	**140 407**	10
Treasury shares	-	43	32	15	**(29)**	-
Ordinary dividends	10 724	12 608	13 294	14 921	**15 931**	10
Total equity before dividends and treasury shares	106 021	116 915	126 729	141 730	**156 309**	10
Total ordinary equity	90 778	99 745	108 884	121 025	**129 673**	9
Assets under administration	1 308 630	1 428 356	1 518 934	1 867 270	**2 001 400**	11
Income statement						
Net interest income before impairment of advances	35 621	42 041	44 917	49 098	**60 457**	14
Impairment and fair value of credit of advances	(5 787)	(7 159)	(8 054)	(8 567)	**(10 500)**	16
Non-interest revenue	38 058	36 934	40 922	44 193	**46 048**	5
Share of profit of associates and joint ventures after tax	1 539	1 456	1 038	909	**1 230**	(5)
Operating expenses	(38 692)	(41 657)	(44 585)	(48 462)	**(54 283)**	9
Earnings attributable to ordinary equityholders	21 623	22 563	24 572	26 546	**30 211**	9
Headline earnings	21 141	22 387	23 762	26 509	**27 887**	7
Earnings per share (cents)						
- Basic	390.1	402.4	438.2	473.3	**538.6**	8
- Diluted	390.1	402.4	438.2	473.3	**538.6**	8
Headline earnings per share (cents)						
- Basic	381.4	399.2	423.7	472.7	**497.2**	7
- Diluted	381.4	399.2	423.7	472.7	**497.2**	7

** Reclassifications of prior year numbers.*

FIVE-YEAR REVIEW continued

R million	2015	2016	2017	2018	**2019**	Compound growth %
Dividend per share (cents)	210.0	226.0	255.0	275.0	**291.0**	8
Dividend cover based on headline earnings	1.8	1.8	1.7	1.7	**1.7**	
NCNR preference dividends per share (cents)						
- February	348.5	366.5	395.6	386.2	**381.7**	2
- August	363.9	394.7	393.6	378.3	**384.2**	1
Net asset value per ordinary share (cents)	1 619.2	1 778.5	1 941.2	2 157.9	**2 311.9**	9
Shares in issue (millions)	5 609.5	5 609.5	5 609.5	5 609.5	**5 609.5**	-
Weighted average number of shares in issue (millions)	5 543.6	5 607.7	5 608.0	5 608.1	**5 609.0**	-
Diluted weighted average number of shares in issue (millions)	5 543.6	5 607.7	5 608.0	5 608.1	**5 609.0**	-

FIVE-YEAR REVIEW continued

R million	2015#	2016#	2017	2018	**2019**	Compound growth %
Key ratios						
Return on ordinary equity based on headline earnings (%)	24.7	23.5	22.8	23.1	**22.2**	
Price earnings ratio based on headline earnings (times)	14.0	11.2	11.1	13.5	**13.8**	
Price-to-book ratio (times)	3.3	2.5	2.4	3.0	**3.0**	
Market capitalisation	299 098	251 529	264 487	358 390	**384 530**	6
Closing share price (cents)	5 332	4 484	4 715	6 389	**6 855**	6
Cost-to-income ratio (%)	51.4	51.8	51.3	51.4	**50.4**	
Credit loss ratio (%)	0.71	0.86	0.91	0.84	**0.88**	
NPLs as a % of gross advances (%)	2.21	2.45	2.41	2.36	**3.33**	
Non-interest income as a % of total income (%)	52.6	47.7	48.3	47.9	**43.9**	
Return on average total assets based headline earnings (%)	2.1	2.0	2.0	1.9	**1.7**	
Interest margin on average advances (%)	5.0	5.2	5.1	4.9	**5.2**	
Exchange rates						
Rand/USD						
- Closing	12.14	14.66	13.10	13.80	**14.13**	
- Average	11.45	14.51	13.58	12.82	**14.17**	
Rand/GBP						
- Closing	19.12	19.67	17.00	18.18	**17.98**	
- Average	18.02	21.47	17.21	17.27	**18.33**	
Statement of financial position (USD)*						
Total assets	87 254	78 395	92 955	111 035	**118 122**	8
Advances	64 182	58 077	68 176	81 248	**85 333**	7
Deposits	71 295	62 761	75 079	91 844	**98 592**	8
Total equity	7 850	7 112	8 657	9 188	**9 937**	6
Assets under administration	107 589	97 432	115 949	135 309	**141 642**	7
Income statement (USD)**						
Earnings attributable to ordinary equityholders	1 888	1 555	1 809	2 071	**2 132**	3
Headline earnings	1 846	1 543	1 750	2 068	**1 968**	2
Statement of financial position (GBP)*						
Total assets	55 401	58 428	71 630	84 284	**92 829**	14
Advances	40 752	43 284	52 536	61 674	**67 061**	13
Deposits	45 268	46 775	57 855	69 717	**77 481**	14
Total equity	4 984	5 301	6 671	6 974	**7 809**	12
Assets under administration	68 443	72 616	89 349	102 710	**111 313**	13
Income statement (GBP)**						
Earnings attributable to ordinary equityholders	1 200	1 051	1 428	1 537	**1 648**	8
Headline earnings	1 173	1 043	1 381	1 535	**1 521**	7

** The statement of financial position is converted using the closing rates as disclosed.*
***The income statement is converted using the average rate as disclosed.*
 # Reclassification of prior year numbers.

CORPORATE GOVERNANCE

ECONOMIC IMPACT

	2019		2018	
	R million	**%**	R million	%
Value added				
Net interest income after impairment	**109 768**	**70.4**	82 110	65.2
Non-operating revenue	**47 460**	**30.4**	45 215	35.9
Non-operating expenses	**(1 277)**	**(0.8)**	(1 355)	(1.1)
Value added by operations	**155 951**	**100.0**	125 970	100.0
To employees				
Salaries, wages and other benefits	**32 337**	**20.7**	28 679	22.8
To providers of funding	**76 409**	**49.0**	56 966	45.2
Dividends to shareholders	**16 598**		15 387	
Interest paid	**59 811**		41 579	
To suppliers	**17 802**	**11.4**	16 246	12.9
To government	**11 941**	**7.7**	9 440	7.5
Normal tax	**10 584**		8 342	
Value added tax	**1 270**		1 062	
Capital gains tax	**77**		7	
Other	**10**		29	
To communities				
CSI spend	**250**	**0.2**	235	0.2
To expansion and growth	**17 212**	**11.0**	14 404	11.4
Retained income	**14 280**		11 625	
Depreciation and amortisation	**3 681**		3 192	
Deferred income tax	**(749)**		(413)	
Total value added	**155 951**	**100.0**	125 970	100.0

BOARD SKILLS AND EXPERIENCE

As at 30 June 2019, FirstRand had a unitary board of 18 members, 3 are executive directors, 15 of the directors are non-executive, 11 of whom are independent. It was noted that the appointment of Leon Von Zeuner as independent non-executive director was effective 1 February 2019.

INDEPENDENT NON-EXECUTIVE CHAIRMAN

William Rodger (Roger) Jardine (53)

BSc, MSc
Appointed July 2010

Roger Jardine is the Chairman of FirstRand Limited. Prior to becoming the Chairman on 1 April 2018, he served on the FirstRand Board as a non-executive director for 8 years. He was a member of the Risk, Capital and Compliance Committee, the Large Exposures Committee and Chaired the Nominations Committee and Directors Affairs and Governance Committee.

Jardine is a past CEO of 3 South African companys: Kagiso Media, the Aveng Group, and Primedia. He has been a director of several companies in diverse industries including steel, retail, manufacturing, IT services, mining services, and infrastructure development.

Before embarking on his career in the private sector almost 20 years ago, Jardine worked in the arena of science and technology policy. In 1992, he became the National Co-ordinator of Science and Technology policy for the African National Congress (ANC). In 1995, Jardine was appointed Director-General of the Department of Arts, Culture, Science and Technology. He also served as Chairman of the Council for Scientific and Industrial Research (CSIR) and the Chairman of the Nuclear Energy Corporation of South Africa (NECSA).

Jardine studied physics and obtained a Bachelor of Science (BSc) degree from Haverford College in 1989 in Pennsylvania (USA), and a Master of Science (MSc) in Radiological Physics from Wayne State University in 1991 in Michigan (USA).

FirstRand – *committee memberships*

- Directors' affairs and governance
- Remuneration
- Retail and Commercial* (formerly FNB Advisory Board)
- Corporate and Institutional* (formerly RMB Advisory Board)

**Advisory board*

Other listed directorships

None

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE OFFICER

Alan Patrick Pullinger (53)
MCom, CA(SA), CFA
Appointed October 2015

Alan graduated from the University of the Witwatersrand in 1991 and qualified as a chartered accountant after serving articles at Deloitte & Touche. He spent five years with Deloitte & Touche and was appointed to the partnership in 1996.

He joined Rand Merchant Bank in 1998 (prior to the creation of FirstRand Limited) and was appointed as CEO in 2008 until his promotion to deputy CEO of FirstRand on 1 October 2015. Alan has since been appointed as CEO with effect from 1 April 2018.

FirstRand – *committee memberships*

- Audit – *ex officio*
- Information, Technology and risk governance
- Large exposures
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- Retail and Commercial* - chair (formerly FNB Advisory Board)
- Corporate and Institutional* - chair (formerly RMB Advisory Board)
- WesBank - chair*

**Advisory Board*

Other listed directorships
Aldemore Group PLC (UK)

FINANCIAL DIRECTOR

Hetash Surendrakumar (Harry) Kellan (47)

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

Harry started his career with the FirstRand group in 2005 at FNB as group financial manager. He was appointed CFO of FNB in 2007, a position he held until his appointment to FirstRand as financial director in January 2014.

Prior to joining FirstRand, Harry completed his articles with Arthur Andersen and qualified as a chartered accountant in 1998 after graduating from the University of the Witwatersrand in 1994. After completing his articles, he specialised in financial services at Arthur Andersen from June 1998 to August 2000, including a year at the London office. He then joined HSBC South Africa in September 2000 where he held the position of associate director in corporate finance.

FirstRand – *committee memberships*

- Audit – *ex officio*
- Large exposures
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- Retail and Commercial* (formerly FNB Advisory Board)
- WesBank*

**Advisory board*

Other listed directorships

Aldermore Group PLC (UK)

CHIEF OPERATING OFFICER

Mary Vilakazi (42)
BCom (Hons), CA(SA)
Appointed July 2018

Mary graduated from the University of the Witwatersrand in 1999 and qualified as a chartered accountant (2002) after serving articles at PricewaterhouseCoopers Inc. from 2000. Mary was admitted as a partner in 2005 in the Financial Services audit practice, specialising in Insurance and Investment management companies. After leaving the auditing profession in 2008, Mary took up the position of CFO of the MS Group. She became a non-executive director of Metropolitan Holdings Board from 2009 before the merger with Momentum and thereafter a non-executive director of MMI Holdings board in 2010. She administered her own accounting, tax and advisory business from 2011 to 2014 and served on the boards of several entities, including MS Group subsidiaries, Kagiso Media Limited, Holdsport Limited and Development Bank of South Africa (DBSA) as well as MMI Holdings Limited.

Mary joined MMI Holdings in May 2014 as CEO of Balance Sheet Management and became the group finance director in July 2015. She was then appointed as the deputy chief executive officer in June 2017 where she was responsible for Metropolitan and Momentum retail businesses. In 2016, Mary was nominated at the World Economic Forum as a “Young Global Leader”.

FirstRand – *committee memberships*
- Audit – *ex officio*
- Information, Technology and risk governance– *ex officio*
- Large exposures
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Social, ethics and transformation – *ex officio*
- Retail and Commercial* (formerly FNB Advisory Board)
- Corporate and Institutional* (formerly RMB Advisory Board)
- WesBank*

*Advisory *board*

Other listed directorships
None

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mary Sina Bomela (46)

BCom (Hons), CA(SA), MBA
Appointed September 2011

Mary was appointed to the position of CEO of the Mineworkers Investment Company Proprietary Limited (MIC) in July 2010 and was appointed to the board in September 2011.

Prior to joining the MIC, Mary was the CFO of Freight Dynamics and an executive in the corporate services division of the South African Institute of Chartered Accountants. She has held executive positions in the resources, media, utilities and financial services sector.

FirstRand – *committee memberships*

- Directors' affairs and governance
- Risk, capital management and compliance

Other listed directorships

Ascendis Health Limited and Metrofile Holdings Limited and Kumba Iron Ore Limited

Grant Glenn Gelink (69)

BCom (Hons), BCompt (Hons), CA(SA)
Appointed January 2013

Grant has had extensive work experience within Deloitte South Africa, which includes the following positions spanning over 26 years – CEO (2006 to 2012), CEO: human capital corporation (2004 to 2006), managing partner: consulting and advisory services (2001 to 2006) and partner in charge Pretoria office (1997 to 1999).

FirstRand – *committee memberships*

- Audit – chair
- Remuneration – chair
- Directors' affairs and governance
- Information Technology and risk governance
- Risk capital management and compliance
- Retail and Commercial* (formerly FNB Advisory Board)
- WesBank*

**Advisory board*

Other listed directorships

Allied Electronics Corporation Limited (ALTRON), Grindrod Limited

Nolulamo Nobambiswano (Lulu) Gwagwa (60)

BA, MTRP, MSc, PhD
Appointed February 2004

After studying abroad, Lulu took up a position in 1992 as a senior lecturer at the University of Natal's Department of Town and Regional Planning. From 1995 to 1998 she became the deputy director general in the national Department of Public Works. During this period, she also served as the presidential appointee on the Commission on Provincial Government and as deputy chair of the Ministerial Advisory Committee on Local Government Transformation. From 1998 until 2003 she was the CEO of the Independent Development Trust. She is currently the CEO of Lereko Investments, a black-owned investment company and the chairperson of Aurecon Africa.

FirstRand – *committee memberships*

- Directors' affairs and governance
- Social, ethics and transformation – chair

Other listed directorships

Massmart Holdings Limited, Sun International Limited

Russell Mark Loubser (69)

BCom (Hons), MCom, CA(SA)
Appointed September 2014

Russell was the CEO of the Johannesburg Stock Exchange (JSE) from January 1997 until December 2011. During his tenure, he conceptualised the demutualisation of the JSE, and it was converted into a public company in 2005 and listed in 2006.

Prior to being appointed to the JSE, Russell was executive director of financial markets at Rand Merchant Bank Limited (RMB), which he joined in May 1985. He was part of the small team at RMB that started the stock index derivatives industry in SA in 1987. He was also a member of the King Committee on Corporate Governance for 15 years, a member of the Securities Regulation Panel of SA for 15 years and served on the board of directors of the World Federation of Exchanges (WFE) for approximately 13 years. Russell has also served as a council member of the University of Pretoria since 2007.

FirstRand – *committee memberships*

- Audit
- Directors' affairs and governance
- Large exposures – chair
- Remuneration
- Risk, capital management and compliance – chair
- Retail and Commercial* (formerly FNB Advisory Board)
- Corporate and Institutional* (formerly RMB Advisory Board)

**Advisory board*

Other listed directorships

None

Paballo Joel Makosholo (40)
MCom, IEDP, CA(SA)
Appointed October 2015

Paballo qualified as a chartered accountant after serving articles at KPMG. He spent time in the audit and corporate finance division, and thereafter one year with Rothschild Investment Bank as an executive.

He joined Kagiso Trust in 2006 and was appointed chief financial and investment executive, a position he held for ten years. Paballo was responsible for overseeing all investments of the Trust which included FirstRand and Kagiso Tiso Holdings (KTH). He is currently the Chairman of KTH's Investment Committee and is working as chief operations officer at Kagiso Capital.

FirstRand – *committee memberships*
- Audit
- Directors' affairs and governance
- Social, ethics and transformation
- Retail and Commercial* (formerly FNB Advisory Board)
- WesBank*

  * Advisory board

Other listed directorships
None

Thandie Sylvia Mashego (41)
BCom (Hons), CA(SA), MBL
Appointed January 2017

Thandie has over 16 years of experience in corporate finance and investment management, risk management and financial management. She currently serves as the CFO of WDB Investment Holdings, responsible for the overall financial and risk management of the group. She is also involved in transaction execution and investment monitoring. Prior to joining WDB Investment Holdings, Thandie spent two years as group CFO of Vantage Capital Group, a private equity fund manager. She also spent 11 years at the Industrial Development Corporation (IDC) in various roles, where she led a number of project and corporate finance transactions. In her last five years at the IDC, Thandie was responsible for the management of IDC's private equity and loan investment portfolio in several sectors.
She qualified as a chartered accountant in 2003 after completing articles at KPMG and Transnet Group Limited.

FirstRand – *committee memberships*
- Directors' affairs and governance
- Large exposures
- Retail and Commercial* (formerly FNB Advisory Board)

  ** Advisory board*

Other listed directorships
None

Ethel Gothatamodimo Matenge-Sebesho (64)

MBA, CAIB
Appointed July 2010

Ethel previously worked for Home Finance Guarantors Africa Reinsurance

(HFGA Re), whose main objective is to facilitate access to housing finance in the low to medium income market in Africa. Her main role was to drive the establishment of new markets for the company in a number of African countries.

Prior to joining HFGA Re, Ethel was head of Housing Institutions at National Housing Finance Corporation, where she was part of a team that introduced social housing in South Africa. She has previously worked for Standard Chartered Bank in Botswana, at which time she obtained the Institute of Bankers' qualification and MBA from Brunel University of London.

Ethel has served on various bodies, among them, Air Botswana (vice chairman), Oikocredit (an international development financial institution based in the Netherlands), Botswana Investment and Trade Centre (vice chairman) and Momentum Investments.

FirstRand – *committee memberships*

- Audit
- Directors' affairs and governance
- Retail and Commercial* (formerly FNB Advisory Board)

**Advisoryl board*

Other listed directorships

Distell Group Holdings Limited

Amanda Tandiwe (Tandi) Nzimande (49)

CTA, CA(SA), HDip Co Law
Appointed February 2008

Tandi, a chartered accountant, has had a varied career since qualifying at KPMG in 1996. She worked as a corporate finance advisor at Deutsche Bank for five years, following which she acquired and ran a small business in the postal and courier industry for four years. During that period, she also consulted to WDB Investment Holdings, which she eventually joined as its chief financial officer, a position she vacated in May 2016. Her past board memberships include OUTsurance, Rennies Travel and Masana Fuel Solutions. Tandi has recently launched her own business focused on executive coaching.

Tandi is a fellow of the Africa Leadership Initiative. She is also a member of the South African Institute of Chartered Accountants, African Women Chartered Accountants as well as the Association of Black Securities and Investment Professional.

FirstRand – *committee memberships*

- Directors' affairs and governance - chair
- Remuneration
- Social, ethics and transformation

Other listed directorships
None

Louis Leon Von Zeuner (58)

B Econ, Chartered Director (SA)
Appointed February 2019

Louis has spent the greater part of his professional career in the banking industry and has more than 30 years extensive experience in the financial services sector including a diverse portfolio of other business sectors ranging from industrial, telecommunications, agriculture, sport and non-profit organisations. His exposure to banking and insurance keeps him close to the fast changing regulatory landscape with a key focus on governance matters aside from strategy, profitability, sustainability and risk management.

His involvement in the turnaround of Telkom and the events of African Bank during and after his curatorship has provided him with the opportunity to play an instrumental role in management's key decisions.

Leon plays a leadership role in the activities of various organisations and contributes to business development and growth.

FirstRand – *committee memberships*

- Audit
- Directors' affairs and governance
- Large exposures
- Risk, capital management and compliance

Other listed directorships

Tongaat Hulett Limited(with effect from December 2018), Transnet and Telkom SA

Thomas (Tom) Winterboer (63)

Bcom (Hons), CA(SA) AEP
Appointed April 2018

Tom joined Price Waterhouse in 1978 and left the firm after completion of his training contract in 1981 to join an investment bank. He re-joined the firm in 1982 and completed a two-year secondment in PW's London offices from 1986 to 1988 as a senior manager, serving clients in the financial services industry, and a variety of other industries. He was admitted to partnership in 1989. Tom was appointed as the firm's Banking Leader since 1996 and later became financial services leader for PwC Africa where he was a member of the PwC Global Financial Services Leadership team. Tom developed and launched various banking and other financial services thought leadership material since 1996. He led services in assurance and advisory for the big four South African banks, foreign and smaller SA banks and for clients in many other industries.

In August 2014, Tom was appointed as the curator for African Bank. The new African Bank was successfully launched in April 2016, after which he continued his work as curator for Residual Debt Services Limited (previously African Bank Limited) until March 2018.

FirstRand – *committee memberships*

Audit
Directors' affairs and governance
Risk, capital management and compliance

Other listed directorships

None

NON-EXECUTIVE DIRECTORS

Hermanus Lambertus Bosman (50)

BCom, LLB, LLM, CFA
Appointed April 2017

Herman was with RMB for 12 years and headed up its corporate finance practice between 2000 and 2006. After serving as chief executive of Deutsche Bank South Africa from 2006 to 2013, Herman joined RMB Holdings Limited and Rand Merchant Investment Holdings Limited as the chief executive officer on 2 April 2014.

FirstRand – *committee memberships*

- Directors' affairs and governance
- Social, ethics and transformation

Other listed directorships

Discovery Limited, Hastings Group Holdings plc, Rand Merchant Investment Holdings Limited (chief executive) and RMB Holdings Limited (chief executive)

Johan Petrus Burger (60)

BCom (Hons), CA(SA)
Appointed January 2009

Johan joined Rand Merchant Bank in 1986, where he performed a number of roles before being appointed financial director in 1995. Following the formation of FirstRand Limited in 1998, he was appointed financial director of the FirstRand banking group and in 2002 was appointed CFO of the FirstRand group. In addition to his role as group CFO, Johan was appointed as group COO in 2009 and deputy CEO in October 2013. He was appointed as CEO in October 2015. Johan retired as CEO with effect from 31 March 2018. He remained as an executive director until 31 August 2018 and became a non-executive director on 1 September 2018.

Prior to joining FirstRand, Johan completed his articles with Coopers & Lybrand (now PwC) and qualified as a chartered accountant in 1984.Johan graduated from University of Johannesburg (formerly RAU) with a BCom (Hons) (Accounting) in 1983.

FirstRand – *committee memberships*

- Audit
- Directors' affairs and governance
- Large exposures
- Remuneration
- Risk, capital management and compliance
- Retail and Commercial* (formerly FNB Advisory Board)
- Corporate and Institutional* (formerly RMB Advisory Board)
- WesBank*

**Advisory board*

Other listed directorships

Rand Merchant Investment Holdings Limited, RMB Holdings Limited

Jan Jonathan (Jannie) Durand (52)

BAcc (Hons), MPhil, CA(SA)
Appointed October 2012

Jannie studied at the University of Stellenbosch and after obtaining his BAcc degree in 1989 and BAcc (Hons) degree in 1990, he obtained his MPhil (Management Studies) degree from Oxford in 1992. He qualified as a chartered accountant in 1995.
He joined the Rembrandt Group in 1996. He became financial director of VenFin Limited in 2000 and CEO in May 2006. Jannie was appointed as chief investment officer of Remgro Limited in November 2009 and CEO from 7 May 2012.

FirstRand – *committee memberships*

- Directors' affairs and governance

Other listed directorships

Distell Group Holdings Limited, Mediclinic International PLC, RCL Foods Limited, Rand Merchant Investment Holdings Limited, RMB Holdings Limited (Chairman), and Remgro Limited

Francois (Faffa) Knoetze (56)

BCom (Hons), FASSA, FIA
Appointed April 2016

Faffa graduated from the University of Stellenbosch in 1984 and became a fellow of the Actuarial Society of South Africa and the Institute of Actuaries in 1992.

After starting his actuarial career at Sanlam as a marketing actuary in the life business, he spent most of his working career at Alexander Forbes, where he was the valuator and consulting actuary to a number of pension and provident funds.

He joined Remgro in December 2013 and focuses on the company's interests in the financial services (insurance and banking) and sport industries.

FirstRand – *committee memberships*

- Directors' affairs and governance
- Risk, capital management and compliance
- Social, ethics and transformation
- Retail and Commercial* (formerly FNB Advisory Board)
- Corporate and Institutional* (formerly RMB Advisory Board)
- WesBank*

** Advisory board*

Other listed directorships

Rand Merchant Investment Holdings Limited (alternate) and RMB Holdings Limited (alternate)

C

firstrand group audited consolidated annual financial statements

firstrand group audited consolidated annual financial statements

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AUDIT COMMITTEE REPORT

The fundamental role of an audit committee is to assist the board in fulfilling its oversight responsibilities in areas such as financial reporting, internal control systems and internal and external audit functions. The committee works closely with the group's risk, capital management and compliance committee, the social, ethics and transformation committee and the information and technology risk and governance committee to identify common risk and control themes, and achieve synergy between combined assurance processes, thereby ensuring that, where appropriate, these functions can leverage off one another.

The committee is constituted as a statutory committee of FirstRand in respect of its duties in terms of section 94 (7) of the Companies Act; 71 of 2008; section 64 of the Banks Act of 1990 and as a committee of the FirstRand board concerning all other duties assigned to it by the board. The objectives and functions of the committee are set out in its charter, which was reviewed and updated during the year.

SUMMARY OF RESPONSIBILITIES

- reviews the quality, independence and cost-effectiveness of the statutory audit and non-audit engagements;
- reviews the appointment of the external auditors for recommendation to the board;
- oversees internal and external audits, including review and approval of internal and external audit plans, review of significant audit findings and monitors progress reports on corrective actions required to rectify reported internal control shortcomings;
- assists the board in evaluating the adequacy and effectiveness of FirstRand's system of internal control (including internal financial controls), accounting practices, information systems and auditing processes;
- ensures that a combined assurance model is applied to provide a coordinated approach to assurance activities;
- oversees financial risks, the Banks Act regulatory audit process and internal financial controls, including integrity, accuracy and completeness of the annual financial statements and annual integrated report (both financial and non-financial reporting);
- receives reports on fraud and IT risks as these relate to financial reporting;
- satisfies itself with the expertise, resources and experience of the group financial director and finance function; and
- provides independent oversight of the integrity of the annual integrated report and associated external reports and recommends them to the board for approval.

The effectiveness of the committee and its individual members is assessed annually by the board.

The committee is satisfied that it has executed its duties during the past financial year in accordance with these terms of reference, relevant legislation, regulations and governance practices.

Feedback was obtained from management, external audit and internal audit in making all assessments.

COMPOSITION		MEETING	NOVEMBER TRILATERAL
GG Gelink (chairman)	Independent non-executive director	4/4	1/1
JP Burger (with effect 1 February 2019)	Non-executive director	2/2	0/0
RM Loubser	Independent non-executive director	4/4	1/1
EG Matenge-Sebesho	Independent non-executive director	4/4	1/1
PJ Makosholo	Independent non-executive director	4/4	1/1
LL von Zeuner (with effect 1 May 2019)	Independent non-executive director	1/1	0/0
T Winterboer (appointed with effect 1 June 2018)	Independent non-executive director	4/4	1/1

ATTENDEES

CEO
COO
Financial director
Chief risk officer
Chief audit executive
Chairmen of the subcommittees
External auditors and other assurance providers
Heads of finance, risk and compliance

The composition of the committee is designed to include members with practical banking expertise in accordance with the Banks Act.

In addition to the audit committee, divisional audit committees have been established. The divisional audit committees are chaired by competent independent non-executives who participate in the audit committee.

The external auditors and chief audit executive meet independently with the non-executive members as and when required.

The committee is satisfied that the individual members of the committee possess the appropriate qualifications and balance of skills and experience to discharge their responsibilities.

AREAS OF FOCUS

During the year, the committee:

- reviewed the reports on internal financial controls and going concern aspect of FirstRand, in terms of Regulation 40 (4) of the Banks Act regulations;
- considered feedback from the external auditors on the PA bilateral meeting;
- conducted quarterly financial trends analysis of the group's year-to-date performance;
- considered industry trend updates from the external auditors;
- reviewed and approved the internal audit charter;
- reviewed and approved the audit committee charter;
- attended the trilateral meeting with the PA;
- considered the requirements arising from the Independent Regulatory Board for Auditors' (IRBA's) mandatory audit firm rotation (MAFR) requirements, effective for financial periods ending on or after April 2023, and initiate a project to assess and address MAFR;
- reviewed the impact of emerging and current regulatory developments in the group;
- considered BCBS 239 updates and impact assessments;
- approved the key audit matters report;
- review and approve non-audit engagements undertaken by the external auditors during the year in terms of the approved policy of the group;
- reviewed outcome of statutory and regulatory audit;
- noted the finding of the report from the JSE on the proactive monitoring of financial statements in 2018, published in 2019; and
- received the Banks Act Regulation 39 corporate governance assessment.
- biannually assess significance of loss-making entities and entities with a negative net asset value.

EXTERNAL AUDIT

The committee has satisfied itself as to the performance and quality of the external audit and that the external auditors and lead partners were independent of the group, as set out in section 94 (8) of the Companies Act.

This included consideration of:

- representations made by the external auditors to the audit committee, including the ISQC1 system of quality control representations;
- independence criteria specified by IRBA and international regulatory bodies as well as criteria for internal governance processes within audit firms;
- auditor suitability assessment in terms of paragraph 3.84 (g) (iii) and section 22.15 (h) of the JSE Listings Requirements;
- previous appointments of the auditors;
- extent of other work undertaken by the auditors for the group;
- chairman's closed sessions with the external auditors to discuss any concerns without management present;
- tenure of the auditors and rotation of the lead partners;
- changes to management during the tenure of auditors, which mitigates the attendant risk of familiarity between the external auditor and management;
- monitoring the public conduct of audit firms, for example through media reports with follow-up sessions with the external auditors; and
- dual audit firms allowing for cross-review and audit area rotation.

- The committee nominated, for re-election at the annual general meeting, Deloitte & Touche and PricewaterhouseCoopers Inc. as the external audit firms responsible for performing the functions of auditor for the 2020 financial year.
- The committee ensured that the appointment of the auditors complied with all legislation applicable to the appointment of auditors.
- Deloitte & Touche and PricewaterhouseCoopers Inc. have been the group's external auditors for nine years, respectively. The committee has commenced planning for MAFR.
- During the year, the committee approved the rotation of the PricewaterhouseCoopers Inc (PwC) lead partner, Johannes Grosskopf, who replaced Francois Prinsloo in terms of section 92 of the Companies Act, 71 of 2008, which states that the same individual may not serve as the auditor or designated auditor of a company for more than five consecutive financial years. Additional independence assessments of the lead partners, including that of the incoming PwC lead partner, were performed.
  - The committee chair met with senior leadership of the audit firm to discuss the firm's risk and quality processes independently from what the audit team disclosed to the committee.
  - Furthermore, enhanced due diligence (EDD) was performed on all lead partners with their permission, including details of connected parties. Based on the EDD results, the committee was of the view that the individuals do not have any significant banking relationship with the group and nothing came to their attention that required further investigation.

NON-AUDIT SERVICES

- The committee annually reviews and approves the list of non-audit services which the auditors may perform. There is an approval process where all non-audit service engagements above a certain threshold must be approved by the financial director, and above a further threshold, pre-approved by the chairman of the audit committee. A maximum limit of 25% of the group's annual audit fee is in place for non-audit services, in aggregate and individually per firm. Quarterly, the cumulative spend for the year to date is presented to the committee to keep track of the build of non-audit spend and the nature of services. The 2019 non-audit fees were 9.87 % of the audit fees.

INTERNAL AUDIT

The internal audit function provides assurance to the board on the adequacy and effectiveness of the group's internal control and risk management practices, and the integrity of financial reporting systems. Internal audit assists management by making recommendations for improvements to the control and risk management environment.

During the year the committee received regular reports from group internal audit on any weaknesses in controls that were identified, including financial controls, and considered corrective actions to be implemented by management.

The committee has assessed the performance of the chief audit executive and the arrangements of internal audit, and is satisfied that the internal audit function is independent and appropriately resourced, and that the chief audit executive has fulfilled the obligations of that position.

The committee can confirm that the financial and risk management information contained in the annual integrated report accurately reflects information reported to the committee by management and has no reason to believe that the existing internal controls, including internal financial controls, do not form a sound basis for the preparation of reliable financial statements. The committee's opinion is supported by the reports received from the risk, capital management and compliance committee; external audit; internal audit and executive management.

The committee reviewed and approved the annual internal audit plan, which was informed by combined assurance role players and aligned to the group's strategic objectives, risks and opportunities identified by management, as well as topical issues facing the financial services industry. On a quarterly basis, the committee reviewed and approved proposed amendments to the plan to ensure it remained agile to the changing risk landscape.

The committee reviewed quarterly activity reports from internal audit which covered audit plan progress, insights and optimisation opportunities, cumulative view on internal financial controls and risk management process maturity, and a summary of audit observations with respective status updates on remediation effort.

The group's external auditors conducted an annual assessment of the internal audit function against International Standards on Auditing (ISA) 610 and confirmed that the work of the internal audit was reliable for the purposes of the external audit

FINANCIAL STATEMENTS AND FINANCE FUNCTION

Having achieved its objectives for the financial year, the committee recommended the consolidated financial statements, company financial statements and annual integrated report for the year ended 30 June 2019 for approval to the board. The financial statements will be open for discussion at the forthcoming annual general meeting.

An audit committee process has been established to receive and deal appropriately with any concerns or complaints relating to:

- reporting practices and internal audit of the group;
- content or auditing of the financial statements;
- internal financial controls of the bank or controlling company; and
- any other related matter.

No complaints were received relating to accounting practices or the internal audit, nor to the content or audit of the group's annual financial statements.

Key audit matters identified by the external auditors are included in their report on page C19. These matters have been discussed and agreed with management and were presented to the committee. The committee has considered the appropriateness of the key audit matters reported on by the external auditors and is satisfied with management's treatment and audit response thereof.

The committee is satisfied that the group has appropriate financial reporting control frameworks and procedures in place, and that these procedures are operating effectively.

The committee reports that, based on a formal assessment process, it was satisfied as to the appropriateness of the expertise, effectiveness and experience of the group financial director during the reporting period.

In addition, the committee is satisfied with:

- the expertise, effectiveness and adequacy of resources and arrangements in the finance function; and
- the experience, effectiveness, expertise and continuous professional development of senior members of the finance function.

The committee confirms that it was able to carry out its work to fulfil its statutory mandate under normal and unrestricted conditions. The committee is satisfied that the assurance obtained during the meetings, corroborated by the review of the documentation deemed necessary and its own analyses, sustain its conclusions reached for the 2019 financial year.

RELATIONSHIP WITH OTHER GOVERNANCE COMMITTEES

The committee works closely with the group's risk, capital management and compliance committee, the social, ethics and transformation committee and the information and technology risk governance committee to identify common risk and control themes and achieve synergy between combined assurance processes, thereby ensuring that, where appropriate, relevant information is shared, and that these functions can leverage off one another.

Based on the reports received, the committee is satisfied that:

- the group has implemented appropriate processes for complying with the spirit and letter of key regulations impacting the group; and
- the group is able to effectively manage its risk, information and technology resources.

COMBINED ASSURANCE

During the year, the committee monitored alignment of all assurance providers to eliminate multiple approaches to risk assessment and reporting. The combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees, and supports the integrity of the group's external reports.

The committee is satisfied with the expertise, effectiveness and adequacy of arrangements in place for combined assurance.

The committee encouraged effective communication between the external and internal audit functions.

FUTURE AREAS OF FOCUS

- further consider the requirements arising from mandatory audit firm rotation (MAFR), effective for financial periods ending on or after April 2023, and initiate a project to assess and address MAFR;
- monitor non-audit fees paid to external audit and whether it is within approved limits;
- monitor the group's implementation plan for the adoption of IFRS 17 – Insurance contracts.

GG Gelink
Chairman, audit committee
Sandton

4 September 2019

DIRECTORS` RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

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

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

In preparing the annual financial statements, suitable accounting policies in accordance with IFRS have been applied and reasonable judgements and estimates have been made by management. The financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance. In the current financial year, the group adopted International Financial Reporting Standard 9 – Financial Instruments (IFRS 9) and IFRS 15 – Revenue from contracts with customers. Refer to accounting policy 11 for further detail on the impact of these new accounting standards on the group.

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

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

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

The directors have reviewed the group and company's budgets and flow of funds forecasts and considered the group and company's ability to continue as a going concern in light of current and anticipated economic conditions. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements. It is the responsibility of the group's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc., to report on the fair presentation of the annual financial statements. These annual financial statements have been audited in terms of section 29(1) of the Companies Act, no 71 of 2008. Their unmodified report appears on page C19.

The consolidated annual financial statements of the group, which appear on pages C27 to C310 and the separate annual financial statements of the company, which appear on pages C311 to C328, and the summary risk and capital management report, which appear in section A of the summary risk and capital management report, were approved by the board of directors on 4 September 2019.

WR Jardine

Chairman

Sandton

4 September 2019

AP Pullinger

Chief executive officer

COMPANY SECRETARY'S CERTIFICATION

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88 (2) (E) OF THE COMPANIES ACT.

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

C Low
Company secretary

Sandton

4 September 2019

DIRECTORS' REPORT

for the year ended 30 June 2019

NATURE OF BUSINESS

FirstRand Limited is a public company and registered bank controlling company with a primary listing on the Johannesburg Stock Exchange Limited (JSE) (under Financial – Banks, share code: FSR) and a secondary listing on the Namibian Stock Exchange (NSX) (share code: FST). FirstRand Limited is the holding company of the FirstRand group of companies.

FirstRand's portfolio of franchises comprises FNB, RMB, WesBank, Aldermore and Ashburton Investments and provides a universal set of transactional, lending, investment and insurance products and services. The FCC franchise represents group-wide functions.

Whilst the group is predominantly South African based, it has subsidiaries in the United Kingdom (being Aldermore Group plc), Namibia, Botswana, Zambia, Mozambique, Tanzania, Nigeria, Swaziland, Lesotho and Ghana. The bank has branches in India, London and Guernsey, and representative offices in Kenya, Angola and China.

Refer to section D for a simplified group structure of the group.

The Board acknowledges its responsibilities for the integrity of this report. Guidelines as provided by the 2016 King Code have been adopted in preparation of this report. The board believes that this report fairly represents the performance of the group.

GROUP RESULTS

Profit after tax amounted to R 31 760 million (2018: R 28 144 million). The operating results and the state of affairs of the company and the group are fully disclosed in the annual financial statements

CASH DIVIDEND DECLARATIONS

Ordinary shares

The directors declared a total gross cash dividend totalling 291 cents per ordinary share out of income reserves for the year ended 30 June 2019.

Dividends

ORDINARY SHARES

	Year ended 30 June	
Cents per share	**2019**	2018
Interim (declared 11 March 2019)	**139.0**	130.0
Final (declared 4 September 2019)	**152.0**	145.0
	291.0	275.0

The salient dates for the final dividend are as follows:

Last day to trade cum-dividend	Monday 23 September 2019
Shares commence trading ex-dividend	Wednesday 25 September 2019
Record date	Friday 27 September 2019
Payment date	Monday 30 September 2019

Share certificates may not be dematerialised or re-materialised between Wednesday, 25 September 2019 and Friday, 27 September 2019, both days inclusive.

For shareholders who are subject to dividend withholding tax (DWT), tax will be calculated at 20% (or such lower rate if a double taxation agreement applies for foreign shareholders).

For South African shareholders who are subject to DWT, the net final dividend after deducting 20% tax will be 121.60000 cents per share.

The issued share capital on the declaration date was 5 609 488 001 ordinary shares and 45 000 000 variable rate NCNR B preference shares.

FirstRand's income tax reference number is 9150/201/71/4.

DISTRIBUTIONS ON OTHER EQUITY INSTRUMENTS

Distributions of R725 million were made on other equity instruments (2018: R466 million). Current tax of R58 million relating to the AT1 instruments was recognised directly in equity resulting in an aggregated net equity impact of R667 million.

B preference shares

Dividends on the B preference shares are calculated at a rate of 75.56% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

Dividends declared and paid

	Preference dividends	
Cents per share	**2019**	2018
Period:		
29 August 2017 – 26 February 2018		386.2
27 February 2018 – 27 August 2018		378.3
28 August 2018 – 25 February 2019	**381.7**	
26 February 2019 – 26 August 2019	**384.2**	

Other distributions on the AT1 instruments and contingent convertible securities totalled R325 million.

SHARE CAPITAL

Details of FirstRand's authorised share capital as at 30 June 2019 are shown in note 28 to the group's financial statements.

Ordinary share capital

There were no changes to authorised or issued ordinary share capital during the year.

Preference share capital

There were no changes to authorised or issued preference share capital during the year.

SHAREHOLDER ANALYSIS

The following shareholders have a significant beneficial interest in FirstRand's issued ordinary shares.

%	**2019**	2018
RMH Asset Holding Company (Pty) Ltd (RMB Holdings)	**34.1**	34.1
Public Investment Corporation	**9.0**	9.2
BEE partners	**5.2**	5.2
Financial Securities Limited (Remgro)	**3.9**	3.9

A further analysis of shareholders is set out in section D.

EVENTS DURING 2019

Discovery Card

FirstRand received the final consideration for the Discovery card transaction on 21 November 2018, with a resultant after-tax profit for the group of approximately R2.3 billion. This resulted in attributable earnings increasing 14% for the year under review. Given the non-operational nature of the profit, however, it was excluded from headline and normalised earnings. At 30 June 2019, FCC included Discovery card advances with a gross value of R4.3 billion, which will be transferred at carrying value.

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

Issue of Additional Tier 1 instruments

During the financial year, FirstRand Bank, a wholly owned subsidiary of FirstRand Limited, issued Basel III compliant Additional Tier 1 Capital Notes. Details of the instruments can be found in note 29 of the annual financial statements.

DIRECTORATE

Details of the board of directors are in section B.

BOARD CHANGES

The following changes to the board of directors have taken place during the 2019 financial year end up to reporting date.

		EFFECTIVE DATE
Appointments		
M Vilakazi	COO and executive director	1 July 2018
LL Von Zeuner	Independent non-executive director	1 February 2019
Change of designation		
JP Burger	Non-executive director*	1 September 2018
JJ Durand	Alternate non-executive director	3 September 2018
MS Bomela	Independent non-executive director	1 January 2019
PJ Makosholo	Independent non-executive director	1 January 2019
TS Mashego	Independent non-executive director	1 January 2019

*JP Burger retired as CEO effective 31 March 2018. He remained an executive director until 31 August 2018 and became a non-executive director on 1 September 2018.

Background to changes in designation

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

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

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

DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS IN FIRSTRAND

Closed periods commence on 1 January and 1 July and are in force until the announcement of the interim and year end results. Closed periods also include any period where the company is trading under cautionary or where participants have knowledge of price sensitive information. Similar prohibitions exist in respect of trading in RMB Holdings Limited shares because of the relative importance of FirstRand in the earnings of RMB Holdings Limited. All directors' dealings require the prior approval of the chairman and the company secretary retains a record of all such share dealings and approvals. Trading in securities by employees who are exposed to price sensitive information is subject to the group's personal account trading rules. It is not a requirement of the company's memorandum of incorporation or the board charter that directors own shares in the company.

Ordinary shares

	30 June 2019					
	Direct beneficial (thousands)	**Indirect beneficial (including held by associates) (thousands)**	**Indirect via RMBH (thousands)**	**Total 2019 (thousands)**	**Percentage holding %**	Total 2018 (thousands)
Executive directors and prescribed officers						
HS Kellan	850	629	11	**1 490**	0.03	1 420
A Pullinger	4769	43	-	**4 812**	0.09	4 587
J Celliers	-	393	1	**394**	0.01	334
JR Formby	598	587	-	**1 185**	0.02	1 185
C de Kock	300	536	-	**836**	0.01	836
Non-executive directors						
HL Bosman	120	-	-	**120**	-	120
JP Burger	504	6 117	1 670	**8 291**	0.15	8 291
LL Dippenaar*	-	-	-	-	-	104 732
GG Gelink	102	-	-	**102**	-	102
PM Goss**	-	-	-	-	-	16 402
PK Harris**	-	-	-	-	-	9 786
NN Gwagwa	251	-	-	**251**	-	251
EG Matenge-Sebesho	-	77	-	**77**	-	77
T Winterboer***	15	-	-	**15**	-	-
RM Loubser	-	-	1 868	**1 868**	0.03	1 868
R Jardine	-	232	11	**243**	-	243
Total	7 509	8 614	3 561	**19 684**	0.34	150 234

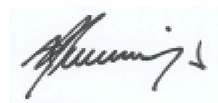
** Retired March 2018*
*** Retired April 2018.*
**** Appointed 20 April 2018*

Directors’ interests remained unchanged from the end of the financial year to the date of this report.

B preference shares

	Indirect beneficial (thousands)	Total 2019 (thousands)	Total 2018 (thousands)
Non-executive directors			
LL Dippenaar (retired 31 March 2018)	250	-	250
Total	250	-	250

WR Jardine
Chairman
04 September 2019



AP Pullinger
CEO

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of FirstRand Limited (the Company) and its subsidiaries (together the Group) set out on pages C27 to C328, which comprise the consolidated and separate statements of financial position as at 30 June 2019, and the consolidated income statement, the consolidated statement of other comprehensive income, the separate statement of comprehensive income and the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa.

We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Key audit matter	How the matter was addressed in the audit
Valuation of complex financial instruments which are subject to judgement The valuation of complex financial instruments in terms of IFRS 13-Fair value measurement (IFRS 13) requires significant judgement by management in the application of valuation methodologies as well as the determination of key assumptions relating to inputs other than unadjusted quoted prices in active markets that the Group can access at measurement date. Such assumptions include unobservable inputs, (inclusive of projected cash flows) and the consideration of recent market developments in valuation methodologies relating to the impact of counterparty and own credit risk, regulation and funding costs. The financial instruments impacted by these judgemental assumptions include: • Advances carried at fair value; • Complex derivative financial instruments (level 2 and 3); and • Investment securities valued with reference to unobservable inputs. As the impact of these assumptions on the valuation of the related financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the consolidated financial statements, the valuation of complex financial instruments was considered a matter of most significance to our audit. The related disclosures in the consolidated financial statements are included in note 34 – Fair value measurements.	Our audit of the valuation of complex financial instruments which required judgemental areas included, inter alia, the following audit procedures which were performed with the assistance of our valuation experts: • We tested the design, implementation and operating effectiveness of the relevant financial reporting controls as well as the general and application computer controls relating to valuations; • We evaluated the technical appropriateness and accuracy of valuation methodologies (including key assumptions made and modelling approaches adopted) applied by management with reference to market practice, practical constraints on the ability to apply the methodologies to the instruments being valued and for consistency with prior periods; • For a sample of complex financial instruments, we independently recalculated the fair values; • We assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information; and • We assessed the completeness, accuracy and adequacy of the disclosures against the requirements of IFRS 13. Based on the procedures described above, our audit evidence supported management's assumptions used in the valuation of complex financial instruments which are subject to judgement.

Key audit matter	How the matter was addressed in the audit
Impairment of advances The Group has adopted IFRS 9-Financial Instruments (IFRS 9) for the first time, from 1 July 2018. IFRS 9 requires the recognition of expected credit losses (ECL) on all financial assets within the scope of its impairment model, which includes advances. The impairment of advances was considered to be a matter of most significance to our current year audit due to the following: • advances are material to the financial statements, • the level of subjective judgement applied by management in determining the ECL on advances, and • the effect that ECL has on the impairment of advances and the group's credit risk management. This key audit matter relates to the following advances: • Corporate advances, and • Retail and commercial advances.	Our audit of the impairment of advances included, inter alia, the following audit procedures performed with the assistance of our credit and actuarial experts: • Across all significant portfolios we assessed the advances impairment practices applied by management against the requirements of IFRS 9. In addition, we tested the design, implementation and operating effectiveness of the relevant financial reporting controls as well as the general and application computer controls relating to the processes used to calculate impairments, including controls relating to data and models; and • We assessed management's probability-weighted macroeconomic scenario model and evaluated the outlined methodology, scenario views and associated probabilities in terms of the principles of IFRS 9, including the review of the approval of these macro-economic variables through the appropriate governance structures.
Corporate advances* Corporate advances are individually significant and the ECL calculations are inherently judgemental in nature. The specific areas of significant management judgement within the ECL calculations include: • The assumptions and methodologies applied to estimate the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD'); ** This applies to corporate advances apparent in RMB corporate banking, RMB investment banking, Rest of Africa and Group Treasury* • The assessment of whether there has been a Significant Increase in Credit Risk ('SICR') since origination date of the exposure to the reporting date (i.e. a trigger event that will cause a deterioration in credit risk and result in migration of the loan from Stage 1 to Stage 2); • The incorporation of forward looking information and macro-economic inputs into SICR; and • The assumptions used for estimating the recoverable amounts (including collateral) and timing of future cash flows, particularly for stage 3 loans.	Corporate advances We performed the following procedures on the ECL for corporate advances with the assistance of our credit and actuarial expertise: • Inputs which are subject to significant judgement, including the timing and quantum of expected future cash flows, were identified and assessed for reasonableness for individually significant advances. We assessed the appropriateness of assumptions made by management in determining the level of impairment, including the PD and valuation of collateral and the incorporation of the macro-economic variables against actual experience and industry practice, • We tested the performance and sensitivity of the forward-looking economic model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results; • We independently recalculated a reasonable range of significant ECL and compared the level raised by management to the recalculated range;

<u>Retail and commercial advances**</u>

Retail and commercial advances are higher volume, lower value and therefore a significant portion of the impairment is calculated on a portfolio basis. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable.

Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates. The inputs into the modelling process requiring significant management judgement, include:

- The input assumptions and methodologies applied to estimate the PD, EAD and LGD;
- Determining whether the evidence exists that there has been a SICR since initial recognition;
- The incorporation of forward looking information and macro-economic inputs into SICR; and

*** This applies to retail and commercial advances apparent in FNB Commercial, WesBank corporate, Aldermore and Rest of Africa.*

- The determination of the write-off point and curing.

- We inspected a sample of legal agreements and supporting documentation to assess the legal right to and existence of collateral; and
- We selected a sample of advances with no indicators of SICR and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk.

Based on the procedures described above, our audit evidence supported the inputs in the ECL on corporate advances which were found to be within an acceptable range in the context of IFRS 9.

<u>Retail and Commercial advances</u>

We performed the following procedures on the ECL for retail and commercial advances with the assistance of our credit and actuarial expertise:

- We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD, LGD) and how these were calibrated to use historical information to estimate future cash flows;
- We tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the models used to calculate impairments, including controls relating to data and models;
- Where appropriate we reperformed the ECL calculation;
- Through applying the assumptions and data included in management's model, including the performance of rehabilitated accounts, we recalculated the impact of SICR;
- We tested the SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on historical evidence;
- We evaluated management's supporting documentation for the performance of behavioural scores, granting scores and the correlation of these to default rates;
- We considered the assumptions used in the forward looking economic model the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data;
- We tested the performance and sensitivity of the forward-looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results;

	● For the term lending portfolio, we evaluated management’s assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery; and ● Through recalculation, we tested the application of the write off policy, including the exclusion of post write-off recoveries from the Loss Given Default (LGD). Based on the procedures described above, our audit evidence supported the inputs in the ECL on retail and commercial advances which were found to be within an acceptable range in the context of IFRS 9.
<u>Overlays</u> Across all portfolios, management apply judgement to recognise additional ECL (in the form of overlays) where there is uncertainty in respect of the models’ ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the maturity of the models, the timing of model updates and macro-economic events which could impact corporate, retail and commercial consumers. Related disclosures in the consolidated financial statements: ● Accounting policies, note 10 - Critical accounting estimates, assumptions and judgements; and ● Note 38 – Financial and Insurance risk - Credit risk.	<u>Overlays</u> We considered the potential for ECL to be affected by events not captured by the model assumptions due to timing or other inherent limitations (such as changes in economic conditions). We assessed the reasonableness of event driven overlays raised by management, based on our understanding of the industry, emerging risks and regulatory changes. We considered the need for any other overlays not considered by management through independent research. Based on the procedures described above, our audit evidence supported the overlays which were found to be within an acceptable range in the context of IFRS 9.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled *"FirstRand Annual Financial Statements 2019"*, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certification as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled " FirstRand Annual Integrated Report 2019", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s and the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s and the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. 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.

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche and PricewaterhouseCoopers Inc. have been the joint auditors of FirstRand Limited for 9 years. Prior to the commencement of the joint audit relationship PricewaterhouseCoopers Inc. were the sole auditors of FirstRand Limited for 14 years.

DELOITTE & TOUCHE
Deloitte & Touche
Registered Auditor
Per partner: Darren Shipp
Woodland Office Park
Johannesburg
4 September 2019

PricewaterhouseCoopers Inc.
PricewaterhouseCoopers Inc.
Registered Auditor
Director: Johannes Grosskopf
4 Lisbon Lane
Johannesburg
4 September 2019

ACCOUNTING POLICIES

1 INTRODUCTION AND BASIS OF PREPARATION

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

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

The group prepares consolidated financial statements which include the assets, liabilities and results of the operations of FirstRand Limited, its subsidiaries and its share of earnings of associates and joint ventures. To compile the consolidated financial statements the following information is used:

- Audited information about the financial position and results of operations at 30 June each year for all significant subsidiaries in the group. For insignificant private equity subsidiaries that have a year end that is less than three months different to that of the group, the latest audited financial statements are used.
- The most recent audited annual financial statements of associates and joint ventures. These are not always drawn up to the same date as the financial statements of the group. Where the reporting date is different from that of the group, the group uses the most recently available financial statements of the investee and reviews the investee's management accounts for material transactions during the intervening period. In instances where significant events occurred between the last reporting date of an investee and the reporting date of the group, the effect of such events is adjusted for.

Accounting policies of subsidiaries, associates and joint ventures have been changed at acquisition, where necessary, to ensure consistency with the accounting policies adopted by the group.

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

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined in note 10 of the accounting policies.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES				
2	**Subsidiaries, associates and joint arrangements**	Consolidation and equity accounting (section 2.1)	Related party transactions (section 2.2)	
3	**Income, expenses and taxation**	Income and expenses (section 3.1)	Taxation (section 3.2)	
4	**Financial instruments IFRS 9**	Classification and Measurement (section 4.1)	Impairment (section 4.2)	Derivatives and hedge accounting (section 4.5)
		Transfers, modifications and de-recognition (section 4.3)*	Offset and collateral (section 4.4)*	
5	**Financial instruments IAS 39**	Classification (section 5.1)	Impairment (section 5.3)	
		Measurement (section 5.2)	Derivatives and hedge accounting (section 5.4)	
6	**Other assets and liabilities**	Property and equipment (section 6.1)	Investment properties (section 6.1)	Intangible assets (section 6.1)
		Commodities (section 6.1)	Provisions (section 6.1)	Non-current assets held for sale (section 6.2)
		Leases (section 6.3)		
7	**Capital and reserves**	Share capital and treasury shares	Dividends and non-cash distributions	Other reserves
8	**Transactions with employees**	Employee liabilities (section 8.1)	Share-based payment transactions (section 8.2)	

9	**Non-banking activities**	Insurance activities (section 9.1) Investment management activities (section 9.2)
10	**Critical judgements**	Introduction (section 10.1) Subsidiaries, associates and joint arrangements (section 10.2) Taxation (section 10.3) Impairment of financial assets (IFRS 9) (section 10.4) Impairment of financial assets (IAS 39) (section 10.5) Provisions (section 10.6) Transactions with employees (section 10.7) Insurance and investment management activities (section 10.8)
11	**Impact of adopting revised accounting standards**	Key impact of revised standards adoption (section 11.1) Treatment and measurement of ISP (section 11.2) Transition impact on consolidated SOFP (section 11.3) Transition impact on SOCE (section 11.4) Summary of differences between IAS 39 and IFRS 9 (section 11.5) Reclassification of financial instruments (section 11.6) Reconciliation of impairment loss (section 11.7)

The following new standards were adopted in the current year:

New / revised IFRS	Description of change	Impact on FirstRand group
IFRS 9	The group adopted IFRS 9 in the current year. The following resulted from the implementation: ➢ the classification of financial assets under IFRS 9 is based on both the business model for holding the instruments as well as the contractual characteristics of the instruments; ➢ impairments in terms of IFRS 9 are determined based on an expected loss model that considers the significant changes to the assets' credit risk and the expected loss that will arise in the event of default; ➢ the requirements for the classification of liabilities remained unchanged; ➢ the general hedge accounting requirements under IFRS 9 are more closely aligned to how entities undertake risk management activities when hedging financial and non-financial risk exposures; and ➢ IFRS 7 has been amended to include additional disclosures as a result of the introduction of IFRS 9.	The main impacts on the group's financial statements from the adoption of IFRS 9 were the following: ➢ certain items have been reclassified based on the new classification rules. The details of these reclassifications are provided in note 11 of the accounting policies; ➢ the loss allowance on financial assets has increased because of the change from an incurred loss to an expected credit loss model. For details refer to note 11 of the accounting policies; ➢ the amended disclosure requirements of IFRS 7 will be prospectively applied by the group. Therefore, all comparative disclosures relating to financial instruments are based on the classification and measurement requirements of IAS 39 and disclosure requirements of IFRS 7 before the IFRS 9 amendments.
IFRS 15	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all the current revenue recognition guidance, except for contracts that are out of scope – e.g. leases and insurance. IFRS 15 requires that goods and services are split out into their separate performance obligations and that the revenue from each performance obligation is recognised at a point in time or over time, depending on the IFRS 15 criteria for revenue recognition. The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer and that revenue is recognised at the amount that an entity expects to receive. Depending on certain criteria revenue	The transition to IFRS 15 resulted in the deferral of revenue relating to certain products. The group applied IFRS 15 retrospectively with the cumulative effect of initially applying IFRS 15 at 1 July 2018 in retained earnings. The details of the impact are provided in note 11 of the accounting policies.

New / revised IFRS	Description of change	Impact on FirstRand group
	is recognised at a point in time or over time. IFRS 15 includes new quantitative and qualitative disclosure requirements to enable users of financial statements to understand the nature, amount and timing of revenue from contract with customers.	
IFRS 2 amendments	**Classification and measurement of share-based payment transactions** As a result of work performed by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions. The amendments to IFRS 2 relate to the following areas: – accounting for the effects of vesting and non-vesting conditions on the measurement of the liability of cash-settled share-based payment transactions. – the classification of share-based payment transactions with net settlement features for withholding tax obligations. – accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.	The group currently has both cash-settled and equity-settled share-based payment schemes. The group's current accounting of its IFRS 2 schemes are in line with the first two amendments. These amendments therefore have no impact on the group. The third amendment will be considered when such transactions take place and will be applied prospectively to any modifications. No such transactions have taken place in the current financial year.
IFRS 4 amendments	**Applying IFRS 9 with IFRS 4** The amendment to IFRS 4 addresses concerns around temporary volatility in reported results arising from implementing IFRS 9 before implementing IFRS 17 that will eventually replace IFRS 4. The amendment introduces two approaches: ➢ The overlay approach – An option for all issuers of insurance contracts to remove from profit or loss the effects of some mismatches that may occur before adoption of IFRS 9 and recognise those impacts temporarily. The adjustment only applies to financial assets that relate to contracts in scope of IFRS 4 and are measured at designated fair value through profit or loss in	All entities within the group, including those who issue insurance contracts, have adopted IFRS 9 in the current financial year, and elected to not apply either the overlay approach or the temporary exemption, the amendment will therefore not impact the group.

New / revised IFRS	Description of change	Impact on FirstRand group
	accordance with IFRS 9, but would have been measured in their entirety as fair value through profit or loss under IAS 39. ➢ Temporary exemption – Reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the adoption of IFRS 17.	
IAS 40 amendments	**Transfers of investment property** The amendments to IAS 40 introduce clarification of the requirements on transfers to or from investment properties when there has been a change in use of the property.	The clarified requirements will be applied by the group to any transfer to or from investment property when these transactions take place. No such transactions have taken place in the current financial year.
IFRIC 22	**Foreign currency transaction and advance consideration** IFRIC 22 clarifies the date of the transaction when determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.	IFRIC 22 will be considered when applicable. Not applicable in the current financial year.
Annual improvements 2015–2017 cycle	These annual improvements include amendments to IFRS 12 and IAS 28: ➢ IFRS 12 – the amendments clarify the scope of the standard, i.e. IFRS 12 applies to entities classified as held for sale, held for distribution or discontinued operations in terms of IFRS 5. ➢ IAS 28 – the amendments clarify the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation or other qualifying entity and is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.	The clarified requirements of IFRS 12 will be applied by the group when applicable. Not applicable in the current financial year. The amendments to IAS 28 are not applicable to the group.

Presentation of financial statements, functional and foreign currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

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

2 SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS

2.1 Basis of consolidation and equity accounting

	Subsidiaries and other structured entities	Associates	Joint ventures
Typical shareholding in the assessment of entities that are not structured entities	Greater than 50%	Between 20% and 50%	Between 20% and 50%
When an entity is a structured entity and control of it is not evidenced through shareholding, the group considers the substance of the arrangement and the group's involvement with it to determine whether the group has control, joint control or significant influence over the significant decisions that impact its relevant activities.			
Nature of the relationship between the group and the investee	Entities over which the group has control as defined in IFRS 10 are consolidated. These include certain investment funds managed by the group, securitisation structures or other entities used for the purpose of buying or selling credit protection.	Entities over which the group has significant influence as defined in IAS 28. These include investment funds not consolidated but which the group has significant influence over.	A joint arrangement in terms of which the group and the other contracting parties have joint control as defined in IFRS 11. Joint ventures are those joint arrangements where the group has rights to the net assets of the arrangement.

Separate financial statements
The company measures investments in the above entities at cost less impairment (in terms of IAS 36), with the exception of investments acquired and held exclusively with the view to disposing of them in the near future (within 12 months). These investments are measured at fair value less cost to sell in terms of IFRS 5.

Consolidated financial statements		
	Consolidation	**Equity accounting**
Initial recognition in the consolidated financial statements	Subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations. The excess (shortage) of the sum of the consideration transferred, the value of non-controlling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill or a gain on bargain purchase, as set out further below. Transaction costs are included in operating expenses within profit or loss when incurred.	Associates and joint ventures are initially recognised at cost (including goodwill) and subsequently equity accounted. The carrying amount is increased or decreased to recognise the group's share of profit or loss from the investee after the date of acquisition. Items that impact the investee's net asset value that don't impact other comprehensive income are recognised directly in gains less losses from investing activities within non-interest revenue.
Intercompany transactions and balances	Intercompany transactions are all eliminated on consolidation, including unrealised gains. Unrealised losses on transactions between group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset, in which case the transferred asset will be tested for impairment in accordance with the group's impairment policies.	Unrealised gains on transactions are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated to the extent of the group's interest in the entity, unless the transaction provides evidence of an impairment of the transferred asset.
Common control transaction	There is currently no guidance under IFRS for the accounting treatment of business combinations under common control. In terms of IAS 8, the group has developed an accounting policy that requires that business combinations under common control use the predecessor values of the acquiree without the restatement of comparatives. Therefore, any difference between the net asset value and the amount paid (i.e. the purchase consideration) is recorded directly in the reserve in equity.	

Consolidated financial statements		
	Consolidation	**Equity accounting**
Impairment	In the consolidated financial statements either the cash generating unit (CGU) is tested, i.e. a grouping of assets no higher than an operating segment of the group; or, if the entity is not part of a CGU, the individual assets of the subsidiary and goodwill are tested for impairment in terms of IAS 36.	The group applies the indicators of impairment in IAS 28 to determine whether a loss event exists, which would constitute objective evidence of impairment. Objective evidence of impairment for an investment in the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates. This indicates that the cost of the investment in associate may not be recovered. A significant or prolonged decline in the fair value of an associate investment below its cost is also considered objective evidence of impairment. The entire carrying amount of the investment, including other long-term interests, is tested for impairment. Certain loans and other long-term interests in associates and joint ventures are considered to be, in substance, part of the net investment in the entity when settlement is neither planned nor likely to occur in the foreseeable future. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables or any long-term loans for which adequate collateral exists. These loans and other long-term interests in associates and joint ventures are included in advances on the face of the statement of financial position and are measured in terms of IFRS 9. The value of such loans after any expected credit losses raised for IFRS 9 where such loans are measured at amortised cost is, however, included in the carrying amount of the investee for purposes of determining the share of losses of the investee attributable to the group and for impairment testing purposes. Any resulting impairment losses are recognised as part of the share of profits or losses from associates or joint ventures.

Consolidated financial statements		
	Consolidation	**Equity accounting**
Goodwill	Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred and is recognised as an intangible asset at cost less accumulated impairment losses. If this amount is negative, as in the case of a bargain purchase, the difference is immediately recognised in gains less losses from investing activities within non-interest revenue. Goodwill is tested annually for impairment by the group in March, or earlier if there are objective indicators of impairment. For subsidiaries acquired between March and June a goodwill impairment test is performed in June in the year of acquisition and thereafter annually in March. For testing purposes, goodwill is allocated to a suitable CGU. Impairment losses in respect of goodwill are not subsequently reversed.	Notional goodwill on the acquisition of associates and joint ventures is included in the equity accounted carrying amount of the investment. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that that the investment's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss has been recognised.
Non-controlling interest	Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity. All transactions with non-controlling interests, which do not result in a loss of control, are treated as transactions with equity holders. Partial disposals and increases in effective shareholding between 50% and 100% are treated as transactions with equity holders. Non-controlling interest is initially measured either at the proportional share of net assets or at fair value. The measurement distinction is made by the group on a case-by-case basis.	Transactions with other shareholders are not equity transactions and the effects thereof are recognised in profit or loss as part of gains less losses from investing activities in non-interest revenue.

Disposals
In a disposal transaction where the group loses control of the subsidiary, joint control of a joint venture or significant influence over an associate, and the group retains an interest in the entity after disposal, for example an investment in associate or investment security, the group measures any retained investment in the entity at fair value at the time of the disposal. Thereafter the remaining investment is accounted for in accordance with the relevant accounting requirements. When a foreign operation is sold or partially disposed of and control, joint control, or significant influence is lost, the group's portion of the cumulative amount of the exchange differences relating to the foreign operation which were recognised in other comprehensive income, are reclassified from other comprehensive income to profit or loss when the gain or loss on disposal is recognised. Dividends received that do not constitute a return of capital are not deemed to represent a disposal or partial disposal of a foreign operation. For partial disposals where control, joint control, or significant influence is retained, the group reattributes the proportionate share of the cumulative translation differences recognised in other comprehensive income to the non-controlling interests of the foreign operation. Gains or losses on all other disposals are recognised in gains less losses from investing activities in non-interest revenue. The group may lose control of a subsidiary in a transaction where an interest in the investee is retained through an associate or joint venture. The group eliminates the group share of profits on these transactions in accordance with IAS 28.
Interests in unconsolidated structured entities
Interests in unconsolidated structured entities may expose the group to variability in returns from the structured entity. However, because of a lack of power over the structured entity it is not consolidated. Normal customer or supplier relationships, where the group transacts with the structured entity on the same terms as other third parties, are not considered to be interests in the entity. From time to time the group also sponsors the formation of structured entities primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. Where the interest or sponsorship does not result in control, disclosures of these interests or sponsorships are made in the notes in terms of IFRS 12.

2.2 Related party transactions

Related parties of the group, as defined, include:

Subsidiaries	Associates	Joint ventures	Post-employment benefit funds (pension funds)
Entities that have significant influence over the group, and subsidiaries of these entities	Key management personnel (KMP)	Close family members of KMP	Entities controlled, jointly controlled or significantly influenced by KMP or their close family members

The principal shareholder of the FirstRand Limited group is RMB Holdings Limited, incorporated in South Africa.

Key management personnel of the group are the FirstRand Limited board of directors and prescribed officers, including any entities which provide key management personnel services to the group. Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner.

3 INCOME, EXPENSES AND TAXATION

3.1 Income and expenses

Net interest income recognised in profit or loss

Interest income includes:

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

Interest expense includes:

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

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

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

Non-interest revenue from contracts with customers

IFRS 15 replaced all existing revenue recognition criteria under IFRS and was applied for all contracts with clients, unless the contracts are in the scope of the standard on leases, insurance contracts and financial instruments. The group has applied IFRS 15 retrospectively, with the cumulative effect of initially applying IFRS 15 at 1 July 2018 in retained earnings, and accordingly did not restate comparatives.

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

Fee and commission income	Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers and are recognised in non-interest revenue. Fee and commission income is earned by the group by providing customers with a range of services and products, and consists of the following main categories: • Banking fee and commission income. • Knowledge-based fee and commission income. • Management, trust and fiduciary fees. • Fee and commission income from service providers. • Other non-banking fee and commission income. Fee and commission income is earned on the execution of a significant performance obligation, which may be as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time). Fees earned on the execution of a significant act typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income. Where the performance obligation is satisfied over a period of time, the fees are recognised as follows: • Fees for services rendered are recognised on an accrual basis as the service is rendered and the group's performance obligation is satisfied, e.g. annual card fees and asset management and related fees. • Commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis.

	Commitment fees for unutilised funds made available to customers in the past are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the group, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available. Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking, insurance and asset management operations. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent. This includes commission earned at the point when sale has been executed from the sale of prepaid airtime, data vouchers, electricity and traffic fines paid through FNB channels, as well as insurance commission. The group operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to qualifying customers to buy goods and services. The supplier of the goods or services to be acquired by customers can either be the group or an external third party. The group recognises a contract liability referred to as Customer loyalty programme liability which represents deferred amount of revenue, resulting from providing these reward credits to customers. The amount deferred is equal to the maximum cash flow that could be required in order to settle the liability with the customer, as the supplier of goods and services could either be the bank itself or independent third parties. The deferred revenue in respect of which the eBucks liability is raised is recognised in the period in which the customer utilises their reward credits.
Fee and commission expenses	Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income and are recognised as part of fee and commission income. These include transaction and service fees, which are expensed as the services are received. The group operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to qualifying customers to buy goods and services. Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred. The suppliers of the goods or services to be acquired by customers can either be FNB or an external party.
Insurance income – non-risk related	Where the group is acting as an agent, commissions and brokerage earned on the sale of insurance products to customers of the group on behalf of an insurer, is recognised at the point that the significant obligation has been fulfilled. Income arising from third-party insurance cell captives and profit share agreements, where there is not a significant transfer of insurance risk, are executory contracts. Revenue is recognised when both parties have fulfilled their obligations.
Insurance income – risk-related	Insurance-related income represents the premium written on short-term, long-term and vehicle-related warranty products which transfer significant insurance risk to the group, where the earned portion of the premium received is recognised as revenue. Reinsurance premiums are accounted for as expenses in the same accounting period as the premiums to which the reinsurance relates. Commissions payable, together with insurance benefits, claims and movements in insurance liabilities, provide the resultant insurance risk-related income.

Other non-interest revenue	The group, through its various subsidiaries in operating businesses, sells value-added products and services to customers, like telecommunication products and services which consist of smart devices, data and airtime contracts and bundled products. The related revenue, net of any finance components of revenue, is recognised as soon as the goods are delivered to the customer.

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

Fair value gains or losses

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

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

Gains less losses from investing activities

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

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

Dividend income
The group recognises dividend income when the group's right to receive payment is established. This is the last day to trade for listed shares and on the date of declaration for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.

Expenses	
Expenses of the group, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.	
Indirect tax expense	Indirect tax includes other taxes paid to central and local governments and include value-added tax and securities transfer tax. Indirect tax is disclosed separately from income tax and operating expenses in the income statement.

3.2 Income tax expenses

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

Current income tax	
The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in each particular jurisdiction within which the group operates.	
Deferred income tax	
Recognition	On temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.
Typical temporary differences for which deferred tax is provided	➢ Provision for loan impairment. ➢ Instalment credit assets. ➢ Revaluation of certain financial assets and liabilities, including derivative contracts. ➢ Provisions for pensions and other post-retirement benefits. ➢ Share-based payment liabilities. ➢ Investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the difference will not reverse in the foreseeable future. ➢ Cashflow hedges.
Measurement	The liability method under IAS 12 is used, which means applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

	For temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply to the sale of the property, i.e. the capital gains tax rate.
Presentation	Deferred income tax is presented as profit or loss unless it relates to items recognised directly in equity or other comprehensive income. Items recognised directly in equity or other comprehensive income relate to: ➢ the issue or buy-back of share capital; ➢ fair value remeasurement of financial assets measured at fair value through other comprehensive income; ➢ remeasurements of defined benefit post-employment plans; and ➢ derivatives designated as hedging instruments in effective cash flow hedges. Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.
Deferred income tax	
Deferred tax assets	The group recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised. The group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

4 FINANCIAL INSTRUMENTS IFRS 9

4.1 Classification and measurement

4.1.1 Initial measurement

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

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

4.1.2 Classification and subsequent measurement of financial assets

Classification and subsequent measurement of financial assets

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

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

Business model

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

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

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

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

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

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

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

Cash flow characteristics
In order for a debt instrument to be measured at amortised cost or fair value through other comprehensive income, the cash flows on the asset have to be solely payments of principal and interest (SPPI), i.e. consistent with those of a basic lending agreement. The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any prepayment penalties that are limited by consumer credit regulation. They can therefore be considered reasonable compensation, which would not cause these assets to fail the SPPI test. For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at fair value through profit or loss include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that will be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.
Amortised cost
Financial assets are measured at amortised cost using the effective interest method when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. These include the majority of the retail, corporate and commercial advances of the group, as well as certain investment securities utilised for liquidity risk management of the group. For purchased or originated credit-impaired financial assets, the group applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset.
Cash and cash equivalents
Cash and cash equivalents comprise of coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturing date of less than three months from the date of acquisition. Money at call and short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents are measured at amortised cost.

Retail advances		
Retail advances	**Business model**	**Cash flow characteristics**
	The FNB, WesBank and Aldermore businesses hold retail advances to collect contractual cash flows. Their business models focus on growing these advances within acceptable credit appetite limits and maintaining strong collection practices. The products included under this business model include: ➢ residential mortgages; ➢ vehicle and asset finance; ➢ personal loans, ➢ credit card; and ➢ other retail products such as overdrafts.	The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the group for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Corporate and commercial advances		
Corporate and commercial advances	The business models of FNB Commercial, WesBank Corporate, RMB Corporate and Aldermore are also focused on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits. The products included in this business model are: ➢ trade and working capital finance; ➢ specialised finance; ➢ commercial property finance; and ➢ asset-backed finance. These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return. Although the intention is to collect cash flows, not all the instruments are held to maturity as some financial assets are sold through syndication. These sales are, however, either insignificant in value in relation to the value of advances held to collect cash flows or infrequent, and therefore the held-to-collect business model is still appropriate.	The cash flows on corporate and commercial advances are solely payments of principal and interest. Interest charged to customers compensates the group for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.
	Within RMB's Investment Banking Division (IBD), debt for large corporates and institutions are structured. These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return. Although the intention is to collect cash flows, not all of the instruments are held to maturity as some financial assets are sold in the secondary market to facilitate funding. These sales are however insignificant in value in relation to the value of IBD advances held-to-collect cash flows and therefore the held to collect business model is still appropriate. In other portfolios, RMB IBD originates corporate and commercial advances with the intention to distribute. These advances are included under a different business model and are measured at fair value through profit or loss (as is set out further below).	The cash flows on these advances are considered to be solely payments of principal and interest if the loan contract does not contain upside features, conversion options, payments linked to equity or commodity prices or prepayment penalties that exceed reasonable compensation for early termination of the contract. Any advances that do contain such features are mandatorily measured at fair value through profit or loss.
	Advances also include marketable advances representing corporate bonds and certain debt investment securities qualifying as high-quality liquid assets that are under the control of the group treasurer, held by RMB investment bank. These assets are primarily held to collect the contractual cash flows over the life of the asset.	The cash flows on these advances are solely payments of principal and interest.
Investment securities		
Investment	Group Treasury holds investment securities with	The cash flows on these investment

securities	lower credit risk (typically government bonds and treasury bills). These investment securities are held in a business model with the objective of collecting contractual cash flows.	securities are solely payments of principal and interest.
Cash and cash equivalents		
Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Accounts receivable		
Accounts receivable	Financial accounts receivable are short-term financial assets that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Mandatory at fair value through profit or loss		
Financial assets of the group are mandatorily measured at fair value through profit or loss when they are held for trading, managed on a fair value basis, held to sell/distribute, or are held to collect contractual cash flows which are not solely payments of principal and interest.		
Corporate and commercial advances	In certain instances, IBD originates advances with the mandate of distributing an identified portion of the total advances in the secondary market within an approved time frame. The reason for originating these advances is not to collect the contractual cash flows, but rather to realise the cash flows through the sale of the assets.	Any advances which are originated to distribute or managed on a fair value basis; or are held to collect contractual cash flows but include cash flows related to upside features, conversion options, payments linked to equity or commodity prices or prepayment penalties that exceed reasonable compensation for early termination of the contract, will be included in this category.
Marketable advances	RMB occasionally invests in notes issued by conduits, with the intention of selling these notes to external parties. These include notes issued by conduits to which it sells a portion of corporate and commercial advances that it originates to distribute (detailed above). The collection of contractual cash flows on these notes are merely incidental.	Advances which are acquired to distribute are included in this category.
Investment securities	RMB Global Markets holds portfolios of investment securities (including corporate and government bonds) to hedge risks or for short-term profit realisation. These securities are managed on a fair value basis.	
	All equity investments of the group are managed on a fair value basis, either through profit or loss (FVTPL) or designated at fair value through other comprehensive income.	
Derivative assets	Derivatives are either held for trading or to hedge risk. These instruments are managed on a fair value basis.	

<table>
<tr><th colspan="3">Designated at fair value through profit or loss</th></tr>
<tr><td colspan="3">The group has exercised the option to designate financial assets at fair value through profit or loss as doing so eliminates or significantly reduces a measurement of recognition inconsistency that would otherwise arise from measuring these assets on a different basis.
The assets that the group are designating at fair value through profit or loss are the following:
• Advances; and
• Investment securities.</td></tr>
<tr><td>Advances</td><td colspan="2">Certain advances in RMB with fixed interest rates have been designated at fair value through profit or loss in order to eliminate an accounting mismatch that would otherwise result from measuring these assets on a different basis. The cash flows on these advances are considered to be solely payments of principal and interest.</td></tr>
<tr><td>Investment securities</td><td colspan="2">Group Treasury hold investment securities (typically treasury bills) for liquidity purposes. The portfolio is managed on a fair value basis.</td></tr>
<tr><th colspan="3">Debt instruments at fair value through other comprehensive income</th></tr>
<tr><td>Investment securities</td><td>Certain treasury divisions of the group hold investment securities for liquidity management purposes. The local regulator requires that the bank/branch prove liquidity of their assets by way of periodic outright sales. Therefore, the business model for these investment securities is both collecting contractual cash flows and selling these financial assets.</td><td>The cash flows on these investment securities are solely payments of principal and interest.</td></tr>
<tr><th colspan="3">Equity investments at fair value through other comprehensive income</th></tr>
<tr><td>Investment securities</td><td colspan="2">The group has elected to designate certain equity investments not held for trading to be measured at fair value through other comprehensive income.</td></tr>
</table>

4.1.3 Classification and subsequent measurement of financial liabilities and compound instruments

<table>
<tr><th>Financial liabilities and compound financial instruments</th></tr>
<tr><td>The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write-down or conversion features are classified based on the nature of the instrument and the definitions. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the group.
Compound instruments are those financial instruments that have components of both financial liabilities and equity, such as issued convertible bonds. At initial recognition the instrument and the related transaction costs are split into their separate components and accounted for as a financial liability or equity in terms of the definitions and criteria of IAS 32.</td></tr>
<tr><th>Financial liabilities measured at amortised cost</th></tr>
<tr><td>The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss:</td></tr>
</table>

- deposits;
- creditors;
- Tier 2 liabilities; and
- other funding liabilities.

Financial liabilities measured mandatory at fair value through profit or loss

The following held for trading liabilities are measured at fair value through profit or loss:

- derivative liabilities; and
- short trading positions.

These liabilities are measured at fair value at reporting date as determined under IFRS 13, with fair value gains or losses recognised in profit or loss.

Financial liabilities designated at fair value through profit or loss

A financial liability other than one held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated at FVTPL upon initial recognition if:

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

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

- deposits; and
- other funding liabilities.

Both types of liabilities satisfied the above-mentioned conditions of IFRS 9 for such designation.

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

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

This policy applies to:

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

Refer to accounting policy note 10.4 where all risk parameters, scenarios and sources of estimation are detailed more extensively.

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

Advances	
Significant increase in credit risk since initial recognition (SICR)	In order to determine whether an advance has experienced a significant increase in credit risk, the probability of default (PD) of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined as the most recent date at which the group has repriced an advance/facility. A change in terms results in derecognition of the original advance/facility and recognition of a new advance/facility. SICR test thresholds are reassessed and, if necessary, updated, on at least an annual basis. Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a significant increase in credit risk. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list. Any up-to-date facility that has undergone a distressed restructure (i.e. a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk and will be

	disclosed within stage 2 at a minimum. The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from stage 2 back to stage 1 is applied, with the exception of cured distressed restructured exposures that are required to remain in stage 2 for a minimum period of six months before re-entering stage 1, as per the requirements of SARB Directive 7 of 2015.
Low credit risk	The group does not use the low credit risk assumption.
Credit-impaired financial assets	Advances are considered credit impaired if they meet the definition of default. The group's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes. Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments. In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the group to actions such as the realisation of security. Indicators of unlikeliness to pay are determined based on the requirements of Regulation 67 of the Banks Act. Examples include application for bankruptcy or obligor insolvency. Any distressed restructures of accounts which have experienced a significant increase in credit risk since initial recognition are defined as default events. Retail accounts are considered to no longer be in default if they meet the stringent cure definition, which has been determined at portfolio level based on analysis of re-defaulted rates. Curing from default within wholesale is determined judgmentally through a committee process.
Purchased or originated credit-impaired	Financial assets that meet the abovementioned definition of credit-impaired at initial recognition.
Write-offs	Write-off must occur when it is not economical to pursue further recoveries, i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised). ➢ By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account; ➢ Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries. The result of this is that

	retail unsecured loans are written off after 12 to 15 cumulative missed instalments and retail secured loans are written off on perfection of collateral; and ➢ Within wholesale portfolios, a judgemental approach to write-off is followed, based on case-by-case assessment by a credit committee. Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.
Collection and enforcement activities post write-off	For unsecured advances, post write off collection strategies includes outsourcing of the account to external debt collections (EDCs). In addition, settlement campaigns are run to encourage clients to settle their outstanding debt. For secured advances, any residual balance post the realisation of collateral and post write off is outsourced to EDCs.
Other financial assets	
Cash and cash equivalents	All physical cash is classified as stage 1. Other exposures are classified as stage 1 unless specific evidence of impairment exists, in which case, due to the nature of these assets, they are classified immediately as stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach.
Accounts receivable and contract assets	ECL for accounts receivable and where applicable, contract assets, are calculated using the simplified approach. This results in a lifetime ECL being recognised.
Investment securities	Impairment parameters for investment securities (PD, loss given default (LGD) and exposure at default (EAD)) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument. The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same way as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the wholesale credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures. The group does not use the low credit risk assumption for investment securities, including government bonds.

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

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

Financial instruments are derecognised when:

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

Financial assets are derecognised when the 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 (i.e. pass-through arrangement).

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the group determines whether this is a substantial modification, which could result in the derecognition of the existing asset and the recognition of a new asset. If the change is simply a non-substantial modification of the existing terms it would not result in derecognition.
A modification of a financial asset is substantial and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

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

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

Transaction type	Description	Accounting treatment
Transfers without derecognition		
Traditional securitisations and other structured transactions	Specific advances or investment securities are transferred to a structured entity, which then issues liabilities to third party investors, for example variable rate notes or investment grade commercial paper. The group's obligations toward the third party note holders is limited to the cash flows received on the underlying securitised advances or non-recourse investment securities i.e. the note holders only have a claim to the ring fenced assets in the structured entity, and not to other assets of the group. The group consolidates these securitisation and conduit vehicles as structured entities, in terms of IFRS 10.	The transferred assets continue to be recognised by the group in full. Such advances and investment securities are disclosed separately in the relevant notes. The group recognises an associated liability for the obligation toward third party note holders as a separate category of deposits. These deposits are usually measured at amortised cost.
Repurchase agreements	Investment securities and advances are sold to an external counterparty in exchange for cash and the group agrees to repurchase the assets at a specified price at a specified	The underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The

	future date. The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The group remains exposed to all the underlying risks to the assets including counterparty, interest rate, currency, prepayment and other price risks.	group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at amortised cost or fair value.
Securities lending and reverse repurchase agreements	Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities. The group's only recourse in respect of the return of the securities it has lent is to the cash collateral held and as such, the group generally requires cash collateral in excess of the fair value of the securities lent.	
Transfers with derecognition		
Where the group purchases its own debt	The debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value gains or losses within non-interest revenue.	
Modifications without derecognition		
Modification of contractual cash flows	Debt restructuring accounts are accounts where the new terms of the contract (such as a lower interest rate) are mandated by law and do not have the same commercial terms as a new product that the group would be willing to offer a customer with a similar risk profile.	Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. Distressed modifications are included in ECL.
Modifications with derecognition (i.e. substantial modifications)		
Retail advances	The process for modifying an advance (which is not part of a debt restructuring) is substantially the same as the process for raising a new advance, including reassessing the customer's credit risk, repricing the asset and entering into a new legal agreement.	Existing asset is derecognised and a new asset is recognised at fair value based on the modified contractual terms.
Neither transferred nor derecognised		
Synthetic securitisation transactions	Credit risk related to specific advances is transferred to a structured entity through credit derivatives. The group consolidates these securitisation vehicles as structured entities, in terms of IFRS 10.	The group continues to recognise the advances and recognises associated credit derivatives which are measured at fair value through profit or loss.

4.4 Offsetting of financial instruments and collateral

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

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

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

It is the group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

4.5 Derivative financial instruments and hedge accounting

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

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

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

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

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

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

5 FINANCIAL INSTRUMENTS IAS 39

5.1 Classification

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

Derivatives
Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.
Cash and cash equivalents and accounts receivable
Cash and cash equivalents comprise coins and bank notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition. Money at short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents and accounts receivable are measured at amortised cost in accordance with IAS 39.
Advances
Advances that are not designated at fair value through profit or loss are measured at amortised cost in accordance with IAS 39. These include retail, commercial and corporate bank advances. Various advances to customers, structured notes and other investments held by RMB investment bank, which would otherwise be measured at amortised cost, have been designated at fair value to eliminate the accounting mismatch between the assets and the underlying derivatives used to manage the risk arising from the assets and /or are managed on a fair value basis. Advances include marketable advances representing certain debt investment securities qualifying as high-quality liquid assets that are under the control of the Group Treasurer and corporate bonds held by RMB investment bank. High quality liquid assets are assets that are easily and immediately converted into cash at little or no loss of value.
Investment securities
The majority of investment securities of the group are either designated at fair value because they are managed on a fair value basis or are classified as available-for-sale. There is a portfolio of debt investment securities measured at amortised cost. Investment securities that represent an interest in the residual value of the investee are classified as equities within investment securities.
Financial liabilities and compound financial instruments
The group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Additional Tier 1 and Tier 2 instruments which have write-down or conversion features are classified based on the nature of the instrument and the definitions of debt and equity.

Compound instruments are those financial instruments that have components of both financial liabilities and equity, such as issued convertible bonds. At initial recognition, the instrument and the related transaction costs are split into their separate components in terms of the definitions and criteria of IAS 32 and are subsequently accounted for as a financial liability or equity.
Short trading positions
Short trading positions are classified as held for trading and measured at fair value through profit or loss. These positions are presented in separate lines on the statement of financial position of the group.
Deposits, Tier 2 liabilities and other funding liabilities
Liabilities are generally measured at amortised cost but may be measured at fair value through profit or loss if they are managed on a fair value basis or the fair value designation reduces or eliminates an accounting mismatch. Tier 2 and other funding liabilities are presented in separate lines on the statement of financial position of the group.

5.2 Measurement

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

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

5.3 Impairment of financial assets

General

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

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

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

Impairment of advances

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

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

	Type of advance	Group policy on past due / impaired
Non-performing loans	Retail loans	Individually impaired if three or more instalments are due or unpaid or if there is evidence before this that the customer is unlikely to repay the obligations in full. Debt-review accounts are not reclassified and remain in non-performing loans until fully cured.
	Commercial and wholesale loans	Analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.
Impairments		
Specific	Created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the advance.	

	Potential recoveries from guarantees and collateral are incorporated in the calculation of impairment figures.
Portfolio	Created with reference to performing advances. The impairment provision on the performing portfolio is split into two parts: ➢ an incurred but not reported (IBNR) provision, i.e. the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified; and ➢ the portfolio-specific impairment (PSI) which reflects the decrease in estimated future cash flows for the subsegment of the performing portfolio where there is objective evidence of impairment.
Write-offs	
When an advance is uncollectible, it is written off against the related allowance account. Such advances are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment of advances in profit or loss.	

5.4 Derivative financial instruments and hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by IAS 39, which impacts the method of recognising the resulting fair value gains or losses.

For derivatives used in fair value hedges changes in the fair value of the derivatives are recorded in profit or loss as part of fair value gains or losses within non-interest revenue, together with any changes in the fair value of the hedged item that are attributable to the hedged risk.

For derivatives used in cash flow hedges, the effective portion of changes in the fair value of derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss. The ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue. For cash flow hedges of a forecast transaction, which results in the recognition of a non-financial item, the amount of the accumulated gains or losses previously recognised in the cash flow hedge reserve is included in the carrying value of the item on initial recognition.

The group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The group treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when they meet the requirements for bifurcation of IAS 39. Where bifurcated derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

6 OTHER ASSETS AND LIABILITIES

6.1 Classification and measurement

Classification	Measurement
Property and equipment	
Information regarding land and buildings is kept at the group's registered office and is open for inspection in terms of section 26 of the Companies Act.	
Property and equipment of the group include: ➢ assets utilised by the group in the normal course of operations to provide services, including freehold property and leasehold premises and leasehold improvements (owner-occupied properties); ➢ assets which are owned by the group and leased to third parties under operating leases as part of the group's revenue generating operations; ➢ capitalised leased assets; and ➢ other assets utilised by the group in the normal course of operations, including computer and office equipment, motor vehicles and furniture and fittings.	Historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated. Depreciation is over the useful life of the asset, except for assets capitalised under finance leases where the group is the lessee, in which case depreciation is over the life of the lease (refer to policy 6.3). Leasehold premises are measured on the shorter of estimated life or period of lease. Freehold property and property held under leasing agreements: - Buildings and structures 50 years - Mechanical and electrical 20 years - Components 20 years - Sundries 3 – 5 years - Computer equipment 3 – 5 years - Other equipment Various: 3 – 10 years
Investment properties	
Properties held to earn rental income and/or for capital appreciation that are not occupied by the companies in the group. When investment properties become owner-occupied, the group reclassifies them to property and equipment, using the fair value at the date of reclassification as the cost.	The fair value gains or losses are adjusted for any potential double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.
Intangible assets	
Intangible assets of the group include: ➢ Internally generated intangible assets (including computer software and other assets such as trademarks or patents) are capitalised when the requirements of IAS 38 relating to the recognition of internally generated assets	Cost less accumulated amortisation and any impairment losses. Amortisation is on a straight-line basis over the useful life of the asset. The useful life of each asset is

<table>
<tr><td>have been met.
➢ External computer software development costs are capitalised when they can be clearly associated with a strategic and unique system which will result in a benefit for the group exceeding the costs incurred for more than one financial period.
➢ Material acquired trademarks, patents and similar rights are capitalised when the group will receive a benefit from these intangible assets for more than one financial period.
All other costs related to intangible assets are expensed in the financial period incurred.</td><td>assessed individually. The benchmarks used when assessing the useful life of the individual assets are:

Software and development costs — 3 years
Trademarks — 10 – 20 years
Other — 3 – 10 years</td></tr>
<tr><td>Goodwill arising from business combinations is recognised as an intangible asset.</td><td>Refer to accounting policy 2.1.</td></tr>
<tr><th colspan="2">Commodities</th></tr>
<tr><td>Commodities acquired for short-term trading purposes include the following:
➢ Commodities acquired with the intention of resale in the short-term or if they form part of the trading operations of the group.
➢ Certain commodities subject to option agreements whereby the counterparty may acquire the commodity at a future date where the risk and rewards are deemed to have transferred to the group in terms of IFRS 15.</td><td>Fair value less costs to sell with changes in fair value being recognised as fair value gains or losses within non-interest revenue.

The price risk in commodities subject to option agreements is fully hedged through a short position, and if the party exercises the option the net profit earned on the transaction will be an interest margin recognised as interest revenue.</td></tr>
<tr><td>Forward contracts to purchase or sell commodities where net settlement occurs, or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments.</td><td>Fair value through profit or loss.</td></tr>
<tr><th colspan="2">Provisions</th></tr>
<tr><td colspan="2">The group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the group will recognise the amount as an accrual. The most significant provisions are related to litigation and claims, as well as provisions for intellectual property fees that arise because of the use of dealer platforms, databases, systems, brands and trademarks when marketing and promoting motor warranty products as part of the motor value-added products and services business. The group recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more reliable than not.</td></tr>
</table>

Other assets that are subject to depreciation, and intangible assets other than goodwill acquired as part of a business combination (refer to accounting policy 2.1) are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. The assets are impaired if the carrying amount is more than the recoverable amount, which is the higher of the assets' value in use and fair value less cost to sell. The impairment loss is calculated as the difference between the assets' carrying amount and their recoverable amounts.

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

6.2 Non-current assets and disposal groups held for sale

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

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

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

6.3 Leases

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

	Group company is the lessee	**Group company is the lessor**
	Finance leases	
At inception	Capitalised as assets and a corresponding lease liability for future lease payments is recognised.	Recognise assets sold under a finance lease as advances and impair the advances, as required, in line with the impairment of financial assets accounting policy in section 4.2. No practical expedients are applied, and fully compliant IFRS 9 models are used for impairment calculation on advances.
Over the life of the lease	The asset is depreciated – refer to accounting policy 6.1.	Unearned finance income is recognised as interest income over the term of the lease using the effective interest method. Finance lease debtors are assessed for impairment in terms of IFRS 9, as set out in the impairment of financial assets policy section 4.2.
Operating leases	Recognised as an operating expense in profit or loss on a	Assets held under operating leases are included in property and equipment and depreciated –

	Group company is the lessee	Group company is the lessor
	straight-line basis over the period of the lease. Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability or asset of the group in creditors and accruals.	refer to accounting policy 6.1. Rental income is recognised as other non-interest revenue on a straight-line basis over the lease term.
Instalment credit sale agreements where the group is the lessor	The group regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, in advances. The group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to interest revenue in proportion to capital balances outstanding.	

7 CAPITAL AND RESERVES

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

Transaction	Liability	Equity
	in profit or loss for the period.	
Treasury shares, i.e. where the group purchases its own equity share capital	If the group reacquires its own equity instruments, those instruments are deducted from the group's equity.	The consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where the shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental costs is included in shareholders' equity.
Other reserves	Not applicable	Other reserves recognised by the group include general risk reserves, required to be held by some of the group's African operations capital redemption reserve funds and insurance contingency reserves. These reserves are required by in-country legislation governing these subsidiaries and are calculated based on the requirements outlined in the relevant legislation applicable in the specific jurisdiction.

8 TRANSACTIONS WITH EMPLOYEES

8.1 Employee benefits

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

Defined contribution plans	
Determination of purchased pension on retirement from defined contribution plan	**Recognition** Contributions are recognised as an expense, included in staff costs, when the employees have rendered the service entitling them to the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

<table>
<tr><td></td><td>Measurement
Upon retirement of current defined contribution active members, the fund provides a pension that can be purchased with the member's share. The pension so purchased is determined based on the purchasing member's demographic details (age, gender, age of spouse), the pension structure (guarantee period, spouse's reversion and pension increase target) and the economic assumptions at the time of purchase (inflation-linked bond yields available).

A benefit on withdrawal and retrenchment is determined in terms of the prevailing legislation and is equivalent to the value of the actuarial reserve held in the fund.
If the member chooses to buy into the fund, the fair value of plan assets and liabilities is increased by the amount of the contribution on that date.</td></tr>
<tr><td colspan="2">Defined benefit plans</td></tr>
<tr><td>Defined benefit obligation liability</td><td>Recognition
The liabilities and assets of these funds are reflected as a net asset or liability in the statement of financial position, i.e. the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.
Where the value is a net asset, the amount recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Measurement
The present value of the defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The discount rate used is the rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liability.</td></tr>
<tr><td>Plan assets</td><td>The plan assets are carried at fair value. Where the plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits under the plan, the fair value is deemed to be the present value of the related obligation. If the qualifying insurance policy has a limit of indemnity, the fair value of the insurance policy is limited to that amount.</td></tr>
<tr><td>Profit or loss</td><td>Included as part of staff costs:
➢ Current and past service costs calculated on the projected unit credit method.
➢ Gains or losses on curtailments and settlements that took place in the current period.
➢ Net interest income calculated by applying the discount rate at the beginning of the period to the net asset or liability.
➢ Actuarial gains or losses on long-term employee benefits.</td></tr>
<tr><td>Other comprehensive income</td><td>All other remeasurements in respect of the obligation and plan assets are included in other comprehensive income and never reclassified to profit or loss.</td></tr>
<tr><td colspan="2">Termination benefits</td></tr>
<tr><td colspan="2">The group recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The group has a present obligation at the earlier of the following two occurrences: when the group can no longer</td></tr>
</table>

withdraw the offer of the termination benefit or when the group recognises any related restructuring costs.	
Liability for short-term employee benefits	
Leave pay	The group recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the group is based on current salary of employees and the contractual terms between the employee and the group. The expense is included in staff costs.
Bonuses	The group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid, and the amount can be reliably measured. The expense is included in staff costs.

8.2 Share-based payment transactions

The group operates a cash-settled and an immaterial equity-settled share-based incentive plans for employees.

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

Awards granted under equity-settled plans result in an expense to be recognised in profit or loss at the fair value of the employee services received in exchange for the grant of the options over the vesting period of the options. A corresponding credit to a share-based payment reserve in the statement of changes in equity is recognised when the expense is recognised.

9 NON-BANKING ACTIVITIES

9.1 Insurance activities

Insurance activities include contracts issued by the group, which transfer significant insurance risk or financial risk. Furthermore, the group has entered into reinsurance contracts.

Insurance contracts are contracts under which the group, as the insurer, accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more (at least 10%) than the benefits payable if the insured event did not occur. The group issues insurance contracts in terms of the Insurance Act 18 of 2017 (Insurance Act) as well as the Short-Term Insurance Act 53 of 1998 (Short-term Act).

Investment contracts which are linked fund policies which fall within the scope of the Insurance Act are viewed as a form of long-term insurance from a legal perspective, however, as investment contracts do not convey insurance risk upon the company, they are scoped out of IFRS 4 and are accounted for in terms of IFRS 9. Investment contracts are classified as financial liabilities, measured at fair value through profit or loss.

The group seeks reinsurance in the ordinary course of business for the purpose of limiting its net loss potential through the diversification of its risks on certain long-term and short-term insurance contracts. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

Insurance contracts		
	Short-term insurance contracts	**Long-term insurance contracts**
Types of policies underwritten	➢ Liability – provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract. ➢ Motor – provides indemnity cover relating to the possession, use or ownership of a motor vehicle. ➢ Personal accident – provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury. ➢ Property – provides indemnity relating to movable and immovable property.	➢ Insurance policies providing lump sum benefits on death, disability or ill health of the policyholder. ➢ Policies that provide funeral cover. ➢ Polices that provide credit life cover.
Definitions	Contracts that transfer significant insurance risk to the group and are within the scope of IFRS 4.	
Recognition	Insurance policies are recognised when contracts are concluded between the policyholder and the group.	
Premiums	Premium revenue comprises premiums on contracts that become due and payable during the current reporting period irrespective of whether the contract was entered into during the current or a previous reporting period. Premiums are recognised gross of commission payable to intermediaries and reinsurance premiums, but net of taxes and levies and are recognised in profit or loss as part of premium income in non-interest revenue.	
Claims paid	Claims and benefits paid consist of claims and claims handling expenses paid during the financial year and are determined by the market value of the indemnification received by the policyholder.	
Acquisition costs	Acquisition costs include all commission and expenses directly related to acquiring new business.	
Claims and benefits paid	Claims and benefits paid consist of claims and claims handling expenses paid during the financial year and are determined by the market value of the indemnification received by the policyholder.	

<table>
<tr><td>Policyholder liability</td><td colspan="2">In terms of IFRS 4, measurement of policyholder liabilities arising from insurance contracts are measured using existing local practices.</td></tr>
<tr><td>Policyholder liability</td><td>The group has adopted SAICA Circular 2/2007 to determine the measurement in respect of short-term insurance contracts.

The provision for outstanding claims (OCR) comprises the group's estimate of settling all claims reported (notified claims) but unpaid at year-end and claims incurred but not reported (IBNR).

The number of open claims at the end of each valuation period are multiplied by an average cost per claim amount to obtain the provision at the end of the reporting period. The average cost per claim is calibrated based on historical experience of what claims of a similar type were ultimately settled for. This provision excludes Value Added Tax.

An IBNR provision is raised for claims incurred but not yet reported based on historical experience. The group determines the IBNR by applying a percentage to premiums written during the period, in line with Directive 169: interim measures.</td><td>The group utilises the SAPs and APNs issued by ASSA to determine the policyholder liabilities that are classified as long-term insurance contracts.

Policyholder liabilities are measured either on a discounted or undiscounted basis, depending on the features of the contracts.

Discounted liabilities

The valuation is performed on a policy-by-policy basis by discounting the best-estimate of future expected premiums, risk benefits, risk charges, reinsurance costs and expenses at the actuarial discount rate. The projection of future expected experience is based on the group's best-estimate assumptions for investment returns, expenses, death rates and withdrawals.

Where the policyholder liability results in a negative liability, the group elects to zerorise the policyholder liability.

Undiscounted liabilities

Undiscounted policyholder liabilities under insurance contracts comprise a provision for claims incurred but not yet reported (IBNR) and claims reported but not paid, namely the outstanding claims reserve (OCR).

IBNR and OCR are measured at the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not.

OCR is calculated by reviewing individual claims and making allowance for IBNR, and the effect of both internal and external foreseeable events, such as changes in claims-handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The group does not discount its liability for unpaid claims.

Adjustments to the IBNR established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used are reviewed annually.</td></tr>
</table>

Income statement impact of movements in the policyholder liabilities /reinsurance assets	Adjustments to the amounts of policyholder liabilities for policies established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately, if material.	Any differences between valuation assumptions and actual experience and any change in liabilities resulting from changes in valuation assumptions are recognised in profit or loss as part of insurance income in non-interest revenue over the life of the contract. If future experience under a policy contract is exactly in line with the assumptions employed at the initial recognition of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.
Liability adequacy test	The net liability recognised is tested for adequacy by calculating current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability and the related expense are recognised.	Liabilities are calculated in terms of the FSV basis as described in SAP 104. Since the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform additional adequacy tests on the liability component. For the liability relating to potential future claims which have already been incurred on the reporting date, but of which the group has not yet been informed, tests are performed to ensure that the liability is sufficient to cover historical run-off profiles and growth in the volume of business.
Acquisition costs	Expensed as incurred.	The FSV methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins included in the premium that are intended to recover acquisition costs. Therefore, no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.
Insurance premium receivables and payables	Amounts due to and from agents, brokers and policyholders are recognised as part of accounts receivable or payable on the statement of financial position when due/receivable. Receivables recognised are assessed for impairment and an impairment provision is raised when recovery of amounts owed by the group is doubtful. Collection rates, applicable to the product arrears rules, are applied to amounts that are not successfully collected from premium receivables to determine the amount that is recoverable. The recoverable amount is excluded from amounts that are not successfully collected. The unrecoverable amount is then included in the measurement of the impairment provision. The collection rates are determined using historical information and trends available to the company. The unrecoverable amount is determined on a product level.	

Reinsurance contracts held	
Definitions	Contracts that give rise to a significant transfer of insurance risk from the group to another insurance entity.
Premiums/recoveries	Premiums paid are recognised as a deduction against premium income in non-interest revenue at the undiscounted amounts due in terms of the contract, when they become due for payment. Recoveries are recognised in profit or loss as part of premium income in non-interest revenue in the same period as the related claim at the undiscounted amount receivable in terms of the contract.
Reinsurance assets	The benefits to which the group is entitled under its reinsurance contracts are recognised as assets including: ➢ short-term balances due from reinsurers on settled claims (included in accounts receivable); and ➢ receivables that are dependent on the expected claims and benefits arising under the related insurance contracts (classified as reinsurance assets). Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Assessed for impairment if there is objective evidence, by applying IFRS 9 impairment considerations for amortised cost assets, that the group may not recover all amounts due and the impact on the amounts that the group will receive from the reinsurer are reliably measurable.
Income statement impact of movements in reinsurance assets	Any difference between the carrying amount of the reinsurance asset and the recoverable amount is recognised in profit or loss as an adjustment to premium income included in non-interest revenue.
Related reinsurance payables	Liabilities relating to reinsurance comprising premiums payable for reinsurance contracts are included in accounts payable and are recognised as an expense when they fall due in terms of the contract.

Investment contracts	
Definitions	Contracts that only transfer financial risk with no significant insurance risk and are within the scope of IFRS 9.
Premiums	Premiums received are recorded as an increase in investment contract liabilities.
Claims paid	Claims incurred are recorded as withdrawals from investment contract liabilities.
Policyholder liabilities	Recognised in the statement of financial position when the group becomes party to the contractual provisions of the contract. These liabilities are designated at fair value through profit or loss on initial recognition. The fair value of the financial liability recognised is never less than the

	amount payable on surrender, discounted for the required notice period, where applicable.
Investment contracts	
Income statement impact of movements in policyholder liabilities	The movement in the liability for policyholder liabilities under investment contracts is recognised as part of fair value gains or losses in non-interest revenue.
Acquisition costs	The contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts are recognised as an asset where they meet the definition of an asset under IFRS. These assets are recognised as intangible assets of the group – refer to policy 5.
Fees on investment contracts	A deferred revenue liability is recognised in respect of upfront fees, directly attributable to a contract, that are charged for securing the investment management service contract. The deferred revenue liability is then released to revenue when the services are provided, over the expected duration of the contract on an appropriate basis. Service fee income is recognised on an accrual basis as and when the services are rendered and is included in fee and commission income within non-interest revenue.

9.2 Investment management activities

Certain divisions within the group engage in investment management activities that result in the managing of assets on behalf of clients. The group excludes assets related to these activities from the statement of financial position as these are not assets and liabilities of the group, but of the client. However, the group discloses the value of the assets in its notes.

The fee income earned and fee expenses incurred by the group relating to these activities are recognised in fee and commission income and expenses within non-interest revenue in the period to which the service relates.

10 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

10.1 Introduction

In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the group, except those related to fair value measurement, which are included in note 34.

10.2 Subsidiaries, associates and joint arrangements

<table>
<tr><th colspan="2">Subsidiaries</th></tr>
<tr><td colspan="2">Only one party can have control over a subsidiary. In determining whether the group has control over an entity, consideration is given to any rights the group has that result in the ability to direct the relevant activities of the investee, and the group's exposure to variable returns.
In operating entities, shareholding is most often the clearest indication of control. However, for structured entities and investment management funds, judgement is often needed to determine which investors have control of the entity or fund. Generally, where the group's shareholding is greater than 50%, the investment is accounted for as a subsidiary.</td></tr>
<tr><td>Decision making power</td><td>Some of the major factors considered by the group in making this determination include the following:
➢ The purpose and design of the entity.
➢ What the relevant activities of the entity are.
➢ Who controls the relevant activities and whether control is based on voting rights or contractual agreements. This includes considering:
o what percentage of voting rights is held by the group and the dispersion and behaviour of other investors;
o potential voting rights and whether these increase/decrease the group's voting powers;
o who makes the operating and capital decisions;
o who appoints and determines the remuneration of the key management personnel of the entity;
o whether any investor has any veto rights on decisions;
o whether there are any management contracts in place that confer decision-making rights;
o whether the group provides significant funding or guarantees to the entity; and
o whether the group's exposure is disproportionate to its voting rights.
➢ Whether the group is exposed to any downside risk or upside potential that the entity was designed to create.
➢ To what extent the group is involved in the setup of the entity.
➢ To what extent the group is responsible to ensure that the entity operates as intended.</td></tr>
</table>

Exposure to variable returns	Factors considered include: ➢ the group's rights in respect of profit or residual distributions; ➢ the group's rights in respect of repayments and return of debt funding; ➢ whether the group receives any remuneration from servicing assets or liabilities of the entity; ➢ whether the group provides any credit or liquidity support to the entity; ➢ whether the group receives any management fees and whether these are market-related; and ➢ whether the group can obtain any synergies through the shareholding, not available to other shareholders. Benefits could be non-financial in nature as well, such as employee services etc.
Ability to use power to affect returns	Factors considered include: ➢ whether the group is acting as an agent or principal; ➢ if the group has any de facto decision-making rights; ➢ whether the decision-making rights the group has are protective or substantive; and ➢ whether the group has the practical ability to direct the relevant activities.

Associates	**Joint arrangements**
Determining whether the group has significant influence over an entity: ➢ Significant influence may arise from rights other than voting rights, for example management agreements. ➢ The group considers both the rights that it has as well as currently exercisable rights that other investors have when assessing whether it has the practical ability to significantly influence the relevant activities of the investee.	Determining whether the group has joint control over an entity: ➢ The group considers all contractual arrangements to determine whether unanimous consent is required in all circumstances. ➢ A joint arrangement is classified as a joint venture when it is a separate legal entity and the shareholders share in the net assets of the separate legal entity. In order to determine whether the shareholders share in the net assets of the entity the group considers the practical decision-making ability and management control of the activities of the joint arrangement.

Structured entities
Structured entities are those where voting rights generally relate to administrative tasks only and the relevant activities are determined only by means of a contractual arrangement. When assessing whether the group has control over a structured entity specific consideration is given to the purpose and design of the structured entity, and whether the group has power over decisions that relate to activities that the entity was designed to conduct.

Investment funds
The group acts as fund manager to a number of investment funds. In terms of a mandate the group is required to make active investment management decisions in respect of the fund. Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the group in the fund (comprising any direct interests in the fund and expected management fees), as well as the investor's right to remove the group as fund manager. If the other investors are able to remove the group as fund manager easily or the group's aggregate interest is not deemed to be significant, the group does not consolidate the funds as it is merely acting as an agent for the other investors. Other investors are considered to be able to remove the fund manager easily if it is possible for a small number of investors acting together to appoint a new fund manager in the absence of misconduct. Where the group has a significant investment and an irrevocable fund management agreement, the fund is consolidated. Where such funds are consolidated, judgement is applied in determining if the non-controlling interests in the funds are classified as equity or financial liabilities. Where the external investors have the right to put their investments back into the fund, these non-controlling interests do not meet the definition of equity and are classified as financial liabilities. Where such funds are not consolidated, the group is considered to have significant influence over the fund where it has an insignificant direct interest in the fund and there is an irrevocable fund management agreement. Where investments in funds managed by the group are considered to be financially inconsequential, these are not consolidated, nor is equity accounted by the group and recognised as investment securities. As decisions related to the relevant activities are based on a contractual agreement (mandate) as opposed to voting or similar rights, investment funds that are managed by the group are considered to be structured entities as defined in IFRS 12, except where other investors can easily remove the group as fund manager without cause as this represents rights similar to voting rights. The group receives investment management fees from the funds for investment management services rendered. These fees are typical of supplier-customer relationships in the investment management industry. Where the group provides seed funding or has any other interests in investment funds that it manages, and does not consolidate or equity account the fund, the investment is considered to represent a typical customer-supplier relationship. The group does not sponsor investment funds that it manages, as it does not provide financial support to these funds.

Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. For impairment testing purposes, goodwill is allocated to cash generating units (CGUs) at the lowest level of operating activity to which it relates and is therefore not combined at group level.

The significant CGUs to which the goodwill balance as at 30 June relates is reflected below.

R million	**2019**	2018
FNB Botswana	**36**	36
FNB Namibia	**106**	106
FNB Mozambique	**99**	102
RMB other	**2**	2
WesBank	**466**	466
Aldermore	**6 459**	6 521
Other	**79**	79
Total	**7 247**	7 312

The recoverable amount of the CGU is determined as the higher of the value in use or fair value less costs to sell.

The group's goodwill impairment test is performed on the balances as at 31 March annually. As at 30 June 2019, management reviewed the assumptions and estimates used in the calculation of goodwill and other intangible assets and determined that the recoverable amount exceeds the carrying amount.

<table>
<tr><th>Value in use</th><th>Fair value less costs to sell</th></tr>
<tr><td>
The value in use is calculated as the net present value of the discounted cash flows of the CGU. This is determined by discounting the estimated future pre-tax cash flows to its present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one-year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU.
The key assumptions in determining the value in use of the CGU are therefore the discount rate and growth rate. The table below shows the discount rates and the growth rates used in calculating the value in use for the CGUs.
<table>
<tr><th></th><th colspan="2">Discount rates</th><th colspan="2">Growth rates</th></tr>
<tr><th>%</th><th>2019</th><th>2018</th><th>2019</th><th>2018</th></tr>
<tr><td>FNB Botswana</td><td>12.30</td><td>12.30</td><td>-2.00</td><td>3.00</td></tr>
<tr><td>FNB Mozambique</td><td>27.70</td><td>27.80</td><td>3.00</td><td>3.60</td></tr>
<tr><td>WesBank</td><td>19.44</td><td>19.86</td><td>4.50</td><td>3.93</td></tr>
<tr><td>Aldermore</td><td>10.09</td><td>11.50</td><td>2.00</td><td>3.00</td></tr>
<tr><td>Other</td><td>19.44</td><td>12.41</td><td>3.00</td><td>4.19</td></tr>
</table>
The discount rate used is the weighted average cost of capital for the specific segment or entity, adjusted for specific risks relating to the segment or entity. Some of the other assumptions include investment returns and expense inflation rates.
</td><td>
The fair value less costs to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU.
The recoverable amount of the RMB other and FNB Namibia CGUs were calculated based on the fair value less costs to sell. RMB other consists of a number of individual, financially inconsequential investments in private equity subsidiaries. The fair value was determined using the discounted cash flow valuation technique. Due to the differing nature of the underlying entities, various inputs were used to determine the fair value of each of the individual CGUs included in the total RMB other CGU. These amounts were impaired to zero in the prior year. Refer to note 3 for more details.
</td></tr>
<tr><td>
The period over which management has projected cash flows ranges between three and five years. The cash flows from the final cash flow period are extrapolated into perpetuity to reflect the long-term plans of the group. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.
A reasonably possible change in the discount rate or growth rate of the above-mentioned CGUs would not result in their recoverable amounts exceeding the carrying values. A change in the discount rates or growth rate applied and other reasonably possible change in the key assumptions would not result in additional impairment losses being recognised for goodwill in any of the CGUs. The recoverable amount is sufficiently in excess of the carrying amount resulting in changes to the assumptions not changing the final outcome of the test.
</td><td>
The fair value less costs to sell for FNB Namibia is based on the listed share price as quoted on the Namibian Stock Exchange and therefore falls into level 1 of the fair value hierarchy.
</td></tr>
</table>

Foreign operations
Management reviewed the economies of countries where the group's foreign operations are actively conducted and have not identified any hyperinflationary economies in terms of the requirements of IFRS. The group operates in South Africa, Namibia, Botswana, Swaziland, Mozambique, Zambia, Lesotho, Tanzania, Ghana, Nigeria, Mauritius, Wales, London, Guernsey and India. The group has representative offices in Kenya, Angola and Shanghai office in Angola is not active at this point.

10.3 Taxation

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

10.4 Impairment of financial assets (IFRS 9)

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

functions.

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

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

The following scenarios were applied at 30 June 2019

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

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

South Africa

Global growth is slowing and will provide less support to the South African and rest of Sub-Sahara African economies over the next year or two. As growth slows, concerns over a possible global recession has also increased. The upshot of a slowdown in global growth is, however, that global inflation pressures will remain subdued, allowing the Fed room to slow the pace of monetary policy tightening. This will provide scope for the rest of the world's Central Banks to refrain from aggressive monetary policy tightening in the near term.

We expect growth to remain subdued in South Africa as low consumer and business confidence continue to restrain consumer spending and private sector investment. High government debt renders the government unable to lift public sector investment and spending while financial and operational risks at state owned enterprises (particularly Eskom) are fuelling expectations for further sovereign ratings downgrades.

The consequence of weak domestic growth is that employment growth remains low, credit extension is weak and core inflation pressures subdued. This, combined with a slowdown in Fed policy normalisation, suggest the SARB can postpone its hiking cycle. The group is monitoring President Ramaphosa's plans to lift South Africa's trend growth rate closely. We are encouraged by the governance reforms being implemented at SOEs and other institutions such as the National Prosecuting Authority and the South African Revenue Service. What remains to be seen is whether these governance reforms can or will translate into economic reforms that can lift GDP growth meaningfully.

Sub-Saharan Africa

In the rest of the Sub-Saharan Africa region, the Namibian economy remains weak and there is no meaningful evidence of a rebound, especially as fiscal risks increase gradually and global growth slows. Fiscal risks also weigh heavily on Mozambique, Zambia and Swaziland where high debt and governance failures continue to materially constrain economic growth.

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. Ghana continues to benefit from its oil and gold production, which it now seeks to translate into a more diversified pattern of economic growth, while Nigeria's economy has lifted gradually as the government continues to systematically implement economic reforms, also to achieve a more diversified growth model.

UK

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

Significant macroeconomic factors

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

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

The following table reflects the impact on the IFRS 9 impairment provisions on advances, if the probability weighting assigned to each of the scenarios were increased to 100%.

	R' million	% change on total IFRS 9 provision
IFRS 9 impairment provision at 30 June 2019	34 162	
Scenarios		
Baseline	33 791	(1)
Upside	32 370	(5)
Downside	37 779	11

In addition to forward-looking macroeconomic information, other types of forward-looking information, such as specific event risk, is taken into account in ECL estimates when required. Furthermore, where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates and macro-economic events, additional provisions via post model adjustments are made.

<table>
<tr><th>Judgement</th><th>Retail and retail SME</th><th>Wholesale and commercial SME</th></tr>
<tr><td rowspan="2">Measurement of the 12-month and lifetime ECL</td><td>Parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour, as well as behavioural and demographic information related to individual exposures currently on book.
PD parameters are determined through assessment of the influence that various risk drivers have had on historical default rates.
EAD parameter estimates are based on product characteristics and historical draw-down and payment behaviour.
LGDs are determined by estimating expected future cash flows. These cash flows include direct costs and proceeds from the sale of collateral. Collateral recovery rates are based on historically observed outcomes.
The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.</td><td>Parameters are determined based on the application of statistical models that produce estimates based on counterparty-specific financial information and transaction characteristics. These characteristics include the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are taken through a robust review and challenge process before being applied to calculate expected credit losses, and are required to be signed off by a committee of wholesale and commercial credit experts who can motivate adjustments to modelled parameters.</td></tr>
<tr><td colspan="2">Parameters are calibrated for the calculation of 12-month and lifetime ECL using term structures that consider borrower risk, account age, historical behaviour, transaction characteristics and correlations between parameters.
Term structures have been developed over the entire remaining contractual lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, except for instruments with an undrawn commitment such as credit cards, where there is not a contractual expiry date. In such instances the remaining term is determined with reference to the change in client requirements that would trigger a review of the contractual terms, for example an increase in limit.
Expected credit losses on open accounts are discounted from the expected date of default to the reporting date using the asset’s original effective interest rate or a reasonable approximation thereof.</td></tr>
<tr><td>Determination of whether the credit risk of financial instruments have increased</td><td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk (SICR) at each reporting date</td><td>In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk at</td></tr>
</table>

<table>
<tr><th>Judgement</th><th>Retail and retail SME</th><th>Wholesale and commercial SME</th></tr>
<tr><td>significantly since initial recognition</td><td>(monthly), in which case the expected credit loss is calculated on a lifetime basis.

SICR triggers are client behavioural based and are derived from client behavioural scores as well as judgemental factors. These triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default on that portfolio.

The group uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk. These levels are monitored and validated on a continuous basis. Management also considers other judgemental triggers, for example behaviour on other products and anticipated changes in legislation.</td><td>each reporting date (monthly), in which case the expected credit loss is calculated on a lifetime basis.

SICR triggers are client behavioural based and are derived from a client FR rating or risk score, as well as judgemental factors which may result in the client being added to the watch list through the group's ongoing risk management process. These triggers are tested at a deal and client level and the former is calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk.

The group uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk, and the client's watch list status at a point in time. These levels are monitored and validated on a continuous basis.</td></tr>
<tr><td>Determination of whether a financial asset is credit impaired</td><td colspan="2">Exposures are classified as stage 3 if there are qualitative indicators that the obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the group to action such as the realisation of security.

Distressed restructures of accounts in stage 2 are also considered to be default events.

For a retail account to cure from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. In most retail portfolios curing is set at 12 consecutive payments.

For wholesale exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the relevant debt restructuring credit committee.

A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures.</td></tr>
</table>

Judgement	Retail and retail SME	Wholesale and commercial SME
Fair value movement due the credit risk of financial liabilities		
The fair value movement on financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of the liability is considered and where applicable is accounted for in other comprehensive income. If this fair value movement is due to changes in credit risk, which is offset by a corresponding movement in the fair value of a linked asset measured at fair value, this movement is included in profit or loss rather than other comprehensive income.		

10.5 Impairment of financial assets (IAS 39)

Impairment of financial assets	
In determining whether an impairment loss should be recognised, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.	
General	
Collective impairment assessment of groups of financial assets	Future cash flows in a group of financial assets are estimated based on the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for groups of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the group to reduce any differences between loss estimates and actual loss experience.
Impairment assessment of collateralised financial assets	The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether the group elects to foreclose or not.
Advances	
The group continuously assesses its credit portfolios for impairment. Significant advances are monitored by the credit committee and impaired in accordance with the group's impairment policy when an indication of impairment is observed. The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure. In determining the amount of the impairment, the group considers the PD, EAD and LGD.	

Performing loans
The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In retail portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In commercial portfolios other indicators, such as the existence of high-risk accounts, based on internally assigned risk ratings and management judgements, are used, while the wholesale portfolio assessment (which includes RMB investment banking and RMB corporate banking) includes a judgemental review of individual industries for objective signs of distress. The objective of the measurement of an impairment loss is to produce a quantitative measure of the group's credit risk exposure. In determining the amount of the impairment, the group considers the following: ➢ the probability of default, which is a measure of the expectation of how likely the customer is to default; ➢ the exposure at default, which is the expected amount outstanding at the point of default; and ➢ the loss given default, which is the expected loss that will be realised at default after considering recoveries through collateral and guarantees. Where impairment is required to be determined for the performing book, the following estimates are required: ➢ The IBNR provision, calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessment performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio. Refer to the table below for additional information. ➢ The PSI in the decrease in future cash flows, primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

The sensitivity of modelled provisions to key assumptions has been assessed for each portfolio. This assessment was performed by calculating the impact on modelled provisions of adjusting model inputs to reflect conservative assumptions. The impact of increasing conservatism was tested by varying assumptions individually and simultaneously.

The sensitivity of modelled provisions for performing loans was assessed by adjusting loss emergence period assumptions and arrears definitions. The arrears definition was adjusted so that early and/or partial arrears are considered to be objective evidence of impairment and the loss emergence period was increased by one month.

Based on the results of the sensitivity analysis performed, management is satisfied that the current total provisions held for performing accounts is appropriate.

The table below provides a breakdown of the range of loss emergence periods for the main classes of advances:

	Loss emergence range
Retail secured	3 – 6 months
Retail unsecured	3 months
Corporate and commercial	3 months (FNB and WesBank) and 12 months (RMB)

Aldermore	**Loss emergence range**
Invoice finance	6 months
Asset finance	5 months
Residential mortgages	12 months
Buy to let	12 months
Commercial mortgages	12 months
Property development	12 months

The tables below display the sensitivity of the total impairment provisions to the change in the arrears definition and the one-month increase in the loss emergence period as discussed above.

R million	2018 Total portfolio provisions	2018 Sensitivity – arrears definition	2018 Sensitivity – loss emergence period
Retail secured	**1 872**	**726**	**203**
- Residential mortgages	**566**	**80**	**54**
- VAF	**1 306**	**646**	**149**
Retail unsecured	**2 187**	**560**	**360**
- Card	**407**	**44**	**91**
- Personal loans	**1 287**	**345**	**173**
- FNB	**751**	**88**	**111**
- Direct Axis loans#	**536**	**257**	**62**
Retail other	**493**	**171**	**96**
Corporate and commercial	**3 643**	**51**	**57**
- FNB commercial	**537**	**31**	**51**
- WesBank corporate	**196**	**20**	**6**
- RMB investment banking*	**1 965**	**- ****	**- ****
- RMB corporate banking**	**945**	**- ****	**- ****
Rest of Africa	**648**	**152**	**133**
- FNB Africa	**588**	**91**	**120**
- WesBank Africa	**60**	**61**	**13**
Aldermore	**318**	**21**	**74**
FCC and other***	**175**	**-**	**-**
Total portfolio provisions	**8 843**	**1 510**	**827**

 # Formerly called WesBank loans.

** A significant portion of the RMB investment banking book is carried at fair value. Information about the sensitivity of the fair value of these advances to changes in the assumptions used to measure these advances are provided in note 34 Fair value measurements.*

*** The increase in the portfolio impairment of the RMB amortised cost advances was R34 million for RMB investment banking and R104 million for RMB corporate banking. The sensitivity was calculated as follows:*

- *For the IBNR portion of the portfolio provisions the impairment was calculated based on the EAD instead of the net exposure. This assumes a stress scenario where the counterparties will draw down further; and*
- *For the PSI portion of the portfolio provision the impairment was calculated using industry stressed PDs instead of turbulent PDs. This assumes a stress scenario where the counterparties falling within an industry experiencing stress are subject to a further stress event or deterioration in the industry.*

**** These provisions are not sensitive to changes in the assumptions used to calculate the amounts.*

Non-performing loans

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for commercial and wholesale loans) for assets with similar credit risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Management is comfortable that the level of provisions held for non-performing loans is appropriate, considering the impact of a 10% relative change in NPL LGDs on modelled provisions.

The table below illustrates the sensitivity of provisions held on non-performing loans to the LGD estimates applied. Sensitivities were calculated by increasing LGDs relatively by 10%.

	2018		
	Average NPL LGD (%)	Total specific provisions R million	Provisions sensitivity* R million
Retail secured		3 254	310
- Residentail mortgages	22	905	91
- VAF	30	2 349	219
Retail unsecured		2 907	286
- Card	67	724	72
- Personal loans		1 465	153
- FNB	60	800	80
- Direct Axis loans#	37	665	73
Retail other	72	718	61
Corporate and commercial		2 214	134
- FNB commercial	37	1 015	81
- WesBank corporate	48	116	1
- RMB investment banking**	45	1 034	50
- RMB corporate banking**	24	49	2
Rest of Africa		1 476	148
- FNB Africa	44	1 268	127
- WesBank Africa	65	208	21
Aldermore		141	
FCC and other	-	-	-
Total specific provisions		9 992	878

 # Formerly called WesBank loans.

** This reflects the increase in the provision due to the 10% increase in the LGD.*

*** The sensitivity of specific impairments to the judgements and estimates made by management is calculated by applying a haircut of 10% to the estimated recoverable value of the non-performing loans.*

10.6 Provisions

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

10.7 Transactions with employees

Employee benefits – defined benefit plans	
Determination of required funding levels	Funding levels are monitored on an annual basis and the current agreed contribution rate in respect of the defined benefit pension fund is 21% of pensionable salaries (in excess of the minimum recommended contribution rate set by the fund actuary). The group considers the recommended contribution rate as advised by the fund actuary with each actuarial valuation.

	In addition, the trustees of the fund target a funding position on the pensioner liabilities that exceeds the value of the best estimate actuarial liability. The funding position is also considered in relation to a solvency reserve basis, which makes allowance for the discontinuance cost of outsourcing the pensions. As at the last statutory actuarial valuation of the fund (during June 2018), all categories of liabilities were at least 100% funded. If the member chooses to buy into the fund the fair value of plan assets and the value of the plan liabilities on the defined benefit plan are increased by the amount of the initial contribution on the date of the purchase.
Employee benefits – defined benefit plans	
Determination of present value of defined benefit plan obligations	The cost of the benefits and the present value of the defined benefit pension funds and post-employment medical obligations depend on a number of factors that are determined annually on an actuarial basis, by independent actuaries, using the projected unit credit method which incorporates a number of assumptions. The key assumptions used in determining the charge to profit or loss arising from these obligations include the expected long-term rate of return on the relevant plan assets, discount rate and expected salary and pension increase rates. Any changes in these assumptions will impact the charge to profit or loss and may affect planned funding of the pension plans.
Cash-settled share-based payment plans	
Determination of fair value	The liability is determined using a Black Scholes option pricing model with a zero strike price. The following estimates are included in the model to determine the value: ➢ management's estimate of future dividends; ➢ the risk-free interest rate is used; and ➢ staff turnover and historical forfeiture rates are used as indicators of future conditions.
Equity-settled share-based payment plans	
Determination of fair value	The total value of the services received is calculated with reference to the fair value of the options on grant date. The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest.

10.8 Insurance and investment management activities

Short-term insurance contracts	
Determination of policyholder liability for short-term insurance contracts	OCRs are derived from actual claims submitted and no repudiation factor is applied when calculating the reserve. For intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the

	claim. IBNR represent claims incurred but not yet reported or paid. The liability is estimated by assuming that the final settled claims for a cohort of policies will emerge as assumed in the pricing basis (the prior loss ratio). This loss ratio is applied to gross earned insurance premiums to obtain the ultimate view of claims to which the OCR at year end date and paid claims to date are subtracted to obtain the IBNR reserve.
Long-term insurance contracts	
Determination/ valuation of policyholder liability for long-term insurance contracts – FSV method	Policyholder liabilities under long-term insurance contracts are valued in terms of the FSV method as is required by professional guide note SAP 104 issued by the ASSA. This methodology is applied to each product type depending on the nature of the contract and the associated risks. Under this method the liability is determined as the best estimate of the future cash flows relating to the insurance contracts, plus certain compulsory and discretionary margins.
Best estimate of future cash flows	The best estimate of future cash flows takes into account current and expected future experience as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole policy book. Differences between the assumptions used at the start and end of the period give rise to revised liability quantification. The expected level of early terminations is incorporated into the liabilities, irrespective of whether this leads to an increase or a decrease in the liabilities.
Discretionary margins	Where the present value of expected future inflows are greater than the present value of the expected future outflows, the resulting asset at a portfolio level is set to zero. The main discretionary margins utilised in the valuation are as follows: ➢ additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected; and ➢ an additional data reserve is held to protect against possible future losses due to data discrepancies.
Liabilities for claims	Intimated claims represent claims where the incident giving rise to a claim has occurred and has been reported to the insurer for settlement but has not yet been finalised and paid by the insurer. The liability is measured at the value assessed for the claim. Unintimated claims represent claims incurred but not yet reported or paid. The liability is estimated by assuming that future trends in reporting of claims will be similar to the past. The profile of claims run-off (over time) is modelled by using historic data of the group and chain-ladder techniques. The profile is then applied to actual claims data of recent periods for which the run-off is believed not to be complete.

<table>
<tr><th colspan="2">Key assumptions to which the estimation of liabilities is particularly sensitive</th></tr>
<tr><td colspan="2">Material judgement is required in determining liabilities and in the choice of assumptions. Assumptions in use are based on experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis to ensure realistic and reasonable valuations. The key assumptions to which the estimation of liabilities are particularly sensitive have not changed during the financial year and are as follows:</td></tr>
<tr><td>Mortality and morbidity rates</td><td>Assumptions are based on standard industry and national tables, per the type of contract written and the territory in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by gender, underwriting class and contract types. An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.</td></tr>
<tr><td>Expenses</td><td>Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate. An increase in expenses would result in a reduction profits for shareholders.</td></tr>
<tr><td>Lapse and surrender rates</td><td>Lapses relate to the termination of policies due to non-payment of premium. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the group's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.</td></tr>
<tr><td>Discount rate</td><td>Life insurance liabilities are calculated as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the group's own risk exposure. A decrease in the discount rate will increase the value of the insurance liability and therefore reduce the profits for the shareholders.</td></tr>
<tr><th colspan="2">Investment contracts</th></tr>
<tr><td>Valuation of policyholder liability under investment contracts</td><td>The fair value of investment contracts without fixed benefits and unit-linked contracts is calculated using the current unit price that reflects the fair values of the underlying financial assets and/or derivatives.

For unit-linked contracts the unitised investment funds linked to the financial liability are multiplied by the number of units attributed to the policyholder at the statement of financial position date.

For investment contracts with fixed and guaranteed terms, a valuation model is used to establish the fair value at inception and at each reporting date. The valuation model values the liabilities as the present value of the maturity values, using appropriate</td></tr>
</table>

Key assumptions to which the estimation of liabilities is particularly sensitive	
	market-related yields to maturity.

11 IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

The group adopted IFRS 9 and IFRS 15 during the current period. As set out in Accounting policy note 1, comparative information has not been restated, but the retained earnings, as at the date of initial adoption (DIA) of 1 July 2018, has been restated.

11.1 Key impact of revised standards' adoption

The key impact of adopting the revised standards has been set out below.

Note	Description of change	Impact on FirstRand group
1 and 2	**Classification and measurement**	
	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate to 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 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.	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 and a minor portfolio within FNB commercial were reclassified from FVTPL to amortised cost. These advances are held with the objective of collecting cash flows that meet the SPPI test, resulting in a measurement adjustment of R238 million.
	IFRS 9 also allows for the once-off reclassification of financial liabilities.	➢ Advances to empowerment development funds were reclassified from amortised cost to FVTPL as they do not meet the

		SPPI test. The off-market impact of R65 million was reclassified to investment in associates. ➢ R66 194 million in 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 the investments are 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 R 59 237 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 R 796 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	The revised impairment requirements increased impairments by R 8 598 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.

	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.	
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 R259 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.

6	IFRS 15	
	IFRS 15 requires revenue to be recognised as an entity satisfies its performance obligations, which can be at a point in time or over time. The group's revenue that does not fall within the scope of IFRS 9 is mainly derived from providing services to customers and was therefore recognised over the period of time in which the services were provided, in accordance with IAS 18 Revenue. As the revenue from the provision of services is still required to be recognised over time in terms of IFRS 15, the adoption of IFRS 15 had an immaterial impact on the group.	The decrease of R73 million in opening retained earnings as a result of adopting the standard relates to the deferral of fees for administration services provided on behalf of service providers on non-underwritten warranty and bodyline maintenance products which were previously received and recognised up front in terms of IAS 18. The group assessed whether this change was a prior year error and whether it should be corrected retrospectively as IAS 8 would require. However, the impact was considered too immaterial to restate comparative information.

11.2 Treatment and measurement of ISP

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

R million	**IAS 39 ISP 30 June 2018**	**ISP on the reclassified book**	**IFRS 9 adjust-ment to advances**	**IFRS 9 ISP adjust-ment due to change in coverage ratio**	**Tax on IFRS 9 ISP adjust-ment due to change in coverage ratio**	**ISP adjust-ment to provisions (stage 3)**	**Net ISP movement**
	Note 6	Note 7		Note 8		**Note 9**	
Reconciliation of ISP							
FirstRand Bank	**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 Bank	**-**	-	**-**	596	(166)	**-**	**430**
FNB	**-**	-	**-**	596	(166)	**-**	**430**

Notes:

6. The amount of ISP recognised under IAS 39.

7. Relates to the ISP on the book that was reclassified from FVTPL to amortised cost, where ISP was not separately determined and disclosed on the FVTPL advance under IAS 39.

8. The adjustment required to ensure that the ISP amount is aligned to the coverage ratio.

9 Total amount of ISP recognised under IFRS 9 in stage 3.

11.3 TRANSITION IMPACT ON CONSOLIDATED FINANCIAL POSITION

as at DIA

R million	**Notes**	**IFRS 9**	**Reclassi-fication**	**Remeasu-rement**	
ASSETS					
Investment securities		**211 674**	1 010	**1 844**	
Advances		**1 113 398**	(65)	**238**	
Accounts receivable		**8 847**	(1 010)	**-**	
Current tax asset		**850**	2	**(8)**	
Investments in associates		**5 343**	65	**-**	
Investments in joint ventures		**1 726**	-	**-**	
Deferred income tax asset		**4 017**	(2)	**(382)**	
Other financial assets		**138 523**	-	**-**	
Non-financial assets		**43 193**	-	**-**	
Total assets		**1 527 571**	-	**1 692**	
EQUITY AND LIABILITIES					
Liabilities					
Creditors, accruals and provisions		**19 626**	**-**	**-**	
Current tax liability		**438**	**-**	**-**	
Deposits		**1 268 244**	**-**	**796**	
Other liabilities		**6 989**	**-**	**-**	
Deferred income tax liability		**1 466**	**-**	**-**	
Other financial liabilities		**79 393**	**-**	**-**	
Non-financial liabilities		**26 126**	**-**	**-**	
Total liabilities		**1 402 282**	**-**	**796**	
Equity					
Ordinary shares		**56**	-	**-**	
Share premium		**7 994**	-	**-**	
Reserves		**107 564**	9	**887**	
Capital and reserves attributable to ordinary		**115 614**	9	**887**	
Contingent convertible securities*		**1 250**	-		
NCNR preference shares*		**4 519**	-	**-**	
Capital and reserves attributable to equityholders of		**121 383**	9	**887**	
Non-controlling interests		**3 906**	(9)	**9**	
Total equity		**125 289**	**-**	**896**	
Total equities and liabilities		**1 527 571**	-	**1 692**	

**These instruments are included in the Other equity instruments balance in the annual financial statements.*

Net of ISP of R2 241 million. Refer to accounting policy notes 11.1 and 11.2 for more information.

Refer to detailed note explanations in accounting policy note 11.1.

	ECL impair-ment	ISP due to change in coverage ratio	Total adjust-ments	IAS 39
	(117)	-	**2 737**	**208 937**
	(8 598)	596	**(7 829)**	**1 121 227**
	(27)	-	**(1 037)**	**9 884**
	478	-	**472**	**378**
	(259)	-	**(194)**	**5 537**
	-	-	**-**	**1 726**
	1 683	(166)	**1 133**	**2 884**
	-	-	**-**	**138 523**
	-	-	**-**	**43 193**
	(6 840)	430	**(4 718)**	**1 532 289**
	6	-	6	**19 620**
	-	-	-	**438**
	-	-	796	**1 267 448**
	-	-	-	**6 989**
	(11)	-	(11)	**1 477**
	-	-	-	**79 393**
	-	-	-	**26 126**
	(5)	-	791	**1 401 491**
	-	-	-	**56**
	-	-	-	**7 994**
	(6 737)	430	(5 411)	**112 975**
	(6 737)	430	(5 411)	**121 025**
				1 250
	-	-	-	**4 519**
	(6 737)	430	(5 411)	**126 794**
	(98)	-	(98)	**4 004**
	(6 835)	430	(5 509)	**130 798**
	(6 840)	430	(4 718)	**1 532 289**

11.4 TRANSITION IMPACT ON STATEMENT OF CHANGES IN EQUITY

as at DIA

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**	**-**	-	-	-	
Deferred tax		**-**	-	-	-	
Remeasurement		**-**	-	-	-	
Advances		**-**	-	-	-	
Investment securities		**-**	-	-	-	
Deposits		**-**	-	-	-	
Current tax		**-**	-	-	-	
Deferred tax		**-**	-	-	-	
ECL impairment		**-**	-	-	-	
Advances		**-**	-	-	-	
Investment securities		**-**	-	-	-	
Non-advances		**-**	-	-	-	
Current tax		**-**	-	-	-	
Deferred tax		**-**	-	-	-	
ISP		**-**	-	-	-	
Advances		**-**	-	-	-	
Deferred tax		**-**	-	-	-	
Balance as at 1 July 2018		**8 050**	(723)	343	4	

** Other reserves include the FVOCI reserve.*

***This instrument is included in the Other equity instruments balance in the annual financial statements.*

Refer to accounting policy note 11.1 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 equity-holders**	**NCNR preference shares****	**Non-controlling interest**	**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**

11.5 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			

Refer to accounting policy note 11.1 an explanation of the 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**
	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**
	1 060 090	143 690	238	(8 598)	596	**924 164**
	45 187	45 187	-	-	-	**-**
	8 121	(165 268)	-	-	-	**173 389**
	-	(23 674)	-	-	-	**23 674**
	8 847	(1 010)	-	(27)	-	**9 884**
	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**
	1 221 227	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**

11.6 Reclassification of financial instruments to amortised cost

The table below sets out information about financial instruments that have been reclassified from available-for-sale and fair value through profit or loss to amortised cost upon the adoption of IFRS 9. The table sets out information about the financial instruments' fair value and fair value gains and losses that would have been recognised in OCI or profit or loss if the reclassification had not taken place.

R million	FV as at 30 June 2019	FV gain or loss that would have been recognised in profit or loss	FV gain or loss that would have been recognised in other comprehensive income
ASSETS			
Classified from available-for-sale under IAS 39			
Advances	**15 895**	**-**	**1**
Investment securities	**57 971**	**9**	**926**
Classified as FVTPL under IAS 39			
Advances - designated at FVTPL	**75 234**	**6 819**	**-**
Investment securities - designated at FVTPL	**952**	**(387)**	**-**
Investment securities - held for trading	**-**	**-**	**-**
LIABILITIES			
Classified as FVTPL under IAS 39			
Deposits	**34 192**	**106**	**-**
Other liabilities	**1 849**	**(119)**	**-**

11.7 Reconciliation of impairment loss allowance

The group has changed its accounting policies in respect of the classification of financial instruments under IFRS 9. The application of these changes resulted in changes in the impairment loss allowance balances for IFRS 9 adoption when compared to the IAS 39 impairment loss allowance balances. In addition, the application of the ECL impairment model under IFRS 9 has also resulted in an increase in the impairment loss allowance recognised.

	Effective interest rate at initial application (%) -low	Effective interest rate at initial application (%) -high	Interest revenue / expense recognised for the year ended 30 June 2019
	-	-	-
	-	-	-
	1	15	6 372
	0.4	2	13
	-	-	-
	1	11	(1 560)
	7	7	(119)

The table below reconciles the impairment allowance measured in line with IAS 39 to the IFRS 9 loss allowance recognised as at 1 July 2018

R million	Loss allowance under IAS 39	Increase as a result of IFRS 9	Loss allowance under IFRS 9
ASSETS			
Cash and cash equivalents	-	-	-
Accounts receivable	-	27	27
Advances	**18 835**	**10 243**	**29 078**
- Residential mortgages	1 471	891	2 362
- Vehicle and asset finance	3 613	1 732	5 345
- Credit card	1 131	674	1 805
- Personal loans	2 794	1 938	4 732
- Other retail	1 211	812	2 023
- FNB commercial	1 552	1 905	3 457
- WesBank corporate	312	21	333
- RMB corporate banking	896	49	945
- RMB investment banking	2 965	223	3 188
- Rest of Africa	2 256	1 346	3 602
- Aldermore	459	178	637
- Group Treasury and other	175	474	649
Investment securities	-	117	117
Total	**18 835**	**10 387**	**29 222**

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	Notes	2019 IFRS 9	2018 IAS 39*
Interest income calculated using effective interest rate		**119 797**	90 670
Interest on other financial instruments and similar income		**471**	7
Interest and similar income	1.1	**120 268**	90 677
Interest expense and similar charges	1.2	**(59 811)**	(41 579)
Net interest income before impairment of advances		**60 457**	49 098
Impairment and fair value of credit on advances		**(10 500)**	(8 567)
Impairment on amortised cost advances	12	**(10 431)**	(9 154)
Fair value of credit on advances	12	**(69)**	587
Net interest income after impairment of advances		**49 957**	40 531
Non-interest revenue**	2	**46 048**	44 193
- net fee and commission income	2.1	**30 971**	28 529
- fee and commission income		**36 533**	33 596
- fee and commission expense		**(5 562)**	(5 067)
- insurance income	2.2	**4 128**	3 918
- fair value income	2.3	**4 587**	7 027
- fair value gains or losses		**9 338**	20 298
- interest expense on fair value activities		**(4 751)**	(13 271)
- gains less losses from investing activities	2.4	**3 610**	1 864
- other non-interest income	2.5	**2 752**	2 855
Income from operations		**96 005**	84 724
Operating expenses	3	**(54 283)**	(48 462)
Net income from operations		**41 722**	36 262
Share of profit of associates after tax	16	**946**	519
Share of profit of joint ventures after tax	17	**284**	390
Income before indirect tax		**42 952**	37 171
Indirect tax	4.1	**(1 280)**	(1 077)
Profit before income tax		**41 672**	36 094
Income tax expense	4.2	**(9 912)**	(7 950)
Profit for the year		**31 760**	28 144
Attributable to			
Ordinary equityholders		**30 211**	26 546
Other equity instrument holders		**667**	466
Equityholders of the group		**30 878**	27 012
Non-controlling interests		**882**	1 132
Profit for the year		**31 760**	28 144
Earnings per share (cents)			
Basic	5	**538.6**	473.3
Diluted	5	**538.6**	473.3

* *The group has not elected to restate comparatives as permitted by IFRS 9. Certain amounts will therefore not be comparable, as the amounts for 30 June 2019 have been prepared on an IFRS 9 basis and the amounts for 30 June 2018 on an IAS 39 basis. Refer to note 10 of the accounting policies for more details on the changes in classification and presentation of certain amounts.*

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June

R million	2019 IFRS 9	2018 IAS 39
Profit for the year	**31 760**	28 144
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges	**498**	185
Gains arising during the year	**829**	283
Reclassification adjustments for amounts included in profit or loss	**(137)**	(26)
Deferred income tax	**(194)**	(72)
FVOCI debt reserve/available-for-sale financial assets	**(4)**	(650)
Losses arising during the year	**(2)**	(1 009)
Reclassification adjustments for amounts included in profit or loss	**(4)**	91
Deferred income tax	**2**	268
Exchange differences on translating foreign operations	**(444)**	1 175
(Losses)/Gains arising during the year	**(428)**	1 175
Deferred income tax	**(16)**	-
Share of other comprehensive income/(loss) of associates and joint ventures after tax and non-controlling interest	**45**	(72)
Items that may not subsequently be reclassified to profit or loss		
FVOCI equity reserve	**(2)**	-
Losses arising during the year	**(2)**	-
Remeasurements on defined benefit post-employment plans	**(229)**	38
(Losses)/Gains arising during the year	**(307)**	43
Deferred income tax	**78**	(5)
Other comprehensive (loss)/income for the year	**(136)**	676
Total comprehensive income for the year	**31 624**	28 820
Attributable to		
Ordinary equityholders	**30 068**	27 217
Other equity instrument holders	**667**	466
Equityholders of the group	**30 735**	27 683
Non-controlling interests	**889**	1 137
Total comprehensive income for the year	**31 624**	28 820

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R million	Notes	**As at 30 June 2019 IFRS 9**	As at 30 June 2018 IAS 39
ASSETS			
Cash and cash equivalents	7	**102 518**	96 024
Derivative financial instruments	8	**47 104**	42 499
Commodities	9	**21 176**	13 424
Investment securities	10	**241 726**	208 937
Advances	11	**1 205 752**	1 121 227
- Advances to customers		**1 142 845**	1 065 997
- Marketable advances		**62 907**	55 230
Accounts receivable	13	**8 578**	9 884
Current tax asset		**267**	378
Non-current assets and disposal groups held for sale	14	**-**	112
Reinsurance assets	15	**196**	84
Investments in associates	16	**6 369**	5 537
Investments in joint ventures	17	**1 769**	1 726
Property and equipment	18	**17 800**	17 936
Intangible assets	19	**10 491**	10 847
Investment properties	20	**689**	754
Defined benefit post-employment asset	21	**6**	36
Deferred income tax asset	22	**4 621**	2 884
Total assets		**1 669 062**	1 532 289
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	23	**5 374**	9 999
Derivative financial instruments	8	**52 597**	50 954
Creditors, accruals and provisions	24	**21 922**	19 620
Current tax liability		**1 643**	438
Deposits	25	**1 393 104**	1 267 448
Employee liabilities	21	**13 042**	11 534
Other liabilities	26	**5 974**	6 989
Policyholder liabilities	15	**5 263**	4 593
Tier 2 liabilities	27	**24 191**	28 439
Deferred income tax liability	22	**1 359**	1 477
Total liabilities		**1 524 469**	1 401 491
Equity			
Ordinary shares	28	**56**	56
Share premium	28	**8 023**	7 994
Reserves		**121 594**	112 975
Capital and reserves attributable to equityholders of the group		**129 673**	121 025
Other equity instruments	29	**10 734**	5 769
Non-controlling interests		**4 186**	4 004
Total equity		**144 593**	130 798
Total equity and liabilities		**1 669 062**	1 532 289

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

	Ordinary share capital and ordinary equityholders' funds				
R million	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as at 1 July 2017	56	7 960	**8 016**	(761)	158
Net proceeds of issue of share capital	-	-	**-**	-	-
Acquisition of subsidiaries	-	-	**-**	-	-
Additional Tier 1 capital issued during the year	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Ordinary dividends	-	-	**-**	-	-
Distributions to other equity instruments	-	-	**-**	-	-
Transfer from/(to) general risk reserves	-	-	**-**	-	-
Changes in ownership interest of subsidiaries	-	-	**-**	-	-
Movement in treasury shares	-	34	**34**	-	-
Total comprehensive income for the year	-	-	**-**	38	185
Vesting of share-based payments	-	-	**-**	-	-
Balance as at 30 June 2018	56	7 994	**8 050**	(723)	343
Adjustment for adoption of IFRS 9 and IFRS 15*	-	-	**-**	-	-
Restated balance as at 1 July 2018	56	7 994	**8 050**	(723)	343
Net proceeds of issue of share capital	-	-	**-**	-	-
Acquisition of subsidiaries	-	-	**-**	-	-
Additional Tier 1 capital issued during the year	-	-	**-**	-	-
Movement in other reserves	-	-	**-**	-	-
Ordinary dividends	-	-	**-**	-	-
Distributions on other equity instruments	-	-	**-**	-	-
Transfer from/(to) general risk reserves	-	-	**-**	-	-
Changes in ownership interest of subsidiaries	-	-	**-**	-	-
Movement in treasury shares	-	29	**29**	-	-
Total comprehensive income for the year	-	-	**-**	(229)	498
Vesting of share-based payments	-	-	**-**	-	-
Balance as at 30 June 2019	56	8 023	**8 079**	(952)	841

**Other reserves include FVOCI.*

*** Other equity instruments at 30 June 2019 include R4 519 million NCNR preference shares, R4 965 million AT1 instruments and the contingent convertible securities of R1 250 million.*

	Ordinary share capital and ordinary equityholders' funds								
	Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves*	Retained earnings	**Reserves attributable to ordinary equity-holders**	**Other equity instruments****	**Non-controllin interests**	**Total equity**
	9	(715)	1 690	462	100 025	**100 868**	**4 519**	**3 781**	**117 184**
	-	-	-	-	-	**-**	**-**	**14**	**14**
	-	-	(24)	-	-	**(24)**	**1 250**	**(22)**	**1 204**
	-	-	-	-	-	**-**	**-**	**-**	**-**
	7	-	-	191	(226)	**(28)**	**-**	**12**	**(16)**
	-	-	-	-	(14 921)	**(14 921)**	**-**	**(923)**	**(15 844)**
	-	-	-	-	-	**-**	**(466)**	**-**	**(466)**
	-	-	-	18	(18)	**-**	**-**	**-**	**-**
	-	-	-	-	(139)	**(139)**	**-**	**5**	**(134)**
	-	-	-	-	2	**2**	**-**	**-**	**36**
	-	(646)	1 166	(72)	26 546	**27 217**	**466**	**1 137**	**28 820**
	(12)	-	-	-	12	**-**	**-**	**-**	**-**
	4	(1 361)	2 832	599	111 281	**112 975**	**5 769**	**4 004**	**130 798**
	-	1 361	-	87	(6 933)	**(5 485)**	**-**	**(98)**	**(5 583)**
	4	-	2 832	686	104 348	**107 490**	**5 769**	**3 906**	**125 215**
	-	-	-	-	-	**-**	**-**	**(4)**	**(4)**
	-	-	1	-	-	**1**	**-**	**4**	**5**
	-	-	-	-	-	**-**	**4 965**	**-**	**4 965**
	3	-	-	109	(128)	**(16)**	**-**	**7**	**(9)**
	-	-	-	-	(15 931)	**(15 931)**	**-**	**(584)**	**(16 515)**
	-	-	-	-	-	**-**	**(667)**	**-**	**(667)**
	-	-	-	(123)	123	**-**	**-**	**-**	**-**
	-	-	-	-	(32)	**(32)**	**-**	**(32)**	**(64)**
	-	-	-	-	14	**14**	**-**	**-**	**43**
	-	-	(447)	35	30 211	**30 068**	**667**	**889**	**31 624**
	(6)	-	-	-	6	**-**	**-**	**-**	**-**
	1	-	2 386	707	118 611	**121 594**	**10 734**	**4 186**	**144 593**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	2019 IFRS 9	2018 IAS 39*
Cash generated from operating activities			
Interest and fee commission receipts		**153 374**	124 420
Trading and other income		**3 033**	4 693
Interest payments		**(58 428)**	(40 549)
Other operating expenses		**(43 518)**	(37 177)
Dividends received		**3 816**	5 649
Dividends paid		**(16 598)**	(15 387)
Dividends paid to non-controlling interests		**(584)**	(923)
Taxation paid		**(10 621)**	(9 414)
Cash generated from operating activities		**30 474**	31 312
Movement in operating assets and liabilities			
Liquid assets and trading securities		**(30 463)**	(27 540)
Advances		**(95 933)**	(90 785)
Deposits		**120 674**	126 565
Movement in accounts receivable and creditors		**2 923**	(990)
Employee liabilities		**(5 906)**	(5 220)
Other operating liabilities		**(14 040)**	(3 774)
Net cash generated from operating activities		**7 729**	29 568
Cash flows from investing activities			
Acquisition of investments in associates	16	**(418)**	(308)
Proceeds on disposal of investments in associates	16	**1 278**	2 276
Acquisition of investments in joint ventures	17	**(45)**	(361)
Proceeds on disposal of investments in joint ventures	17	**22**	-
Acquisition of investments in subsidiaries	30.1	**-**	(9 634)
Proceeds on disposal of investments in subsidiaries	30.2	**(2)**	212
Acquisition of property and equipment		**(3 503)**	(3 577)
Proceeds on disposal of property and equipment		**749**	519
Acquisition of intangible assets and investment properties		**(684)**	(586)
Proceeds on disposal of intangible assets and investment properties		**-**	8
Proceeds on disposal of non-current assets held for sale		**331**	219
Net cash outflow from investing activities		**(2 272)**	(11 232)
Cash flows from financing activities			
Proceeds from the issue of other liabilities	26.1	**1 637**	1 182
Redemption of other liabilities	26.1	**(541)**	(609)
Proceeds from the issue of Tier 2 liabilities	27.1	**2 625**	9 823
Capital repaid on Tier 2 liabilities	27.1	**(7 579)**	(1 426)
Acquisition of additional interest in subsidiaries from non-controlling interests	30.1.1	**(23)**	(45)
Issue of AT1 equity instruments		**4 965**	-
Issue of shares of additional interest in subsidiaries to non-controlling interests		**-**	14
Net cash inflow from financing activities		**1 084**	8 939
Net increase in cash and cash equivalents		**6 541**	27 275
Cash and cash equivalents at the beginning of the year		**96 024**	68 483
Effect of exchange rate changes on cash and cash equivalents		**(47)**	266
Cash and cash equivalents at the end of the year	7	**102 518**	96 024

**Interest payments relating to Tier 2 liabilities (R154 million) and other liabilities (R238 million) have been reclassified from financing activities and included in interest payments under cash generated from operating activities to align with how the group is classifying interest payments in the cash flow statement.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE

1.1 Interest and similar income

R million	2019 IFRS 9	2018 IAS 39
Analysis of interest and similar income		
Debt instruments at fair value through other comprehensive income	**332**	-
Instruments at fair value through profit and loss*	**431**	6 688
Instruments at amortised costs	**118 586**	83 267
Hedging instruments	**879**	715
Non-financial instruments	**40**	7
Interest and similar income	**120 268**	90 677
Advances	**106 998**	80 639
- Overdrafts and cash management accounts	**8 946**	8 605
- Term loans	**5 578**	4 874
- Card loans	**4 889**	4 485
- Instalment sales and hire purchase agreements	**20 439**	18 879
- Lease payments receivable	**962**	710
- Property finance	**30 941**	24 749
- Home loans	**27 022**	21 817
- Commercial property finance	**3 919**	2 932
- Personal loans	**11 101**	9 284
- Preference share agreements	**3 455**	884
- Assets under agreement to resell	**582**	271
- Investment bank term loans	**12 183**	3 406
- Long-term loans to group associates and joint ventures	**87**	75
- Other customer advances	**2 515**	2 491
- Invoice finance	**435**	45
- Marketable advances	**4 885**	1 881
Cash and cash equivalents	**2 241**	1 016
Investment securities	**10 102**	8 124
Unwinding of discounted present value on NPLs (IAS 39)	**-**	125
Accrued on off-market advances	**27**	28
Other	**900**	745
Interest and similar income	**120 268**	90 677

** This amount includes interest earned on available-for-sale and fair value financial assets under IAS 39.*

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENSE continued

1.2 Interest expense and similar charges

R million	2019 IFRS 9	2018 IAS 39
Analysis of interest expense and similar charges		
Instruments at fair value through profit or loss	**(11)**	(102)
Instruments at amortised costs	**(58 951)**	(40 788)
Hedging instruments	**(742)**	(689)
Non-financial instruments	**(107)**	-
Interest expense and similar charges	**(59 811)**	(41 579)
Deposits	**(60 766)**	(51 763)
Deposits from customers	**(39 467)**	(33 564)
- Current accounts	**(5 299)**	(4 982)
- Savings deposits	**(616)**	(437)
- Call deposits	**(12 965)**	(11 226)
- Fixed and notice deposits	**(19 942)**	(16 572)
- Other deposits	**(645)**	(347)
Debt securities	**(18 703)**	(15 881)
- Negotiable certificates of deposit	**(5 235)**	(5 002)
- Fixed and floating rate notes	**(13 468)**	(10 879)
Asset-backed securities	**(887)**	(529)
- Securitisation issuances	**(887)**	(529)
Other	**(1 709)**	(1 789)
- Repurchase agreements	**(974)**	(1 013)
- Securities lending	**(217)**	(276)
- Cash collateral and credit-linked notes	**(518)**	(500)
Other liabilities	**(418)**	(269)
Tier 2 liabilities	**(2 364)**	(2 097)
Other	**(1 014)**	(721)
Gross interest expense and similar charges	**(64 562)**	(54 850)
Less: interest expense on fair value activities reallocated	**4 751**	13 271
Interest expense and similar charges	**(59 811)**	(41 579)

2 NON-INTEREST REVENUE

R million	Notes	2019 IFRS 9	2018 IAS 39
Analysis of non-interest revenue			
Fee and commission income		**36 533**	33 596
- Instruments at amortised cost		**30 032**	27 082
- Instruments at fair value through profit or loss		**41**	157
- Instruments at fair value through other comprehensive income		**-**	-
- Non-financial instruments		**6 460**	6 357
Fee and commission expenses		**(5 562)**	(5 067)
Net fee and commission income	2.1	**30 971**	28 529
Available-for-sale		**-**	262
Non-financial instruments		**4 128**	3 656
Insurance income	2.2	**4 128**	3 918
Instruments at fair value through profit or loss		**5 829**	7 610
- Mandatory (held for trading)		**5 663**	1 189
- Designated		**166**	6 421
Other		**(1 242)**	(583)
Fair value income	2.3	**4 587**	7 027
Instruments at fair value through profit or loss		**-**	42
- Instruments at amortised cost		**9**	-
Instruments at fair value through other comprehensive income (available-for-sale)		**1 932**	(62)
Other		**1 669**	1 884
Gains less losses from investing activities	2.4	**3 610**	1 864
Other non-interest revenue	2.5	**2 752**	2 855
Total non-interest revenue		**46 048**	44 193

2 NON-INTEREST REVENUE continued

2.1 Net fee and commission income

R million	2019 IFRS 9	2018 IAS 39
Banking fee and commission income	**32 043**	28 864
- Card commissions	**5 061**	4 489
- Cash deposit fees	**1 910**	1 876
- Commitment fees	**1 523**	1 542
- Commissions: bills, drafts and cheques	**951**	869
- Exchange commissions	**1 947**	1 686
- Brokerage income	**184**	149
- Bank charges	**20 467**	18 253
- Transaction and service fees	**6 801**	6 301
- Documentation and administration fees	**9 302**	8 110
- Cash handling fees	**3 385**	2 891
- Other	**979**	951
Knowledge-based fee and commission income	**1 184**	1 410
Management, trust and fiduciary fees	**2 402**	2 375
Fee and commission income from service providers	**542**	521
Other non-banking fee and commission income	**362**	426
Fee and commission income	**36 533**	33 596
Transaction processing fees	**(1 263)**	(1 244)
Transaction-based fees	**(196)**	(177)
Commission paid	**(262)**	(277)
Customer loyalty programmes	**(1 742)**	(1 626)
Cash sorting, handling and transportation charges	**(955)**	(827)
Card and cheque book related	**(488)**	(422)
ATM commissions paid	**(56)**	(51)
Other	**(600)**	(443)
Fee and commission expenses	**(5 562)**	(5 067)
Net fee and commission income	**30 971**	28 529

2.2 Insurance income

R million	2019 IFRS 9	2018 IAS 39
Commissions, brokerage and profit share from third-party cells	**1 755**	1 928
Insurance risk related income	**2 373**	1 990
- Insurance premiums received	**3 744**	3 032
- Reinsurance expenses	**(153)**	(108)
- Insurance benefits and claims paid	**(1 095)**	(832)
- Reinsurance recoveries	**59**	11
- Transfers to policyholder liabilities (gross)	**(295)**	(138)
- Transfers from policyholder liabilities (reinsurance)	**113**	25
Insurance income	**4 128**	3 918

2 NON-INTEREST REVENUE continued

2.3 Fair value gains or losses

R million	2019 IFRS 9	2018 IAS 39
Dividend income on preference shares held	1 071	3 735
Other fair value income	3 516	3 292
Fair value gains or losses	**4 587**	7 027

2.4 Gains less losses from investing activities

R million	Notes	2019 IFRS 9	2018 IAS 39
Gain on disposal on investment activities		1 957	29
- Gains on disposal of debt instruments at amortised cost		29	-
- Gain on investment activities of a capital nature*		1 928	29
Impairment of debt investment securities at amortised cost		(20)	-
Reclassification from other comprehensive income on the derecognition/sale of assets FVOCI (available-for-sale)		4	(91)
Preference share dividends from unlisted investments		54	44
Other dividends received		39	45
Gain on the disposal of investments in subsidiaries		6	97
Gain on disposal of investments in associates		1 217	1 651
Loss on partial disposal of investments in joint ventures		(2)	-
Gain on bargain purchase		-	42
Fair value remeasurements on investment properties	20	-	29
Rental income from investment properties		100	49
Other gains/(losses) from investing activities		255	(31)
Gains less losses from investing activities		**3 610**	1 864

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

2.5 Other non-interest revenue

R million	2019 IFRS 9	2018 IAS 39
Gain on disposal of property and equipment	52	63
Gain on disposal of non-current assets held for sale	219	47
Rental income	1 573	1 495
Operating income from non-banking activities	-	325
Income from sales transactions to customers	591	405
- Sales	1 966	1 892
- Cost of sales	(1 525)	(1 617)
- Other operating lease transactions	150	130
Other income	317	520
Other non-interest revenue	**2 752**	2 855

3 OPERATING EXPENSES

R million	Notes	2019	2018
Auditors' remuneration		**(436)**	(367)
- Audit fees		**(397)**	(321)
- Fees for other services		**(35)**	(44)
- Prior year under accrual		**(4)**	(2)
Operating lease charges		**(1 724)**	(1 700)
Staff costs		**(32 337)**	(28 679)
- Salaries, wages and allowances		**(21 501)**	(18 758)
- Contributions to employee benefit funds		**(1 888)**	(1 660)
- Defined contribution schemes		**(1 735)**	(1 536)
- Defined benefit schemes	21.1	**(153)**	(124)
- Social security levies		**(558)**	(402)
- Share-based payments	32	**(1 966)**	(2 229)
- Movement in short-term employee benefit liabilities		**(5 165)**	(4 649)
- Other staff costs		**(1 259)**	(981)
Other operating costs		**(19 786)**	(17 716)
- Amortisation of intangible assets	19	**(794)**	(362)
- Depreciation of property and equipment	18	**(2 887)**	(2 830)
- Impairments incurred		**(229)**	(119)
- Impairments reversed		**16**	9
- Insurance		**(140)**	(127)
- Advertising and marketing		**(2 126)**	(2 033)
- Maintenance		**(1 405)**	(1 224)
- Property		**(1 060)**	(1 023)
- Computer		**(2 935)**	(2 397)
- Stationery, storage and delivery		**(399)**	(420)
- Telecommunications		**(509)**	(523)
- Professional fees		**(2 316)**	(2 032)
- Donations		**(271)**	(255)
- Assets costing less than R7 000		**(345)**	(287)
- Business travel		**(546)**	(450)
- Profit share expenses		**(644)**	(706)
- Bank charges		**(495)**	(293)
- Legal fees expenses		**(467)**	(475)
- Entertainment		**(303)**	(218)
- Subscriptions and memberships		**(205)**	(145)
- Training expenses		**(396)**	(293)
- Other operating expenditure		**(1 330)**	(1 513)
Total operating expenses		**(54 283)**	(48 462)

3 OPERATING EXPENSES continued

Impairment incurred during 2019

Intangible assets

FNB South Africa impaired software with a carrying value of R56 million to a value in use of Rnil as management determined that it would no longer meet their future needs. The rest of the impairments relate to individually immaterial intangible assets within the group.

Other

Included in the impairment cost is an amount of R106 million relating to ECL raised on non-advances. The rest of the impairments relate to individually immaterial non-advances within the group.

Impairments incurred during 2018

Intangible assets

FirstRand Namibia Limited impaired certain intangible assets in the prior period. Management reviewed the use of the eBank trademark and the information technology platform and found that the trademark and certain software would no longer meet their future needs. The trademark and software were impaired to a carrying amount of Rnil respectively, based on anticipated value in use to the business.

Accounts receivable

FNB, RMB and WesBank impaired various insignificant accounts receivable balances to their recoverable amount in the prior period.

3 OPERATING EXPENSES continued

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

Information relating to each director's and prescribed officer's remuneration for the year under review and details of share options and dealings in FirstRand shares are set out below.

Non-executive directors' remuneration

	2019			2018		
	Services as directors			Services as directors		
R thousand	**FirstRand**	**Group**	**Total**	FirstRand	Group	Total
Independent non-executive directors paid in ZAR						
MS Bomela	**1 075**	**-**	**1 075**	983	34	1 017
G Gelink	**2 424**	**1 729**	**4 153**	2 117	1 092	3 209
PM Goss (retired 30 April 2018)	**-**	**-**	**-**	774	79	853
NN Gwagwa	**1 108**	**-**	**1 108**	1 125	34	1 159
WR Jardine (chairman, appointed 1 April 2018)	**6 326**	**252**	**6 578**	2 751	97	2 848
RM Loubser	**2 611**	**2 183**	**4 794**	2 559	2 169	4 728
PJ Makosholo	**1 291**	**509**	**1 800**	1 243	488	1 731
TS Mashego	**954**	**126**	**1 080**	687	119	806
EG Matenge-Sebesho	**1 075**	**628**	**1 703**	1 031	623	1 654
AT Nzimande	**1 285**	**-**	**1 285**	1 109	-	1 109
BJ van der Ross (retired 30 November 2017)	**-**	**-**	**-**	459	241	700
L Von Zeuner (appointed 1 February 2019)	**539**	**-**	**539**	-	-	-
T Winterboer (appointed 20 April 2018)	**1 451**	**-**	**1 451**	314	-	314
Non-executive directors paid in ZAR						
HL Bosman (appointed 3 April 2017)	**943**	**125**	**1 068**	659	115	774
JP Burger (appointed 1 September 2018)	**1 431**	**725**	**2 156**	-	-	-
LL Dippenaar (chairman) (retired 31 March 2018)	**-**	**-**	**-**	3 718	215	3 933
JJ Durand	**394**	**-**	**394**	884	-	884
PK Harris (retired 30 April 2018)	**-**	**-**	**-**	444	-	444
F Knoetze	**1 291**	**1 199**	**2 490**	1 274	965	2 239
Total non-executive directors paid in ZAR	**24 198**	**7 476**	**31 674**	22 131	6 271	28 402
Foreign domiciled independent non-executive directors paid in USD						
USD thousand						
JH van Greuning (retired 30 November 2017)	**-**	**-**	**-**	176	63	239

3 OPERATING EXPENSES continued

Directors' and prescribed officers' emoluments

Single figure

Cash package, retirement contributions and other allowances reflect what was paid to the prescribed officers during the year ended 30 June 2019 with the FirstRand annual remuneration cycle running from 1 August to 31 July.

Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years.

The following analysis provides two amounts per individual to accommodate the King IV alternative single figure view. King IV requires a specific single figure reporting, which is different to prior years' disclosure. This difference in reporting relates only to the disclosure of the long-term incentive award (CIP). Previous reporting reflected the CIP allocated in the financial year at original award value. For King IV single figure reporting, the value presented is the CIP settled in the financial year at original award value. As part of the reporting transition, both views have been provided.

The explanation of the basis of preparation of the remuneration tables is disclosed in the FirstRand annual integrated report.

3 OPERATING EXPENSES continued

R thousand	2019	2018	2017	2016	2015
JP Burger[1, 2]					
Cash package paid during the year	**1 645**	9 836	9 328	8 461	7 040
Retirement contributions paid during the year	**28**	166	158	978	1 056
Other allowances	**39**	228	254	178	119
Guaranteed package	**1 712**	10 230	9 740	9 617	8 215
Performance related STI:					
Cash	**-**	14 674	13 900	13 165	11 770
- Within 6 months[3]	**-**	9 999	9 483	8 993	8 013
- Within 1 year	**-**	4 675	4 417	4 172	3 757
Share linked- deferred 2 and 3 years (BCIP)[4]	**-**	12 674	11 900	11 165	10 270
Variable pay	**-**	27 348	25 800	24 330	22 040
Total guaranteed and variable pay	**1 712**	37 578	35 540	33 947	30 255
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**-**	19 500	18 350	15 630	11 800
Total reward including CIP	**1 712**	57 078	53 890	49 577	42 055
New single figure reporting					
Total guaranteed and variable pay	**1 712**	37 578	35 540	33 947	30 255
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**15 630**	11 800	10 800	9 630	9 000
Total reward including CIP (Single figure)	**17 342**	49 378	46 340	43 577	39 255
AP Pullinger[1, 7]					
Cash package paid during the year	**8 493**	7 050	6 718	5 433	2 322
Retirement contributions paid during the year	**167**	139	132	1 075	464
Other allowances	**205**	164	150	154	133
Guaranteed package	**8 865**	7 353	7 000	6 662	2 919
Performance related STI:					
Cash	**12 200**	12 200	11 600	11 000	11 750
- Within 6 months[3]	**8 350**	8 350	7 950	7 550	8 000
- Within 1 year	**3 850**	3 850	3 650	3 450	3 750
Share linked- deferred 2 and 3 years (BCIP)[4]	**10 200**	10 200	9 600	9 000	10 250
Variable pay	**22 400**	22 400	21 200	20 000	22 000
Total guaranteed and variable pay	**31 265**	29 753	28 200	26 662	24 919
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**18 500**	15 550	14 630	10 000	9 250
Total reward including CIP	**49 765**	45 303	42 830	36 662	34 169
New single figure reporting					
Total guaranteed and variable pay	**31 265**	29 753	28 200	26 662	24 919
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**10 000**	9 250	7 500	7 500	7 000
Total reward including CIP (Single figure)	**41 265**	39 003	35 700	34 162	31 919

3 OPERATING EXPENSES continued

R thousand	2019	2018	2017	2016	2015
M Vilakazi[1, 8]					
Cash package paid during the year	**6 468**	-	-	-	-
Retirement contributions paid during the year	**125**	-	-	-	-
Other allowances	**157**	-	-	-	-
Guaranteed package	**6 750**	-	-	-	-
Performance related STI:					
Cash	**5 875**	-	-	-	-
- Within 6 months[3]	**4 133**	-	-	-	-
- Within 1 year	**1 742**	-	-	-	-
Share linked- deferred 2 and 3 years (BCIP)[4]	**3 875**	-	-	-	-
Variable pay	**9 750**	-	-	-	-
Total guaranteed and variable pay	**16 500**	-	-	-	-
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**8 500**	-	-	-	-
Total reward including CIP	**25 000**	-	-	-	-
Appointment award					
Sign-on cash bonus	**7 500**	-	-	-	-
Sign-on CIP allocation	**14 000**	-	-	-	-
Total appointment award	**21 500**	-	-	-	-
New single figure reporting					
Total guaranteed and variable pay	**16 500**	-	-	-	-
Sign-on cash bonus	**7 500**	-	-	-	-
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**-**	-	-	-	-
Total reward including CIP (Single figure)	**24 000**	-	-	-	-

3 OPERATING EXPENSES continued

R thousand	2019	2018	2017	2016	2015
HS Kellan[1]					
Cash package paid during the year	**7 175**	6 727	5 830	4 938	4 493
Retirement contributions paid during the year	**54**	51	40	405	402
Other allowances	**156**	143	130	118	108
Guaranteed package	**7 385**	6 921	6 000	5 461	5 003
Performance related STI:					
Cash	**6 167**	6 000	5 250	4 938	4 500
- Within 6 months[3]	**4 328**	4 217	3 717	3 509	3 167
- Within 1 year	**1 839**	1 783	1 533	1 429	1 333
Share linked- deferred 2 and 3 years (BCIP)[4]	**4 167**	4 000	3 250	2 938	3 000
Variable pay	**10 334**	10 000	8 500	7 876	7 500
Total guaranteed and variable pay	**17 719**	16 921	14 500	13 337	12 503
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**12 000**	9 500	8 600	7 000	5 500
Total reward including CIP	**29 719**	26 421	23 100	20 337	18 003
New single figure reporting					
Total guaranteed and variable pay	**17 719**	16 921	14 500	13 336	12 503
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**7 000**	5 500	5 000	3 800	3 400
Total reward including CIP (Single figure)	**24 719**	22 421	19 500	17 136	15 903
J Formby (CEO RMB)[1, 9]					
Cash package paid during the year	**3 607**	3 174	3 013	2 630	-
Retirement contributions paid during the year	**60**	55	52	236	-
Other allowances	**194**	189	176	178	-
Guaranteed package	**3 861**	3 418	3 241	3 044	-
Performance related STI:					
Cash	**13 000**	13 000	12 250	10 625	-
- Within 6 months[3]	**8 883**	8 883	8 383	7 300	-
- Within 1 year	**4 117**	4 117	3 867	3 325	-
Share linked- deferred 2 and 3 years (BCIP)[4]	**11 000**	11 000	10 250	8 625	-
Variable pay	**24 000**	24 000	22 500	19 250	-
Total guaranteed and variable pay	**27 861**	27 418	25 741	22 294	-
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**8 300**	7 900	7 500	5 000	-
Total reward including CIP	**36 161**	35 318	33 241	27 294	-
New single figure reporting					
Total guaranteed and variable pay	**27 861**	27 418	25 741	22 294	-
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**5 000**	2 900	2 865	3 300	-
Total reward including CIP (Single figure)	**32 861**	30 318	28 606	25 594	-

3 OPERATING EXPENSES continued

R thousand	2019	2018	2017	2016	2015
J Celliers (CEO FNB)[1]					
Cash package paid during the year	**7 364**	6 830	6 505	5 867	5 513
Retirement contributions paid during the year	**131**	122	116	582	551
Other allowances	**156**	143	130	118	108
Guaranteed package	**7 651**	7 095	6 751	6 567	6 172
Performance related STI:					
Cash	**8 287**	8 000	7 000	6 625	5 950
- Within 6 months[3]	**5 741**	5 550	4 883	4 633	4 133
- Within 1 year	**2 546**	2 450	2 117	1 992	1 817
Share linked- deferred 2 and 3 years (BCIP)[4]	**6 287**	6 000	5 000	4 625	4 450
Variable pay	**14 574**	14 000	12 000	11 250	10 400
Total guaranteed and variable pay	**22 225**	21 095	18 751	17 817	16 572
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**14 500**	12 850	11 943	10 000	8 200
Total reward including CIP	**36 725**	33 945	30 694	27 817	24 772
New single figure reporting					
Total guaranteed and variable pay	**22 225**	21 095	18 751	17 817	16 572
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**10 000**	8 200	7 000	4 000	1 600
Total reward including CIP (Single figure)	**32 225**	29 295	25 751	21 817	18 172
C de Kock (CEO WesBank)[1]					
Cash package paid during the year	**5 046**	4 764	4 532	3 972	3 098
Retirement contributions paid during the year	**39**	39	35	347	291
Other allowances	**190**	175	136	98	69
Guaranteed package	**5 275**	4 978	4 703	4 417	3 458
Performance related STI:					
Cash	**4 750**	4 750	5 250	5 000	4 250
- Within 6 months[3]	**3 383**	3 383	3 717	3 550	3 000
- Within 1 year	**1 367**	1 367	1 533	1 450	1 250
Share linked- deferred 2 and 3 years (BCIP)[4]	**2 750**	2 750	3 250	3 000	2 750
Variable pay	**7 500**	7 500	8 500	8 000	7 000
Total guaranteed and variable pay	**12 775**	12 478	13 203	12 417	10 458
Value of CIP awards allocated during the financial year[5]					
Conditional share plan/conditional incentive plan	**9 844**	9 844	9 200	7 500	7 000
Total reward including CIP	**22 619**	22 322	22 403	19 917	17 458
New single figure reporting					
Total guaranteed and variable pay	**12 775**	12 478	13 203	12 417	10 458
Value of CIP awards settled during the financial year[6]					
Conditional share plan/conditional incentive plan	**7 500**	7 000	6 500	3 750	3 600
Total reward including CIP (Single figure)	**20 275**	19 478	19 703	16 167	14 058

3 OPERATING EXPENSES continued

GBP thousand	2019	2018	2017	2016	2015
P Monks[1, 10]					
Cash package paid during the year	**754**	-	-	-	-
Retirement contributions paid during the year	**43**	-	-	-	-
Other allowances	**18**	-	-	-	-
Guaranteed package	**815**	-	-	-	-
Performance related STI:					
Cash	**382**	-	-	-	-
- Within 6 months[11]	**382**	-	-	-	-
- Within 1 year	**-**	-	-	-	-
Share linked- deferred over 3 years[12]	**188**	-	-	-	-
Variable pay	**570**	-	-	-	-
Total guaranteed and variable pay	**1 385**	-	-	-	-
Value of CIP awards during the year[5]	**-**	-	-	-	-
Conditional share plan/conditional incentive plan	**-**	-	-	-	-
Value of CIP allocated during the year[14]	**633**	-	-	-	-
Total reward including CIP	**2 018**	-	-	-	-
New single figure reporting					
Total guaranteed and variable pay	**1 385**	-	-	-	-
Value of CIP awards settled during the financial year[13]	**-**	-	-	-	-
Conditional share plan/conditional incentive plan	**-**	-	-	-	-
Value of CIP settled during the year	**296**	-	-	-	-
Total reward including CIP (Single figure)	**1 681**	-	-	-	-

3 OPERATING EXPENSES continued

1. *FirstRand defines its prescribed officers as the group CEO, group COO, financial director and the CEOs of the group's operating franchises (FNB, RMB, WesBank and Aldermore) that contribute materially to group performance. All of these officers are members of the group strategic executive committee and attend board meetings.*
2. *JP Burger was an executive director for two months in the financial year, and became a non-executive director effective 1 September 2018*
3. *Variable compensation paid in cash in respect of the year ended June, is paid (with an interest factor) in three tranches, during the following year ending on 30 June. i.e. August, December and June.*
4. *Variable compensation for performance in the current year deferred as share-linked awards, which vest over two periods, 50% after two years and 50% after three years from grant date, based on continued employment and good standing. Referred to as BCIP (bonus conditional incentive plan). Extended vesting was introduced in 2019, in prior years full BCIP vesting occurred after two years.*
5. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. The value presented in the table is the CIP allocated in the financial year and is reflected at award value at grant date. Refer to note 32.*
6. *Long-term incentive awards are made annually under the CIP and vesting is dependent on certain corporate targets being met on a cumulative basis over three years. For King IV single figure reporting, the value presented in the table is the CIP settled in the financial year at original award value.*
7. *Prescribed officer (AP Pullinger) appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015*
8. *Prescribed officer (M Vilakazi) appointed effective 1 July 2018.*
9. *Prescribed officer (J Formby) appointed effective 30 September 2015. Emoluments include earnings in prior role from 1 July 2015 to 30 September 2015.*
10. *Prescribed officer (P Monks) appointed effective 1 July 2018.*
11. *The Aldermore performance related STI cash component is paid in full in August 2019*
12. *The Aldermore performance related STI share linked component is released in equal annual tranches over three years from grant date.*
13. *When FirstRand acquired Aldermore the long-term incentives under the Aldermore performance share plan (PSP) vested early but only on a pro rata basis. FirstRand therefore provided for the remainder of the award (to be paid on the original vesting date). As such, Phillip received an PSP Award in March 2016 which would have vested in March 2019. Due to the acquisition he received 2/3 of the vesting in March 18 (timed to the takeover) with the remainder vesting in March 2019 (amount reflected in table above).*
14. *Aldermore LTIP allocated amount is the on- target value assumed at 67% of maximum.*

3 OPERATING EXPENSES continued

All executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the Companies Act, 71 of 2008 provision relating to removal.

Ownership of FirstRand Bank Limited

FirstRand Bank Limited is a wholly-owned subsidiary of FirstRand Limited.

Co-investment scheme

In addition to contractual and performance remuneration, previously eligible prescribed officers were entitled to participate in the co-investment scheme. Profit share, as shown in the table below, is based on a capital contribution placed at risk by participants. There is no cost to the group associated with the co-investment scheme as all capital invested and all risk related are for the account of the individuals.

R thousand	**2019**	2018
JR Formby	**2 873**	6 943
AP Pullinger	**1 774**	3 363

3 OPERATING EXPENSES continued

Long-term executive management retention scheme

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

1. *In addition to the group's existing long-term incentive plan, and in order to better align executive interest with those of the group's shareholders, the group introduced a long-term executive management retention scheme ("LTEMRS") in December 2016. The scheme is a five-year scheme, where members of the group's strategic committee are eligible to participate, on a voluntary basis, by purchasing a predetermined fixed amount of participation awards. Participants paid an upfront cash deposit of ten percent for their predetermined fixed amount of participation awards, with the balance being funded through a facilitated mechanism by the group. The fixed amount for each participant was converted into a number of participation awards, determined by the share price of R53.33, being the three-day volume weighted average price of the FirstRand share price at the date of award, being 15 December 2016.*

   The scheme and the funding mechanism, ensures that participants have full risk and potential reward of their participation awards (downside risk and upside potential). Continued employment is a condition for vesting of the cash settled scheme. Early termination before the expiry of three full years of service carry the full cost of early termination, including a full forfeit of any potential benefit, with a sliding scale of forfeiture being applied in years four and five. There is no cost to the group associated with the LTEMRS as the scheme is economically hedged.

Prescribed officers' outstanding incentives

The outstanding incentive disclosure has been prepared in the format required by King IV. King IV reporting requires the number of units of outstanding incentive schemes, the value of outstanding incentive schemes and value on settlement. The explanation of the basis of preparation of the remuneration tables is disclosed in the FirstRand annual integrated report.

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
Conditional incentive plan				
AP Pullinger				
2016 BCIP	Sep-16	9 000	Sep-18	
2017 BCIP	Sep-17	9 600	Sep-19	
2018 BCIP	Sep-18	10 200	Sep-20	
2019 BCIP (2 year deferral)	Sep-19	5 100	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	5 100	Sep-22	
Balance BCIP		**39 000**		
2015 CIP	Sep-15	10 000	Sep-18	
2016 CIP	Sep-16	14 630	Sep-19	
2017 CIP	Sep-17	15 550	Sep-20	
2018 CIP	Sep-18	18 500	Sep-21	
Balance CIP		**58 680**		
Total outstanding incentives				
M Vilakazi				
2019 BCIP (2 year deferral)	Sep-19	1 937	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	1 938	Sep-22	
Balance BCIP		**3 875**		
2018 CIP (appointment award)	Sep-18	14 000	Sep-21	
2018 CIP (annual allocation)	Sep-18	8 500	Sep-21	
Balance CIP		**22 500**		
Total outstanding incentives				

	Units					
	Opening balance	Awards made during year [3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards[2] 30-Jun-19	Value on settlement in 2019[1] R thousand
	190 258	-	(190 258)	-	-	13 980
	178 671	-	-	-	178 671	-
	153 103	-	-	-	153 103	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	522 032	-	(190 258)	-	331 774	13 980
	189 236	-	(189 236)	-	-	12 607
	309 274	-	-	-	309 274	-
	289 410	-	-	-	289 410	-
	-	277 688	-	-	277 688	-
	787 920	277 688	(189 236)	-	876 372	12 607
	1 309 952	277 688	(379 494)	-	1 208 146	26 587
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	210 142	-	-	210 142	-
	-	127 586	-	-	127 586	-
	-	337 728	-	-	337 728	-
	-	337 728	-	-	337 728	-

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
Conditional incentive plan				
HS Kellan				
2016 BCIP	Sep-16	2 938	Sep-18	
2017 BCIP	Sep-17	3 250	Sep-19	
2018 BCIP	Sep-18	4 000	Sep-20	
2019 BCIP (2 year deferral)	Sep-19	2 083	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	2 084	Sep-22	
Balance BCIP		**14 355**		
2015 CIP	Sep-15	7 000	Sep-18	
2016 CIP	Sep-16	8 600	Sep-19	
2017 CIP	Sep-17	9 500	Sep-20	
2018 CIP	Sep-18	12 000	Sep-21	
Balance CIP		**37 100**		
Total outstanding incentives				
J Celliers				
2016 BCIP	Sep-16	4 625	Sep-18	
2017 BCIP	Sep-17	5 000	Sep-19	
2018 BCIP	Sep-18	6 000	Sep-20	
2019 BCIP (2 year deferral)	Sep-19	3 143	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	3 144	Sep-22	
Balance BCIP		**21 912**		
2015 CIP	Sep-15	10 000	Sep-18	
2016 CIP	Sep-16	11 943	Sep-19	
2017 CIP	Sep-17	12 850	Sep-20	
2018 CIP	Sep-18	14 500	Sep-21	
Balance CIP		**49 293**		
Total outstanding incentives				

	Units					
	Opening balance	Awards made during year [3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards [2] 30-Jun-19	Value on settlement in 2019[1] R thousand
	62 098	-	(62 098)	-	-	4 563
	60 487	-	-	-	60 487	-
	60 041	-	-	-	60 041	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	182 626	-	(62 098)	-	120 528	4 563
	132 465	-	(132 465)	-	-	8 825
	181 802	-	-	-	181 802	-
	176 809	-	-	-	176 809	-
	-	180 122	-	-	180 122	-
	491 076	180 122	(132 465)	-	538 733	8 825
	673 702	180 122	(194 563)	-	659 261	13 388
	97 772	-	(97 772)	-	-	7 184
	93 057	-	-	-	93 057	-
	90 061	-	-	-	90 061	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	280 890	-	(97 772)	-	183 118	7 184
	189 236	-	(189 236)	-	-	12 607
	252 472	-	-	-	252 472	-
	239 158	-	-	-	239 158	-
	-	217 647	-	-	217 647	-
	680 866	217 647	(189 236)	-	709 277	12 607
	961 756	217 647	(287 008)	-	892 395	19 791

3 OPERATING EXPENSES continued

	Issue date	Value at grant date R thousand	Settlement date	
Conditional incentive plan				
J Formby				
2016 BCIP	Sep-16	8 625	Sep-18	
2017 BCIP	Sep-17	10 250	Sep-19	
2018 BCIP	Sep-18	11 000 [6]	Sep-20	
2019 BCIP (2 year deferral)	Sep-19	5 500	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	5 500	Sep-22	
Balance BCIP		**40 875**		
2015 CIP	Sep-15	5 000	Sep-18	
2016 CIP	Sep-16	7 500	Sep-19	
2017 CIP	Sep-17	7 900	Sep-20	
2018 CIP	Sep-18	8 300	Sep-21	
Balance CIP		**28 700**		
Total outstanding incentives				
C De Kock				
2016 BCIP	Sep-16	3 000	Sep-18	
2017 BCIP	Sep-17	3 250	Sep-19	
2018 BCIP	Sep-18	2 750	Sep-20	
2019 BCIP (2 year deferral)	Sep-19	1 375	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	1 375	Sep-22	
Balance BCIP		**11 750**		
2015 CIP	Sep-15	7 500	Sep-18	
2016 CIP	Sep-16	9 200	Sep-19	
2017 CIP	Sep-17	9 844	Sep-20	
2018 CIP	Sep-18	9 844	Sep-21	
Balance CIP		**36 388**		
Total outstanding incentives				
P Monks (GBP'000)				
2019 BCIP (1 year deferral) [4]	Sep-19	62	Sep-20	
2019 BCIP (2 year deferral)	Sep-19	63	Sep-21	
2019 BCIP (3 year deferral)	Sep-19	63	Sep-22	
Balance BCIP		**188**		
2018 CIP[5]	Sep-18	633	Sep-21	
Balance CIP		**633**		
Total outstanding incentives		**821**		

	Units					
	Opening balance	Awards made during year [3]	Number of awards settled in year	Number of awards forfeited in year	Closing number of awards [2] 30-Jun-2019	Value on settlement in 2019[1] R thousand
	182 330	-	(182 330)	-	-	13 397
	190 768	-	-	-	190 768	-
	165 112	-	-	-	165 112	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	538 210	-	(182 330)	-	355 880	13 397
	94 618	-	(94 618)	-	-	6 304
	158 548	-	-	-	158 548	-
	147 031	-	-	-	147 031	-
	-	124 584	-	-	124 584	-
	400 197	124 584	(94 618)	-	430 163	6 304
	938 407	124 584	(276 948)	-	786 043	19 701
	63 420	-	(63 420)	-	-	4 660
	60 487	-	-	-	60 487	-
	41 278	-	-	-	41 278	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	165 185	-	(63 420)	-	101 765	4 660
	141 927	-	(141 927)	-	-	9 455
	194 486	-	-	-	194 486	-
	183 212	-	-	-	183 212	-
	-	147 760	-	-	147 760	-
	519 625	147 760	(141 927)	-	525 458	9 455
	684 810	147 760	(205 347)	-	627 223	14 115
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-

3 OPERATING EXPENSES continued

1. *The values at settlement date include share price growth and interest earned (BCIP) from grant date*
2. *BCIP vesting depends on continued employment over two years, from 2019 vesting occurs over two (50%) and three (50%) years. FirstRand does not apply graded vesting to CIP awards allocated before September 2019, for these incentive schemes, CIP vesting depends on certain corporate targets being met on a cumulative basis over three years. However, for both BCIP and CIP vesting the remuneration committee can apply judgement on vesting. As such a probability of vesting has not been applied to the unvested awards and the assumption is 100% vesting up until final remuneration committee decision. For information purposes, the maximum possible value of the unvested awards at June 2019 is the market value of the total number of shares at R68.55 per share on the last trading day of the financial year (28 June 2019).*
3. *FirstRand share-linked schemes are determined on a monetary value and not on the number of shares. The BCIP allocation is determined after year end, using the average three-day VWAP eight days after results announcement, therefore the number of BCIP units allocated in 2019, cannot be calculated at the time the annual financial statements are issued.*
4. *The Aldermore performance related STI share linked component is released in equal annual tranches over three years from grant date.*
5. *Aldermore long-term incentive awards are not convertible into units.*
6. *Prescribed officer's (J Formby) 2018 BCIP value in the outstanding incentives tables was incorrectly reflected as R4 million in the prior year report, it has been corrected to reflect R 11 million.*

4 INDIRECT AND INCOME TAX EXPENSE

R million	**2019**	2018
4.1 Indirect tax		
Value-added tax (net)*	**(1 270)**	(1 062)
Securities transfer tax	**(9)**	(13)
Other	**(1)**	(2)
Total indirect tax	**(1 280)**	(1 077)
4.2 Income tax expense		
South African income tax		
Current	**(8 798)**	(7 207)
- Current year	**(8 142)**	(7 229)
- Prior year adjustment	**(656)**	22
Deferred income tax	**947**	497
- Current year	**205**	640
- Prior year adjustment	**742**	(143)
Total South African income tax	**(7 851)**	(6 710)
Foreign company and withholding tax		
Current	**(1 786)**	(1 135)
- Current year	**(1 795)**	(1 137)
- Prior year adjustment	**9**	2
Deferred income tax	**(57)**	(57)
- Current year	**(60)**	(57)
- Prior year adjustment	**3**	-
Total foreign company and withholding tax	**(1 843)**	(1 192)
Capital gains tax	**(218)**	(34)
- Current	**(77)**	(7)
- Deferred capital gains tax	**(141)**	(26)
- Tax rate adjustment	**-**	(1)
Total capital gains tax	**(218)**	(34)
Customer tax adjustment account	**-**	(1)
Withholding tax on dividends	**-**	(13)
Total income tax expense	**(9 912)**	**(7 950)**

** The South African value-added tax rate has increased to 15% effective 1 April 2018 in accordance with legislation.*

4 INDIRECT AND INCOME TAX EXPENSE continued

Tax rate reconciliation

%	2019	2018*
Standard rate of income tax	**28.0**	28.0
Total tax has been affected by:		
Dividend and other exempt income	**(3.1)**	(6.1)
Rate difference	**(1.0)**	(0.7)
Prior year adjustments	**(0.2)**	0.3
Amounts charged directly to other comprehensive income	**0.3**	(0.5)
Effect of capital gains tax rate	**0.5**	0.1
Tax difference on associates	**(0.6)**	(0.4)
Tax difference on joint ventures	**(0.2)**	(0.2)
Disallowed expenditure	**1.0**	0.2
Other	**(0.9)**	1.3
Effective rate of tax	**23.8**	22.0

** The 2018 disclosure has been expanded to give more relevant information.*

5 HEADLINE EARNINGS, EARNINGS AND DIVIDENDS PER SHARE

		Earnings attributable R million		Cents per share	
	Notes	2019	2018	2019	2018
Headline earnings					
- Basic	5.2	**27 887**	26 509	**497.2**	472.7
- Diluted	5.2	**27 887**	26 509	**497.2**	472.7
Earnings attributable to ordinary equityholders					
- Basic	5.2	**30 211**	26 546	**538.6**	473.3
- Diluted	5.2	**30 211**	26 546	**538.6**	473.3
Dividends – ordinary					
- Interim				**139.0**	130.0
- Final declared/paid				**152.0**	145.0
Dividends – preference					
- Interim				**381.7**	386.2
- Final declared/paid				**384.2**	378.3

5 HEADLINE EARNINGS,EARNINGS AND DIVIDENDS PER SHARE continued

5.1 Weighted average number of shares

	2019	2018
Weighted average number of shares before treasury shares	**5 609 488 001**	5 609 488 001
Less: treasury shares	**(445 105)**	(1 363 218)
- Shares for client trading	**(445 105)**	(1 363 218)
Weighted average number of shares in issue	**5 609 042 896**	5 608 124 783
Diluted weighted average number of shares in issue	**5 609 042 896**	5 608 124 783

The same weighted average number of shares was used for the basic and diluted HEPS and basic and diluted EPS as there are no potential dilutive ordinary shares in issue.

5.2 Headline earnings reconciliation

	2019		2018	
R million	Gross	Net	Gross	Net
Earnings attributable to ordinary equityholders	**-**	**30 211**		26 546
Adjusted for:				
Gain on investment activities of a capital nature*	**(1 928)**	**(1 497)**	(29)	(23)
Loss on disposal of available-for-sale assets	**-**	**-**	91	67
Transfer(to)/ from foreign currency translation reserve	**(70)**	**(72)**	108	85
Gain on disposal of non-private equity associates*	**(1 083)**	**(840)**	-	-
Impairment of non-private equity associates	**31**	**31**	-	-
Gain on disposal of investments in subsidiaries	**(6)**	**(5)**	(97)	(75)
Gain on disposal of property and equipment	**(52)**	**(37)**	(63)	(35)
Property-related insurance recovery	**-**	**-**	(31)	(21)
Impairment of goodwill	**-**	**-**	12	7
Fair value movement of investment properties	**-**	**-**	(29)	(21)
Impairment of assets in terms of IAS 36	**123**	**96**	41	21
Gain from a bargain purchase**	**-**	**-**	(42)	(42)
Headline earnings attributable to ordinary equityholders		**27 887**		26 509

** Includes the impact of the gain on the Discovery transaction of c.R3 billion (c.R2.3 billion after tax).*

*** Refer to note 30 for details on the gain from a bargain purchase.*

6 ANALYSIS OF ASSETS AND LIABILITIES

6.1 Analysis of assets

The following table analyses the assets in the statement of financial position per category of financial instrument and therefore by measurement basis and according to when the assets are expected to be realised.

		2019		
			At fair value through profit or loss	
	Notes	**Amortised cost**	**Mandatory**	**Designated**
ASSETS				
Cash and cash equivalents	7	**102 518**	**-**	**-**
Derivative financial instruments	8	**-**	**42 128**	**-**
Investment securities	10	**118 950**	**90 462**	**8 517**
Advances	11	**1 126 028**	**70 524**	**9 200**
Accounts receivable	13	**5 442**	**-**	**-**
Non-financial assets		**-**	**-**	**-**
Total assets		**1 352 938**	**203 114**	**17 717**

		2018		
	Notes	Held for trading	Designated at fair value through profit or loss	Held-to-maturity
ASSETS				
Cash and cash equivalents	7	-	-	-
Derivative financial instruments	8	39 505	-	-
Investment securities	10	50 775	43 074	35 170
Advances	11	-	173 389	6
Accounts receivable	13	-	-	-
Non-current assets and disposal groups held for sale	14	-	-	-
Non-financial assets		-	-	-
Total assets		90 280	216 463	35 176

2019							
At fair value through other comprehensive income		**Derivatives designated as hedging instruments**	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current and Non-contractual**
Debt	**Equity**					
-	**-**	**-**	**-**	**102 518**	**102 518**	**-**
-	**-**	**4 976**	**-**	**47 104**	**43 283**	**3 821**
22 946	**851**	**-**	**-**	**241 726**	**113 195**	**128 531**
-	**-**	**-**	**-**	**1 205 752**	**373 626**	**832 126**
	-	**-**	**3 136**	**8 578**	**5 656**	**2 922**
-	**-**	**-**	**63 384**	**63 384**	**21 520**	**41 864**
22 946	**851**	**4 976**	**66 520**	**1 669 062**	**659 798**	**1 009 264**

2018						
Loans and receivables	Available-for-sale financial assets	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
96 024	-	-	-	96 024	96 024	-
-	-	2 994	-	42 499	39 816	2 683
895	79 023	-	-	208 937	102 190	106 747
924 159	23 674	-	-	1 121 227	335 256	785 971
6 798	-	-	3 086	9 884	5 908	3 976
49	-	-	63	112	112	-
-	-	-	53 606	53 606	13 838	39 768
1 027 925	102 697	2 994	56 755	1 532 289	593 144	939 145

6 ANALYSIS OF ASSETS AND LIABILITIES continued

6.2 Analysis of liabilities

The following table analyses the liabilities in the statement of financial position per category of financial instrument and, therefore, by measurement basis and according to when the liabilities are expected to be settled.

		2019		
			At fair value through profit or loss	
	Notes	Amortised cost	Mandatory	Designated
LIABILITIES				
Short trading positions	23	**-**	**5 374**	**-**
Derivative financial instruments	8	**-**	**49 475**	**-**
Creditors, accruals and provisions	24	**12 626**	**-**	**-**
Deposits	25	**1 324 426**	**47 479**	**21 199**
Other liabilities	26	**5 398**	**-**	**576**
Policyholder liabilities	15	**-**	**-**	**4 415**
Tier 2 liabilities	27	**24 191**	**-**	**-**
Non-financial liabilities		**-**	**-**	**-**
Total liabilities		**1 366 641**	**102 328**	**26 190**

		2018		
	Notes	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortised cost
LIABILITIES				
Short trading positions	23	9 999	-	-
Derivative financial instruments	8	49 251	-	-
Creditors, accruals and provisions	24	-	-	10 085
Deposits	25	-	106 254	1 161 194
Other liabilities	26	-	3 560	3 429
Policyholder liabilities	15	-	3 877	-
Tier 2 liabilities	27	-	-	28 439
Non-financial liabilities		-	-	-
Total liabilities		59 250	113 691	1 203 147

	2019				
	Derivatives designated as hedging instruments	**Non-financial instruments**	**Total carrying value**	**Current**	**Non-current and non-contractual**
	-	**-**	**5 374**	**5 374**	**-**
	3 122	**-**	**52 597**	**50 222**	**2 375**
	-	**9 296**	**21 922**	**14 991**	**6 931**
	-	**-**	**1 393 104**	**1 132 098**	**261 006**
	-	**-**	**5 974**	**3 488**	**2 486**
	-	**848**	**5 263**	**636**	**4 627**
	-	**-**	**24 191**	**2 017**	**22 174**
	-	**16 044**	**16 044**	**9 522**	**6 522**
	3 122	**26 188**	**1 524 469**	**1 218 348**	**306 121**

	2018				
	Derivatives designated as hedging instruments	Non-financial instruments	Total carrying value	Current	Non-current
	-	-	9 999	9 999	-
	1 703	-	50 954	49 490	1 464
	-	9 535	19 620	13 387	6 233
	-	-	1 267 448	1 011 991	255 457
	-	-	6 989	2 470	4 519
	-	716	4 593	422	4 171
	-	-	28 439	7 420	21 019
	-	13 449	13 449	7 662	5 787
	1 703	23 700	1 401 491	1 102 841	298 650

7 CASH AND CASH EQUIVALENTS

R million	**2019**	2018
Coins and bank notes	**9 252**	8 432
Money at call and short notice	**53 283**	50 612
Balances with central banks	**39 983**	36 980
Total cash and cash equivalents	**102 518**	96 024
Mandatory reserve balances included above	**29 191**	26 303

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is available for use by the group subject to certain restrictions and limitations levelled by the central banks within the countries of operation. These deposits bear little or no interest.

8 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

The group transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the group's own risk. The group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

For further details on the valuation of derivatives refer to note 34.

Held for trading activities

Most of the group's derivative transactions relate to sales activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take on, transfer, modify or reduce current or expected risks.

Derivative financial instruments assets

	2019		2018	
	IFRS 9		IAS 39	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting	**344 681**	**4 976**	211 150	2 994
Held for trading	**7 421 126**	**42 128**	7 431 553	39 505
- Currency derivatives	**395 935**	**10 544**	339 013	16 365
- Interest rate derivatives	**6 943 567**	**29 515**	7 017 133	20 295
- Equity derivatives	**28 523**	**1 758**	41 149	1 782
- Commodity derivatives	**38 546**	**228**	14 984	537
- Energy derivatives	**760**	**30**	1 364	438
- Credit derivatives	**13 795**	**53**	17 910	88
Total derivative assets	**7 765 807**	**47 104**	7 642 703	42 499
Exchange traded	**48 229**	**77**	19 593	250
Over the counter	**7 717 578**	**47 027**	7 623 110	42 249
Total derivative assets	**7 765 807**	**47 104**	7 642 703	42 499

Derivative financial instruments liabilities

	2019		2018	
	IFRS 9		IAS 39	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting	**274 973**	**3 122**	205 991	1 703
Held for trading	**7 683 945**	**49 475**	7 629 554	49 251
- Currency derivatives	**398 099**	**15 560**	306 268	24 066
- Interest rate derivatives	**7 201 738**	**28 893**	7 120 824	21 913
- Equity derivatives	**50 029**	**3 425**	176 508	2 741
- Commodity derivatives	**29 321**	**1 470**	21 577	235
- Energy derivatives	**647**	**35**	1 322	288
- Credit derivatives	**4 111**	**92**	3 055	8
Total derivative liabilities	**7 958 918**	**52 597**	7 835 545	50 954
Exchange traded	**20 784**	**27**	43 144	37
Over the counter	**7 938 134**	**52 570**	7 792 401	50 917
Total derivative liabilities	**7 958 918**	**52 597**	7 835 545	50 954

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Qualifying for hedging accounting

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

Group interest rate risk and equity risk is managed by Group Treasury and ALCCO under approved policies, except for Aldermore, who through their own treasury department and ALCCO manage their interest rate risk. For further details on the group's approach to managing interest rate risk and market risk, refer to note 38.

Fair value hedges

The group defines fair value interest rate risk, as the potential adverse impact on NII due to the group holding a portfolio of fixed rate long-dated term financial liabilities and investment securities, as well as fixed rate advances, which may result from:

- mismatching of re-pricing assets and liabilities and off-balance sheet positions;
- increase or decrease in the absolute levels of interest rates and/or changes in the shape of the term structure of interest rates when applied to the group's balance sheet; and
- uncertainties of occurrences of transactions against expected future transactions, for example increased defaults, prepayments or early deposit withdrawals.

For fair value hedge accounting purposes, the interest rate component is specified as the identifiable portion of each interest rate payment arising within the hedged period, with the credit spread over the benchmark interest rate being excluded from the definition of the hedged item, therefore only the changes in the fair value due to changes in the benchmark interest rate is being hedged.

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

- Specified identified long-term fixed rate investment securities as well as deposits and debt funding. To manage the interest rate risk associated with such risk exposure, the group uses a variety of cash collateralised fixed for floating interest rate swaps that match the critical terms and duration of the underlying risk exposure.
- Interest rate exposure on portfolios of fixed rate advances, whereby the group has entered into interest rate swaps on a monthly basis. The exposure from this portfolio frequently changes due to new advances originated, contractual repayments and early repayments made by customers in each period. As a result, the group has adopted a dynamic hedging strategy, which the group refers to as macro hedging, to hedge the exposure profile by closing and entering into new swap agreements at each month-end. The group uses the portfolio fair value to hedge the interest rate risk the group is exposed to and recognises the fair value changes related to changes in the interest rate risk in the advances portfolio, and therefore reduces the NII volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.

The group uses Regression Analysis for testing hedge effectiveness. One of the parameters used to test effectiveness for IFRS 9 is to evaluate whether the effectiveness ranges between 80%-125%. The group currently uses these parameters to determine hedge effectiveness.

In these hedge relationships, the main sources of ineffectiveness are:

- fixed interest rate of the hedged item differs to the fixed interest leg of the interest rate swap; and
- differences in maturities of the interest rate swap and the hedged item.

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

At 30 June 2019, the group held the following hedging instruments included in fair value hedging relationships. The following information includes the notional and fair value amounts relating to fair value hedges including the macro hedging portfolios.

	2019 IFRS 9		2018 IAS 39	
R million	**Notional amount**	**Fair value**	Notional amount	Fair value
Qualifying for hedge accounting				
Derivative assets				
- Interest rate derivatives	**79 681**	**509**	102 888	814
Total included in derivative assets	**79 681**	**509**	102 888	814
Derivative liabilities				
- Interest rate derivatives	**81 753**	**910**	50 220	619
Total included in derivative liabilities	**81 753**	**910**	50 220	619

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

	2019 IFRS 9
	Interest rate risk
R million	**Notional amount**
1 – 3 months	**-**
3 – 12 months	**7 463**
1 – 5 years	**8 692**
Over 5 years	**5 990**
Total	**22 145**

The following tables set out information about hedged items in fair value hedging relationships.

	2019 IFRS 9		
R million	**Advances***	**Investment securities**	**Funding liabilities**
Interest rate risk-hedged items included in advances			
Carrying amount excluding fair value hedge adjustments	**99 108**	**19 447**	**(17 348)**
Accumulated fair value hedge adjustments for instruments that are actively hedged	**328**	**267**	**275**
Total carrying amount of hedged items	**99 436**	**19 714**	**(17 073)**
Accumulated fair value hedge adjustments for items that have ceased to be adjusted for fair value hedge gains and losses	**-**	**-**	**(12)**

**All amounts included in advances relate to the macro hedging portfolio to which a dynamic hedging strategy is applied.*

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following amounts were recognised in non-interest revenue for the year in respect of fair value hedges.

R million	2019 IFRS 9	2018 IAS 39
Interest rate risk		
Gains for the year arising from the change in fair value		
- On hedging instruments	**(834)**	**(99)**
- On hedged items attributable to the hedged risk	**884**	**127**
Total gains or losses arising from the change in fair value of fair value hedges	**50**	**28**

Cash flow hedges

The group employs cash flow hedging to mitigate against changes in future cash flows on variable rate financial instruments with the objective of mitigating against changes in future cash flows resulting from changes in market rates. The following are the identified hedged items subject to cash flow hedge accounting:

- variable Jibar-linked advances (cash flow interest rate risk);
- variable overnight financial liabilities (cash flow interest rate risk); and
- the group's share incentive scheme (cash flow equity price risk).

The variable interest rate exposes the group to basis risk. To manage this basis risk, the group utilises cash collateralised floating for floating basis interest rate swaps that exhibit the same duration as the underlying risk exposure. Similar to fair value hedge accounting, only the interest component is specified as the identifiable component being hedged, with the credit spread being excluded from the definition of the hedged item.

Equity price risk exists within the group's share incentive schemes that enable key management personnel and employees to benefit from the performance of the group's share price. Refer to note 32 for further details. These share incentive schemes, which are cash-settled share-based payments expose the group to equity price risk due to the volatility in the share price of FirstRand.

The group uses the Hypothetical Derivative approach under the Dollar Offset method and Regression Analysis for testing hedge effectiveness. The hedge is considered to be effective if it is within the 80%-125% limits.

In these hedge relationships, the main sources of ineffectiveness are:

- basis differences arising from using Jibar-linked swaps to hedge overnight financial liabilities;
- designation of Jibar-linked advances between Jibar fixing dates; and
- actual number of shares that vest versus the vesting probabilities used in the calculation of the cash-settled share-based payment.

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

At 30 June 2019, the group held the following hedging instruments included in cash flow hedging relationships.

	2019 IFRS 9		2018 IAS 39	
R million	**Notional amount**	**Fair value**	Notional amount	Fair value
Derivative assets				
- Interest rate derivatives	**194 799**	**2 674**	105 991	987
- Equity derivatives (total return swaps)	**3 108**	**1 793**	2 271	1 193
Total included in derivative assets	**197 907**	**4 467**	108 262	2 180
Derivative liabilities				
- Interest rate derivatives	**266 243**	**2 212**	155 771	1 084
Total included in derivative liabilities	**266 243**	**2 212**	155 771	1 084

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

	2019 IFRS 9	
	Notional amount	
R million	**Interest rate risk**	**Equity risk**
1 – 3 months	**20 296**	**1 279**
3 – 12 months	**269 524**	**-**
1 – 5 years	**136 892**	**1 829**
Over 5 years	**34 330**	**-**
Total	**461 042**	**3 108**

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following disclosure is applicable for the cash flow hedge relationships under IAS 39 and relates only to the comparative period. The cash flows (gross of tax) on the underlying hedged items are expected to impact profit or loss as follows:

	2018 IAS 39	
R million	Assets	Liabilities
1 – 3 months	21	(113)
3 – 12 months	162	(548)
1 – 5 years	698	(659)
Over 5 years	116	(151)
Total	997	(1 471)

The following disclosure is applicable for the cash flow hedge relationships under IAS 39 and relates only to the comparative period. The cash flows (gross of tax) on the hedging instruments are expected to be released to profit or loss as follows:

	2018 IAS 39	
R million	Assets	Liabilities
1 – 3 months	(135)	40
3 – 12 months	(531)	212
1 – 5 years	(705)	696
Over 5 years	(157)	105
Total	(1 528)	1 053

The following amounts were recognised in profit or loss for the year in respect of cash flow hedges.

R million	2019 IFRS 9	2019 IFRS 9
	Interest rate risk	Equity risk*
Changes in fair value of hedging instrument	1 230	-
Changes in fair value of hedged item	(1 096)	-
Ineffectiveness recognised in non-interest revenue	134	-

** This equity risk is zero due to the group over hedging the position.*

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

In 2018, the hedge ineffectiveness recognised in profit or loss (net of tax) was R37million.

The following amounts relate to hedged items included in cash flow hedges.

	2019 IFRS 9		
R million	Interest rate risk	Equity risk	Total
Cash flow hedge reserve – opening balance	35	308	343
Gains or losses recognised in reserves in the current year	638	563	1 201
Deferred tax on reserve movement	(207)	13	(194)
Transfers to income statement	102	(610)	(508)
Hedged item affects profit or loss	33	(610)	(577)
Hedged future cash flows no longer expected to occur	69	-	69
Closing balance	568	274	842
Cash flow hedge reserve relating to continuing hedges	514	274	788
Cash flow hedge reserve relating to discontinued hedges	54	-	54
Closing balance	568	274	842

9 COMMODITIES

R million	2019 IFRS 9	2018 IAS 39
Agricultural commodities	**2 197**	2 720
Gold	**18 910**	10 343
Platinum-group metals	**69**	361
Total commodities	**21 176**	13 424

10 INVESTMENT SECURITIES

R million	2019 IFRS 9	2018 IAS 39
Negotiable certificates of deposit	**427**	3 343
Treasury bills	**51 619**	31 982
Other government and government guaranteed stock	**137 294**	126 302
Other dated securities	**21 917**	16 556
Other undated securities	**533**	530
Non-recourse investments	**12 253**	11 160
- Dated securities	**12 253**	11 160
- Undated securities	**-**	-
Equities	**13 696**	15 850
Other	**4 113**	3 214
Total gross carrying amount of investment securities	**241 852**	208 937
Loss allowance on investment securities	**(126)**	-
Total investment securities	**241 726**	208 937
Analysis of investment securities		
Equities – fair value through profit or loss	**12 845**	7 479
Equities – fair value through other comprehensive income	**851**	8 371
Debt	**228 030**	193 087
- Amortised cost*	**118 950**	36 065
- Fair value through other comprehensive income**	**22 946**	77 897
- Non recourse investments	**12 253**	11 160
- Fair value through profit or loss#	**73 881**	67 965
Total investment securities	**241 726**	208 937

** 2018 figure includes debt instruments classified as held-to-maturity and loans and receivables.*

*** 2018 figure relates to debt instruments classified as available-for-sale financial assets.*

 # 2018 figure includes debt instruments classified as held for trading and designated at fair value through profit or loss.

10 INVESTMENT SECURITIES continued

Analysis of impairment stages on investment securities

R million	Amortised cost		FVOCI (debt)	
	Carrying amount	ECL allowance	Carrying amount	ECL allowance
Stage 1	**117 752**	**101**	**22 945**	**1**
Stage 2	**1 324**	**25**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**
Total investment securities	**119 076**	**126**	**22 945**	**1**

There were no movements between impairment stages during the current financial year.

Non-recourse investments at fair value through profit or loss

The group entered into the following conduit transactions.

Entity	Type of conduit	Underlying investment
iNdwa Investment Limited	Asset-backed	Short-dated investment grade
iNkotha Investment Limited	Fixed income fund	Callable investment grade
iVuzi Investment Limited	Asset-backed	Short-dated investment grade
iNguza Investments Limited	Secured	Debentures linked to specific underlying credit exposure

The performance on the commercial paper is directly linked to the performance and risk of the underlying portfolio of the conduit. The group has no obligations toward other investors beyond the amount already invested. Information regarding other investments is kept at the group's registered offices.

Repurchase agreements and securities lending transactions

The table below sets out the details of investment securities that have been transferred in terms of repurchase agreements and securities lending transactions.

R million	Investment securities (Carrying amount)		Associated liabilities recognised in deposits (Carrying amount)	
	2019 IFRS 9	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39
Repurchase agreements	21 918	13 754	22 066	15 030
Securities lending	193	-	-	-
Total	22 111	13 754	22 066	15 030

Both the transferred investments and related deposits under repurchase agreements are either measured at amortised cost or designated at fair value through profit or loss.

The fair value of the investment securities transferred under repurchase agreements are R21 942 million (2018: R13 719 million) and the associated liabilities is R22 084 million (2018: R14 998 million).

10 INVESTMENT SECURITIES continued

The fair value of the investment securities transferred under securities lending transactions are R193 million (2018: Rnil).

Equity investments designated at fair value through other comprehensive income

The fair value of strategic equity investments of the group which have been classified as non-trading equity instruments designated on initial recognition as measured at FVOCI is R851 million. These strategic investments mainly relate to the bank's investments in African Bank and CLS Group Holdings. The FVOCI measurement was deemed more appropriate because these are strategic investments that the bank does not intend on selling.

11 ADVANCES

R million	Notes	2019 IFRS 9	2018 IAS 39
Value of advances		**1 239 914**	1 142 141
IAS 39 Contractual interest suspended		**-**	(2 079)
Gross value of advances		**1 239 914**	1 140 062
Category analysis			
Overdrafts and cash management accounts		**82 642**	74 451
Term loans		**67 926**	62 225
Card loans		**35 516**	29 753
Instalment sales, hire purchase agreements and lease payments receivable		**232 103**	227 235
Property finance		**408 078**	374 027
Personal loans		**53 569**	45 324
Preference share agreements		**49 576**	48 644
Assets under agreement to resell		**45 315**	33 064
Investment bank term loans		**155 780**	150 383
Long-term loans to group associates and joint ventures		**2 473**	2 961
Other		**44 029**	36 765
Total customer advances		**1 177 007**	1 084 832
Marketable advances		**62 907**	55 230
Gross value of advances		**1 239 914**	1 140 062
Impairment and fair value of credit of advances	12	**(34 162)**	(18 835)
Net advances		**1 205 752**	1 121 227

11 ADVANCES continued

Analysis of instalment sale, hire purchase and lease payments receivable

	2019 (IFRS 9)			2018 (IAS 39)		
	Instalment sale, hire purchase and lease payments receivable	**Less: unearned finance charges**	**Net**	Instalment sale, hire purchase and lease payments receivable	Less: unearned finance charges	Net
Within 1 year	**70 570**	**(11 161)**	**59 409**	72 000	(11 451)	60 549
Between 1 and 5 years	**192 135**	**(29 007)**	**163 128**	185 150	(28 018)	157 132
More than 5 years	**12 379**	**(2 813)**	**9 566**	12 326	(2 696)	9 630
Subtotal	**275 084**	**(42 981)**	**232 103**	269 476	(42 165)	227 311
Less: interest in suspense			**-**			(76)
Total net instalment sales, hire purchase and lease payments receivable			**232 103**			227 235

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the reporting date is R35 million (2018: R99 million).

11 ADVANCES continued

Securitisation transactions

The following bankruptcy remote structured entities were created over the course of many years to facilitate traditional securitisation transactions for WesBank retail instalment sale advances (Nitro 5, Nitro 6, Nitro Programme and FAST) and for MotoNovo retail hire purchase advances (Turbo Finance 5, 6, 7, 8, MotoFirst, MotoPark and MotoHouse). These structured entities are consolidated by the FirstRand Group. The table below discloses the carrying amount of advances held by the structured entities at 30 June as well as the financial liabilities incurred to fund the initial acquisitions. Some structured entities' financial assets have early settled and the cash held by the structured entities will be utlilised to purchase additional advances post year end.

Name of securitisation	Established	Initial transaction value	Carrying value of assets R million		Carrying value of liabilities R million	
			2019 IFRS 9	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39
Oak 1	April 2014	£362 million	**-**	1 899	**-**	1 420
Turbo Finance 5	September 2014	£420 million	**-**	5	**-**	4
Nitro 5	June 2015	R2.4 billion	**5**	311	**5**	311
Motohouse	July 2015	£295 million	**-**	6 182	**-**	6 082
Turbo Finance 6	February 2016	£392 million	**1 256**	3 315	**1 165**	3 216
FAST	July 2016	R6.8 billion	**9 608**	9 734	**9 266**	9 474
Turbo Finance 7	November 2016	£568 million	**2 662**	6 352	**2 507**	6 148
MotoFirst	October 2017	£400 million	**14 436**	12 512	**14 515**	12 574
MotoPark	January 2018	£540 million	**10 893**	11 072	**10 872**	10 939
Nitro 6	April 2018	R2 billion	**1 262**	1 954	**1 214**	1 945
Oak 2	October 2018	£390 million	**4 985**	-	**4 756**	-
Turbo Finance 8	November 2018	£400 million	**5 696**	-	**5 702**	-
Nitro Programme	May 2019	R2 billion	**2 090**	-	**2 095**	-

11 ADVANCES continued

Analysis of advances per class

	2019 IFRS 9			
R million	Total	Amortised cost	Fair value through profit or loss	Loss allowance
Residential mortgages	214 623	217 164	-	(2 541)
Vehicle asset finance*	155 260	160 703	-	(5 443)
Total retail secured	369 883	377 867	-	(7 984)
Credit card	29 560	32 443	-	(2 883)
Personal loans	33 094	39 947	-	(6 853)
Other retail	15 183	17 908	-	(2 725)
Total retail unsecured	77 837	90 298	-	(12 461)
FNB Commercial	101 319	105 057	74	(3 812)
WesBank corporate	27 607	27 945	-	(338)
RMB corporate banking	57 244	57 827	105	(688)
RMB investment banking	282 665	206 751	79 147	(3 233)
Total corporate and commercial	468 835	397 580	79 326	(8 071)
Rest of Africa#	61 647	65 241	369	(3 963)
Group treasury and other	37 028	37 166	577	(715)
Aldermore	190 522	191 490	-	(968)
Retail**	128 686	129 072	-	(386)
Commercial	61 836	62 418	-	(582)
Total advances	1 205 752	1 159 642	80 272	(34 162)

* *Includes MotoNovo old book in FirstRand bank with a closing balance of R54 561 million (£3 034 million).*

** *Includes MotoNovo new book of R6 639 million (£369 million).*

11 ADVANCES continued

Analysis of total gross advances per impairment stage

R million	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired#
Amortised cost	**1 088 679**	**970 895**	**84 685**	**33 099**	**-**
Fair value	**53 797**	**51 544**	**1 838**	**415**	**-**
Amount as at 1 July 2018 (IFRS 9)	**1 142 476**	**1 022 439**	**86 523**	**33 514**	**-**
Transfers between stages*	**-**	**(25 342)**	**7 137**	**18 205**	**-**
- Stage 1	**-**	**54 424**	**(52 510)**	**(1 914)**	**-**
- Stage 2	**-**	**(68 546)**	**71 765**	**(3 219)**	**-**
- Stage 3	**-**	**(11 220)**	**(12 118)**	**23 338**	**-**
Acquisition/(disposal) of advances**	**(4 285)**	**(4 285)**	**-**	**-**	**-**
Exchange rate differences	**(3 060)**	**(2 408)**	**(418)**	**(234)**	**-**
Bad debts written off^	**(8 922)**	**-**	**-**	**(8 922)**	**-**
Changes due to modifications that did not result in derecognition	**(633)**	**-**	**(33)**	**(600)**	**-**
Net changes in exposure†	**114 338**	**121 815**	**(6 863)**	**(719)**	**105**
Amount as at 30 June 2019 (IFRS 9)	**1 239 914**	**1 112 219**	**86 346**	**41 244**	**105**
Amortised cost	**1 159 642**	**1 033 119**	**85 547**	**40 976**	**-**
Fair value	**80 272**	**79 100**	**799**	**268**	**105**

* *Transfers between stages reflect opening balances based on the advances stage at the end of the financial year for all businesses other than Aldermore. Exposures can be transferred directly from stage 3 to stage 1 if the curing requirements are satisfied at the end of the financial year. The new exposures originated during the financial year (which are not included in the opening balance) and any other change in the advance balance not addressed in one of the specific reconciliation lines, are included in net new business and changes in exposure based on the stage at the end of the financial year.*

** *The majority of disposals relates to RMB and is due to loan syndications whereby the full exposure is recognised in new business and changes in exposure and the sell down to other external parties are recognised as disposals.*

^ *Decrease in the advance as a result of write-off is equal to the decrease ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is R6 936 million.*

† *Net changes in exposure reflects the net of the following items:*
- *Net settlements and other changes in exposures of advances included in the opening balance, which occurred during the financial year.*
- *New business originated during the financial year and the transfers between stages of the new origination.*

\# *The total gross carrying amount of undiscounted expected credit losses at initial recognition on purchased or originated credit impaired financial assets recognised during the reporting period is Rnil.*

12 IMPAIRMENT OF ADVANCES

	2019		2018	
	IFRS 9		IAS 39	
R million	**Amortised cost**	**Fair value**	Amortised cost	Fair value
Increase in loss allowance (IAS 39 impairment provision)	**(12 346)**	**(69)**	(11 488)	586
Recoveries of bad debts	**2 548**	**-**	2 334	1
Modification loss	**(633)**	**-**	-	-
Impairment of advances recognised during the period	**(10 431)**	**(69)**	(9 154)	587

12 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on total advances

R million	Total	Stage 1	Stage 2	Stage 3
Amount as at 1 July 2018 (IFRS 9)	29 078	6 988	7 747	14 343
Transfer between stages∞	-	1 422	(3 020)	1 598
Transfers to stage 1	-	2 485	(2 189)	(296)
Transfers to stage 2	-	(701)	1 466	(765)
Transfers to stage 3	-	(362)	(2 297)	2 659
Exchange rate differences	(174)	3	(144)	(33)
Bad debts written off¥	(8 922)	-	-	(8 922)
Current period provision created/(released)†	12 415	(497)	3 168	9 744
Interest on stage 3 advances±	1 765	-	-	1 765
Amount as at 30 June 2019	34 162	7 916	7 751	18 495
Residential mortgages	2 541	360	510	1 671
Vehicle asset finance*	5 443	980	1 626	2 837
Total retail secured	7 984	1 340	2 136	4 508
Credit card	2 883	631	383	1 869
Personal loans	6 853	1 440	979	4 434
Other retail	2 725	724	464	1 537
Total retail unsecured	12 461	2 795	1 826	7 840
FNB Commercial	3 812	733	776	2 303
WesBank corporate	338	92	67	179
RMB corporate banking	688	231	364	93
RMB investment banking	3 233	1 048	1 466	719
Total corporate and commercial	8 071	2 104	2 673	3 294
Rest of Africa	3 963	742	804	2 417
Group treasury and other	715	563	152	-
Aldermore	968	372	160	436
Retail **	386	159	51	176
Commercial	582	213	109	260
Total ECL	34 162	7 916	7 751	18 495
On/Off balance sheet exposure^	33 954	7 841	7 686	18 427
Letters of credit and guarantees	208	75	65	68

∞Transfers between stages reflect opening balances based on the ECL stage at the end of the financial year. The ECL recognised on new exposures originated during the financial year (which are not included in the opening balance) are included in current period provision created/(released) based on the stage at the end of the financial year for all businesses other than Aldermore..

¥ Decrease in the advance as a result of write-off is equal to the decrease in ECL as exposures are 100% provided for before being written off.

† Net changes in exposure reflects the net of the following items:

- *Flow on ECL impact of net settlements and changes in exposures of advances included in the opening balance, including changes in ECL on amended off-balances sheet facilities.*
- *The increase or decrease of the opening balance ECL due to transfers between the stages, for example the release of ECL on transfer from stage 2 to stage 1 or the increase in ECL on transfer from stage 1 to stage 2.*
- *ECL on new business originated during the financial year and the transfers between stages of the new origination.*
- *Impact of changes in models and risk parameters, including forward looking macroeconomic information.*

± Interest on stage 3 advances are recognised based on the net carrying amount. The amount is reflective on the interest not recognised on stage 3 assets.

** Includes MotoNovo old book with a closing balance of R1 087 million (£60 million).*

***Includes MotoNovo new book of R79 million (£4 million).*

^ Includes committed undrawn facilities as the credit risk of the undrawn component is managed and monitored with the drawn component as a single exposure at default (EAD). The EAD on the entire facility is used to calculate the ECL and is therefore included in the ECL allowance.

12 IMPAIRMENT OF ADVANCES continued

At the end of the financial year ended 30 June 2019, loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to R2 730 million.

The change in ECL in the current financial year amounted to R12 415 million, the majority of which relates to growth in the gross carrying amount from the restated opening balance at 1 July 2018 in the following significant classes of advances

- Credit card – R5 288 million driven by client acquisition, upsell and facility utilisation;
- Personal loans – R6 725 million driven by client acquisition and displacement of other credit providers to main banked clients;
- FNB commercial – R10 573 million following strong growth in agric and commercial property finance;
- RMB corporate bank – R11 296 million due to client acquisition and increased working capital utilisation and
- RMB investment bank – R26 528 million driven by strong growth in the cross-border advances book and reverse repurchase advances, which have no ECL.

The change in stage 3 ECL was impacted by the increase in operational stage 3/NPLs in the credit card, personal loans and other retail portfolios in FNB and vehicle asset finance in WesBank. In addition, the stringent 12-month curing and extended write off period extends the length of time advances remain in stage 3, impacting the stage 3 ECL.

The ECL charge for the year was also impacted by changes in models and recalibrations and changes to the forward-looking macroeconomic inputs. These increased the impairment provision for the year by R1 668 million and R391 million respectively. The impact of forward-looking macroeconomic inputs is more negative in the nearer term, with the most significant impact on stage 1 ECL. The longer term outlook improves resulting in a muted impact on stage 2 and 3 ECL.

12 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on total advances per class

Amortised cost

	Retail secured		Retail unsecured			
R million	Residential mortgages	Vehicle asset finance	Credit card	Personal loans	Other retail	
Amount as at 1 July 2018 (IFRS 9)	**2 362**	**5 345**	**1 805**	**4 732**	**2 023**	
- Stage 1	**269**	**1 180**	**535**	**1 267**	**637**	
- Stage 2	**378**	**1 527**	**274**	**1 017**	**546**	
- Stage 3	**1 715**	**2 638**	**996**	**2 448**	**840**	
Transfers between classes	**-**	**(13)**	**-**	**-**	**-**	
Disposal of advances	**-**	**-**	**-**	**-**	**-**	
Exchange rate differences	**120**	**(11)**	**-**	**2**	**(120)**	
Bad debts written off	**(362)**	**(3 092)**	**(611)**	**(1 570)**	**(885)**	
Current period provision created/(released)†	**318**	**2 887**	**1 540**	**3 369**	**1 455**	
- Stage 1	**(95)**	**(421)**	**16**	**173**	**20**	
- Stage 2	**322**	**626**	**326**	**404**	**273**	
- Stage 3	**91**	**2 682**	**1 198**	**2 792**	**1 162**	
Interest on stage 3 advances	**103**	**327**	**149**	**320**	**252**	
Amount as at 30 June 2019	**2 541**	**5 443**	**2 883**	**6 853**	**2 725**	
Stage 1	**360**	**980**	**631**	**1 440**	**724**	
Stage 2	**510**	**1 626**	**383**	**979**	**464**	
Stage 3	**1 671**	**2 837**	**1 869**	**4 434**	**1 537**	

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

- *Flow on ECL impact of net settlements and changes in exposures of advances included in the opening balance, including changes in ECL on amended off-balances sheet facilities.*
- *The increase or decrease of the opening balance ECL due to transfers between the stages, for example the release of ECL on transfer from stage 2 to stage 1 or the increase in ECL on transfer from stage 1 to stage 2*
- *ECL on new business originated during the financial year and the transfers between stages of the new origination.*
- *Impact of changes in models and risk parameters, including forward looking macroeconomic information.*

Corporate and commercial								
FNB Commercial	WesBank corporate	RMB Corporate banking	RMB investment banking	Rest of Africa	Group Treasury and other	Aldermore retail	Aldermore commercial	Total
3 457	333	945	2 876	3 598	476	185	452	28 589
680	93	163	570	726	326	80	193	6 719
879	91	723	1 330	685	150	29	103	7 732
1 898	149	59	976	2 187	-	76	156	14 138
-	-	-	-	-	-	13	-	-
-	-	-	(4)	-	-	-	-	(4)
(7)	1	2	6	(155)	6	(6)	(7)	(169)
(751)	(104)	(322)	(359)	(638)	-	(8)	(211)	(8 913)
836	99	25	317	959	53	147	341	12 346
(214)	(36)	(51)	69	(62)	(12)	96	160	(357)
448	4	(77)	54	363	1	29	186	2 959
602	131	153	194	658	64	22	(5)	9 744
277	9	38	29	197	2	55	7	1 765
3 812	338	688	2 865	3 961	537	386	582	33 614
733	92	231	924	740	387	159	213	7 614
776	67	364	1 419	804	150	51	109	7 702
2 303	179	93	522	2 417	-	176	260	18 298

12 IMPAIRMENT OF ADVANCES continued

Reconciliation of the loss allowance on total advances per class

Fair value

R million	RMB investment banking	Rest of Africa	Group Treasury	Total
Amount as at 1 July 2018 (IFRS 9)	**312**	**4**	**173**	**489**
- Stage 1	**92**	**4**	**173**	**269**
- Stage 2	**15**	**-**	**-**	**15**
- Stage 3	**205**	**-**	**-**	**205**
Bad debts written off	**(10)**	**-**	**-**	**(10)**
Current year provision created/(released)	**66**	**(2)**	**5**	**69**
- Stage 1	**(120)**	**(2)**	**(18)**	**(140)**
- Stage 2	**186**	**-**	**23**	**209**
- Stage 3	**-**	**-**	**-**	**-**
Amount as at 30 June 2019	**368**	**2**	**178**	**548**
Stage 1	**124**	**2**	**176**	**302**
Stage 2	**47**	**-**	**2**	**49**
Stage 3	**197**	**-**	**-**	**197**

	2018 (IAS 39)			
	FNB		**RMB**	
R million	**Retail**	**Commer-cial**	**Investment banking**	**Corporate banking**
Analysis of movement in impairment of advances per class of advance				
Balance as at 1 July 2017	6 346	1 559	2 966	935
Amounts written off	(4 282)	(750)	(251)	-
Acquisitions of subsidiaries	-	-	-	-
Disposals of advances	-	-	(18)	-
Transfers (to)/from other divisions	(69)	2	12	41
Transfer from non-current assets or disposal groups held for sale	-	-	39	-
Reclassifications	-	-	-	-
Exchange rate differences	53	-	16	7
Unwinding of discounted present value on NPLs	(119)	-	-	-
Net new impairments created/(released)	5 291	741	235	11
Balance as at 30 June 2018	7 220	1 552	2 999	994

	2018 (IAS 39)					
	WesBank	**Aldermore**	**FCC and other**	**Total impairment**	**Specific impairment**	**Portfolio impairment**
	4 329	-	405	16 540	8 489	8 051
	(3 756)	(115)	-	(9 154)	(9 154)	-
	-	484	-	484	196	288
	-	-	-	(18)	(18)	-
	14	-	-	-	-	-
	-	-	-	39	39	-
	-	-	-	-	80	(80)
	50	39	2	167	79	88
	1	(6)	-	(124)	(124)	-
	4 798	57	(232)	10 901	10 405	496
	5 436	459	175	18 835	9 992	8 843

12 IMPAIRMENT OF ADVANCES continued

Modified advances measured at amortised cost

The following table provides information on advances that were modified while they had a loss allowance measured at an amount equal to lifetime expected credit losses.

	2019 IFRS 9			
	Stage 2 and Stage 3			
R million	Gross carrying amount before modification	Loss allowance before modification	Amortised cost before modification	Modification gain/(loss)
Residential mortgages	569	(55)	514	(24)
Vehicle asset finance	918	(244)	674	(140)
Total retail secured	1 487	(299)	1 188	(164)
Credit card	283	(190)	93	(67)
Personal loans	1 057	(336)	721	(363)
Other retails	40	(29)	11	(46)
Total retail unsecured	1 380	(555)	825	(476)
FNB Commercial	202	(17)	185	7
Total corporate and commercial	202	(17)	185	7
Total	3 069	(871)	2 198	(633)

13 ACCOUNTS RECEIVABLE

R million	Notes	2019 IFRS 9	2018 IAS 39
Items in transit		**2 140**	3 000
Interest and commission accrued		**21**	74
Prepayments		**1 619**	1 352
Properties in possession	38.1.4	**54**	49
Sundry debtors		**1 017**	1 164
Fair value hedge interest rate component*		**322**	147
Dividends receivable		**292**	1 275
- Profit share receivable on insurance cells		**283**	1 244
- Other dividends receivable		**9**	31
Other accounts receivable		**3 204**	2 823
Total gross carrying amount of accounts receivable		**8 669**	9 884
- Financial		**5 533**	6 798
- Non-financial		**3 136**	3 086
Loss allowance on financial accounts receivable		**(91)**	-
Stage 2		**(25)**	-
Stage 3		**(66)**	-
Total accounts receivable		**8 578**	9 884

* *In the prior period, fair value hedge interest rate component included the fair value attributed to designated hedged items. Under IFRS 9, the group changed its presentation to present the fair value hedge interest component with the hedged item as oppose to separate line accounts receivable. The balance in the current period relates to fair value attributable to the designated hedged items which are part of the macro hedging portfolios in the group.*

14 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	**2019**	2018
Non-current assets held for sale		
Advances	**-**	49
Investments in associates	**-**	63
Total non-current assets held for sale	**-**	112

15 POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS

R million	Notes	2019	2018
Policyholder liabilities under insurance contracts	15.1	**848**	716
Policyholder liabilities under investment contracts	15.2	**4 415**	3 877
Total gross policyholder liabilities		**5 263**	4 593
Reinsurance assets		**(196)**	(84)
Total net policyholder liabilities		**5 067**	4 509

15.1 Policyholder liabilities under insurance contracts and reinsurance assets

		2019		
R million	Notes	Gross	Reinsurance asset	Net
Short-term insurance contracts		**347**	**(123)**	**224**
Claims outstanding and claims incurred but not reported	15.1.1	**318**	**(123)**	**195**
Unearned premiums	15.1.2	**29**	**-**	**29**
Long-term insurance contracts	15.1.3	**501**	**(73)**	**428**
Total policyholder liabilities under insurance contracts and reinsurance assets		**848**	**(196)**	**652**

		2018		
R million	Notes	Gross	Reinsurance asset	Net
Short-term insurance contracts		357	(52)	305
Claims outstanding and claims incurred but not reported	15.1.1	331	(52)	279
Unearned premiums	15.1.2	26	-	26
Long-term insurance contracts	15.1.3	359	(32)	327
Total policyholder liabilities under insurance contracts and reinsurance assets		716	(84)	632

15 POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS continued

15.1.1 Reconciliation of outstanding claims, claims incurred but not reported and similar items

R million	2019 Gross	2019 Reinsurance asset	2019 Net
Opening balance	**331**	**(52)**	**279**
Increase in current year claims outstanding	**196**	**41**	**237**
Decrease from prior year claims outstanding	**(45)**	**(112)**	**(157)**
Claims settled in the year	**(164)**	**-**	**(164)**
Closing balance	**318**	**(123)**	**195**

R million	2018 Gross	2018 Reinsurance asset	2018 Net
Opening balance	314	(82)	232
Increase in current year claims outstanding	75	-	75
Increase from prior year claims outstanding	8	(1)	7
Claims settled in the year	(66)	31	(35)
Closing balance	331	(52)	279

15.1.2 Reconciliation of unearned premiums and similar items

R million	2019 Gross	2019 Reinsurance asset	2019 Net
Opening balance	**26**	**-**	**26**
Increase in unearned premiums and similar items	**3**	**-**	**3**
Closing balance	**29**	**-**	**29**

R million	2018 Gross	2018 Reinsurance asset	2018 Net
Opening balance	28	-	28
Decrease in unearned premiums and similar items	(2)	-	(2)
Closing balance	26	-	26

15 POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS continued

15.1.3 Reconciliation of gross long-term insurance contracts

R million	2019 Gross	2019 Reinsurance asset	2019 Net
Opening balance	**359**	**(32)**	**327**
Transfer to policyholder liabilities	**142**	**(41)**	**101**
- Claims incurred but not yet reported	**56**	**-**	**56**
- Outstanding claims	**86**	**-**	**86**
- Reinsurance	**-**	**(41)**	**(41)**
Closing balance	**501**	**(73)**	**428**

R million	2018 Gross	2018 Reinsurance asset	2018 Net
Opening balance	303	(5)	298
Transfer to policyholder liabilities	56	(27)	29
- Claims incurred but not yet reported	10	-	10
- Outstanding claims	46	-	46
- Reinsurance	-	(27)	(27)
Closing balance	359	(32)	327

15.2 Policyholder liabilities under investment contracts

R million	2019	2018
Opening balance	**3 877**	3 150
Premiums received	**945**	857
Fees deducted from account balances	**(36)**	(28)
Policyholder benefits on investment contracts	**(489)**	(298)
Fair value adjustments recognised in fair value	**118**	196
Closing balance	**4 415**	3 877
Fair value adjustments recognised in fair value	**118**	196
Closing balance	**4 415**	3 877

16 INVESTMENTS IN ASSOCIATES

R million	**2019**	2018
Analysis of the carrying value of associates		
Shares at cost less impairment	**3 746**	3 214
Share of post-acquisition reserves	**2 623**	2 323
Total investments in associates	**6 369**	5 537
Movement in the carrying value of associates		
Opening balance (IAS 39)	**5 537**	5 924
IFRS 9 adjustments	**(192)**	-
Restated opening balance (IFRS 9)	**5 345**	5 924
Share of profit of associates after tax	**946**	519
- Income before tax for the year	**1 225**	970
- Impairments of associates reversed/(incurred)	**34**	(127)
- Tax for the year	**(313)**	(324)
Net movement resulting from acquisitions, disposals and transfers	**463**	(346)
- Acquisition of associates	**524**	308
- Cash consideration	**418**	308
- Non cash consideration	**106**	-
- Disposal of associates	**(61)**	(672)
- Acquisition of subsidiaries with an underlying associate	**-**	81
- Transfer to non-current assets and disposal groups held for sale	**-**	(63)
Movement in other reserves	**39**	20
Exchange rate differences	**(1)**	12
Dividends received for the year	**(423)**	(592)
Closing balance	**6 369**	5 537

During the current year R18 million (2018: R5 million) losses were recognised. The cumulative share of losses from associates not recognised is R15 million (2018: R5 million).

The group has exposure to contingent liabilities as a result of its relationships with associates.

16 INVESTMENTS IN ASSOCIATES continued

Financial information of significant associates

	Toyota Financial Services Proprietary Limited		Primedia Holdings Proprietary Limited		Volkswagen Financial Services SA Proprietary Limited	
Nature of business	Vehicle finance		Broadcasting		Vehicle finance	
Place of business	South Africa		South Africa		South Africa	
% ownership	33		22		49	
% voting rights	33		22		49	
R million	**2019**	2018	**2019**	2018	**2019**	2018
Amounts recognised in profit or loss and other comprehensive income of the investee						
Dividends received	**-**	70	**116**	-	**-**	-
Revenue	**5 312**	4 823	**2 067**	4 102	**4 319**	3 772
Profit or loss from continuing operations after tax	**557**	536	**7**	336	**179**	75
Total comprehensive income	**557**	536	**7**	336	**179**	75
Amounts recognised on the statement of financial position of the investee						
Total assets	**40 622**	38 649	**6 000**	7 518	**36 162**	34 308
- Current assets	**11 977**	13 587	**683**	1 261	**14 851**	13 309
- Non-current assets	**28 645**	25 062	**5 317**	6 257	**21 311**	20 999
Total liabilities	**(36 883)**	(35 241)	**(3 283)**	(4 350)	**(34 481)**	(32 377)
- Current liabilities	**(12 290)**	(12 914)	**(451)**	(782)	**(4 809)**	(8 681)
- Non-current liabilities	**(24 593)**	(22 327)	**(2 832)**	(3 568)	**(29 672)**	(23 696)
Net asset value	**3 739**	3 408	**2 717**	3 168	**1 681**	1 931
Group's share of net asset value	**1 234**	1 125	**598**	697	**824**	946
Notional goodwill	**64**	26	**(24)**	(27)	**231**	35
Carrying value of investments	**1 298**	1 151	**574**	670	**1 055**	981
Acquisitions of associates						
Total consideration transferred	**-**	-	**-**	-	**172**	98
- Discharged by cash	**-**	-	**-**	-	**172**	98
- Non-cash consideration and other purchases	**-**	-	**-**	-	**-**	-

Volkswagen Financial Services SA Proprietary Limited

Additional capital injection of R172 million (2018: R98 million) was provided to Volkswagen Financial Services SA Proprietary Limited. This did not result in a change in shareholding.

16 INVESTMENTS IN ASSOCIATES continued

Financial information of individually immaterial associates

R million	RMB private equity associates 2019	2018	Other individually immaterial associates 2019	2018
Carrying amount	**2 432**	1 888	**1 010**	847
Group's share of profit or loss after tax from continuing operations	**588**	226	**110**	99
Group's share of other comprehensive income/(loss)	**28**	26	**-**	1
Group's share of total comprehensive income	**616**	252	**110**	100
Acquisitions of associates				
Acquisition date	**Various**	Various	**Various**	Various
Interest acquired (%)	**Various**	Various	**Various**	Various
Total consideration transferred	**204**	135	**148**	75
- Discharged by cash	**98**	135	**148**	75
- Non-cash consideration and other purchases	**106**	-	**-**	-
Disposal of associates				
Disposal date	**Various**	Various	**-**	-
Interest disposed (%)	**Various**	Various	**-**	-
Total consideration received	**195**	1 693	**1 083**	583
- Discharged by cash	**195**	1 693	**1 083**	583
- Non-cash consideration and other purchases	**-**	-	**-**	-
Carrying value of the associate on disposal	**(60)**	(88)	**(1)**	(584)
Gains/(loss) on disposal of associates	**135**	1 605	**1 082**	(1)

Acquisition of associates 2019

In the current year, additional capital injections were made to private equity associates. These capital injections were made for both cash and non-cash consideration and did not result in a change in shareholding.

An additional capital injection was further made in SBV Services (Pty) Ltd which is included in "Other individually immaterial associates" of R117 million. This capital injection did not result in a change in shareholding.

17 INVESTMENTS IN JOINT VENTURES

R million	2019	2018
Analysis of carrying value of joint ventures		
Shares at cost less impairment	**372**	450
Share of post-acquisition reserves	**1 397**	1 276
Carrying value of investments in joint ventures	**1 769**	1 726
Movement in the carrying value of joint ventures		
Opening balance	**1 726**	1 430
IFRS 9 adjustments	**-**	-
Restated opening balance (IFRS 9)	**1 726**	1 430
Share of profit of joint ventures after tax	**284**	390
- Income before tax for the year	**466**	499
- Impairments of joint ventures (incurred)/reversed	**(101)**	5
- Tax for the year	**(81)**	(114)
Net movement resulting from acquisitions and disposals	**21**	361
- Acquisition of joint ventures	**45**	361
- Disposal of joint ventures	**(24)**	-
Movement in other reserves	**6**	(92)
Exchange rate differences	**9**	(11)
Dividends received for the year	**(277)**	(352)
Closing balance	**1 769**	1 726

17 INVESTMENTS IN JOINT VENTURES continued

Financial information of significant joint ventures

	RMB Morgan Stanley	
Nature of business	Equity sales, trading and research	
Place of business	South Africa	
% ownership	50	
% voting rights	50	
R million	**2019**	2018
Amounts recognised in profit or loss and other comprehensive income of the group		
Dividends received	**68**	83
Revenue	**757**	857
Profit or loss from continuing operations after tax	**192**	119
Total comprehensive income	**192**	119
Amounts recognised in the statement of financial position of the investee		
Total assets	**26 360**	17 422
- Current assets	**26 028**	17 258
- Non-current assets	**332**	164
Total liabilities	**(25 286)**	(16 405)
- Current liabilities	**(24 941)**	(16 235)
- Non-current liabilities	**(345)**	(170)
Net asset value	**1 074**	1 017
Group's share of net asset value	**537**	509
Notional goodwill	**33**	29
Carrying value of investment	**570**	538
Included in total assets, liabilities and comprehensive income		
Cash and cash equivalents-overdraft	**970**	911
Depreciation and amortisation	**(1)**	(2)
Interest income	**58**	56
Interest expense	**(531)**	(353)
Income tax	**(73)**	(88)

17 INVESTMENTS IN JOINT VENTURES continued

Financial information of individually immaterial joint ventures

	RMB private equity joint ventures		Other	
R million	2019	2018	2019	2018
Carrying amount	**914**	922	**285**	266
Group's share of profit or loss after tax from continuing operations	**167**	225	**16**	51
Group's share of other comprehensive (loss)/income	**7**	(92)	**-**	-
Group's share of total comprehensive income/(loss)	**174**	133	**16**	51
Acquisition of joint ventures				
Acquisition date	**Various**	Various	**-**	-
Interest acquired (%)	**Various**	Various	**-**	-
Total consideration transferred	**25**	355	**20**	6
- Discharged by cash	**25**	355	**20**	6
- Non-cash consideration	**-**	-	**-**	-
Disposal of joint ventures				
Disposal date		-	**-**	-
Interest disposed of (%)		-	**-**	-
Total consideration received	**21**	-	**1**	-
- Discharged by cash	**21**	-	**1**	-
- Non-cash consideration and other purchases	**-**	-	**-**	-
Carrying value of the joint venture on disposal date	**(21)**	-	**(3)**	-
Loss on disposal of joint ventures	**-**	-	**(2)**	-

During the current year losses of Rnil (2018: R72 million) were not recognised as the balance of the investment in the joint venture was Rnil. The cumulative share of losses from joint ventures not recognised is Rnil (2018: R127 million).

18 PROPERTY AND EQUIPMENT

R million	Freehold property	Lease-hold premises	Assets held under leasing agree-ments	Computer equipment	Other equip-ment	Total
Net book value at 1 July 2017	8 024	2 285	211	2 757	4 235	17 512
Cost	10 232	4 158	394	7 546	7 784	30 114
Accumulated depreciation	(2 208)	(1 873)	(183)	(4 789)	(3 549)	(12 602)
Movement for the year	149	(221)	(2)	128	370	424
Acquisitions	409	190	24	1 193	1 761	3 577
Disposals	(48)	(15)	(6)	(10)	(376)	(455)
Acquisitions of subsidiaries	-	-	-	30	40	70
Exchange rate difference	46	3	1	9	3	62
Depreciation charge for the year	(258)	(399)	(21)	(1 094)	(1 058)	(2 830)
Impairments recognised	-	-	-	-	-	-
Impairments reversed	-	-	-	-	-	-
Transfer to non-current assets and disposal groups held for sale	-	-	-	-	-	-
Net book value at 30 June 2018	**8 173**	**2 064**	**209**	**2 885**	**4 605**	**17 936**
Cost	**10 679**	**4 234**	**407**	**8 509**	**8 516**	**32 345**
Accumulated depreciation	**(2 506)**	**(2 170)**	**(198)**	**(5 624)**	**(3 911)**	**(14 409)**
Movement for the year	**128**	**(133)**	**8**	**(33)**	**(106)**	**(136)**
Acquisitions	**463**	**207**	**20**	**1 161**	**1 652**	**3 503**
Disposals	**(53)**	**(15)**	**(5)**	**(39)**	**(585)**	**(697)**
Exchange rate difference	**2**	**(13)**	**-**	**(7)**	**(18)**	**(36)**
Depreciation charge for the year	**(284)**	**(312)**	**(7)**	**(1 129)**	**(1 155)**	**(2 887)**
Impairments recognised	**-**	**-**	**-**	**(19)**	**-**	**(19)**
Impairments reversed	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to non-current assets and disposal groups held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Net book value at 30 June 2019	**8 301**	**1 931**	**217**	**2 852**	**4 499**	**17 800**
Cost	**11 019**	**4 224**	**416**	**8 521**	**8 820**	**33 000**
Accumulated depreciation	**(2 718)**	**(2 293)**	**(199)**	**(5 669)**	**(4 321)**	**(15 200)**

19 INTANGIBLE ASSETS

R million	Goodwill	Broker relation-ship	Software and develop-ment costs	Trade-marks	Other	Total
Net book value as at 1 July 2017	784	-	541	116	245	1 686
Cost	1 403	-	1 723	307	387	3 820
Accumulated amortisation and impairment	(619)	-	(1 182)	(191)	(142)	(2 134)
Movement for the year	6 528	2 313	212	18	90	9 161
Acquisitions and capitalisations	18	-	347	-	11	376
Disposals	-	-	-	(2)	-	(2)
Acquisitions of subsidiaries	6 041	2 201	102	48	112	8 504
Transfer to non-current assets disposal						
Exchange rate differences	493	193	12	3	9	710
Amortisation for the year	-	(81)	(220)	(17)	(44)	(362)
Impairments recognised	(12)	-	(29)	(14)	-	(55)
Impairments reversed	-	-	-	-	2	2
Measurement period adjustment	(12)	-	-	-	-	(12)
Net book value as at 30 June 2018	**7 312**	**2 313**	**753**	**134**	**335**	**10 847**
Cost	**7 943**	**2 399**	**2 223**	**360**	**454**	**13 379**
Accumulated amortisation and impairment	**(631)**	**(86)**	**(1 470)**	**(226)**	**(119)**	**(2 532)**
Movement for the year	**(65)**	**(364)**	**212**	**(36)**	**(103)**	**(356)**
Acquisitions and capitalisations	**-**	**-**	**623**	**-**	**2**	**625**
Transfer to non-current assets disposal						
Exchange rate differences	**(65)**	**(18)**	**-**	**-**	**-**	**(83)**
Amortisation for the year	**-**	**(346)**	**(325)**	**(36)**	**(87)**	**(794)**
Impairments recognised	**-**	**-**	**(86)**	**-**	**(18)**	**(104)**
Impairments reversed	**-**	**-**	**-**	**-**	**-**	**-**
Measurement period adjustment	**-**	**-**	**-**	**-**	**-**	**-**
Net book value as at 30 June 2019	**7 247**	**1 949**	**965**	**98**	**232**	**10 491**
Cost	**7 810**	**2 373**	**1 985**	**324**	**412**	**12 904**
Accumulated amortisation and impairment	**(563)**	**(424)**	**(1 020)**	**(226)**	**(180)**	**(2 413)**

Acquisitions in 2018

Included in other intangible assets is the in-force book representing the acquisition of a portfolio of insurance contracts and client relationship-related intangible assets in Aldermore.

The majority of the intangible assets acquired as a result of the acquisition of subsidiaries in the prior year relates to the acquisition of Aldermore and is disclosed in note 30.1.

20 INVESTMENT PROPERTIES

R million	Notes	2019	2018
Opening balance		**754**	399
Fair value remeasurements	2.4	**-**	29
Additions		**59**	210
Acquisition of subsidiaries		**-**	570
Disposal of subsidiaries		**(124)**	(448)
Disposals		**-**	(6)
Closing balance		**689**	754

The following amounts have been disclosed in profit or loss with respect to investment property.

R million	Notes	2019	2018
Rental income from investment property		**100**	49
Direct operating expenses on investment property that generated rental income		**(36)**	(27)
Direct operating expenses on investment property that did not generate rental income		**-**	-

As at 30 June 2019, FirstRand has contractual obligations to purchase, construct or develop investment property to the value of R3 million. Repairs, maintenance and enhancements of investment property incurred are R4 million.

The latest valuation was performed during the 2018 financial year. External valuations are performed every two years. The next valuation is scheduled to be performed during the 2020 financial year or in the case when there has been an expectation of a significant change in the fair value of investment properties. For the current year there has been no significant change in the fair value of investment properties.

The following criteria were used in determining the fair value of the properties.

- Rental collection rates and tenant occupational levels.
- Significant property market changes.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS

R million	Notes	2019	2018
Liability for short-term employee benefits		**7 514**	6 951
Share-based payment liability		**3 840**	3 320
Defined benefit post-employment liability	21.1	**1 659**	1 232
Other long-term employee benefit liability		**29**	31
Defined contribution post-employment liability	21.2	**-**	-
Total employee liabilities		**13 042**	11 534
Defined benefit post-employment asset	21.1	**(6)**	(36)
Net amount due to employees		**13 036**	11 498

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

21.1 Defined benefit post-employment liability

The group operates two defined benefit plans in South Africa: a plan that provides post-employment medical benefits and a pension plan. In terms of these plans, the group is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these plans are reflected as an asset or liability on the statement of financial position.

Nature of benefits	
Pension	**Medical**
The pension plan provides retired employees with annuity income after service. A separate account (the fund) has been established. The account holds assets that are used solely to pay pension benefits. For current pensioners the fund pays a pension to the members and a dependants' pension to the spouse and eligible children on death of the pensioner. There are also a small number of active members whose benefit entitlement will be determined on a defined benefit basis as prescribed in the rules of the fund. For the small number of defined benefit contributing members in the pension plan, the group is liable for any deficit in the value of accrued benefits exceeding the assets in the fund earmarked for these liabilities. The liability in respect of retiring defined contribution members is equal to the member's share of the fund, which is determined as the accumulation of the member's contributions and employer's contributions (net of deduction for fund expenses and cost of death benefits) as well as any amounts transferred into the fund by the member, increased with the net investment returns earned (positive or negative) on the member's assets. In terms of the existing pensioners in the pension plan, the trustees are responsible for setting the pension increase policy and for granting pension increases subject to the assets of the fund supporting such increases.	The medical scheme provides retired employees with medical benefits after service. The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post-employment medical subsidy.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Nature of benefits	
Pension	**Medical**
Should the pension account in the fund be in deficit to the extent that current pensions in payment cannot be maintained, the group is liable to maintain the nominal value of pensions in payment. The fund also provides death, retrenchment and withdrawal benefits. The fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns).	

Governance	
Pension	**Medical**
The pension plan is regulated by the Prudential Authority(PA). Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with the group and the board of trustees. The board of trustees must be composed of representatives of the group and plan participants in accordance with the plans' regulations. The board consists of four representatives of the bank and four representatives of the plan participants in accordance with the plan' regulations. The trustees serve the board for five years and may be re-elected a number of times. An external auditor performs an audit of the fund on an annual basis and such annual financial statements are submitted to the Regulator of Pension Funds (i.e. to the Prudential Authority). A full actuarial valuation of the pension fund submission to the Financial Services Board is performed every three years, with the last valuation in 2017. Annual interim actuarial valuations are performed for the trustees for IAS 19 purposes. At the last valuation date the fund was financially sound.	The medical plan is regulated by the Registrar of Council for Medical Schemes in South Africa. Governance of the post-employment medical aid subsidy policy lies with the group. The group has established a committee that meets regularly to discuss and review the management and the subsidy. The committee also considers administration and data management issues and analyses demographic and economic risks inherent in the subsidy policy.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Asset-liability matching strategies
The group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the schemes. Within this framework, the group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The group actively monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. Investments are well diversified so that the failure of any single investment would not have a material impact on the overall level of assets. The trustees of the fund have adopted an investment strategy in respect of the pensioner liabilities that largely follows a 70% exposure in fixed interest instruments to immunise the interest rate and inflation risk, and 30% exposure to local growth assets. The fixed interest instruments consist mainly of long-dated South African government issued inflation-linked bonds, while the growth assets are allocated to selected local asset managers. The trustees receive monthly reports on the funding level of the pensioner liabilities and an in-depth attribution analysis in respect of changes in the pensioner funding level. The trustees of the fund aim to apportion an appropriate level of balanced portfolio, conservative portfolio, inflation-linked, and money market assets to match the maturing defined benefit active member liabilities. It should be noted that this is an approximate matching strategy, as elements such as salary inflation and decrement rates cannot be matched. This is, however, an insignificant liability compared to the liability of the pension fund.

Risks associated with the plans
Through its defined benefit pension plans and post-employment medical plans, the group is exposed to a number of risks, the most significant of which are detailed below. **Asset volatility** – Assets are held in order to provide a return to back the plans' obligations, therefore any volatility in the value of these assets would create a deficit. **Inflation risk** – The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. Consumer price inflation and health care cost inflation form part of the financial assumptions used in the valuation. **Life expectancy** – The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. **Demographic movements** – The plans' liabilities are determined based on a number of best estimate assumptions on demographic movements of participants, including withdrawal and early retirement rates. This is especially relevant to the post-employment medical aid subsidy liabilities. Should less eligible employees withdraw and/or should more eligible employees retire earlier than assumed, the liabilities could be understated.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Details of the defined benefit plan assets and fund liability are below.

		2019			2018		
R million	Notes	**Pension**	**Medical**	**Total**	Pension	Medical	Total
Post-employment benefit fund liability							
Present value of funded obligation		**8 692**	**3 502**	**12 194**	9 177	3 132	12 309
Fair value of plan assets		**(8 944)**	**(1 877)**	**(10 821)**	(9 339)	(1 934)	(11 273)
- Listed equity instruments		**(2 397)**	**-**	**(2 397)**	(2 173)	-	(2 173)
- Cash and cash equivalents		**(404)**	**-**	**(404)**	(323)	-	(323)
- Debt instruments		**(2 912)**	**-**	**(2 912)**	(3 250)	-	(3 250)
- Derivatives		**(45)**	**-**	**(45)**	(22)	-	(22)
- Qualifying insurance policy		**-**	**(1 877)**	**(1 877)**	-	(1 934)	(1 934)
- Other		**(3 186)**	**-**	**(3 186)**	(3 571)	-	(3 571)
Total employee (asset)/liability*		**(252)**	**1 625**	**1 373**	(162)	1 198	1 036
Limitation imposed by IAS19 asset ceiling		**280**	**-**	**280**	160	-	160
Total post-employment liability		**28**	**1 625**	**1 653**	(2)	1 198	1 196
Total net amount recognised on the income statement (included in staff costs)	3	**(12)**	**165**	**153**	(29)	153	124
Movement in post-employment benefit fund liability							
Present value at the beginning of the year		**(2)**	**1 198**	**1 196**	27	1 099	1 126
Exchange differences		**2**	**(1)**	**1**	5	2	7
Current service cost		**4**	**39**	**43**	4	41	45
Net interest		**(16)**	**126**	**110**	(33)	112	79
Benefits paid		**-**	**-**	**-**	(6)	(3)	(9)
Remeasurements: recognised in OCI		**42**	**265**	**307**	7	(50)	(43)
Employer contribution		**(1)**	**(2)**	**(3)**	(5)	(3)	(8)
Employee contribution		**(1)**	**-**	**(1)**	(1)	-	(1)
Closing balance		**28**	**1 625**	**1 653**	(2)	1 198	1 196

* *The plan asset is an insurance policy with a limit of indemnity. The insurance policy is backed by assets held through an insurance cell captive. The excess assets of the cell captive belong to a subsidiary of the group and is recognised in investment securities. The FirstRand group's liability is therefore sufficiently funded.*

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2019			2018		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets:						
Opening balance	**9 339**	**1 934**	**11 273**	9 682	2 024	11 706
Interest income	**806**	**182**	**988**	849	205	1 054
Remeasurements: recognised in OCI	**(486)**	**(59)**	**(545)**	(530)	(127)	(657)
Exchange differences	**-**	**-**	**-**	18	-	18
Employer contributions	**1**	**-**	**1**	7	-	7
Employee contributions	**1**	**-**	**1**	1	-	1
Benefits paid and settlements	**(717)**	**(180)**	**(897)**	(688)	(168)	(856)
Closing balance	**8 944**	**1 877**	**10 821**	9 339	1 934	11 273
Reconciliation of limitation imposed by IAS 19 asset ceiling						
Opening balance	**160**	**-**	**160**	352	-	352
Interest income	**15**	**-**	**15**	33	-	33
Change in the asset ceiling, excluding amounts included in interest	**105**	**-**	**105**	(225)	-	(225)
Closing balance	**280**	**-**	**280**	160	-	160
The actual return on plan assets was:	**10%**			9%		
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	**56**	**-**	**56**	23	-	23
Total	**56**	**-**	**56**	23	-	23

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

Each sensitivity analysis is based on changing one assumption while keeping all other remaining assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity analysis has been calculated in terms of the projected unit credit method and illustrates how the value of the liability would change in response to certain changes in actuarial assumptions.

	2019		2018	
%	**Pension**	**Medical**	Pension	Medical
The principal actuarial assumptions used for accounting purposes were:				
Expected rates of salary increases	**7.6**	**-**	7.7	-
Long-term increase in health cost	**-**	**8.3**	-	7.7
The effects of a 1% movement in the assumed health cost rate (medical) and the expected rates of salary (pension) were:				
Increase of 1%				
Effect on the defined benefit obligation (R million)	**0.5**	**51.7**	6.0	405.3
Effect on the aggregate of the current service cost and interest cost (R million)	**3.7**	**456.0**	0.7	48.8
Decrease of 1%				
Effect on the defined benefit obligation (R million)	**(0.5)**	**(42.7)**	(5.3)	(337.5)
Effect on the aggregate of the current service cost and interest cost (R million)	**(3.4)**	**(379.6)**	(0.7)	(40.3)
The effects of a change in the average life expectancy of a pensioner retiring at age 65:				
Increase in life expectancy by 1 year				
Effect on the defined benefit obligation (R million)	**291.9**	**120.5**	315.5	103.8
Effect on the aggregate of the current service cost and interest cost (R million)	**28.3**	**12.5**	29.3	11.5
Decrease in life expectancy by 1 year				
Effect on the defined benefit obligation (R million)	**(289.4)**	**(119.4)**	(312.3)	(103.1)
Effect on the aggregate of the current service cost and interest cost (R million)	**(28.1)**	**(12.4)**	(29.1)	(11.4)
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**3**	**-**	4	-
Net increase in rate used to value pensions, allowing for pension increases (%)	**3.2**	**1.1**	2.7	2.2
The weighted average duration of the defined benefit obligation is (years)	**8.7**	**13.0**	9.2	13.0

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

The expected maturity analysis of undiscounted pension and post-employment medical benefits is below.

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Pension benefits	**780**	**3 194**	**26 147**	**30 121**
Post-employment medical benefits	**190**	**928**	**19 662**	**20 780**
Total as at 30 June 2019	**970**	**4 122**	**45 809**	**50 901**

The interest income is determined using a discount rate with reference to high-quality government bonds.

Mortality rates

The normal retirement age for active members of the pension fund and post-employment medical benefit scheme is 60.

The mortality rate table used for active members and pensioners of the pension fund and post-employment medical benefits is PA (90)-2. It refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

The mortality rate table used for the active members of the post-employment medical benefit fund is SA 85-90. SA 85-90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

The average life expectancy in years of a pensioner retiring at age 65 on the reporting date for pension and medical is 17 for males and 21 for females. The average life expectancy of a pensioner retiring at age 65, 20 years after the reporting date for pension and medical is 18 for males and 22 for females.

21 EMPLOYEE LIABILITIES AND RELATED ASSETS continued

	2019	2018
Pension		
The number of employees covered by the scheme		
Active members	**2 272**	2 315
Pensioners	**5 882**	6 225
Deferred plan participants	**268**	281
Total employees	**8 422**	8 821
Defined benefit obligation amounts due to		
Benefits vested at the end of the reporting period (R million)	**8 573**	9 058
Benefits accrued but not vested at the end of the reporting period (R million)	**119**	119
Conditional benefits (R million)	**35**	34
Amounts attributable to future salary increases (R million)	**69**	102
Other benefits (R million)	**8 588**	9 041
Medical		
The number of employees covered by the scheme		
Active members	**3 384**	3 673
Pensioners	**5 258**	5 291
Total employees	**8 642**	8 964
Defined benefit obligation amounts due to		
Benefits vested at the end of the reporting period (R million)	**2 394**	2 148
Benefits accrued but not vested at the end of the reporting period (R million)	**1 108**	985
Conditional benefits (R million)	**1 142**	1 018
Other benefits (R million)	**2 360**	2 115

21.2 Defined contribution post-employment liability

R million	2019	2018
Post-employment defined contribution plan		
Present value of obligation	**20 022**	19 326
Present value of assets	**(20 022)**	(19 326)
Net defined contribution liability	**-**	-

The defined contribution scheme allows active members to purchase a pension from the defined benefit plan on retirement. The purchase price for the pension is determined based on the purchasing member's demographic details, the pension structure and economic assumptions at time of purchase. Should a member elect to purchase a pension, the group becomes exposed to longevity and other actuarial risks. However, because of the way that the purchase is priced the employer is not exposed to any asset return risk prior to the election of this option. On the date of the purchase the defined benefit liability and the plan assets will increase for the purchase amount and thereafter the accounting treatment applicable to defined benefit plans will be applied to the purchased pension.

22 DEFERRED INCOME TAX

Movement on the deferred income tax account is shown below.

R million	**2019**	2018
Deferred income tax asset		
Opening balance	**2 884**	2 202
Impact of adoption of IFRS 9	**1 131**	-
Adjusted opening balance at 1 July 2019	**4 015**	2 202
(Disposals)/acquisitions of subsidiaries	**(11)**	64
Exchange rate difference	**(36)**	12
Release to profit or loss	**637**	422
Deferred income tax on amounts charged directly to other comprehensive income	**(129)**	184
Other	**145**	-
Total deferred income tax asset	**4 621**	2 884
Deferred income tax liability		
Opening balance	**(1 477)**	(832)
Impact of adoption of IFRS 9	**11**	-
Adjusted opening balance at 1 July 2019	**(1 466)**	(832)
Acquisitions/disposals of subsidiaries	**5**	(585)
Exchange rate difference	**(8)**	(57)
Creation/(release) to profit or loss	**112**	(9)
Deferred income tax on amounts charged directly to other comprehensive income	**(1)**	7
Other	**(1)**	(1)
Total deferred income tax liability	**(1 359)**	(1 477)
Net deferred income tax asset	**3 262**	1 407

22 DEFERRED INCOME TAX continued

Deferred income tax assets and liabilities arise from:

	As at 30 June		Recognised on income statement	
R million	**2019**	2018	**2019**	2018
Deferred income tax asset				
Tax losses	**41**	100	**(59)**	84
Provision for loan impairment	**3 246**	1 132	**478**	299
Provision for post-employment benefits	**453**	334	**41**	37
Other provisions	**706**	(191)	**901**	(225)
Cash flow hedges	**(327)**	(133)	**-**	-
Financial instruments	**(11)**	26	**(37)**	21
Instalment credit assets	**(154)**	(132)	**(22)**	(13)
Accruals	**-**	-	**45**	-
Debt instruments designated at FVOCI/available-for-sale	**(22)**	475	**(16)**	-
Capital gains tax	**246**	346	**(99)**	136
Equity instruments designated at FVOCI	**(2)**	-	**16**	-
FCTR	**-**	-	**16**	-
Share-based payments	**934**	818	**117**	214
Deferred revenue liability	**(548)**	20	**(569)**	-
Other	**41**	72	**(176)**	(116)
Intangible Assets	**18**	17	**1**	(15)
Total deferred income tax asset	**4 621**	2 884	**637**	422
Deferred income tax liability				
Provision for loan impairment	**110**	90	**9**	(7)
Provision for post-employment benefits	**13**	12	**1**	-
Other provisions	**(97)**	(84)	**(14)**	44
Financial instruments	**25**	234	**3**	10
Instalment credit assets	**(355)**	(355)	**1**	(41)
Accruals	**(279)**	-	**(86)**	-
Available-for-sale securities	**(1)**	(212)	**11**	-
Capital gains tax	**(21)**	(21)	**-**	(14)
Intangible Assets	**(460)**	(610)	**146**	(2)
Other	**(294)**	(531)	**41**	1
Total deferred income tax liability	**(1 359)**	(1 477)	**112**	(9)

Dividends declared by South African entities are subject to shareholders' withholding tax. The group would therefore incur no additional tax if the total reserves of R121 594 million (2018: R112 975 million) were declared as dividends.

The group has not recognised a deferred tax asset amounting to R1 168 million (2018: R1 240 million) relating to tax losses because there was insufficient taxable income. R261 million of these losses will expire in three years. The rest of the losses have no expiry date.

23 SHORT TRADING POSITIONS

R million	2019 IFRS 9	2018 IAS 39
Government and government guaranteed stock	**5 246**	9 860
Other dated securities	**109**	121
Undated securities	**19**	18
Total short trading positions	**5 374**	9 999

24 CREDITORS, ACCRUALS AND PROVISIONS

R million	2019 IFRS 9	2018 IAS 39
Other accounts payable	**15 051**	12 543
Customer loyalty programme liability	**1 820**	1 748
Fair value hedge interest rate component*	**23**	429
Withholding tax for employees	**628**	537
Deferred revenue**	**641**	543
Operating lease liability arising from straight lining of lease payments	**128**	121
Payments received in advance	**524**	484
Accrued expenses	**2 575**	2 706
Audit fees accrued	**216**	184
Provisions (including litigations and claims)	**316**	325
Total creditors, accruals and provisions	**21 922**	19 620

* *In the prior period, fair value hedge interest rate component included the fair value attributed to designated hedged items as well as the fair value attributable to the macro hedging portfolio. Under IFRS 9, the group changed its presentation to present the fair value hedge interest component within the hedged item as oppose to separate line creditors, accruals and provisions. The balance reflected in the current year relates only to fair value hedge interest rate component of the macro hedging portfolio.*

** *The deferred revenue balance relates to service fees that are earned on value-added products rendered to customers. The group expects R278 million to be recognised in the next 12 months, with the remaining balance recognised in the period greater than 12 months.*

Reconciliation of provisions

R million	2019	2018
Opening balance	**325**	265
IFRS 9 adjustment	**6**	-
Acquisitions of subsidiaries	**-**	7
Exchange rate differences	**-**	2
Charge to profit or loss	**34**	94
- Additional provisions created	**79**	171
- Unused provisions reversed	**(45)**	(77)
Utilised	**(49)**	(43)
Closing balance	**316**	325

25 DEPOSITS

R million	**2019 IFRS 9**	2018 IAS 39
Category analysis		
Deposits from customers	**1 029 845**	958 191
- Current accounts	**241 368**	225 643
- Call deposits	**275 266**	238 108
- Savings accounts	**16 984**	13 728
- Fixed and notice deposits	**416 427**	407 345
- Other deposits from customers	**79 800**	73 367
Debt securities	**254 238**	226 109
- Negotiable certificates of deposit	**67 934**	63 076
- Fixed and floating rate notes	**184 926**	161 679
- Exchange-traded notes	**1 378**	1 354
Asset-backed securities	**46 816**	44 238
- Securitisation issuances	**34 563**	33 078
- Non-recourse deposits	**12 253**	11 160
Other	**62 205**	38 910
- Repurchase agreements	**40 897**	19 334
- Securities lending	**1 803**	3 509
- Cash collateral and credit-linked notes	**19 505**	16 067
Total deposits	**1 393 104**	1 267 448

26 OTHER LIABILITIES

R million	Notes	2019 IFRS 9	2018 IAS 39
Funding liabilities		**5 974**	6 989
- Preference shares*		**2 961**	4 206
- Other		**3 013**	2 783
Total other liabilities		**5 974**	6 989

**The preference shares in issue have variable interest rates that are linked to prime and their maturity dates range between 2019 and 2020.*

26.1 Other liabilities reconciliation

R million	2019 IFRS 9	2018 IAS 39*
Opening balance	**6 989**	6 385
Cash flow movements	**691**	154
- Proceeds on the issue of other liabilities	**1 637**	1 182
- Redemption of other liabilities	**(541)**	(609)
- Interest paid	**(405)**	(419)
Non-cash flow movements	**(1 706)**	450
- Fair value movements	**(1 922)**	109
- Foreign exchange	**(181)**	(41)
- Interest accrued	**397**	382
Total other liabilities	**5 974**	6 989

** The allocation of the movements in other liabilities has been updated to align with the disaggregated line items disclosed in the reconciliation for 2019.*

27 TIER 2 LIABILITIES

Subordinated bonds issued on or after 1 January 2013 can, at the discretion of the Registrar, either be written down or converted into the most subordinated form of equity upon the occurrence of a trigger event, being the point at which the issuing bank is considered to be non-viable.

R million	Maturity dates	Interest rate	2019 IFRS 9	2018 IAS 39
Fixed rate bonds			**9 955**	11 535
- ZAR denominated	14 April 2021 to 3 June 2026	10% - 12.35%	**1 359**	3 373
- USD denominated	23 April 2023	6.25%	**7 350**	6 907
- GBP denominated	28 October 2021	8.50%	**1 090**	1 099
- Other currencies	1 December 2021 and 29 March 2022	7.48% - 10.36%	**156**	156
Floating rate bonds			**14 236**	16 904
- ZAR denominated	6 March 2020 to 3 June 2024	Three-month JIBAR +239 bps to 400 bps	**13 719**	13 973
- USD denominated	9 April 2019	Six-month LIBOR + 415 bps	**-**	2 416
- Other currencies	1 December 2021 and 29 March 2022	Three-month JIBAR +250 bps and bank rate + 180 bps	**517**	515
Total Tier 2 liabilities			**24 191**	28 439

As required by Basel III and the Prudential Authority (PA) Regulations relating to banks, qualifying Tier 2 instruments require a loss absorbency feature in the form of either a write-off or conversion to ordinary shareholder equity at the point of non-viability. As at 30 June, the instruments compliant with Basel III amounted to:

R million	2019 IFRS 9	2018 IAS 39
With conversion feature	**-**	2 416
With write-off feature	**23 520**	21 076

27 TIER 2 LIABILITIES continued

27.1 Tier 2 liabilities reconciliation

R million	**2019 IFRS 9**	2018 IAS 39
Opening balance	**28 439**	18 933
Cash flow movements	**(4 954)**	8 397
- Proceeds from the issue of Tier 2 liabilities	**2 625**	9 823
- Capital repaid on Tier 2 liabilities*	**(7 579)**	(1 426)
Non-cash flow movements	**706**	1 109
- Foreign exchange	**40**	955
- Interest accrued	**666**	154
Total Tier 2 liabilities	**24 191**	28 439

** In the prior year this amount included interest accrued which is now separately disclosed.*

28 SHARE CAPITAL AND SHARE PREMIUM

Share capital and share premium

Authorised shares

	2019	2018
Ordinary shares	**6 001 688 450**	6 001 688 450

Issued shares

	2019			2018		
	Number of shares	**Ordinary share capital R million**	**Share premium R million**	Number of shares	Ordinary share capital R million	Share premium R million
Opening balance	**5 609 488 001**	**56**	**8 056**	5 609 488 001	56	8 056
Total issued ordinary share capital and share premium	**5 609 488 001**	**56**	**8 056**	5 609 488 001	56	8 056
Treasury shares	**(385 962)**	**-**	**(33)**	(1 045 515)	-	(62)
Total issued share capital attributable to ordinary equityholders	**5 609 102 039**	**56**	**8 023**	5 608 442 486	56	7 994

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

The shareholding of subsidiaries in FirstRand Limited was 0.01% (2018: 0.02%) of total issued ordinary shares and these shares have been treated as treasury shares.

29 OTHER EQUITY INSTRUMENTS

Authorised preference shares

	2019	2018
A preference shares unlisted variable rate cumulative convertible redeemable*	**198 311 550**	198 311 550
B preference shares listed variable rate non-cumulative non-redeemable	**100 000 000**	100 000 000
C preference shares unlisted variable rate convertible non- cumulative redeemable*	**100 000 000**	100 000 000
D preference shares unlisted variable rate cumulative redeemable*	**100 000 000**	100 000 000

**Unissued*

Issued shares

	2019		2018	
	Number of shares	**Ordinary equity instruments R million**	Number of shares	Ordinary equity instruments R million
B preference shares	**45 000 000**	**4 519**	45 000 000	4 519
Total issued share capital attributable to preference shareholders of the group	**45 000 000**	**4 519**	45 000 000	4 519

Dividends on the B preference shares are calculated at a rate of 75.5% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

Additional Tier 1 Capital issued notes

R million	Rate	2019	2018
FRB24	3 month JIBAR plus 445 basis points	**2 265**	-
FRB25	3 month JIBAR plus 440 basis points	**2 700**	-
Contingent convertible securities	11.875% per annum	**1 250**	1 250
Total additional Tier 1 capital		**6 215**	1 250
Total other equity instruments		**10 734**	5 769

29 OTHER EQUITY INSTRUMENTS continued

FRB 24 and 25

During November 2018 and March 2019, FirstRand Bank, a wholly owned subsidiary of FirstRand Limited, issued Basel III compliant Additional Tier 1 Capital notes. The notes are perpetual and pay non-cumulative coupons on a quarterly basis. The total coupon paid during the financial year was R255 million. Current tax of R58 million relating to the AT1 instruments was recognised directly in equity resulting in an aggregated net equity impact of R197 million.

The terms of the notes give FirstRand Bank the option to redeem the notes if they are no longer eligible to qualify as a relevant class of Regulatory Capital. In addition, FirstRand Bank may write off the notes, in whole or in part, with no obligation to pay compensation to the noteholders upon the earlier of:

- the SARB giving notice that a write-off is required without which FirstRand Bank would become non-viable; or
- a decision being made to inject public sector capital, or equivalent support, without which FirstRand Bank would become non-viable, as determined by the SARB.

The AT1 notes have been classified as equity as the terms do not contain an obligation to pay cash to the noteholders.

It should be noted that FRB24 was incorrectly reflected in Tier 1 and Tier 2 Liabilities in the interim resulted as at 31 December 2018.

Contingent convertible securities

On 9 December 2014, the group's subsidiary Aldermore issued R1 250 million (£75 million) fixed-rate reset Additional Tier 1 perpetual subordinated contingent convertible securities.

The securities are perpetual and have no fixed redemption date. Redemption of the securities is at the option of Aldermore on 30 April 2020 and annually thereafter. The securities bear interest at an initial rate of 11.875% per annum until 30 April 2020 and thereafter at the relevant reset interest rate as provided in the Information Memorandum. Interest is payable, annually, in arrears on each interest payment date commencing 30 April 2015 and is non-cumulative. The borrower has the full discretion to cancel any interest scheduled to be paid on the securities.

These securities are convertible into ordinary shares of Aldermore in the event of Aldermore's common equity ratio falling below 7%. Although there are a number of additional terms relating to events such as acquisition and wind-up, there are no circumstances in which Aldermore has an unavoidable obligation to issue a variable number of its own shares.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS

The group has a portfolio of integrated financial services businesses comprising FNB, RMB, WesBank, Aldermore and Ashburton Investments. The group operates in South Africa, certain markets in sub-Saharan Africa, the United Kingdom and India, and offers a universal set of transactional, lending, investment and insurance products and services.

The group's operations are conducted through its six significant wholly-owned subsidiaries:

Subsidiary	Operation
FirstRand Bank Limited	SA banking
FirstRand EMA Holdings Proprietary Limited	Rest of Africa subsidiaries
FirstRand Investment Management Holdings Limited	Investment management
FirstRand Investment Holdings Proprietary Limited	Other activities
FirstRand International Limited (Guernsey)*	UK banking and hard currency platform
FirstRand Insurance Holdings Proprietary Limited	Insurance

** FirstRand International Limited (Guernsey) acquired the entire issued share capital of Aldermore Group plc effective 1 April 2018. FirstRand International Limited (Guernsey) acquired the entire issued share capital of RMB International Mauritius (RMBIM) from FirstRand EMA Proprietary Limited effective 1 November 2018.*

There are no significant restrictions on the ability to transfer cash or other assets to or from entities within the group. Refer to section D of the annual financial statements for a simplified group structure.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.1 Acquisitions of subsidiaries

Identifiable assets acquired and liabilities assumed at the acquisition date fair value are set out as listed below.

	Aldermore		Other insignificant acquisitions	
R million	2019	2018	2019	2018
ASSETS				
Cash and cash equivalents	-	8 676	-	-
Derivative financial instruments	-	512	-	-
Accounts receivable	-	298	-	-
Advances	-	147 447	-	-
Investment securities	-	11 922	-	-
Investments in associates	-	81	-	-
Property and equipment	-	68	-	2
Investment properties	-	-	-	570
Deferred income tax asset	-	58	-	173
Intangible assets	-	244	-	4
Total assets acquired	-	169 306	-	749
LIABILITIES				
Derivative financial instruments	-	266	-	-
Creditors and accruals	-	1 597	-	164
Current tax liability	-	164	-	-
Deposits	-	153 735	-	284
Employee liabilities	-	28	-	-
Other liabilities	-	-	-	2
Deferred income tax liability	-	10	-	38
Tier 2 liabilities	-	1 030	-	-
Total liabilities acquired	-	156 830	-	488
Net asset value as at date of acquisition	-	12 476	-	261
Total goodwill is calculated as follows:				
Total cash consideration transferred	-	18 311	-	-
Total non-cash consideration transferred	-	-	-	219
Contingent consideration transferred	-	-	-	-
Less: net identifiable asset value at date of acquisition	-	(12 476)	-	(261)
Add: effective cash flow hedge	-	651	-	-
Less: intangible assets identified	-	(2 362)	-	-
Add: deferred tax	-	537	-	-
Add: Non-controlling interest at acquisition			-	-
Add: Non-controlling interests at acquisition of contingent convertible securities (AT1)	-	1 234	-	-
Goodwill on acquisition/(Gain from a bargain purchase)	-	5 895	-	(42)

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

Significant acquisitions in 2019

There were no significant acquisitions in 2019.

Significant acquisitions in 2018

Aldermore

FirstRand Limited acquired control by obtaining the entire issued share capital of Aldermore Group plc (Aldermore) through FirstRand International Limited (Guernsey). Aldermore is a UK-based specialist lender and savings bank. The effective date of the acquisition was 1 April 2018. Aldermore is a separately reportable segment of the group. No changes to the provisional values attributed to the identifiable assets acquired and liabilities assumed were made.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.1.1 Acquisitions that do not result in a change of control

	RMB private equity		Other insignificant acquisitions	
R million	**2019**	2018	**2019**	2018
Carrying amount of non-controlling interest acquired	**-**	(17)	**9**	28
Consideration paid to non-controlling interest acquired	**-**	(101)	**(23)**	(78)
- Discharged by cash consideration	**-**	(1)	**(23)**	(44)
- Non-cash consideration	**-**	(100)	**-**	(34)
Loss recognised directly in equity	**-**	(118)	**(14)**	(50)

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.2 Disposals of subsidiaries

30.2.1 Disposals of interest in subsidiaries with loss of control

	RMB private equity		Other insignificant disposals	
R million	**2019**	2018	**2019**	2018
ASSETS				
Cash and cash equivalents	**7**	5	**-**	401
Accounts receivable	**4**	3	**-**	-
Advances	**-**	679	**-**	-
Investments in associates	**-**	9	**-**	-
Property and equipment	**-**	2	**-**	-
Investment properties	**124**	448	**-**	-
Deferred income tax asset	**11**	167	**-**	-
Non-current assets and disposal groups held for sale	**-**	234	**-**	150
Total assets disposed of	**146**	1 547	**-**	551
LIABILITIES				
Creditors and accruals	**-**	459	**-**	-
Current tax liability	**4**	1	**-**	-
Other liabilities	**142**	-	**-**	-
Deferred income tax liability	**5**	-	**-**	-
Liabilities directly associated with disposal groups Held for sale	**-**	171	**-**	-
Intergroup banking accounts	**-**	5	**-**	-
Amounts due to holding company and fellow subsidiary companies	**-**	979	**-**	-
Total liabilities disposed of	**151**	1 615	**-**	-
Net asset value as at date of disposal	**(5)**	(68)	**-**	551
Total gain on disposal is calculated as follows:				
Total consideration received	**5**	149	**-**	512
Total cash consideration received	**5**	149	**-**	469
Total non-cash consideration received	**-**	-	**-**	43
Add: non-controlling share of net asset value at disposal date	**(4)**	(11)	**-**	18
Less: group's portion of the net asset value on disposal	**5**	68	**-**	(551)
Gain/(loss) on disposal of controlling interest in a subsidiary	**6**	206	**-**	(21)
Cash flow information				
Discharged by cash consideration	**5**	149	**-**	469
Less: cash and cash equivalents/(overdrafts) disposed of in the subsidiary	**(7)**	(5)	**-**	(401)
Net cash (outflow) inflow on disposal of subsidiaries	**(2)**	144	**-**	68

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

Disposals in 2019

RMB Private Equity

FirstRand Investment Holdings Proprietary Limited disposed of several immaterial private equity subsidiaries. The net gain on the disposals was R6 million.

Disposals in 2018

RMB Private Equity

FirstRand Investment Holdings Proprietary Limited disposed of a private equity subsidiary that was held via Corvest Holdings Proprietary Limited. A gain of R206 million was made on the disposal of the subsidiary.

30 SUBSIDIARIES AND NON-CONTROLLING INTERESTS continued

30.3 Non-controlling interests

The only subsidiaries that give rise to a significant non-controlling interest are First National Bank of Namibia Holdings Limited and First National Bank of Botswana Holdings Limited.

The group holds 100% of the shares in First National Bank of Botswana Holdings Limited. The non-controlling interests recognised by the group results from First National Bank Holdings Botswana Limited's shareholding in First National Bank Botswana Limited. The non-controlling interests own 30.5% of First National Bank Botswana Limited.

In addition to the above the group owns less than 100% of the issued share capital of a number of private equity subsidiaries and other investments in the RMBIA Proprietary Limited sub-consolidation. The non-controlling interests recognised by the group result from RMBIA's shareholding in these subsidiaries. There is no individually significant non-controlling interest.

	First National Bank Namibia Holdings Limited		First National Bank Botswana Limited	
Country of incorporation		**Namibia**		**Botswana**
% ownership held by NCI		**40.1**		**30.5**
% voting rights by NCI		**40.1**		**30.5**
R million	**2019**	2018	**2019**	2018
Balances included in the consolidated statement of financial position				
Total assets	**44 180**	39 430	**34 773**	32 952
Balances with central banks*	**431**	345	**1 123**	1 014
Total liabilities	**38 766**	34 414	**30 395**	28 812
Balances included in the consolidated statement of comprehensive income				
Interest and similar income	**3 865**	3 582	**2 133**	1 928
Non-interest revenue	**1 913**	1 902	**1 533**	1 379
Profit or loss before tax	**1 585**	1 551	**1 259**	1 072
Total comprehensive income	**1 086**	1 059	**989**	951
Amounts attributable to non-controlling interests				
Dividends paid to non-controlling interests	**239**	224	**153**	133
Profit or loss attributable to non-controlling interests	**445**	439	**293**	251
Accumulated balance of non-controlling interests	**2 202**	2 050	**1 290**	1 195

** These balances are not available to the group for day-to-day operational use.*

31 INVESTMENT MANAGEMENT ACTIVITIES

The following table sets out the market value of assets for which the group provides investment management services, but does not recognise the asset on its statement of financial position.

R million	2019	2018
Assets under management	**145 471**	145 678
- Traditional products	**102 478**	99 342
- Alternative products	**42 993**	46 336

Traditional products usually comprise investments in assets such as equity shares, bonds and cash, which are primarily listed instruments. Alternative products managed by the group include RMB Westport joint ventures, ETFs, credit funds, private equity funds and structured products.

32 REMUNERATION SCHEMES

R million	Notes	2019	2018
The charge to profit or loss for share-based payments is as follows:			
Conditional incentive plan		**1 928**	2 214
Other subsidiary schemes		**38**	15
Amount included in profit or loss	3	**1 966**	2 229

The purpose of these schemes is to appropriately attract, incentivise and retain managers and employees within the group.

32 REMUNERATION SCHEMES continued

Description of the scheme and vesting conditions:

Conditional incentive plan		
IFRS 2 treatment	Cash settled	Equity settled*
Description	The conditional award is a notional share based on the FirstRand Limited share price.	The conditional award is a notional share based on the FirstRand Limited share price, which must be settled in FirstRand Limited shares.
Vesting conditions	These awards vest after three years. The awards vest if the employment and performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial performance targets set annually by the group's remuneration committee. These corporate performance targets (CPTs) are set out below.	
Valuation methodology	The conditional incentive plan (CIP) is valued using the Black Scholes option pricing model. The scheme is cash settled and is therefore repriced at each reporting date.	The conditional incentive plan (CIP) is valued using the Black Scholes option pricing model. The scheme is equity settled and is the price at grant date.
Valuation assumptions		
Dividend data	Management's estimates of future discrete dividends.	
Market related	Interest rate is the risk-free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.	
Employee related	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes.	

**The equity settled scheme is immaterial with a share-based payment reserve of R2 million at 30 June 2019, all related to Aldermore staff.*

Corporate performance targets (CPTs)

The FirstRand Limited group remuneration committee sets the CPTs for each award based on the expected macroeconomic conditions and group earnings forecast over the performance period. These criteria vary from year to year, depending on the expectations for each of the aforementioned variables. For vesting, the criteria must be met or exceeded. However, to avoid a binary outcome of 0% or 100% vesting, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest in full or partially in circumstances where the performance conditions were not fulfilled. This applies to the 2016, 2017 and 2018 schemes.

In terms of the scheme rules, participants are not entitled to dividends on their conditional share awards during the vesting period.

32 REMUNERATION SCHEMES continued

Corporate performance targets

The criteria for the expired and currently open schemes are set out below.

Expired schemes

2015 (vested in 2018) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three-year period, from base year end 30 June 2015 to the financial year end immediately preceding the vesting date. Nominal GDP is advised by the FirstRand Limited Group Treasury, Macro Strategy Unit. In addition, ROE must be equal to or greater than the cost of equity plus 5% over the three-year performance period. For vesting, the criteria must be met or exceeded.

Currently open

2016 (vests in 2019) – FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP growth, on a cumulative basis, over the performance period from the base year-end being 30 June 2016, to the financial year end immediately preceding the vesting date. and the company delivers ROE of 18%-22% over the performance period. Nominal GDP is advised by the FirstRand Group Treasury, macro strategy unit. For vesting, the criteria must be met or exceeded. However, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest in full or partially in circumstances where the performance conditions were not fulfilled.

2017 (vests in 2020) – FirstRand Limited must achieve growth in normalised earnings per share, adjusted for CPI, which equals or exceeds the South African real gross domestic product (GDP) growth, on a cumulative basis, over the performance period from the base year-end, being 30 June 2017, to the year-end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. Real GDP is advised by the FirstRand Limited Group Treasury macro strategy unit. For vesting, the criteria must be met or exceeded. However, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest in full or partially in circumstances where the performance conditions were not fulfilled.

2018 (vests in 2021) – FirstRand Limited must achieve growth in normalised earnings per share which equals or exceeds the South African CPI plus Real Gross Domestic Product (“GDP”) growth, on a cumulative basis, over the performance period from the base year end, being 30 June 2018, to the year end immediately preceding the vesting date, and the company delivers ROE of at least 18% over the performance period. If real gross domestic product is negative, then growth in normalised earnings should equal or exceed CPI over the same period. Real GDP is advised by the FirstRand Limited Group Treasury Macro Strategy Unit. For vesting, the criteria must be met or exceeded. However, the scheme rules allow the remuneration committee the discretion to determine whether the conditional awards will vest in full or partially in circumstances where the performance conditions were not fulfilled.

32 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of the conditional share awards granted are detailed below.

	2019			2018		
	Conditional incentive plan	**FNB Botswana**	**FNB Namibia**	Conditional incentive plan	FNB Botswana	FNB Namibia
Award life (years)	**2 - 3**	**-**	**5**	2 - 3	5	5
Risk-free rate (%)	**7.08 - 7.78**	**-**	**5.81 - 7.69**	6.99 - 7.61	7.29 - 9.45	5.81 - 7.69
Expected dividend yield (%)	**-**	**-**	**4.52**	-	-	4.52
Expected dividend growth (%)	**-**	**-**	**-**	-	15 20	-

	Conditional incentive plan	
Share awards outstanding	**2019**	2018
Number of awards in force at the beginning of the year (millions)	**93.2**	90.3
Number of awards granted during the year (millions)	**32.7**	38.7
Number of awards exercised/released during the year (millions)	**(28.1)**	(30.2)
- Market value range at date of exercise/released (cents)*	**4 337 - 6 990**	2 968 -7 541
- Weighted average (cents)	**6 648**	5 443
Number of awards forfeited during the year (millions)	**(4.3)**	(5.6)
Number of awards in force at the end of the year (millions)	**93.5**	93.2

	Conditional incentive plan			
	2019		2018	
Conditional outstanding**	**Weighted average remaining life (years)**	**Outstanding awards (millions)**	Weighted average remaining life (years)	Outstanding awards (millions)
Vesting during 2018			0.31	27.8
Vesting during 2019	**0.32**	**33.9**	1.31	35.2
Vesting during 2020	**1.30**	**33.8**	2.30	30.2
Vesting during 2021	**2.30**	**25.8**		
Total conditional awards		**93.5**		93.2
Number of participants		**4 637**		4 095

* *Market values indicated above include those instances where a probability of vesting is applied to accelerated share award vesting prices due to a no-fault termination, as per the rules of the scheme.*

** *Years referenced in the rows relate to calendar years and not financial years.*

33 CONTINGENCIES AND COMMITMENTS

R million	2019 IFRS 9	2018 IAS 39
Contingencies and commitments		
Guarantees (endorsements and performance guarantees)	**38 273**	36 977
Letters of credit	**8 733**	10 681
Total contingencies	**47 006**	47 658
Irrevocable commitments	**136 580**	126 631
Committed capital expenditure	**4 034**	2 915
Operating lease commitments	**3 390**	3 588
Other	**136**	166
Contingencies and commitments	**191 146**	180 958
Legal proceedings		
There are a number of legal or potential claims against the group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis.		
Contingent liabilities for claims that are expected to materialise.	**192**	181
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by the directors.	**4 034**	2 915

33 CONTINGENCIES AND COMMITMENTS continued

33.1 Commitments under operating leases where the group is the lessee

The group's significant operating leases relate to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market-related rates and vary between 5% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and some of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more of an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	2019		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Office premises	**998**	**1 357**	**205**
Recoverable under subleases	**-**	**-**	**-**
Net office premises	**998**	**1 357**	**205**
Equipment and motor vehicles	**264**	**347**	**219**
Total operating lease commitments	**1 262**	**1 704**	**424**

	2018		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Office premises	1 141	1 653	195
Recoverable under subleases	(4)	(17)	-
Net office premises	1 137	1 636	195
Equipment and motor vehicles	178	257	185
Total operating lease commitments	1 315	1 893	380

33 CONTINGENCIES AND COMMITMENTS continued

33.2 Future minimum lease payments receivable under operating leases where the group is the lessor

The group owns various assets that are leased to third parties under non-cancellable operating leases as part of the group's revenue-generating operations. The operating leases have various lease terms ranging from two to 15 years.

The minimum future lease payments under non-cancellable operating leases on assets where the group is the lessor are detailed below.

	2019		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Property	**41**	**142**	**28**
Motor vehicles	**1 172**	**1 551**	**-**
Total operating lease commitments	**1 213**	**1 693**	**28**

	2018		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Property	45	133	68
Motor vehicles	993	1 390	-
Total operating lease commitments	1 038	1 523	68

34 FAIR VALUE MEASUREMENTS

34.1 Valuation methodology

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

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

Non-recurring fair value measurements

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

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 where the recoverable amount is based on the fair value less costs to sell; and
- IAS 36 where the recoverable amount is based on the fair value less costs to sell.

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

Financial instruments

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

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

Financial instruments not measured at fair value

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. Except for the amounts included under section 34.4, for all other financial instruments at amortised cost, the carrying value is equal to or a reasonable approximation of the fair value.

34 FAIR VALUE MEASUREMENTS continued

34.2 Fair value hierarchy and measurements

The group classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. Fair value may be determined using unadjusted quoted prices in active markets for identical assets or liabilities, where this is readily available, and the price represents actual and regularly occurring market transactions. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where a valuation model is applied and the group cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. In assessing whether a mark-to-model valuation is appropriate, the group will consider whether:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- an in-house-developed model is based on appropriate assumptions which have been assessed and challenged by suitably qualified parties independent of the development process;
- formal change control procedures are in place;
- awareness exists of the weaknesses of the models used, which is appropriately reflected in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation. The group considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

34 FAIR VALUE MEASUREMENTS continued

Measurement of assets and liabilities at level 2

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Derivative financial instruments			
Forward rate agreements	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rate curves and credit spreads
Swaps	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date of each cash flow is determined in terms of legal documents.	Market interest rate curves, credit and currency basis curves
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option, market-related discount rate and forward rate
Forwards	Discounted cash flows	The future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market-projected forward value.	Spot price of underlying instrument, market interest rate curves and dividend yield
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Market interest rate curves, volatilities, dividends and share prices

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Loans and advances to customers			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using a market-related interest rate adjusted for credit inputs over the contractual period. In the event that credit spreads for a counterparty are observable or are an insignificant input, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rate curves
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using a market-related interest rate. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rate curves
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds listed in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using a market-related interest rate adjusted for credit inputs over the contractual period. Where the valuation technique incorporates observable inputs for credit risk, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rate curves
Unlisted equities	Price earnings (P/E) model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings, depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place, in which case level 2 classifications are used.	Market transactions

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Investment securities continued			
Negotiable certificates of deposit	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rate curves
Treasury bills and other government and government-guaranteed stock	JSE debt market bond pricing model	The JSE debt market bond pricing model uses the JSE debt market mark-to-market bond yield.	Market interest rate curves
Non-recourse investments	Discounted cash flows	Future cash flows are discounted using a discount rate which is determined as a base rate plus a spread. The base rate is determined by legal agreements as either a bond or swap curve. The spread approximates the level of risk attached to the cash flows. When there is a change in the base rate of the market, the valuation is adjusted accordingly. The valuation model is calibrated to reflect transaction price at initial recognition.	Market interest rate curves
Investments in funds and unit trusts	Third-party valuations	For certain investments in funds (such as hedge funds) or unit trusts, where an internal valuation technique is not applied, the group places reliance on valuations from third parties, such as broker quotes or valuations from asset managers. Where considered necessary, the group applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third-party valuations are reviewed by the relevant operating business' investment committee on a regular basis. Where these underlying investments are listed, third-party valuations can be corroborated with reference to listed share prices and other market data and are thus classified as level 2 of the fair value hierarchy.	Market transactions (listed)

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Deposits			
Call and non-term deposits	None – the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short-term nature of the instruments. These deposits are financial liabilities with a demand feature. The fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None - the undiscounted amount approximates fair value and no valuation is performed
Non-recourse deposits	Discounted cash flows	Fair value for interest rate and foreign exchange risk with no valuation adjustment for own credit risk. Valuation adjustments are affected by changes in the applicable credit ratings of the assets.	Market interest rate curves, foreign exchange rates and credit inputs
Other deposits	Discounted cash flows	The forward curve is adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rate curves
Other liabilities	Discounted cash flows	Future cash flows are discounted using market-related interest rates. Where the value of a liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified as level 2.	Market interest rate curves or performance of underlying
Policyholder liabilities under investment contracts			
Unit-linked contracts or contracts without fixed benefits	Adjusted value of underlying assets	The underlying assets related to the contracts are recognised by the group. The investment contracts require the group to use these assets to settle the liabilities. The fair value of investment contract liabilities, therefore, is determined with reference to the fair value of the underlying assets. The fair value is determined using the current unit price of the underlying unitised assets linked to the liability and multiplied by the number of units attributed to the policyholders at reporting date. The fair value of the liability is never less than the amount payable on surrender, discounted for the required notice period where applicable.	Spot price of underlying

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Observable inputs
Policyholder liabilities under investment contracts continued			
Contracts with fixed and guaranteed terms	Discounted cash flows	The liability fair value is the present value of future payments, adjusted using appropriate market-related yield curves to maturity.	Market interest rate curves
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Market interest rate curves

Measurement of assets and liabilities at level 3

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

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Derivative financial instruments			
Option	Option pricing model	The Black Scholes model is used.	Volatilities
Equity derivatives	Industry standard models	The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves and, for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and applying extrapolation techniques to match the appropriate risk profile.	Volatilities and unlisted share prices

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Loans and advances to customers			
Investment banking book	Discounted cash flows	Certain of the group's investment banking advances do not meet the requirements to be carried at amortised cost and are at fair value through profit or loss. Credit risk is not observable and could have a significant impact on the fair value measurement of these advances. As such, these advances are classified as level 3 on the fair value hierarchy. Future cash flows are discounted using a market -related interest rate, adjusted for credit inputs. To calculate the fair value of credit the group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes, and consequently a reduction of the fair value of the advance. Similarly an increase in credit rating would result in a decrease in the spread below the base rate and an increase of the fair value of the advance.	Credit inputs
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs, over the contractual period. In the case where the fair value of the credit is not significant year on year but may become significant in future and where the South African counterparties do not have actively traded or observable credit spreads, the group classifies other loans and advances to customers as level 3 in the fair value hierarchy.	Credit inputs
Advances under repurchase agreements	Discounted cash flow	The valuation entails accounting for the default of the counterparty and the sovereign entity. The effect of these defaults on the exchange rate is also included. Wrong way risk is incorporated by factoring in the correlation between the FX rate and the default risk of the counterparty, as well as the default risk of the sovereign entity.	Credit input and market risk correlation factors

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Investment securities			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates.	Unobservable P/E ratios
Unlisted bonds or bonds listed in an inactive market	Discounted cash flows	Unlisted bonds or bonds in an inactive market are valued similarly to advances measured at fair value. Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Where the valuation technique incorporates unobservable inputs for credit risk, level 3 of the fair value hierarchy is deemed appropriate.	Credit inputs
Unlisted equities	P/E model and discounted cash flows	For unlisted equities, the earnings included in the model are derived from a combination of historical and budgeted earnings, depending on the specific circumstances of the entity whose equity is being valued. The P/E multiple is derived from current market observations taking into account an appropriate discount rate for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.	Growth rates and P/E ratios

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Investment securities continued			
Investments in funds and unit trusts	Third-party valuations	In the case of certain investments in funds (such as hedge funds) or unit trusts where an internal valuation technique is not applied, the group places reliance on valuations from third parties, such as broker quotes or valuations from asset managers. Where considered necessary, the group applies minority and marketability or liquidity discount adjustments to these third-party valuations. Third-party valuations are reviewed by the relevant franchise's investment committee on a regular basis. Where these underlying investments are unlisted, the group has classified them as level 3 of the fair value hierarchy, as there is no observable market data to which to compare the third-party valuations to.	Third-party valuations used, minority and marketability adjustments
Investment properties	Adjusted market prices	The fair value of investment properties is determined by obtaining a valuation from an independent professional valuer not related to the group. This fair value is based on observable market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Variables are obtained through surveys and comparable recent market transactions not publicly quoted. These valuations are reviewed annually by a combination of independent and internal valuation experts. The fair value is based on unobservable income capitalisation rate inputs. These rates are impacted predominantly by expected market rental growth, contract tenure, occupancy rates and vacant periods that arise on expiry of existing contracts. The fair value of these properties will change favourably with increases in the expected market rental growth, contract tenure and occupancy rates and decreases in the average vacant period; and unfavourably if the inverse occurs.	Income capitalisation rates

34 FAIR VALUE MEASUREMENTS continued

Instrument	Valuation technique	Description of valuation technique and main assumptions	Significant unobservable inputs of level 3 items
Deposits			
Deposits that represent collateral on credit-linked notes	Discounted cash flows	These deposits represent the collateral leg of credit-linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances
Other deposits	Discounted cash flows	The forward curve is adjusted for liquidity premiums and business unit margins.The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs
Other liabilities	Discounted cash flows	For preference shares which require the group to share a portion of profits of underlying contracts with a third party, the value of the liability is linked to the performance of the underlying. Where the underlying is not observable, these liabilities are classified as level 3. Future cash flows are discounted using market-related interest rates, adjusted for the performance of the underlying contracts.	Performance of underlying contracts
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Credit inputs

Non-recurring fair value measurements

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

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

34 FAIR VALUE MEASUREMENTS continued

34.2.1 Fair value hierarchy

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

	2019 (IFRS 9)			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	**140**	**46 162**	**802**	**47 104**
Advances	**-**	**43 583**	**36 141**	**79 724**
Investment securities	**66 826**	**40 005**	**3 692**	**110 523**
Non-recourse investments	**-**	**12 253**	**-**	**12 253**
Commodities	**21 176**	**-**	**-**	**21 176**
Investment properties	**-**	**-**	**689**	**689**
Total fair value assets recurring	**88 142**	**142 003**	**41 324**	**271 469**
Liabilities				
Recurring fair value measurements				
Short trading positions	**5 352**	**22**	**-**	**5 374**
Derivative financial instruments	**91**	**51 664**	**842**	**52 597**
Deposits	**1 378**	**53 809**	**1 238**	**56 425**
Non-recourse deposits	**-**	**12 253**	**-**	**12 253**
Other liabilities	**-**	**189**	**387**	**576**
Policyholder liabilities under investment contracts	**4 415**	**-**	**-**	**4 415**
Total fair value liabilities recurring	**11 236**	**117 937**	**2 467**	**131 640**

34 FAIR VALUE MEASUREMENTS continued

R million	2018 (IAS 39)			
	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	244	41 692	563	42 499
Advances	-	25 826	171 237	197 063
Investment securities	122 031	37 287	2 394	161 712
Non-recourse investments	-	11 160	-	11 160
Commodities	13 424	-	-	13 424
Investment properties	-	-	754	754
Total fair value assets recurring	135 699	115 965	174 948	426 612
Liabilities				
Recurring fair value measurements				
Short trading positions	9 999	-	-	9 999
Derivative financial instruments	21	50 303	630	50 954
Deposits	1 354	93 226	514	95 094
Non-recourse deposits	-	11 160	-	11 160
Other liabilities	-	1 974	1 586	3 560
Policyholder liabilities under investment contracts	3 877	-	-	3 877
Total fair value liabilities recurring	15 251	156 663	2 730	174 644

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 financial instruments

34.3.1 Transfers between fair value hierarchy levels

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

	2019 (IFRS 9)		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfers in**
Level 1	**-**	**-**	There were no transfers into level 1.
Level 2	**128**	**(151)**	During the year, the inputs into the yield curves used to fair value derivative trades become observable warranting a transfer from level 3 to level 2 for these instruments.
Level 3	**151**	**(128)**	Derivatives linked to the Botswana Pula were valued on an internally created curve, whose inputs are no longer observable. In addition, certain inputs used to calculate the fair value of a portfolio of investment securities became unobservable in the current year. These changes in inputs resulted in a transfer out of level 2 to level 3.
Total transfers	**279**	**(279)**	

	2018 (IAS 39)		
R million	Transfers in	Transfers out	Reasons for significant transfers in
Level 1	-	-	There were no transfers to level 1.
Level 2	34	(1 101)	Certain over-the-counter equity options have been transferred to level 2 in the current year because the inputs used in the valuation of these positions have become observable as the maturity of these trades are less than twelve months.
Level 3	1 101	(34)	Market volatilities are only available for a limited range of strike prices. The further away over-the-counter equity options are from their trade date, the more likely it becomes that their strike prices are outside the prevailing range of strike prices for which volatilities are available. During the current year, the observability of volatilities used in determining the fair value of certain over-the-counter equity options became unobservable and resulted in the transfer to level 3 of the fair value hierarchy.
Total transfers	1 135	(1 135)	

34 FAIR VALUE MEASUREMENTS continued

34.3 Additional disclosures for level 3 financial instruments

34.3.2 Changes in level 3 instruments with recurring fair value measurements

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

R million	Derivative financial assets	Advances	Investment securities	Investment properties
Balance as at 30 June 2017	8	199 179	2 230	399
Gains/(losses) recognised in profit or loss	(17)	15 889	186	33
Gains/(losses) recognised in other comprehensive income	-	(1)	(7)	-
Purchases, sales, issue and settlements	40	(44 096)	(63)	2
Acquisitions/disposals of subsidiaries	-	-	-	320
Net transfer to level 3	532	-	31	-
Exchange rate differences	-	266	17	-
Balance as at 30 June 2018	**563**	**171 237**	**2 394**	**754**
IFRS 9 adjustment	**-**	**(119 919)**	**(235)**	**-**
Gains/(losses) recognised in profit or loss	**226**	**2 323**	**1 477**	**-**
Gains recognised in other comprehensive income	**-**	**-**	**1**	**-**
Purchases, sales, issue and settlements	**(49)**	**(17 558)**	**72**	**59**
Acquisitions/disposals of subsidiaries	**-**	**-**	**-**	**(124)**
Net transfer to level 3	**62**	**-**	**(27)**	**-**
Exchange rate differences	**-**	**58**	**10**	**-**
Balance as at 30 June 2019	**802**	**36 141**	**3 692**	**689**

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

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

	Derivative financial liabilities	Other liabilities	Deposits
	233	1 543	536
	(107)	160	23
	-	-	-
	1	(151)	(51)
	-	33	-
	504	-	-
	(1)	1	6
	630	**1 586**	**514**
	-	**-**	**-**
	65	**(1 769)**	**3**
	-	**-**	**-**
	159	**570**	**720**
	-	**-**	**-**
	(12)	**-**	**-**
	-	**-**	**1**
	842	**387**	**1 238**

34 FAIR VALUE MEASUREMENTS continued

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

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

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

	2019 IFRS 9		2018 IAS 39	
R million	**Gains/losses recognised in the income statement**	**Gains/losses recognised in other comprehensive income**	Gains/losses recognised in the income statement	Gains/losses recognised in other comprehensive income
Assets				
Derivative financial instruments	**162**	**-**	11	-
Advances*	**2 183**	**-**	12 026	(1)
Investment securities	**1 340**	**1**	84	(7)
Investment properties	**-**	**-**	29	-
Total	**3 685**	**1**	12 150	(8)
Liabilities				
Derivative financial instruments	**37**	**-**	(299)	-
Deposits	**12**	**-**	24	-
Other liabilities	**144**	**-**	43	-
Total	**193**	**-**	(232)	-

* *Amount is mainly accrued interest on fair value loans and advances and movements in interest rates and foreign currency that have been economically hedged. These loans and advances are classified as level 3 primarily, as credit spreads could be a significant input and are not observable for loans and advances in most of RMB's key markets. Refer to page C241 where the income statement impact of the credit fair value adjustments is disclosed. Inputs relating to interest rates and foreign currencies are regarded as observable.*

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

34 FAIR VALUE MEASUREMENTS continued

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

The table below illustrates the sensitivity of the significant inputs when changed to reasonably possible alternative inputs.

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

34 FAIR VALUE MEASUREMENTS continued

R million	**2019 IFRS 9**			2018 IAS 39		
	Reasonably possible alternative fair value			Reasonably possible alternative fair value		
	Fair value	**Using more positive assump-tions**	**Using more negative assump-tions**	Fair value	Using more positive assump-tions	Using more negative assump-tions
Assets						
Derivative financial instruments	**802**	**815**	**792**	563	569	556
Advances	**36 141**	**36 350**	**35 935**	171 237	171 958	170 603
Investment securities	**3 692**	**3 848**	**3 492**	2 394	2 598	2 254
Total financial assets measured at fair value in level 3	**40 635**	**41 013**	**40 219**	174 194	175 125	173 413
Liabilities						
Derivative financial instruments	**842**	**836**	**846**	630	624	637
Deposits	**1 238**	**1 221**	**1 256**	514	460	551
Other liabilities	**387**	**377**	**397**	1 586	1 566	1 607
Total financial liabilities measured at fair value in level 3	**2 467**	**2 434**	**2 499**	2 730	2 650	2 795

34 FAIR VALUE MEASUREMENTS continued

34.4 Financial instruments not measured at fair value

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

	2019 IFRS 9				
R million	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Advances	**1 126 028**	**1 136 277**	**-**	**110 953**	**1 025 324**
Investment securities	**118 950**	**118 668**	**88 102**	**24 572**	**5 994**
Total financial assets at amortised cost	**1 244 978**	**1 254 945**	**88 102**	**135 525**	**1 031 318**
Liabilities					
Deposits	**1 324 426**	**1 318 847**	**4 768**	**1 102 313**	**211 766**
Other liabilities	**5 398**	**5 388**	**-**	**3 015**	**2 373**
Tier 2 liabilities	**24 191**	**24 752**	**-**	**24 752**	**-**
Total financial liabilities at amortised cost	**1 354 015**	**1 348 987**	**4 768**	**1 130 080**	**214 139**

	2018 IAS 39				
R million	Carrying value	Total fair value	Level 1	Level 2	Level 3
Assets					
Advances	924 165	928 641	-	112 085	816 556
Investment securities	36 065	35 985	31 917	2 827	1 241
Total financial assets at amortised cost	960 230	964 626	31 917	114 912	817 797
Liabilities					
Deposits	1 161 194	1 161 975	3 959	980 291	177 725
Other liabilities	3 429	3 429	-	1 289	2 140
Tier 2 liabilities	28 439	28 881	-	28 881	-
Total financial liabilities at amortised cost	1 193 062	1 194 285	3 959	1 010 461	179 865

34 FAIR VALUE MEASUREMENTS continued

34.5 Day 1 profit or loss

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

R million	**2019 IFRS 9**	2018 IAS 39
Opening balance	**54**	51
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**31**	13
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(35)**	(10)
Closing balance	**50**	54

34 FAIR VALUE MEASUREMENTS continued

34.6 Financial instruments designated at fair value through profit or loss

<table>
<tr><th colspan="2">Financial instruments designated at fair value through profit or loss</th></tr>
<tr><td colspan="2">Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk due to the differing inherent credit risk of these instruments. These are the methods used.</td></tr>
<tr><td>Financial assets</td><td>Advances
The change in credit risk is the difference between the fair value of advances, based on the original credit spreads (as determined using the group’s credit spread pricing matrix), and the fair value of advances based on the most recent credit spreads, where there has been a change in the credit risk of the counterparty. The group uses its own annual credit review process to determine if there has been a change in the credit rating or PD of the counterparty.
Investment securities
The change in fair value due to credit risk for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk. The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.</td></tr>
<tr><td>Financial liabilities</td><td>Determined with reference to changes in the mark-to-market yields of own issued bonds. The change in fair value of financial liabilities due to changes in credit risk is immaterial.</td></tr>
</table>

34 FAIR VALUE MEASUREMENTS continued

34.6.1 Financial assets designated at fair value through profit or loss

The group has designated certain financial assets at fair value through profit or loss that would otherwise have been measured at amortised cost or fair value through other comprehensive income.
The table below contains details on the change in credit risk attributable to these financial assets.

	2019 IFRS 9			
			Change in fair value due to credit risk	
R million	**Fair value**	**Mitigated credit risk**	**Current period**	**Cumulative**
Advances	**9 748**	**180**	**15**	**(11)**
Investment securities	**8 337**	**-**	**-**	**-**
Non-recourse investments	**-**	**-**	**-**	**-**
Total	**18 085**	**180**	**15**	**(11)**

	2018 IAS 39			
			Change in fair value due to credit risk	
R million	Fair value	Mitigated credit risk	Current period	Cumulative
Advances	173 389	4 325	405	(1 702)
Investment securities	10 178	-	-	-
Non-recourse investments	11 160	-	-	-
Total	194 727	4 325	405	(1 702)

34.6.2 Financial liabilities designated at fair value through profit or loss

	2019 IFRS 9		2018 IAS 39	
R million	**Fair value**	**Contractually payable at maturity**	Fair value	Contractually payable at maturity
Deposits	**8 946**	**8 821**	95 094	95 708
Non-recourse deposits	**12 253**	**6 190**	11 160	11 816
Other liabilities	**576**	**576**	3 560	3 690
Policyholder liabilities under investment contracts	**4 415**	**4 415**	3 877	3 877
Total	**26 190**	**20 002**	113 691	115 091

The change in the fair value of these liabilities due to own credit risk is not material.

34 FAIR VALUE MEAUREMENTS continued

34.7 Total fair value income included in profit or loss for the year

R million	**2019 IFRS 9**	2018 IAS 39
Total fair value income for the year has been disclosed as:		
Fair value gains and losses included in non-interest revenue*	**4 587**	7 027
Fair value of credit of advances included in impairment of advances	**(69)**	587

**Refer to note 2.3*

35 SEGMENT INFORMATION

35.1 Reportable segments

Segment reporting		
Group's chief operating decision maker	Chief executive officer	
Identification and measurement of operating segments	Aligned with the internal reporting provided to the CEO and reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments' revenue, profit or loss or total assets, are reported separately.	
Major customers	The FirstRand group has no major customer as defined (i.e. revenue from the customer exceeds 10% of total revenue) and is, therefore, not reliant on revenue from one or more major customers.	
Reportable segments		
RETAIL AND COMMERCIAL		
	Products and services	**Footprint**
FNB	FNB represents FirstRand's activities in the retail and commercial segments in South Africa and the broader African continent. FNB offers a diverse set of financial products and services to market segments including consumer, small business, agricultural, medium corporate, parastatals and government entities. FNB's products cover the entire spectrum of financial services – transactional, lending, insurance, investment and savings – and include mortgage loans, credit and debit cards, personal loans, funeral, credit life, life and other insurance policies, and savings and investment products. Services include transactional and deposit taking, card acquiring, credit facilities, insurance and FNB distribution channels (branch network, ATMs, call centres, cellphone and online). DirectAxis, previously reported as part of WesBank's earnings, has been moved into a personal loans cluster within FNB, alongside the FNB loans business.	FNB operates in South Africa, Namibia, Botswana, Lesotho, Swaziland, Zambia, Mozambique, Tanzania and Ghana.

35 SEGMENT INFORMATION continued

Reportable segments		
	Products and services	**Footprint**
WesBank	WesBank represents the group's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa. Through the MotoVantage brand, WesBank provides insurance and related value-added products into the motor sector.	WesBank offers its products and services in South Africa.
CORPORATE AND INSTITUTIONAL		
RMB	RMB represents the group's activities in the corporate and investment banking segments in South Africa, the broader African continent and India. RMB offers advisory, financing, trading, corporate transactional banking and principal investing solutions.	RMB operates in South Africa, Namibia, Botswana and Nigeria, and manages FirstRand Bank's representative offices in Kenya. It also operates in the UK, India and China (through FirstRand Bank branches and representative offices), and in Zambia, Tanzania, Mozambique, Swaziland, Lesotho and Ghana through the group's subsidiaries.
ALDERMORE		
Aldermore	Aldermore is a UK specialist lender and savings bank. It offers simple financial products and solutions to meet the needs of underserved small and medium-sized enterprises (SMEs), as well as homeowners, professional landlords and savers. Aldermore focuses on specialist lending across five areas: asset finance, invoice finance, SME commercial mortgages, residential mortgages and buy-to-let mortgages. It is funded primarily by deposits from UK savers. Following the integration of the MotoNovo business into Aldermore with effect from 5 May 2019, new MotoNovo business is originated in the Aldermore group.	Aldermore serves customers and intermediary partners online, by phone and face to face through a network of eight regional offices located around the UK.

35 SEGMENT INFORMATION continued

FCC AND OTHER	
FCC and other	FCC represents group-wide functions, including group treasury (capital, funding and liquidity and financial resource management), group finance, group tax, enterprise risk management, regulatory and conduct risk management and group internal audit. FCC has a custodianship mandate which includes managing relationships on behalf of the group with key external stakeholders (e.g. shareholders, debt holders, regulators) and the ownership of key group strategic frameworks (e.g. performance measurement, risk/reward). Its objective is to ensure the group delivers on its commitments to stakeholders. The reportable segment includes all management accounting and consolidated entries. Ashburton Investments offers focused traditional and alternative investment solutions to individual and institutional investors and combines established active fund management expertise with alternative investment solutions from product providers across the FirstRand group. Ashburton Investments' results are included in this reportable segment as these are not material on a segmental basis. MotoNovo, the UK-based vehicle finance business, was previously reported under WesBank's results, but the total operational performance prior to the integration with Aldermore of MotoNovo, is reported in the London branch, which forms part of FCC/Group Treasury (GTSY) and is completely excluded from WesBank's performance. Following the finalisation of the transaction with Discovery, the Discovery card business has been moved out of FNB into FCC/Group Treasury.

35.2 Description of normalised adjustments

Normalised adjustments
The group believes normalised earnings more accurately reflect operational performance. Consequently, headline earnings have been adjusted to take into account non-operational and accounting anomalies. Normalised earnings is the measurement basis used by the chief operating decision maker to manage the group. Normalised earnings adjustments include reallocation entries where amounts are moved between income statement lines and lines of the statement of financial position, without having an impact on the IFRS profit or loss for the year and total assets and total liabilities reported in terms of IFRS. Other normalised adjustments have an impact on the profit or loss reported for the period.

35 SEGMENT INFORMATION continued

35.2 Description of normalised adjustments continued

Normalised adjustments	
Consolidated private equity subsidiaries	In accordance with IFRS, operating costs of consolidated private equity subsidiaries are included in profit or loss as part of operating expenses. When calculating normalised results, these operating costs are reclassified to NIR, where income earned from these entities is included. This presentation of net income earned from consolidated private equity subsidiaries more accurately reflects the underlying economic substance of the group's relationship with these entities.
FirstRand shares held for client trading activities	The group invests in FirstRand shares to offset its exposure as a result of client trading positions. Depending on the nature of the client trading position and resulting risks, FirstRand shares may be held long or sold short by the group. In terms of IAS 32 – Financial Instruments: Presentation (IAS 32), FirstRand shares held by the group are deemed to be treasury shares for accounting purposes. For the statement of financial position, the cost price of FirstRand shares held long is deducted from equity and the consideration received from selling FirstRand shares short is added back to equity. All gains and losses on FirstRand shares are reversed to profit or loss. In addition, one of the group's joint ventures also holds FirstRand shares for client trading activities. In terms of IAS 32, profits or losses cannot be recognised on an entity's own equity instruments. The group's portion of the fair value change in the FirstRand shares is, therefore, deducted from equity-accounted earnings and the carrying value of the investment recognised using the equity-accounted method. The shares held by the joint venture are not deducted from equity. Changes in the fair value of FirstRand shares and dividends declared on these shares affect the fair value of client trading positions reflected in the statement of financial position, unless the client trading position is itself an equity instrument. The change in the fair value of client trading positions is recognised in profit or loss. However, because of the rules relating to treasury shares and the elimination of upstream and downstream profits when equity accounting is applied, the corresponding fair value changes (or the group's portion of the fair value changes) in the FirstRand shares held to match client trading positions are reversed or eliminated. This results in a mismatch in the overall equity and profit or loss of the group. For purposes of calculating normalised results, the adjustments described above are reversed and FirstRand shares held for client trading positions are treated as issued to parties external to the group. Where the client trading position is itself an equity instrument, neither gains nor losses on client trading positions or FirstRand shares held to hedge these are reflected in profit or loss, or on the statement of financial position.

35 SEGMENT INFORMATION continued

<table>
<tr><th colspan="2">Normalised adjustments</th></tr>
<tr><td>Margin-related items included in fair value income</td><td>In terms of IFRS the group is required to or has elected to measure certain financial assets and liabilities at fair value through profit or loss. In terms of the group's IFRS accounting policies, the gains or losses on these assets and liabilities are included in fair value income within NIR. This results in NIR including gains or losses that are related to lending, borrowing and economic interest rate hedges. In order to reflect the economic substance of these amounts, the amount of fair value income that relates to margin is presented in NII in the normalised results.
The amount reclassified from NIR to NII includes the following items:
• the margin on the component of the wholesale advances book in RMB that is measured at FVTPL;
• fair value gains on derivatives that are used as interest rate hedges but which do not qualify for hedge accounting; and
• currency translations and associated costs inherent to the USD funding and liquidity pool.</td></tr>
<tr><td>IAS 19 remeasurement of plan assets</td><td>In terms of IAS 19 – Employee Benefits (IAS 19), interest income is recognised on the plan assets and set off against staff costs in the income statement. All other remeasurements of plan assets are recognised in other comprehensive income. In instances where the plan asset is a qualifying insurance policy, which has a limit of indemnity, the fair value of the plan asset is limited to that limit of indemnity. The limit of indemnity continually reduces as payments are made in terms of the insurance policy. After the recognition of interest income on the plan asset, any further adjustment required to revalue the plan asset to the limit of indemnity is recognised in other comprehensive income. To the extent, therefore, that interest income on plan assets results in an increase in the fair value of the plan asset above the limit of indemnity, a downward fair value measurement is recognised in other comprehensive income. Economically, the value of the plan asset has simply reduced with claims paid. Normalised results are adjusted to reflect this by increasing staff costs for the value of the interest on the plan assets and increasing other comprehensive income.</td></tr>
</table>

35 SEGMENT INFORMATION continued

Normalised adjustments	
Realisations on the sale of private equity subsidiaries	In terms of *Circular 4/2018 Headline Earnings*, gains or losses from the sale of subsidiaries are excluded from headline earnings. The circular includes specific industry rules. Rule 1 allows entities to include in headline earnings gains or losses associated with private equity investments that are associates or joint ventures which form part of trading or operating activities. This exclusion, however, does not apply to gains or losses associated with private equity investments that are subsidiaries. The group includes gains or losses on the sale of private equity subsidiaries in normalised results to reflect the nature of these investments.
Cash-settled share-based payments and the economic hedge	The group entered into a total return swap (TRS) with external parties to economically hedge itself against the exposure to changes in the FirstRand share price associated with the group's share schemes. In terms of IFRS 9 the TRS is accounted for as a derivative instrument at fair value with the full fair value change recognised in NIR. In accordance with IFRS 2, the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense. When calculating normalised results, the group defers the recognition of the fair value gain or loss on the hedging instrument to the specific reporting period in which the IFRS 2 impact will manifest in the group's results. This reflects the economic substance of the hedge and associated IFRS 2 impact for the group. In addition, the portion of the share-based payment expense which relates to the remeasurement of the liability arising from changes in the share price is reclassified from operating expenses into NIR in accordance with the economics of the transaction. The share-based payment expense included in operating expenses is equal to the grant date fair value of the awards given.
Headline earnings adjustments	All adjustments that are required by *Circular 4/2018 Headline earnings* in calculating headline earnings are included in normalised earnings on a line-by-line basis based on the nature of the adjustment. The description and amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit.

DirectAxis, previously reported as part of WesBank's earnings, has been moved into a personal loans cluster within FNB, alongside the FNB loans business. In addition, the assets and liabilities of fellow subsidiary, Direct Axis (Pty) Ltd, were transferred to FirstRand Bank during the year for a consideration equal to the net book value of R102 million. The assets and liabilities transferred comprised of accounts receivable of R211 million, a deferred tax asset of R15 million, property and equipment of R36 million, intangible assets of R50 million employee liabilities of R122 million and creditors and accruals of R88 million. The consideration for the transfers has been paid at 30 June 2019.

In May, the operations of the MotoNovo business unit within WesBank were transferred to MotoNovo Finance Limited, a fellow subsidiary, for a cash consideration equal to the net book value.

The comparative information has been restated to reflect these changes.

35 SEGMENT INFORMATION continued

	2019		
	Retail and commercial		
	FNB		
R million	FNB SA	FNB Africa	WesBank
Net interest income before impairment of advances	31 770	4 002	5 215
Impairment and fair value of credit of advances	(5 886)	(878)	(1 985)
Net interest income after impairment of advances	25 884	3 124	3 230
Non-interest revenue	27 342	3 857	3 129
Net income from operations	53 226	6 981	6 359
Operating expenses	(28 812)	(5 339)	(4 123)
Share of profit of associates after tax	113	4	246
Share of profit of joint ventures after tax	5	-	106
Income before tax	24 532	1 646	2 588
Indirect tax	(685)	(145)	(8)
Profit for the year before tax	23 847	1 501	2 580
Income tax expense	(6 669)	(540)	(722)
Profit for the year	17 178	961	1 858
The income statement includes			
Depreciation	(1 710)	(357)	(642)
Amortisation	(188)	(10)	(15)
Net impairment charges	(76)	-	(2)
Non-interest revenue includes the following revenue from customers			
Banking fees and commissions	24 483	3 472	496
Non-banking fees and commissions	687	78	12
Insurance income (excluding risk related income)	1 055	93	434
Management, trust and fiduciary fees	1 202	7	513
Other non-interest revenue from customers	364	4	377
The statement of financial position includes			
Investments in associated companies	702	12	2 383
Investments in joint ventures	5	-	1
Total assets	419 082	57 552	138 254
Total liabilities*	401 763	57 789	135 146

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

* *Total liabilities are net of interdivisional balances.*

	2019							
		RMB						
	Retail and commercial	Investment banking	Corporate banking	Aldermore	FCC (including Group Treasury) and other	FirstRand group - normalised	Normalised adjustments	FirstRand group - IFRS
	40 987	5 609	2 827	5 830	5 046	60 299	158	60 457
	(8 749)	(373)	(39)	(430)	(909)	(10 500)	-	(10 500)
	32 238	5 236	2 788	5 400	4 137	49 799	158	49 957
	34 328	7 621	2 661	406	(1 965)	43 051	2 997	46 048
	66 566	12 857	5 449	5 806	2 172	92 850	3 155	96 005
	(38 274)	(5 963)	(3 230)	(3 255)	(3 417)	(54 139)	(144)	(54 283)
	363	1 113	-	9	(508)	977	(31)	946
	111	-	-	-	169	280	4	284
	28 766	8 007	2 219	2 560	(1 584)	39 968	2 984	42 952
	(838)	(147)	(14)	(171)	(110)	(1 280)	-	(1 280)
	27 928	7 860	2 205	2 389	(1 694)	38 688	2 984	41 672
	(7 931)	(2 195)	(618)	(603)	2 102	(9 245)	(667)	(9 912)
	19 997	5 665	1 587	1 786	408	29 443	2 317	31 760
	(2 709)	(94)	(13)	(33)	(38)	(2 887)	-	(2 887)
	(213)	(50)	(3)	(61)	(467)	(794)	-	(794)
	(78)	(6)	(9)	-	3	(90)	(124)	(214)
	28 451	1 847	2 233	172	523	33 226	-	33 226
	777	-	27	3	97	904	-	904
	1 582	-	-	8	2 476	4 066	-	4 066
	1 722	253	5	-	422	2 402	-	2 402
	745	(50)	56	-	(50)	701	153	854
	3 097	3 106	-	97	69	6 369	-	6 369
	6	1 730	-	-	(17)	1 719	50	1 769
	614 888	459 295	64 681	225 323	304 852	1 669 039	23	1 669 062
	594 698	449 127	63 214	205 626	211 804	1 524 469	-	1 524 469

Geographical segments

	2019					
R million	South Africa	Other Africa	United Kingdom	Austra-lasia	Other	Total
Net interest income after impairment	37 533	4 702	7 695	(130)	157	49 957
Non-interest revenue*	40 184	5 104	1 703	10	277	47 278
Non-current assets**	26 359	2 444	8 110	-	205	37 118

* *Includes share of profit of associates and joint ventures after tax.*

** *Exclude financial instruments, accounts receivable, deferred income tax assets, current tax assets, post-employment benefit assets and rights arising under insurance contracts.*

35 SEGMENT INFORMATION continued

	2018 (IAS 39) Restated		
	Retail and commercial		
	FNB		
R million- Restated	FNB SA	FNB Africa	WesBank
Net interest income before impairment of advances	28 677	3 728	5 313
Impairment and fair value of credit of advances	(4 553)	(1 018)	(1 992)
Net interest income after impairment of advances	24 124	2 710	3 321
Non-interest revenue	24 359	3 682	3 149
Net income from operations	48 483	6 392	6 470
Operating expenses	(26 379)	(5 103)	(4 081)
Share of profit of associates after tax	85	1	205
Share of profit of joint ventures after tax	40	-	96
Income before tax	22 229	1 290	2 690
Indirect tax	(560)	(145)	(47)
Profit for the year before tax	21 669	1 145	2 643
Income tax expense	(6 077)	(419)	(743)
Profit for the year	15 592	726	1 900
The income statement includes:			
Depreciation	(1 608)	(297)	(643)
Amortisation	(171)	(28)	(5)
Net impairment charges	(25)	-	(13)
The statement of financial position includes:			
Investments in associated companies	616	9	2 162
Investments in joint ventures	-	-	3
Total assets	390 430	57 516	142 104
Total liabilities*	368 809	57 663	139 643

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

**Total liabilities are net of interdivisional balances*

Notes:

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

- *Discovery card was reclassified from Card in FNB to FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, was reclassified from WesBank to FNB retail personal loans;*
- *WesBank Africa was reclassified from WesBank to FNB Africa; and*
- *MotoNovo was reclassified from WesBank to FCC (including Group Treasury) and other.*

	2018 (IAS 39)							
		RMB						
	Retail and commercial	Investment banking	Corporate banking	Aldermore	FCC (including Group Treasury) and other	FirstRand group - normalised	Normalised adjustments	FirstRand group - IFRS
	37 718	4 570	2 465	1 224	5 277	51 254	(2 156)	49 098
	(7 563)	(235)	(8)	(46)	(715)	(8 567)	-	(8 567)
	30 155	4 335	2 457	1 178	4 562	42 687	(2 156)	40 531
	31 190	8 860	2 450	118	(1 606)	41 012	3 181	44 193
	61 345	13 195	4 907	1 296	2 956	83 699	1 025	84 724
	(35 563)	(5 564)	(2 920)	(706)	(2 911)	(47 664)	(798)	(48 462)
	291	901	-	2	(675)	519	-	519
	136	-	-	-	259	395	(5)	390
	26 209	8 532	1 987	592	(371)	36 949	222	37 171
	(752)	(122)	(10)	(43)	(150)	(1 077)	-	(1 077)
	25 457	8 410	1 977	549	(521)	35 872	222	36 094
	(7 239)	(2 358)	(553)	(158)	2 443	(7 865)	(85)	(7 950)
	18 218	6 052	1 424	391	1 922	28 007	137	28 144
	(2 548)	(135)	(10)	(6)	(131)	(2 830)	-	(2 830)
	(204)	(40)	-	(10)	(108)	(362)	-	(362)
	(38)	-	(11)	-	-	(49)	(61)	(110)
	2 787	2 657	-	92	1	5 537	-	5 537
	3	1 693	-	-	(16)	1 680	46	1 726
	590 050	418 073	53 640	189 867	280 680	1 532 310	(21)	1 532 289
	566 115	408 772	52 373	176 089	198 142	1 401 491	-	1 401 491

Geographical segments

	2018					
R million	South Africa	Other Africa	United Kingdom	Austra-lasia	Other	Total
Net interest income after impairment	32 635	3 956	3 816	52	72	40 531
Non-interest revenue*	39 390	5 171	407	29	105	45 102
Non-current assets**	25 473	2 402	8 921	1	3	36 800

* *Includes share of profit of associates and joint ventures after tax.*

** *Excludes financial instruments, accounts receivable, deferred income tax assets, current tax assets, post-employment benefit assets and rights arising under insurance contracts.*

36 RELATED PARTIES

36.1 Balances with related parties

R million	2019	2018
Advances		
Entities that have significant influence over the group and its subsidiaries	**13 052**	6 461
Associates	**14 319**	16 566
Joint ventures	**7 385**	16 737
Key management personnel	**50**	16
Accounts receivable		
Associates	**855**	521
Joint ventures*	**17 024**	12
Derivative assets		
Fair value		
Joint ventures	**-**	178
Investment securities		
Associates	**175**	36
Investments under the co-investment scheme		
Key management personnel	**50**	75
Deposits		
Entities that have significant influence over the group and its subsidiaries	**28**	44
Associates	**818**	2 430
Joint ventures	**3 357**	1 960
Key management personnel	**150**	73
Accounts payable		
Associates	**8**	5
Joint ventures	**9**	16
Derivative liabilities		
Fair value		
Joint ventures	**-**	89
Commitments		
Associates	**5 323**	1 629
Joint ventures	**55**	55

**The current year includes cash collateral balances that was included in advances in the prior year.*

The amounts advanced to key management personnel consist of mortgages, instalment finance agreements, credit cards and other loans. The amounts deposited by key management personnel are held in cheque and current accounts, savings accounts and other term accounts and are at market-related rates, terms and conditions.

36 RELATED PARTIES continued

36.2 Transactions with related parties

R million	2019	2018
Interest received		
Entities that have significant influence over the group and its subsidiaries	**822**	16
Associates	**1 107**	731
Joint ventures	**1 401**	749
Key management personnel	**4**	3
Interest paid		
Entities that have significant influence over the group and its subsidiaries	**(1)**	-
Associates	**(4)**	(66)
Joint ventures	**(365)**	(195)
Key management personnel	**(6)**	(9)
Non-interest revenue		
Entities that have significant influence over the group and its subsidiaries	**83**	473
Associates	**598**	657
Joint ventures	**995**	1 174
Operating expenses		
Associates	**(705)**	(547)
Joint ventures	**(1)**	(47)
Dividends received		
Associates	**128**	364
Joint ventures	**695**	44
Net investment return credited in respect of investments under the co-investment scheme		
Key management personnel	**5**	14
Financial consulting fees and other		
Key management personnel	**1**	3
Salaries and other employee benefits		
Key management personnel	**252**	221
- Salaries and other short-term benefits	**155**	167
- Share-based payments	**97**	54

Deferred compensation of R42 million (2018: R51 million) is due to key management personnel and is payable in FirstRand Limited shares. A list of the board of directors of the group is available in the corporate governance section.

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group.

The directors had no interest in any third-party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMB Holdings Limited, which together with Remgro, has significant influence over FirstRand.

36 RELATED PARTIES continued

36.3 Post-retirement benefit fund

Details of transactions between the group and the group’s post-employment benefit plan are listed below.

R million	**2019 IFRS 9**	2018 IAS 39
Dividend income	**5**	7
Deposits held with the group	**744**	374
Interest income	**34**	31

37 STRUCTURED ENTITIES

The group uses structured entities in the ordinary course of business to support its own and customers' financing and investing needs.

Interests in unconsolidated structured entities

The FRIHL group has financial interests in other structured entities that expose the group to the variable income of those entities without resulting in control. The table below sets out the nature of those relationships and the impact of those relationships on the financial position and performance of the group.

	Joint funding SPV
Nature of the relationship	The group together with a co-funder has provided funding to a corporate counterparty. The group has exposure to variable returns due to the preference share funding it provides to the SPV. The group does not have power over the SPV as its rights are limited to protective lender rights, alongside other lenders.

Impact on statement of financial position of the group is set out below.

	Joint funding SPV	
R million	**2019 IFRS 9**	2018 IAS 39
Advances	-	191
Investments and other securities	-	58
Maximum exposure to loss	-	249

The group has not made any commitments on behalf of these entities and has not provided any additional financial support to these entities. The funding was settled during the current financial year.

38 FINANCIAL AND INSURANCE RISK

Overview of financial and insurance risks

The financial instruments recognised on the group's statement of financial position expose the group to various financial risks.

The information presented in this note represents the quantitative information required by IFRS 7 and sets out the group's exposure to these financial and insurance risks. This section also contains details on the group's capital management process. For additional information about the group's overall risk management processes refer to the summary risk and capital management report in section A.

<table>
<tr><th colspan="3">Overview of financial and insurance risks</th></tr>
<tr><td rowspan="2">Credit risk</td><td colspan="2">Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads.</td></tr>
<tr><td>Credit risk arises primarily from the following instruments:
➢ advances;
➢ certain investment securities; and
➢ off-balance sheet exposures.
Other sources of credit risk are:
➢ reinsurance assets;
➢ cash and cash equivalents;
➢ accounts receivable; and
➢ derivative balances.</td><td>The following information is presented for these assets:
➢ summary of all credit assets (38.1.1);
➢ information about the quality of credit assets (38 .1.2 and 38.1.3);
➢ exposure to concentration risk (38.1.4); and
➢ credit risk mitigation techniques and collateral held (38.1.5).</td></tr>
<tr><td rowspan="2">Liquidity risk</td><td colspan="2">Liquidity risk is the risk that the group is unable to meet its obligations when these fall due and payable. It is also the risk of not being able to realise assets when required to meet repayment obligations in a stress scenario.</td></tr>
<tr><td>All assets and liabilities with differing maturity profiles expose the group to liquidity risk.</td><td>The following information is presented for these assets and liabilities:
➢ undiscounted cash flow analysis of financial liabilities (38.2.1);
➢ discounted cash flow analysis of total assets and liabilities (38.2.2); and
➢ collateral pledged (38.2.3).</td></tr>
</table>

38 FINANCIAL AND INSURANCE RISK continued

<table>
<tr><th colspan="3">Overview of financial and insurance risks</th></tr>
<tr><td rowspan="4">Market risk</td><td colspan="2">The group distinguishes between market risk in the trading book and non-traded market risk. For non-traded market risk, the group distinguishes between interest rate risk in the banking book and structural foreign exchange risk.

Market risk in the trading book is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</td></tr>
<tr><td>Market risk in the trading book (38.3.1) emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB.</td><td>The following information is presented for market risk in the trading book:
➢ 1-day 99% value at risk (VaR) analysis; and
➢ 10-day 99% VaR analysis.</td></tr>
<tr><td>Interest rate risk in the banking book (38.4.1) originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
➢ projected NII sensitivity to interest rate movements; and
➢ banking book NAV sensitivity to interest rate movements as a percentage of total group capital.</td></tr>
<tr><td>Structural foreign exchange risk (38.4.2) arises from balances denominated in foreign currencies and group entities with functional currencies other than the ZAR.</td><td>Information about the group's net structural foreign exposure and the sensitivity of the exposure is presented.</td></tr>
</table>

38 FINANCIAL AND INSURANCE RISK continued

<table>
<tr><th colspan="3">Overview of financial and insurance risks</th></tr>
<tr><td rowspan="2">Equity investment risk</td><td colspan="2">The risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.</td></tr>
<tr><td>Equity investment risk (38.5) arises primarily from equity exposures from private equity and investment banking activities in RMB, and strategic investments held by WesBank, FNB and FCC. Ashburton Investments also exposes the group to equity investment risk through the seeding of new traditional and alternative funds, both locally and offshore, which exposes the group until these investments are taken up by external parties.</td><td>The following information is presented for these assets:
➢ Investment risk exposure, risk weighted assets, and sensitivity of investment risk exposure; and
➢ Estimated sensitivity of remaining investment balances.</td></tr>
<tr><td rowspan="2">Insurance risk</td><td colspan="2">Insurance risk exists when it is expected that the present value of the benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount payable had the insured event not occurred.</td></tr>
<tr><td colspan="2">The risk arises from the group’s long-and short-term insurance operations, underwritten through its subsidiaries FirstRand Life Assurance Limited and FirstRand Insurance Services Company Limited.</td></tr>
<tr><td>Capital management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the group’s solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The group, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate for safeguarding operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

38 FINANCIAL AND INSURANCE RISK continued

38.1 Credit risk

Objective

Credit risk management objectives are two-fold:

- **Risk control:** Appropriate limits are placed on the assumption of credit risk and steps taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- **Management:** Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the group credit risk management function in ERM and relevant board committees, fulfil this role.

Based on the group's credit risk appetite, as measured on a ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the group, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement, as well as collection and recovery of delinquent accounts.

Assessment and management

Credit risk is managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the group is split into three distinct portfolios: retail, commercial and corporate, and are aligned to customer profiles.

The assessment of credit risk across the group relies on internally developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the group.

The group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. FirstRand (FR)1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

38 FINANCIAL AND INSURANCE RISK continued

Mapping of FR grades to rating agency scales

FirstRand rating	Midpoint PD	RMB rating (based on S&P) *
FR 1 – 14	0.06%	AAA, AA+, AA, AA-, A+, A, A-
FR 15 – 25	0.29%	BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper)
FR 26 – 32	0.77%	BB+, BB(upper), BB, BB-(upper)
FR 33 – 39	1.44%	BB-, B+(upper)
FR 40 – 53	2.52%	B+
FR 54 – 83	6.18%	B(upper), B, B-(upper)
FR 84 – 90	13.68%	B-
FR 91 – 99	59.11%	CCC
FR 100	100%	D (Defaulted)

**Indicative mapping to the international rating scales of S&P Global Ratings (S&P). The group currently only uses mapping to S&P's rating scales.*

38 FINANCIAL AND INSURANCE RISK continued

38.1.1 Credit assets

The following assets and off-balance sheet amounts expose the group to credit risk. For all on-balance sheet exposures, the gross amount disclosed represents the maximum exposure to credit risk, before taking into account collateral and other credit enhancements.

R million	**2019 IFRS 9**	2018 IAS 39
On-balance sheet exposures		
Cash and short-term funds	**93 266**	87 592
- Money at call and short notice	**53 283**	50 612
- Balances with central banks	**39 983**	36 980
Gross advances	**1 239 914**	1 140 062
- Retail secured	**377 867**	370 183
- Residential mortgages	**217 164**	204 969
- Vehicle asset finance*	**160 703**	165 214
- Retail unsecured#	**90 298**	76 173
- Credit card	**32 443**	27 140
- Personal loans	**39 947**	33 181
- Other retail	**17 908**	15 852
- Corporate and commercial	**476 906**	431 713
- FNB Commercial	**105 131**	93 987
- WesBank corporate	**27 945**	32 150
- RMB corporate banking	**57 932**	258 984
- RMB investment banking	**285 898**	46 592
- Rest of Africa	**65 610**	61 048
- Group treasury and other	**37 743**	37 069
- Aldermore	**191 490**	163 876
- Retail	**129 072**	107 734
- Commercial	**62 418**	56 142
Derivatives	**47 104**	42 499
Debt investment securities (excluding non-recourse investments)	**215 777**	181 927
Financial accounts receivable	**5 442**	6 798
Reinsurance assets	**196**	84
Off-balance sheet exposures	**188 516**	177 896
Total contingencies	**47 006**	47 658
- Guarantees	**38 273**	36 977
- Letters of credit**	**8 733**	10 681
Irrevocable commitments	**136 580**	126 631
Credit derivatives	**4 930**	3 607
Total	**1 790 215**	1 636 858

* *Includes public sector.*
** *Includes acceptances.*

38 FINANCIAL AND INSURANCE RISK continued

38.1.2 Quality of credit assets

The following table shows the gross carrying amount of advances carried at amortised cost and the fair value of advances measured at fair value through profit or loss, as well as the exposure to credit risk of loan commitments and financial guarantees per class of advance and per internal credit rating.

The amounts in stage 3 that do not have a rating of FR 91-100 relates to technical cures (performing accounts that have previously defaulted but don't meet the 12-month curing definition remain in stage 3) and paying debt-review customers as the PDs on these customers are lower than operational stage 3 advances and the PD drives the FR rating. In addition, where the group holds a guarantee against a stage 3 advance, the FR rating would reflect same.

	2019 (IFRS9)					
	FR 1-25		FR 26-90		FR 91-100	
R million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
Retail secured						
Residential mortgages						
Stage 1	28 907	17 634	168 063	34 555	1 403	51
Stage 2	10	1	5 360	474	4 783	128
Stage 3	4	-	788	54	7 846	211
Total residential mortgages	28 921	17 635	174 211	35 083	14 032	390
Vehicle asset finance						
Stage 1	-	-	138 893	198	189	-
Stage 2	-	-	7 497	-	5 903	-
Stage 3	-	-	1 077	-	7 144	-
Total vehicle asset finance	-	-	147 467	198	13 236	-
Retail unsecured						
Credit card						
Stage 1	11	-	27 750	-	586	-
Stage 2	-	-	1 209	-	478	-
Stage 3	-	-	-	-	2 409	-
Total credit card	11	-	28 959	-	3 473	-
Personal loans						
Stage 1	262	-	29 810	-	723	-
Stage 2	-	-	1 110	-	2 194	-
Stage 3	-	-	32	-	5 816	-
Total personal loans	262	-	30 952	-	8 733	-

38 FINANCIAL AND INSURANCE RISK continued

	2019 (IFRS9)					
	FR 1-25		FR 26-90		FR 91-100	
R million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
Other retail unsecured						
Stage 1	431	593	13 665	66	807	-
Stage 2	1	-	512	1	510	-
Stage 3	2	-	-	-	1 980	-
Total other retail unsecured	434	593	14 177	67	3 297	-
Corporate and commercial						
FNB commercial						
Stage 1	64	468	91 806	10 462	222	36
Stage 2	-	-	5 761	169	2 722	23
Stage 3	1	-	104	-	4 451	75
Total FNB commercial	65	468	97 671	10 631	7 395	134
WesBank corporate						
Stage 1	8 084	4 857	17 226	-	565	-
Stage 2	4	-	1 089	-	453	-
Stage 3	-	-	49	-	475	-
Total WesBank corporate	8 088	4 857	18 364	-	1 493	-
RMB corporate banking						
Stage 1	28 491	30 643	22 266	20 313	-	82
Stage 2	-	-	6 834	4 113	-	44
Stage 3	-	-	-	-	236	206
Purchased or originated credit impaired	-	-	-	-	105	-
Total RMB corporate banking	28 491	30 643	29 100	24 426	341	332
RMB investment banking						
Stage 1	120 317	17 282	146 391	14 164	-	-
Stage 2	2 927	-	13 719	1 314	-	-
Stage 3	-	-	487	-	2 057	-
Total RMB investment banking	123 244	17 282	160 597	15 478	2 057	-

38 FINANCIAL AND INSURANCE RISK continued

	2019 (IFRS9)					
	FR 1-25		FR 26-90		FR 91-100	
R million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
Rest of Africa						
Stage 1	1 393	1 019	56 286	9 785	221	135
Stage 2	27	-	2 272	35	1 447	277
Stage 3	4	-	549	-	3 411	-
Total rest of Africa	1 424	1 019	59 107	9 820	5 079	412
Aldermore retail						
Stage 1	74 188	4 174	38 852	1 985	54	737
Stage 2	39	-	10 809	-	3 707	-
Stage 3	-	-	10	-	1 413	-
Total Aldermore retail	74 227	4 174	49 671	1 985	5 174	737
Aldermore commercial						
Stage 1	15 235	1 703	41 278	4 065	81	204
Stage 2	72	-	3 047	-	1 806	-
Stage 3	-	-	-	-	899	-
Total Aldermore commercial	15 307	1 703	44 325	4 065	2 786	204
Group Treasury and other						
Stage 1	34 532	1 250	3 237	-	(70)	-
Stage 2	-	-	44	-	-	-
Stage 3	-	-	-	-	-	-
Total Group Treasury and other	34 532	1 250	3 281	-	(70)	-
Stage 1	311 915	79 623	795 523	95 593	4 781	1 245
Stage 2	3 080	1	59 263	6 106	24 003	472
Stage 3	11	-	3 096	54	38 137	492
Purchased or originated credit impaired	-	-	-	-	105	-
Total Advances	315 006	79 624	857 882	101 753	67 026	2 209

38 FINANCIAL AND INSURANCE RISK continued

38.1.2 Quality of credit assets

Age analysis of advances

R million	2018 (IAS 39)				
	Neither past due nor impaired	Past due but not specifically impaired: One full instalment past due	Past due but not specifically impaired: Two full instalments past due	Impaired (NPLs)	Total
FNB	379 960	6 955	3 373	14 066	404 354
- Retail	249 890	4 457	2 290	8 485	265 122
- Commercial*	90 752	221	300	2 714	93 987
- Rest of Africa	39 318	2 277	783	2 867	45 245
WesBank	203 466	5 169	2 838	9 760	221 233
RMB	291 483	727	186	2 505	294 901
- Investment banking**	241 946	690	159	2 299	245 094
- Corporate banking	49 537	37	27	206	49 807
Aldermore	162 208	680	372	616	163 876
FCC (including Group Treasury)	55 698	-	-	-	55 698
Total	1 092 815	13 531	6 769	26 947	1 140 062
Percentage of total book (%)	95.8	1.2	0.6	2.4	100.0

* *Includes public sector.*

** *Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.*

The following tables provide the credit quality of advances in the in-force portfolio.

Credit quality of performing advances (neither past due nor impaired)

R million	2018 (IAS 39)								
	Total	FNB: Retail	FNB: Commercial*	FNB: Rest of Africa	RMB investment banking	RMB corporate banking	WesBank	Aldermore	FCC (including Group Treasury)
FR 1-25	334 132	36 081	-	1 591	110 976	24 887	917	106 783	52 897
FR 26-90	746 376	208 179	89 704	36 266	130 850	23 647	200 311	54 548	2 871
Above FR 90	12 307	5 630	1 048	1 461	120	1 003	2 238	877	(70)
Total	1092 815	249 890	90 752	39 318	241 946	49 537	203 466	162 208	55 698

* *Includes public sector.*

For more detail about the FR rating scales and the link to rating agency scales refer to the credit risk section in the summary risk and capital management report in section A.

38 FINANCIAL AND INSURANCE RISK continued

Analysis of impaired advances (stage 3/NPLs)

The table represents an analysis of impaired advances for financial assets measured at amortised cost, and debt instruments measured both at fair value through other comprehensive income and fair value through profit and loss, in line with the manner the group manages credit risk.

	2019 (IFRS 9)		
R million	Total	Security held and expected recoveries	Stage 3 impairment
Stage 3/NPLs by class			
Total retail secured	**16 859**	**12 351**	**4 508**
- Residential mortgages	**8 638**	**6 967**	**1 671**
- Vehicle asset finance	**8 221**	**5 384**	**2 837**
Total retail unsecured	**10 239**	**2 399**	**7 840**
- Credit card	**2 409**	**540**	**1 869**
- Personal loans	**5 848**	**1 414**	**4 434**
- Other retail	**1 982**	**445**	**1 537**
Total corporate and commercial	**7 965**	**4 671**	**3 294**
- FNB commercial	**4 556**	**2 253**	**2 303**
- WesBank corporate	**524**	**345**	**179**
- RMB corporate banking	**341**	**248**	**93**
- RMB investment banking	**2 544**	**1 825**	**719**
Rest of Africa	**3 964**	**1 547**	**2 417**
Group treasury and other	**-**	**-**	**-**
Aldermore	**2 322**	**1 886**	**436**
- Retail	**1 423**	**1 247**	**176**
- Commercial	**899**	**639**	**260**
Total stage 3/NPLs	**41 349**	**22 854**	**18 495**
Stage 3/NPLs by category			
Overdrafts and cash management accounts	**4 585**	**1 580**	**3 005**
Term loans	**3 265**	**1 828**	**1 437**
Card loans	**2 619**	**552**	**2 067**
Instalment sales and hire purchase agreements	**9 377**	**6 045**	**3 332**
Lease payments receivable	**391**	**151**	**240**
Property finance	**11 880**	**9 450**	**2 430**
Personal loans	**6 801**	**1 622**	**5 179**
Preference share agreements	**145**	**29**	**116**
Investment bank term loans	**1 942**	**1 418**	**524**
Long-term loans to group associates and joint ventures	**48**	**-**	**48**
Other	**296**	**179**	**117**
Total stage 3/NPLs	**41 349**	**22 854**	**18 495**

38 FINANCIAL AND INSURANCE RISK continued

	2018 (IAS 39)		
R million	**Total**	**Security held and expected recoveries**	**Impairment**
NPLs by class			
FNB	14 066	8 636	5 430
- Retail	8 486	5 339	3 147
- Commercial	2 714	1 699	1 015
- Rest of Africa	2 866	1 598	1 268
WesBank	9 760	6 422	3 338
RMB	2 505	1 422	1 083
- Investment banking	2 299	1 265	1 034
- Corporate banking	206	157	49
Aldermore	616	475	141
Total NPLs	26 947	16 955	9 992
NPLs by category			
Overdrafts and cash management accounts	2 797	1 356	1 441
Term loans	1 951	1 060	891
Card loans	1 154	374	780
Instalment sales and hire purchase agreements	7 913	5 269	2 644
Lease payments receivable	325	155	170
Property finance	6 824	5 575	1 249
Personal loans	3 742	1 896	1 846
Preference share agreements	890	523	367
Investment bank term loans	550	351	199
Long-term loans to group associates and joint ventures	772	393	379
Other	29	3	26
Total NPLs	26 947	16 955	9 992

38 FINANCIAL AND INSURANCE RISK continued

38.1.3 Quality of credit assets – non-advances

The following table shows the gross carrying amount of non-advances carried at amortised cost and the fair value of non-advances measured at fair value through profit or loss or through other comprehensive income per external credit rating.

	2019 (IFRS9)		
R million	AAA to BBB	BB+ to B-	CCC
Investment securities at amortised cost			
Stage 1	101 274	14 513	1 965
Stage 2	-	1 324	-
Investment securities at fair value through other comprehensive income			
Stage 1	22 929	16	-
Total investment securities	124 203	15 853	1 965
Stage 1	-	-	-
Stage 2	209	4 752	565
Stage 3	-	7	-
Total accounts receivable	209	4 759	565
Cash and cash equivalents			
Stage 1	87 091	4 642	1 533
Total cash and cash equivalents	87 091	4 642	1 533
Derivative assets	41 659	5 363	82

38 FINANCIAL AND INSURANCE RISK continued

R million	Debt investment securities	Derivatives	Cash and short-term funds	Reinsurance assets	Accounts receivable	Total
	2018 (IAS 39)					
AAA to BBB-	147 820	36 017	67 319	45	540	251 741
BB+ to B-	33 235	6 456	19 759	39	6 019	65 508
CCC	872	26	499	-	13	1 410
Unrated	-	-	15	-	-	15
Total	181 927	42 499	87 592	84	6 572	318 674

R million	Neither past due nor impaired	Past due but not impaired 1-30 days	Past due but not impaired 31-60 days	Past due but not impaired 61-90 days	Impaired	Total
	2018 (IAS 39)					
Items in transit	2 536	-	-	-	-	2 536
Interest and commission accrued	74	-	-	-	-	74
Sundry debtors	1 156	7	-	-	-	1 163
Other accounts receivable	2 806	70	84	64	1	3 025
Total financial accounts receivable	6 572	77	84	64	1	6 798

38.1.4 Concentration risk

Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentration risk is managed based on the nature of the credit concentration in each portfolio. The group's credit portfolio is well diversified, which is achieved through setting maximum exposure guidelines to individual counterparties. The group constantly reviews its concentration levels and sets maximum exposure guidelines for these.

The group seeks to establish a balanced portfolio profile and closely monitors credit concentrations.

38 FINANCIAL AND INSURANCE RISK continued

Geographic concentration of significant credit asset exposure

The following tables provide a breakdown of credit exposure across geographical areas.

	2019 (IFRS 9)							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	**57 710**	**5 988**	**17 920**	**7 452**	**3 638**	**190**	**368**	**93 266**
Total advances	**858 018**	**103 302**	**251 471**	**15 870**	**1 556**	**528**	**9 169**	**1 239 914**
Stage 3	**33 245**	**4 232**	**3 405**	**-**	**-**	**402**	**65**	**41 349**
Derivatives	**25 368**	**965**	**18 104**	**2 010**	**273**	**-**	**384**	**47 104**
Debt investment securities (excluding non-recourse investments)	**149 720**	**24 991**	**18 091**	**9 681**	**6 356**	**-**	**6 938**	**215 777**
Accounts receivable	**4 706**	**1 078**	**1 651**	**28**	**1 002**	**52**	**61**	**8 578**
Reinsurance assets	**193**	**3**	**-**	**-**	**-**	**-**	**-**	**196**
Off-balance sheet exposures								
Guarantees, acceptances, and letters of credit	**33 106**	**7 423**	**1 488**	**436**	**66**	**93**	**4 394**	**47 006**
Irrevocable commitments	**109 729**	**8 688**	**13 683**	**2 267**	**819**	**-**	**1 394**	**136 580**

38 FINANCIAL AND INSURANCE RISK continued

Geographic concentration of significant credit asset exposure continued

	2018 (IAS 39)							
R million	South Africa	Rest of Africa	United Kingdom	Other Europe	North and South America	Austra-lasia	Asia	Total
On-balance sheet exposures								
Cash and short-term funds	58 281	5 924	18 030	1 247	3 508	356	246	87 592
Total advances	789 438	95 521	235 719	12 177	1 877	631	4 699	1 140 062
NPLs	22 121	3 430	1 193	75	-	128	-	26 947
Derivatives	23 585	702	14 381	2 436	297	23	1 075	42 499
Debt investment securities (excluding non-recourse investments)	127 426	20 085	10 269	9 265	10 627	-	4 255	181 927
Accounts receivable	6 757	1 332	1 020	32	607	62	74	9 884
Reinsurance assets	39	-	-	45	-	-	-	84
Off-balance sheet exposures								
Guarantees, acceptances, and letters of credit	35 092	7 876	304	445	564	118	3 259	47 658
Irrevocable commitments	102 574	12 719	9 703	939	603	10	83	126 631

38 FINANCIAL AND INSURANCE RISK continued

Sector analysis concentration of advances

Advances expose the group to concentration risk in the various industry sectors. The tables below set out the groups' exposure to the various industry sectors for total advances and credit-impaired advances.

	2019 (IFRS 9)			
		Stage 3		
R million	Total advances	Advances	Security held and expected recoveries	Impairment
Sector analysis				
Agriculture	**43 718**	**2 393**	**1 629**	**764**
Banks	**21 830**	**-**	**-**	**-**
Financial institutions	**170 980**	**446**	**140**	**306**
Building and property development	**67 051**	**1 807**	**903**	**904**
Government, Land Bank and public authorities	**25 667**	**85**	**81**	**4**
Individuals	**605 685**	**28 712**	**15 943**	**12 769**
Manufacturing and commerce	**136 377**	**3 872**	**2 118**	**1 754**
Mining	**12 324**	**556**	**458**	**98**
Transport and communication	**31 257**	**594**	**283**	**311**
Other services	**125 025**	**2 884**	**1 299**	**1 585**
Total	**1 239 914**	**41 349**	**22 854**	**18 495**

	2018 (IAS 39)			
		NPLs		
R million	Total advances	Total value net of ISP	Security held and expected recoveries	Specific impairment
Sector analysis				
Agriculture	37 323	1 307	1 052	255
Banks	21 729	-	-	-
Financial institutions	143 962	471	192	279
Building and property development	63 603	1 191	645	546
Government, Land Bank and public authorities	24 406	322	310	12
Individuals	564 685	18 286	11 973	6 313
Manufacturing and commerce	127 665	3 256	1 694	1 562
Mining	12 974	169	53	116
Transport and communication	26 004	342	164	178
Other services	117 711	1 603	872	731
Total	1 140 062	26 947	16 955	9 992

38 FINANCIAL AND INSURANCE RISK continued

38.1.5 Credit risk mitigation and collateral held

Since taking and managing credit risk is core to its business, the group aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this, beginning with the structuring and approval of facilities only for those clients and within those parameters that fall within risk appetite.

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the group's lending risk, resulting in security against the majority of exposures. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments

- Mortgage and instalment sale finance portfolios in FNB, WesBank and Aldermore are secured by the underlying assets financed.
- FNB and Aldermore commercial credit exposures are secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Structured facilities in RMB are secured as part of the structure through financial or other collateral, including guarantees, credit derivative instruments and assets.
- Counterparty credit risk in RMB is mitigated through the use of netting agreements and financial collateral. For additional information relating to the use of the netting agreements refer to page C278.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and securities.
- Invoice finance within Aldermore is secured by the underlying receivables (trade invoices).
- Working capital facilities in RMB corporate banking are secured.

The group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model and physical inspection, which is performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and credit segment level, in line with the requirements of the group's credit risk appetite framework.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes as well as incorporating forward looking information.

38 FINANCIAL AND INSURANCE RISK continued

38.1.4 Credit risk mitigation and collateral held continued

The table below sets out an analysis of the maximum exposure to credit risk for financial assets at amortised cost and debt instruments at fair value through profit or loss, as well as a break down of collateral, both financial and non-financial held against the exposure, along with any other credit enhancements and netting arrangement.

	2019 (IFRS9)				
R million	Gross carrying amount	Off-balance sheet exposure	Loss allowance	Maximum exposure to credit risk	
Residential mortgages	217 164	53 108	(2 541)	**267 731**	
Vehicle and asset finance*	160 703	198	(5 443)	**155 458**	
Credit card	32 443	-	(2 883)	**29 560**	
Personal loans	39 947	-	(6 853)	**33 094**	
Other retail	17 908	660	(2 725)	**15 843**	
FNB commercial	105 131	11 233	(3 812)	**112 552**	
WesBank corporate	27 945	4 857	(338)	**32 464**	
RMB corporate banking	57 932	55 401	(688)	**112 645**	
RMB investment banking	285 898	32 760	(3 233)	**315 425**	
Rest of Africa	65 610	11 251	(3 963)	**72 898**	
Group Treasury and other	37 743	1 250	(715)	**38 278**	
Aldermore	191 490	12 868	(968)	**203 390**	
- Retail**	129 072	6 896	(386)	**135 582**	
- Commercial	62 418	5 972	(582)	**67 808**	
Total advances	**1 239 914**	**183 586**	**(34 162)**	**1 389 338**	
Investment securities#	215 903	-	(126)	**215 777**	
Cash and cash equivalents	93 266	-	-	**93 266**	
Accounts receivable	5 534	-	(92)	**5 442**	
Derivatives	47 104	-	-	**47 104**	

** Includes MotoNovo old book in the FirstRand bank with a closing balance of R54 561 million (£3 034 million).*

*** Includes MotoNovo new book of R6 639 million (£369 million).*

 # Include debt instruments measured at fair value, but exclude equity and non-recourse investments.

^ Secured represents balances which have non financial collateral attached to the financial asset.

	Netting and financial collateral	Unsecured	Secured^
	3 270	618	263 843
	-	-	155 458
	-	29 560	-
	-	32 553	541
	-	14 456	1 387
	1 447	24 714	86 391
	-	-	32 464
	-	67 232	45 413
	5 309	36 860	273 256
	7 908	32 078	32 912
	78	31 926	6 274
	-	7 760	195 630
	-	-	135 582
	-	7 760	60 048
	18 012	**277 757**	**1 093 569**
	-	202 989	12 789
	19 843	73 423	-
	-	5 442	-
	-	47 104	-

38 FINANCIAL RISK continued

The table below sets out the financial effect of collateral per class of advance.

R million	2018 (IAS 39)
FNB	6 689
- Retail	4 222
- Commercial	2 125
- Rest of Africa	342
WesBank	3 810
RMB	1 397
- Investment banking	1 089
- Corporate banking	308
Aldermore	152 724
Total	164 620

The financial effect of collateral and other credit enhancements has been calculated separately per class of advance for the performing book (IBNR and portfolio specific impairments) and the non-performing book. The amounts disclosed above represent the difference between the impairment recognised on the statement of financial position using the actual LGD and a proxy LGD for all secured portfolios. The proxy LGD is based on the LGD used to determine the impairment recognised on the statement of financial position for unsecured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect is calculated.

38 FINANCIAL AND INSURANCE RISK continued

The table below sets out the cash collateral held against the net derivative position.

Collateral held against derivative positions

R million	2019 IFRS 9	2018 IAS 39
Cash collateral held	**11 830**	17 352

The table below reflects the collateral that the group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral.

Collateral held in structured transactions

	2019 IFRS 9		2018 IAS 39	
R million	Fair value	Fair value of collateral sold or repledged in the absence of default	Fair value	Fair value of collateral sold or repledged in the absence of default
Cash and cash equivalents	**7 166**	**1 802**	8 535	2 819
Investment securities	**45 315**	**24 624**	33 064	16 333
Total collateral pledged	**52 481**	**26 426**	41 599	19 152

Investment securities exclude securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.

The table below sets out the reconciliation of collateral taken possession of and recognised on the statement of financial position.

Collateral taken possession of

		Property	
R million	Notes	2019 IFRS 9	2018 IAS 39
Opening balance		**49**	11
Net movement		**5**	38
Closing balance	13	**54**	49

When the group takes possession of collateral that is not cash or not readily convertible into cash, the group determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount. Where the group is unable to obtain the pre-set sale amount in an auction, it will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

38 FINANCIAL AND INSURANCE RISK continued

Offsetting of financial assets and financial liabilities

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the group has set up a function to clear OTC derivatives centrally as part of risk mitigation.

The group uses the International Swaps and Derivatives Association (ISA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the group's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met, or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements, with reverse repurchases in the asset section of the table, securities lending and similar arrangements on the liability section of the table.

The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements, but no offsetting has been applied.

38 FINANCIAL AND INSURANCE RISK continued

The financial collateral included in the table above is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a group-wide level, the amount of collateral included in this table could increase. The total amount reported on the statement of financial position is the sum of the net amount reported in the statement of financial position and the amount of financial instruments not subject to set-off or MNA.

	Derivatives		**Structured transactions**		**Other advances/deposits**	
R million	**2019 IFRS 9**	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39	**2019 IFRS 9**	2018 IAS 39
Assets						
Offsetting applied						
Gross amount	**57 470**	50 269	**41 445**	40 261	**-**	-
Amount set-off	**(14 321)**	(11 003)	**(9 697)**	(18 092)	**-**	-
Net amount reported on the statement of financial positions	**43 149**	39 266	**31 748**	22 169	**-**	-
Offsetting not applied						
Financial instruments subject to MNA and similar agreements	**(34 001)**	(30 487)	**(5 419)**	(88)	**-**	-
Financial collateral	**(2 526)**	(1 498)	**(26 329)**	(22 081)	**-**	-
Net amount	**6 622**	7 281	**-**	-	**-**	-
Financial instruments not subject to set-off or MNA	**3 955**	3 233	**13 566**	10 895	**1 160 437**	1 088 163
Total statement of financial position	**47 104**	42 499	**45 314**	33 064	**1 160 437**	1 088 163
Liabilities						
Offsetting applied						
Gross amount	**60 417**	55 332	**42 982**	51 498	**-**	-
Amount set-off	**(14 321)**	(11 003)	**(9 697)**	(18 092)	**-**	-
Net amount reported on the statement of financial positions	**46 096**	44 329	**33 285**	33 406	**-**	-
Offsetting not applied						
Financial instruments subject to MNA and similar agreements	**(34 001)**	(30 487)	**(5 419)**	(88)	**-**	-
Financial collateral	**(1 781)**	(3 151)	**(27 866)**	(19 693)	**-**	-
Net amount	**10 314**	10 691	**-**	13 625	**-**	-
Financial instruments not subject to set-off or MNA	**6 501**	6 625	**9 415**	(10 563)	**1 350 404**	1 244 605
Total statement of financial position	**52 597**	50 954	**42 700**	22 843	**1 350 404**	1 244 605

38 FINANCIAL AND INSURANCE RISK continued

38.2 Liquidity risk

Objective

The group strives to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and minimum requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the group with a natural liquidity buffer.

Given the liquidity risk introduced by its business activities, the group's objective is to optimise its funding profile within structural and regulatory constraints to enable its franchises to operate in an efficient and sustainable manner.

Compliance with the Basel III LCR influences the group's funding strategy, in particular as it seeks to restore the correct risk-adjusted pricing of liquidity. The group is actively building its deposit franchise through innovative and competitive product and pricing, while also improving the risk profile of its institutional funding. This continues to improve the funding and liquidity profile of the group.

Given market conditions and the regulatory environment, the group increased its holdings of available liquidity over the year in line with risk appetite. The group utilised new market structures, platforms and regulatory programmes to efficiently increase the available liquidity holdings.

Liquidity risk arises from all assets and liabilities with differing maturity profiles.

Assessment and management

The group focuses on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the group to ensure business activities preserve and improve funding stability. This ensures the group is able to operate through periods of stress when access to funding is constrained.

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of high quality, highly liquid assets are held, either to be sold into the market or to provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The group's approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies, and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis.

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.

38 FINANCIAL AND INSURANCE RISK continued

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the group.

38.2.1 Undiscounted cash flows

The following table presents the group's undiscounted cash flows of financial liabilities and off-balance sheet amounts and includes all cash outflows related to principal amounts, as well as future payments. These balances will not reconcile to the statement of financial position for the following reasons:

- balances are undiscounted amounts whereas the statement of financial position is prepared using discounted amounts;
- the table includes cash flows not recognised on the statement of financial position;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity, as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

	2019 IFRS 9			
		Term to maturity		
R million	Carrying amount	Call -3 months	4-12 months	> 12 months and non-contractual
On-balance sheet exposures				
Deposits and current accounts	1 492 403	918 676	232 326	341 401
Short trading positions	5 374	5 374	-	-
Derivative financial instruments	47 266	43 776	1 111	2 379
Creditors, accruals and provisions	21 408	14 030	1 265	6 113
Tier 2 liabilities	31 776	369	3 688	27 719
Other liabilities	6 467	1 504	3 022	1 941
Policyholder liabilities	5 263	336	300	4 627
Off-balance sheet exposures				
Financial and other guarantees	47 006	44 375	2 121	510
Operating lease commitments	3 390	425	836	2 129
Other contingencies and commitments	4 170	856	2 724	590
Facilities not drawn	136 580	136 580	-	-

38 FINANCIAL AND INSURANCE RISK continued

R million	2018 IAS 39 Carrying amount	Term to maturity Call-3 months	4-12 months	> 12 months and non-contractual
On-balance sheet exposures				
Deposits and current accounts	1 366 250	818 740	210 632	336 878
Short trading positions	9 999	9 999	-	-
Derivative financial instruments	51 480	49 567	257	1 656
Creditors, accruals and provisions	19 703	11 872	1 597	6 234
Tier 2 liabilities	36 520	364	9 273	26 883
Other liabilities	7 438	653	1 933	4 852
Policyholder liabilities	4 593	275	147	4 171
Off-balance sheet exposures				
Financial and other guarantees	47 658	43 711	2 842	1 105
Operating lease commitments	3 588	376	939	2 273
Other contingencies and commitments	3 081	1 344	1 615	122
Facilities not drawn	126 631	126 631	-	-

38 FINANCIAL AND INSURANCE RISK continued

38.2.2 Discounted cash flows

The following table represents the group's contractual discounted cash flows of total assets, liabilities and equity for the group. Relying solely on the liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative gap in the shorter term due to short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

Discounted cash flow analysis – maturity analysis of total assets, liabilities and equity based on the present value of the expected payment

	2019 IFRS 9			
		Term to maturity		
R million	**Carrying amount**	**Call -3 months**	**4-12 months**	**> 12 months and non contractual**
Total assets	**1 669 062**	**476 589**	**183 209**	**1 009 264**
Total equity and liabilities	**1 669 062**	**989 936**	**228 412**	**450 714**
Net liquidity gap	**-**	**(513 347)**	**(45 203)**	**558 550**
Cumulative liquidity gap	**-**	**(513 347)**	**(558 550)**	**-**

	2018 IAS 39			
		Term to maturity		
R million	Carrying amount	Call -3 months	4-12 months	> 12 months and non contractual
Total assets	1 532 289	430 783	162 361	939 145
Total equity and liabilities	1 532 289	892 101	210 740	429 448
Net liquidity gap	-	(461 318)	(48 379)	509 697
Cumulative liquidity gap	-	(461 318)	(509 697)	-

As illustrated in the table above, the negative liquidity short-term gap increased slightly in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress-funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

38 FINANCIAL AND INSURANCE RISK continued

38.2.3 Collateral pledged

The group pledges assets under the following terms and conditions:

- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options; and
- collateral in the form of cash and other investment securities is pledged when the group borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.
The following assets have been pledged to secure the liabilities set out in the table below. These assets are not available in the normal course of business.

R million		2019 IFRS 9	2018 IAS 39
Cash and cash equivalents		**20 211**	16 932
Advances		**63 233**	69 919
Investment securities	held under repurchase agreements	**21 918**	13 754
Investment securities	other	**6 739**	5 192
Other		**1**	-
Total assets pledged		**112 102**	105 797

The following liabilities have been secured by the group pledging either its own or borrowed financial assets, except for the short trading positions, which are covered by borrowed securities only.

R million	2019 IFRS 9	2018 IAS 39
Short trading positions	**5 374**	9 999
Creditors and accruals	**-**	85
Total deposits	**87 712**	66 170
- Deposits under repurchase agreements	**40 896**	19 334
- Deposits in securities lending transactions*	**1 802**	3 509
- Other secured deposits	**45 014**	43 327
Contingent liabilities	**15**	-
Other	**23 492**	20 950
Total	**116 593**	97 204

**Securities lending transactions include only those where cash is placed against the securities borrowed. Transactions where securities are lent and borrowed and other securities placed against the borrowing and lending are excluded.*

38 FINANCIAL AND INSURANCE RISK continued

38.2.4 Concentration analysis of deposits

R million	2019 IFRS 9	2018 IAS 39
Sector analysis		
Deposit current accounts and other loans		
Sovereigns, including central banks	**136 676**	128 299
Public sector entities	**36 489**	35 069
Local authorities	**14 729**	10 170
Banks	**75 535**	81 309
Securities firms	**8 626**	7 370
Corporate customers	**718 799**	644 978
Retail customers	**396 340**	353 749
Other	**5 910**	6 504
Total deposits	**1 393 104**	1 267 448
Geographical analysis		
South Africa	**989 140**	884 404
Rest of Africa	**104 306**	96 781
UK	**273 821**	257 772
Other	**25 837**	28 491
Total deposits	**1 393 104**	1 267 448

38 FINANCIAL AND INSURANCE RISK continued

38.3 Market risk

The group distinguishes between market risk in the trading book and non-traded market risk.

38.3.1 Market risk in the trading book

Objective

The group's market risk in the trading book emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB. The relevant businesses in RMB function as the centres of expertise with respect to all market risk-related activities. Market risk is managed and contained within the group's appetite. Overall diversified levels of market risk have remained fairly low during the last few years, with this trend continuing over the year under review. There are no significant concentrations in the portfolio, which also reflects overall lower levels of risk.

Market risk in the trading book includes interest rate risk in the trading book, and traded equity and credit risk, commodity risk, foreign exchange risk and interest rate risk in the RMB banking book which is managed as part of the trading book.

Assessment and management

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R55 million on a 10-day expected tail loss (ETL) basis at 30 June 2019 (2018: R45 million). Interest rate risk in the remaining domestic banking book is discussed in the interest rate risk on page C288.

The risk related to market risk-taking activities is measured as the height of the group's internal ETL measure (as a proxy for economic capital) and regulatory capital based on Value-at-Risk (VaR) plus stressed VaR (sVaR).

ETL	The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the set of scenarios used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress observed in history (2008/2009). The choice of period 2008/2009 is based on the assessment of the most volatile period in recent history. ETL is liquidity adjusted for illiquid exposures. Holding periods ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.
VaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days.

38 FINANCIAL AND INSURANCE RISK continued

VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level.

1-day 99% VaR analysis by instrument

	2019				2018
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type**					
Equities	**0.4**	**47.3**	**7.4**	**5.9**	1.7
Interest rates#	**11.5**	**113.7**	**39.0**	**87.8**	25.9
Foreign exchange	**3.1**	**85.9**	**29.1**	**43.1**	40.5
Commodities	**1.4**	**17.5**	**8.3**	**6.1**	12.0
Traded credit	**3.6**	**31.0**	**14.7**	**16.1**	10.6
Diversification effect				**(37.2)**	(30.7)
Diversified total	**7.9**	**144.3**	**57.1**	**121.8**	60.0

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

\# *Interest rate risk in the trading book.*

** *Excludes foreign branches and subsidiaries, which are reported on the standardised approach for market risk.*

The following table reflects the 10-day VaR and sVaR at the 99% confidence level.

The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period.

	2019								2018	
	VaR				**sVaR**				Period end	
R million	**Min***	**Max***	**Average**	**Period end**	**Min**	**Max**	**Average**	**Period end**	VaR	sVaR
Risk type**										
Equities	**1.0**	**132.3**	**18.1**	**15.4**	**1.9**	**96.5**	**25.5**	**10.9**	9.1	8.8
Interest rates#	**32.3**	**240.9**	**95.3**	**223.2**	**60.8**	**388.9**	**146.5**	**318.4**	97.1	94.4
Foreign exchange	**4.2**	**178.0**	**79.2**	**125.5**	**10.9**	**229.7**	**93.9**	**142.5**	141.9	182.7
Commodities	**3.9**	**38.6**	**21.4**	**11.2**	**7.1**	**74.8**	**37.6**	**10.6**	18.8	37.7
Traded credit	**10.1**	**99.7**	**36.1**	**20.8**	**8.7**	**30.4**	**17.2**	**15.8**	59.3	12.2
Diversification effect				**(194.3)**				**(102.8)**	(124.9)	(118.0)
Diversified total	**24.1**	**333.3**	**153.2**	**201.8**	**93.5**	**455.7**	**219.2**	**395.4**	201.3	217.8

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

\# *Interest rate risk in the trading book.*

** *Excludes foreign branches and subsidiaries, which are reported on the standardised approach for market risk. The sVaR numbers relate to FirstRand Bank SA only.*

38 FINANCIAL AND INSURANCE RISK continued

38.4 Non-traded market risk

38.4.1 Interest rate risk in the banking book

Interest rate risk in the banking book originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

Assessment and management

FirstRand Bank (South Africa)

The measurement techniques used to monitor IRRBB include NII sensitivity/earnings risk and NAV/economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics. The repricing gap, however, is not used for management decisions.

The internal funds transfer pricing process is used to transfer interest rate risk from the franchises to Group Treasury. This process allows risk to be managed centrally and holistically in line with the group's macroeconomic outlook. Management of the resultant risk position is achieved by balance sheet optimisation or through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which a liquid market exists. Where possible, hedge accounting is used to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability. Interest rate risk from the fixed-rate book is managed to low levels with remaining risk stemming from timing and basis risk.

Foreign operations

Management of subsidiaries and international branches is performed by in-country management teams with oversight provided by Group Treasury and FCC Risk Management. For subsidiaries, earnings sensitivity measures are used to monitor and manage interest rate risk in line with the group's appetite. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

Sensitivity analysis

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as in the economic value/NAV of an entity (as a result of a change in the fair value of any open risk portfolios used to manage the earnings risk). The role of management is to protect both the financial performance as a result of a change in earnings and to protect the long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which would cause a change in rates.

38 FINANCIAL AND INSURANCE RISK continued

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. Underlying transactions are modelled on a contractual basis and behavioural adjustments are applied where relevant. The calculation assumes a constant balance sheet size and product mix over the forecast horizon. Behavioural assumption is applied in relation to non-maturing deposits, which reprice at management of the group's discretion. This assumption is based on historical product behaviour.

The following tables show the 12-month NII sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Most of the NII sensitivity relates to the endowment book mismatch. The group's average endowment book was R240 billion excluding Aldermore (2018: R233 billion) for the year.

Projected ZAR NII sensitivity to interest rate movements

	2019 IFRS 9		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**Foreign**	**FirstRand**
Downward 200 bps	**(3 678)**	**(757)**	**(4 435)**
Upward 200 bps	**3 118**	**370**	**3 488**

	2018 IAS 39		
	Change in projected 12-month NII		
R million	FirstRand Bank	Foreign subsidiaries and branches	FirstRand
Downward 200 bps	(3 045)	(339)	(3 384)
Upward 200 bps	2 551	540	3 091

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12–month NII of R4 435 million (2018: R3 384 million). A similar increase in interest rates would result in an increase in projected 12-month NII of R3 488 million (2018: R3 091 million).

38 FINANCIAL AND INSURANCE RISK continued

38.4.1 Interest rate risk in the banking book continued

Economic value of equity

An EVE sensitivity measure is used to assess the impact on the total NAV of the group as a result of a shock to underlying rates. Unlike the trading book, where a change in rates will impact fair value income and reportable earnings of an entity when a rate change occurs, the realisation of a rate move in the banking book will impact the distributable and non-distributable reserves to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying positions. As a result, a purely forward-looking EVE sensitivity measure is applied to the banking book, be it a one bps shock or a full stress shock, which is monitored relative to total risk limit, appetite levels and current economic conditions.

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios as managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

The following table:
- highlights the sensitivity of banking book NAV as a percentage of total capital; and
- reflects a point-in-time view which is dynamically managed and can fluctuate over time.

Banking book NAV sensitivity to interest rate movements as a percentage of total group capital

%	**2019 IFRS 9**	2018 IAS 39
Downward 200 bps	**1.36**	2.35
Upward 200 bps	**(1.21)**	(2.05)

38 FINANCIAL AND INSURANCE RISK continued

38.4.2 Structural foreign exchange risk

Objective

The group is exposed to foreign exchange risk as a result of on-balance sheet transactions in a currency other than the rand, as well as through structural foreign exchange risk from the translation of foreign entities' results into rand. The impact on equity as a result of structural foreign exchange risk is recognised in the foreign currency translation reserve balance, which is included in qualifying capital for regulatory purposes.

Structural foreign exchange risk, as a result of net investments in entities with a functional currency other than rand, is an unavoidable consequence of having offshore operations and can be a source of both investor value through diversified earnings, and unwanted volatility as a result of rand fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the currency value of any capital investments and dividend distributions. Reporting and management for the group's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the group. Group Treasury is also responsible for oversight of structural foreign exchange risk with reporting through to group ALCCO, a subcommittee of the RCC committee.

Assessment and management

The ability to transact on-balance sheet in a currency other than the home currency (rand) is governed by in-country macro-prudential and regulatory limits. In the group, additional board limits and management appetite levels are set for this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see market risk in the trading book section). Group Treasury is responsible for consolidated group reporting and utilisation of these limits against approved limits and appetite levels.

Foreign exchange risk in the banking book comprises funding and liquidity management, as well as risk mitigating activities which are managed to low levels. To minimise funding risk across the group, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by Group Treasury. Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is done where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open hedges are included as part of market risk in the trading book.

The table below provides an overview of the group's exposure to entities with functional currencies other than the South African rand, and the pre-tax impact on equity of a 15% change in the exchange rate between the South African rand and the relevant functional foreign currencies. Note that the acquisition of Aldermore Group plc was the primary cause of the increase in Sterling pound below.

38 FINANCIAL AND INSURANCE RISK continued

Net structural foreign exposures

Currency million	**2019** Carrying value of net investment	**2019** Pre-tax impact on equity from 15% currency translation shock	2018 Carrying value of net investment	2018 Pre-tax impact on equity from 15% currency translation shock
Functional currency				
Botswana pula	**4 648**	**697**	4 410	661
United States dollar	**7 733**	**1 160**	4 168	625
British pound sterling	**18 873**	**2 831**	14 667	2 200
Nigerian naira	**1 696**	**254**	1 349	202
Australian dollar	**213**	**32**	385	58
Zambian kwacha	**697**	**105**	805	121
Mozambican metical	**421**	**63**	370	56
Indian rupee	**741**	**111**	676	101
Ghanaian cedi	**1 121**	**168**	365	55
Tanzanian shilling	**340**	**51**	413	62
Common Monetary Area (CMA) countries*	**6 939**	**1 041**	6 533	980
Total	**43 422**	**6 513**	34 141	5 121

**Currently Namibia, Swaziland and Lesotho are part of the CMA. Unless these countries decide to exit the CMA, rand volatility will not impact these countries' rand reporting values.*

38 FINANCIAL AND INSURANCE RISK continued

38.5 Equity investment risk

Equity investment risk arises primarily from equity exposures from investment banking and private equity activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending.

Other sources of equity investment risk include strategic investments held by WesBank, FNB and FCC. These investments are, by their nature, core to the individual business' daily operations and are managed as such.

Ashburton Investments, the group's asset management business, also contributes to equity investment risk. This risk emanates from long-term and short-term seeding activities both locally and offshore. Short-term seeding of new traditional and alternative funds exposes the group to equity investment risk until the funds reach sufficient scale for sustainable external distribution. The timeline for short-term seeding is defined in the business cases for the funds and typically ranges between one and three years.

Long-term seeding is provided if there is alignment with the business strategy, the business case meets the group's internal return hurdle requirements, and the liquidity and structure of the funds imply that an exit will only be possible over a longer period, aligned with the interests of other investors in these funds. Long-term investments, such as investment in private equity and real estate, will only be exited at the end of the investment horizon of the funds. This maturity period typically ranges from five to eight years post investment into the fund.

Assessment and management

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception of a transaction to exit. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction, an appropriate structure is put in place, which aligns the interests of all parties involved through the use of incentives and constraints for management and other investors. Where appropriate, the group seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations and financial discipline.

The investment thesis, results of the due diligence process and investment structure are discussed at the investment committee before final approval is granted. In addition, normal biannual reviews are carried out for each investment and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and includes the carrying value of investments in associates and joint ventures. The impact of the sensitivity movements would be recognised in profit or loss.

38 FINANCIAL AND INSURANCE RISK continued

Investment risk exposure and sensitivity of investment risk exposure

R million	2019 IFRS 9	2018 IAS 39
Listed investment risk exposure included in the equity investment risk ETL process	**170**	1
ETL on above equity investment risk exposures	**-**	-
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value	**357**	245

38 FINANCIAL AND INSURANCE RISK continued

38.6 Insurance risk

Long-term insurance products

The risk arises from the group's long-term insurance operations, underwritten through its subsidiary, FirstRand Life Assurance Limited (FirstRand Life).

FirstRand Life currently underwrites life, disability, funeral and credit life policies (against FNB credit products). FirstRand Life also writes linked-investment policies distributed by Ashburton Investments. These policies are all originated through the FNB franchise. There is, however, no insurance risk associated with these policies as these policies do not have guaranteed benefits.

FirstRand Life is exposed to insurance risk from the policies underwritten as indicated in the following table.

	Portfolio	**Description**	**Core product type**	**Risk**
Catastrophe risk	Core life products	Simple, non-underwritten products for customers that are sold in the open market and lend itself to simple sale processes.	Funeral policies	Mortality
			Benefit paid upon death of policyholder	
			Health cash plans	Hospitalisation
			Benefit paid per day the policyholder is hospitalised	
			Accidental death plans	Mortality
			Benefit paid upon death of policyholder	
			Lifestyle protection plans	Morbidity
			Benefit paid upon death or disability	
			Pay protect policies	Morbidity
			Benefit paid upon death or retrenchment	

38 FINANCIAL AND INSURANCE RISK continued

	Underwritten life products	The underwritten Life portfolio product comprises Life Simplified and Life Customised. Life Simplified provides death cover up to R1 million after limited underwriting. Life Customised policies provide for more complex needs with cover amounts up to R100 million, R50 million and R5 million on death, disability and critical illness cover respectively.		
	Credit life	Products that are sold in conjunction with FNB's credit products. The current offering includes credit cover across credit products within FNB – which includes personal loans (compulsory), home loans (compulsory), housing financing, credit cards, overdrafts and revolving loans (voluntary).	• Credit Life policies	• Mortality • Morbidity • Retrenchment
	Business life products	Products to business customers.	• Key person policies • Grouped funeral policies	• Mortality • Morbidity

As a result of these insurance risk exposures, the group is exposed to catastrophe risk stemming from the possibility of an extreme event linked to any of the above.

38 FINANCIAL AND INSURANCE RISK continued

For all of the above, the risk is that the decrement rates (e.g. mortality rates, morbidity rates, etc.) and associated cash flows are different from those assumed when pricing or reserving. Mortality, morbidity and retrenchment risk can further be broken down into parameter risk, random fluctuations and trend risk, which may result in the parameter value assumed differing from actual experience.

Policies underwritten by FirstRand Life and FirstRand Short-Term are available through all of FNB's distribution channels. Some of these channels introduce the possibility of anti-selection, which also impacts the level of insurance risk.

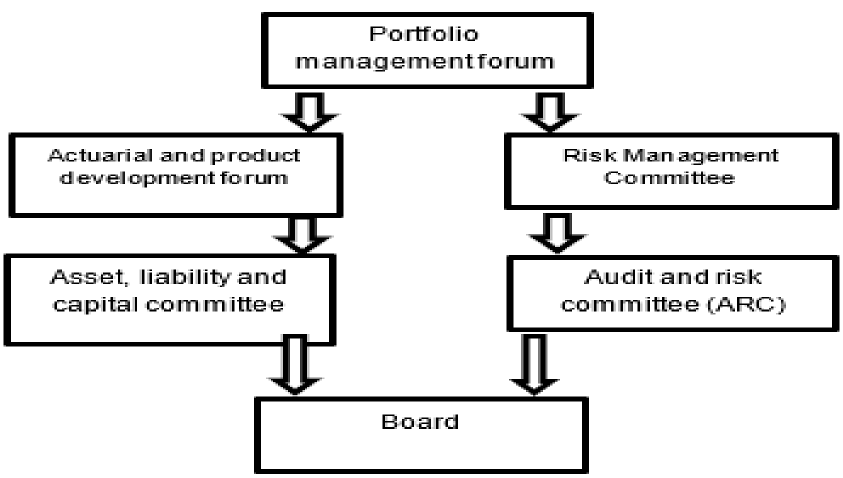
These policies also expose FirstRand Life to lapse risk, which is the risk of the loss of future profits and expenses risks. These risks are classified as business risks but are included in this section as they result from insurance products.

The overall responsibility for risk management resides with the board. The audit and risk committee provides oversight over risk management and the asset, liability and capital committee is responsible for:

- providing oversight of the product suite;
- approving new products;
- financial resource management; and
- governance and challenge inputs, models and results of pricing and valuations.

These committees are supported by management committees.

In order to manage insurance risk effectively, control functions such as compliance, risk management, actuarial and internal audit are required.



General risk management:

Ensuring that insurance risk is priced correctly and understood is an important component of managing insurance risk. This is done by:

38 FINANCIAL AND INSURANCE RISK continued

Rigorous and proactive risk management processes ensure sound product design and accurate pricing. They include:

- independent model validation;
- challenging of assumptions, methodologies and results;
- debating and challenging design, relevance, target and market, market competitiveness, and treating customers fairly;
- identifying potential risks;
- monitoring business mix and mortality risk of new business; and
- thoroughly reviewing policy terms and conditions.

- Risk policies sold to its premium customer segment are underwritten. This allows underwriting limits and risk-based pricing to be applied to manage the insurance risk. Where specific channels introduce the risk of anti-selection, mix of business by channel is monitored. On non-underwritten products insurance risk can be controlled through lead selection for outbound sales.
- The design of appropriate reinsurance structures is an important component of the pricing and product design to keep risk exposure within appetite.

The assessment and management of insurance risk of the in-force book use the following:

- Monitoring and reporting of claims experience by considering incidence rates, claims ratios and business mix.
- The actuarial valuation process involves the long-term projection of in-force policies and the setting up of insurance liabilities. This gives insight into the longer-term evolution of the risks on the portfolio. Adequate reserves are set for future and current claims and expenses.
- Experience investigations are performed annually to understand the actual experience compared to the basis used in valuations and pricing. These investigations are signed off by the Head of Actuarial Function. Where required changes are made to bases and product design.
- There are also reinsurance agreements in place to mitigate various insurance risks and manage catastrophe risk.
- Asset liability management is performed to ensure that assets backing insurance liabilities are appropriate and liquid.
- Stress and scenario analysis are performed and provide insights into the risk profile and future capital position.

The management of insurance risk is governed by a suite of insurance policies, and processes, tools and systems in the business are in place to assess and manage insurance risk.

An Own Risk and Solvency Assessment (ORSA) process is performed at least annually. The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report on short-and- long term risks the group faces or might face, and to determine the own funds necessary to ensure that the overall solvency needs of the group, are met at all times and are sufficient to achieve its business strategy. An ORSA report is produced annually.

Detailed risk management per risk type:

38 FINANCIAL AND INSURANCE RISK continued

- Mortality risk

  This is the risk that mortality rates and the associated cash flows are different from those assumed.

  The risk is managed as follows:

  - For underwritten products underwriting is a key control.
  - For non-underwritten products the mix of business by various factors is monitored and outbound sales leads are selected to influence the desired mix.
  - Reinsurance is used to control exposure to large risks. The retention limits vary by portfolio.
  - Validation and fraud checks are performed at claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

- Morbidity risk

  This is the risk that morbidity rates and the associated cash flows are different from those assumed.

  The risk is managed as follows:

  - Quota share reinsurance on underwritten product where we have limited data.
  - Monitoring of trends in experience on the Credit Life business.
  - Validation and fraud checks are performed at claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

- Retrenchment risk

  This is the risk that retrenchment rates and the associated cash flows are different from those assumed.

  The risk is managed as follows:

  - Selection of retrenchment risk is controlled by the bank's credit scoring.
  - Additional margins are allowed in pricing assumptions to allow for potential cyclicality in experience.
  - Regular monitoring of exposure by industry and employer and feedback into risk selection.
  - Validation and fraud checks are performed at claim stage to ensure only valid claims in line with the terms and conditions of the policy are paid.

- Catastrophe risk

  This is the risk that stems from extreme or irregular events contingent on mortality, morbidity or retrenchment whose effects are not expected.

  The risk is managed by catastrophe reinsurance limiting exposure to mortality and morbidity catastrophes. The limits are reviewed annually based on the composition of the book and risk appetite.

  No cover is in place against retrenchment catastrophe as this is not available at a reasonable cost. Additional capital is held in the Economic Capital to cover a retrenchment catastrophe scenario.

- Lapse risk

38 FINANCIAL AND INSURANCE RISK continued

This is the risk that lapse rates and the associated cash flows are different from those assumed, as well as the risk of a mass lapse.

The risk is managed as follows:

- Collection strategies are regularly reviewed to ensure they are optimal.
- Changes to product lapse rules are made where more lenient lapse rules can benefit the customer and group.

- Expenses risk

This is the risk that expenses and/or expense inflation is different from that assumed in pricing and valuations. The group has a rigorous budgeting process in place to manage the risk.

The following table demonstrates the concentration risk across insurance products for sums assured at risk before and after reinsurance.

Exposure by size of sum assured

	Before reinsurance		After reinsurance	
Retail sums assured at risk	**R million**	**%**	**R million**	**%**
2019				
1 499 999	**144 739**	**48.0**	**127 932**	**53.5**
500 000 999 999	**55 945**	**18.6**	**47 129**	**19.7**
1 000 000 1 999 999	**87 814**	**29.1**	**60 415**	**25.2**
2 000 000 and above	**12 936**	**4.3**	**3 790**	**1.6**
Total	**301 434**	**100.0**	**239 266**	**100.0**
2018				
1 499 999	133 906	57.5	126 504	64.1
500 000 999 999	51 102	21.9	46 216	23.4
1 000 000 1 999 999	40 036	17.2	23 928	12.1
2 000 000 and above	7 884	3.4	698	0.4
Total	232 928	100.0	197 346	100.0

38 FINANCIAL AND INSURANCE RISK continued

Assessment and management

The assessment and management of insurance risk is influenced by the frequency and severity of claims, especially if actual benefits paid are greater than originally estimated, and the subsequent impact thereof on estimated long-term claims.

The group manages the insurance risk of its funeral and Credit Life policies through monitoring incidence rates, claims ratios and business mix, as policies are not underwritten and pricing is flat. Any other risk policies sold to a different target market will be underwritten. This will allow underwriting limits and risk-based pricing to be applied to manage the insurance risk. Where various channels introduce the risk of anti-selection, mix of business by channel is monitored. There is also a reinsurance agreement in place to manage catastrophe risk.

Rigorous and proactive risk management processes are in place to ensure sound product design and accurate pricing. These include:

- independent model validation;
- challenging assumptions, methodologies and results;
- debating and challenging design, relevance, target market, and market competitiveness, and fair treating of customers;
- identifying potential risks;
- monitoring the business mix and mortality risk of new business; and
- thoroughly reviewing policy terms and conditions.

Insurance risk mitigation

The risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The group purchases reinsurance as part of its risk mitigation programme. The reinsurances agreements spread the risk of loss and minimise the effect of losses. The risk retention levels depend on the evaluation of specific risk, subject to certain circumstance, to maximum limits based on the characteristics of coverage. For life insurance products reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance, which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the group’s net exposure to catastrophe losses. Amounts recoverable from reinsurers are estimated in a manner consistent with outstanding claims.

38 FINANCIAL AND INSURANCE RISK continued

Sensitivities

An analysis was performed in the current year for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. To demonstrate the impact of changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that the movements in these assumptions are non-linear. Sensitivity information also varies according to the current economic assumptions, mainly due to the impact of the changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, these are the main reason for the asymmetry of sensitivities. Since the policyholder liabilities are retrospective in nature, there is no sensitivity because of changes in assumptions in the current financial year. Due to the zerorisation of negative reserves, sensitivities are absorbed in the margins. Therefore, the impact on the negative reserve will be insignificant if the following inputs were to increase or decrease by 10%:

- Mortality/morbidity rate.
- Longevity.
- Investment return.
- Expenses.
- Lapse and surrenders rate.

Short-term insurance products

The risk arises from the group's short-term insurance operations.

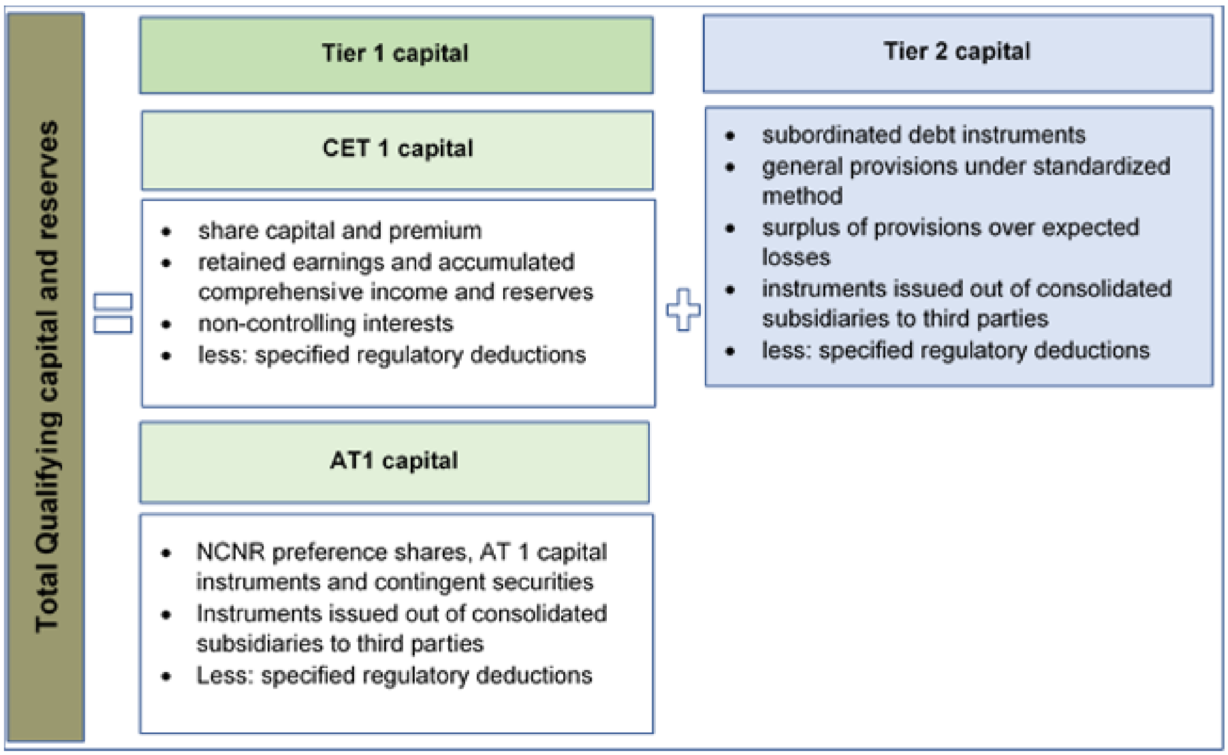
The terms and conditions of short-term insurance contracts have a material effect on the amount, timing and uncertainty of future cash flows. The key risks associated with general insurance contracts are claims experience. The provisions for these contracts are refined at least annually. As claims experience develops, certain claims are settled, further claims are revised and new claims are reported. The reasonableness of the estimation process is tested by management and reviewed on a regular basis. The group believes that the liability for claims carried at the end of the year is adequate.

The short-term insurance products offered by the group include:

- Liability – provides cover for risks relating to the incurring of a liability other than from risk covered more specifically under another insurance contract.
- Motor – provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft, and third-party liabilities.
- Personal accident – provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury.
- Property – provides indemnity relating to movable and immovable property caused by perils such as fire, explosion, earthquakes, acts of nature, burst geysers and pipes, malicious damage, impact, alterations and additions.

38 FINANCIAL AND INSURANCE RISK continued

38.7 Capital management



The capital planning process ensures that the total capital adequacy and Common Equity Tier 1 (CET1) ratios remain within or above targets across economic and business cycles, which includes a range of normal and severe stress scenarios. The group aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment.

The group operated above its capital and leverage targets during the year. The internal targets are approved by the board and are subject to ongoing review and consideration of various stakeholder requirements. The group continues to focus on maintaining strong capital and leverage levels, with focus on the quality of capital as well as optimisation of the group's risk weighted assets (RWA) and capital mix.

The group's registered banking subsidiaries and foreign branches must comply with the Prudential Auhority's (PA) regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and PA regulatory requirements.

38 FINANCIAL AND INSURANCE RISK continued

Capital management for insurance entities

Capital for insurance entities is calculated on the current regulatory basis, Solvency Assessment and Management (SAM) basis and the group's economic basis. The insurance entities remained appropriately capitalised at 30 June 2019.

The insurance group's Own Risk and Solvency Assessment (ORSA) assesses the impact of various stresses on the solvency position of the insurance entities, as well as informs the target levels for capital coverage.

Composition of capital analysis

	CET1 capital	Tier 1 capital	Total qualifying capital
Internal targets	**10%-11%**	**>12%**	**>14%**

Capital adequacy for the group's regulated subsidiaries and foreign branches

The group's registered banking subsidiaries must comply with PA regulations and those of the respective in-country regulators, with primary focus placed on Tier 1 capital and total adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local and PA regulatory requirements. Capital generated by subsidiaries/branches in excess of targeted levels is returned to FirstRand, usually in the form of dividends/return of profits. During the year, no restrictions were experienced on the repayment of such dividends or profits to the group.

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new and revised standards and interpretations are applicable to the business of the group. The group will comply with these from the stated effective date.

Standard	Impact assessment	Effective date
IFRS 9	**Financial Instruments** **Prepayment features with negative compensation** The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected include some advances and debt securities which would otherwise be measured at FVTPL. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, and where the pre-payment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be a reasonable compensation for early termination of the contract.	Annual periods commencing on or after 1 January 2019

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those leasing transactions. IFRS 16 will be effective for the group from 1 July 2019. Under the current standard on leases, operating lease payments were expensed by the lessee when incurred, with no recognition on the statement of financial position. Under IFRS 16, the accounting treatment of leases by the lessee will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there is a single on-balance sheet model that is similar to the current finance lease accounting with the exception short-term leases (lease term that is less than 12 months) or leases where the underlying asset is considered to be of low-value. Lessor accounting remains similar to current accounting, whereby the lessor continues to classify leases as finance or operating leases. There are however, enhanced disclosure requirements for lessors in terms of IFRS 16. The biggest impact of the standard on the group will be on lessee accounting because of the requirement for lessees to recognise a right-of-use-asset (ROUA) and corresponding lease liability in respect of the leases that were previously classified as operating leases. During the 2019 year, the group established an IFRS 16 steering committee that focused on the implementation of the new standard and focused on the following aspects: • Data gathering that was used in determining the policies to be developed for the group in relation to the low value exemption as well as this being a completeness check; • Developing financial statement disclosures that comply with the requirements of IFRS 16; • Implementing the IT solution that will ensure the leases are recognised, accounted for and disclosed in terms of IFRS 16 The group elected to apply the modified approach on adoption, with the option that the ROUA is equal to the lease liability calculated at transition. This approach results in the group not restating comparatives as well as there being no adjustment to opening reserves.	Annual periods commencing on or after 1 January 2019

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
	The implementation of IFRS 16 on the group results in recognition of lease liabilities of approximately R2.9 billion and ROUA of approximately R2.8 billion. The difference between the lease liability and ROUA is the IAS 17 smoothing balance of approximately R100 million as at 30 June 2019, which will be incorporated into the ROUA, as required by the transition method elected. The lease liability was calculated using the Banks transition date incremental borrowing rate. The group will classify the ROUAs as Property, Plant and Equipment (PPE), with this impacting the CET1 ratios as the ROUAs are risk-weighted-assets with the same risk weighting as the underlying PPE.	
IFRS 17	**Insurance Contracts** IFRS 17 is the new standard that prescribes the accounting for insurance contracts and will replace the current insurance contracts standard, IFRS 4. IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities, as well as the release of profits on these contracts to the income statement. IFRS 17 will be effective for the group from 1 July 2022. The recognition of insurance revenue will be consistent with that of IFRS 15. Insurance revenue is derived by the movement in liability for the remaining insurance coverage period. The insurance contract liability is initially made up of: • fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policyholders; and • the contractual service margin (CSM), which represents the unearned profit the entity will recognise as it provides services over the coverage period. Subsequently, the liability will comprise two components, namely the liability for remaining coverage (fulfilment cash flows and the CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses incurred but not yet paid). To prepare for implementation, the group has constituted a steering committee which will be supported by several working groups. The working groups will be responsible for the implementation of the different elements of the new standard and work has commenced. The impact of IFRS 17 will only be reliably determinable once the implementation project has	Annual periods commencing on or after 1 January 2022

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IAS 19	**Employee Benefits Plan Amendment, Curtailment or Settlement** The amendments require an entity to use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that impact was not previously recognised because of the impact of the asset ceiling. Changes in the terms or membership of a defined benefit plan may result in a plan amendment, curtailment or settlement. IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined liability before and after the amendment, using current assumptions and the fair value plan assets at the time of the amendment. If the net defined liability is remeasured to determine past service cost or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period is remeasured using the same assumptions and the same fair value of the plan assets. This means that the amounts which would have ended up in profit or loss in the period after the amendment will be changed. A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement is recognised in profit or loss. This reflects the substance of the transaction because a surplus which has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised on other comprehensive income and is not reclassified to profit or loss. The impact of this amendment is to confirm that these effects are not offset.	Annual periods commencing on or after 1 January 2019

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IAS 28	**Long-term Interests in Associates (Amendments to IAS 28)** The amendments clarify that an entity should apply IFRS 9, including impairment requirements, to long-term interests in associates and joint ventures that in substance form part of the net investment in the associate or joint venture. The group has assessed the impact of this amendment on the annual financial statements as part of the overall adoption of IFRS 9 and confirmed that we currently comply with this amendment.	Annual periods commencing on or after 1 January 2019
IFRIC 23	**Uncertainty over Income Tax Treatments** This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. When considering that the filing deadlines for tax returns and financial statement may be months apart, IFRIC 23 may require more rigour when finalising the judgements about the amounts to be included in the tax return before the financial statements are finalised. The group has always been in compliance with the guidance issued by the IFRIC.	Annual periods commencing on or after 1 January 2019
Conceptual framework	The improvements to the conceptual framework include revising the definitions of an asset and liability and updating the recognition criteria for including assets and liabilities in financial statements. The following concepts have been clarified: prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various other standards. The amendments are not expected to have a significant impact on the group's accounting policies.	Annual periods commencing on or after 1 January 2020
IFRS 3	**Business Combinations - Amendments to clarify the definition of a business** The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the group and the clarified requirements will be applied on a transaction by transaction basis.	Annual periods commencing on or after 1 January 2020

39 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Standard	Impact assessment	Effective date
IAS 1 and IAS 8	**Amendments regarding the definition of material** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.	Annual periods commencing on or after 1 January 2020
Annual improvements to 2015 - 2017 cycle	**Improvements to IFRS** The IASB issued the Annual Improvements to IFRS Standards 2015-2017 Cycle. These annual improvements include amendments to the following standards: ➢ IFRS 3 and IFRS 11 The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. ➢ IAS 12 – The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises. ➢ IAS 23 – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	Annual periods commencing on or after 1 January 2019

40 EVENTS AFTER REPORTING PERIOD

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

Financial statements for the year ended 30 June 2019

FirstRand Limited

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	Notes	2019 IFRS 9	2018 IAS 39
Revenue	2	**18 183**	23 914
Net interest (expense)/income	3	**(156)**	(35)
Interest and similar income	3	**55**	50
Interest expense and similar charges	3	**(211)**	(85)
Income from operations		**18 027**	23 879
Operating expenses	4	**(233)**	(221)
Income before indirect tax		**17 794**	23 658
Indirect tax	5.1	**(6)**	(5)
Profit before income tax		**17 788**	23 653
Income tax expense	5.2	**(17)**	(14)
Profit for the year		**17 771**	23 639
Other comprehensive income		**-**	-
Total comprehensive income for the year		**17 771**	23 639
Attributable to			
Ordinary equityholders		**17 429**	23 288
NCNR preference shareholders		**342**	351
Total comprehensive income for the year		**17 771**	23 639

STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	Notes	**2019 IFRS 9**	2018 IAS 39
ASSETS			
Cash and cash equivalents	7	**840**	541
Accounts receivable	8	**-**	-
Investments in subsidiaries	9	**71 557**	70 134
Total assets		**72 397**	70 675
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	10	**105**	106
Employee liabilities	11	**220**	199
Amounts owing to subsidiaries	9	**3 145**	2 941
Total liabilities		**3 470**	3 246
Equity			
Ordinary shares	12	**56**	56
Share premium	12	**8 056**	8 056
Reserves		**56 296**	54 798
Capital and reserves attributable to ordinary equityholders		**64 408**	62 910
NCNR preference shares	12	**4 519**	4 519
Total equity		**68 927**	67 429
Total equity and liabilities		**72 397**	70 675

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

		Ordinary share capital and ordinary equityholders ' funds		
R million	Notes	Share capital	Share premium	**Share capital and share premium**
Balance as at 1 July 2017		56	8 056	**8 112**
Ordinary dividends		-	-	**-**
Preference dividends		-	-	**-**
Total comprehensive income for the year		-	-	**-**
Balance as at 30 June 2018		56	8 056	**8 112**
Ordinary dividends	13	-	-	**-**
Preference dividends	13	-	-	**-**
Total comprehensive income for the year		-	-	**-**
Balance as at 30 June 2019		56	8 056	**8 112**

	Ordinary share capital and ordinary equityholders' funds				
	Capital redemption reserve	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shares**	**Total equity**
	1	46 430	**46 431**	**4 519**	**59 062**
	-	(14 921)	**(14 921)**	**-**	**(14 921)**
	-	-	**-**	**(351)**	**(351)**
	-	23 288	**23 288**	**351**	**23 639**
	1	54 797	**54 798**	**4 519**	**67 429**
	-	(15 931)	**(15 931)**	**-**	**(15 931)**
	-	-	**-**	**(342)**	**(342)**
	-	17 429	**17 429**	**342**	**17 771**
	1	56 295	**56 296**	**4 519**	**68 927**

STATEMENT OF CASH FLOWS

for the year ended 30 June

R million	Notes	**2019 IFRS 9**	2018 IAS 39
Cash flows from operating activities			
Interest received		**55**	50
Trading and other income		**40**	42
Interest payments		**(7)**	(85)
Other operating expenses		**(93)**	(67)
Dividends received		**18 143**	23 872
Dividends paid		**(16 273)**	(15 272)
Taxation paid		**(23)**	(17)
Cash generated from operating activities		**1 842**	8 523
Movement in operating assets and liabilities			
Accounts receivable		**-**	1
Employee liabilities		**(119)**	(123)
Creditors and accruals		**(1)**	19
Net cash generated from operating activities		**1 722**	8 420
Cash flows from investing activities			
Increase in investments in subsidiaries		**(6 783)**	(11 066)
Capital repayments from subsidiaries		**5 360**	-
Decrease in amounts owing by subsidiary companies		**-**	168
Net cash outflow from investing activities		**(1 423)**	(10 898)
Cash flows from financing activities			
Increase in amounts due to subsidiary companies		**-**	2 941
- Increase in amounts due to subsidiary companies		**-**	10 941
- (Repayment) of amounts due to subsidiary companies		**-**	(8 000)
Net cash inflow from financing activities		**-**	2 941
Net increase in cash and cash equivalents		**299**	463
Cash and cash equivalents at the beginning of the year	7	**541**	78
Cash and cash equivalents at the end of the year	7	**840**	541

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue within the company comprises fees from subsidiaries and dividend income from investments in subsidiaries.

The company recognises revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the company from it.

1.2 Other accounting policies

The financial statements of FirstRand Limited Company are prepared according to the same accounting policies used in preparing the consolidated financial statements of the group other than the accounting policies on consolidation, equity accounting and translation of foreign operations that are specific to group financial statements. For detailed accounting policies refer from page C27 of the 2019 annual financial statements. The financial statements are prepared on the going concern basis in accordance with IFRS.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Functional and presentation currency of the company	South African rand (R)
Level of rounding	All amounts are presented in millions of rands. The company has a policy of rounding up in increments of R500 000. Therefore, amounts less than R500 000 will round down to Rnil and are presented as a dash.

2 REVENUE

R million	2019 IFRS 9	2018 IAS 39
Fee and commission income		
Recoveries from subsidiaries	**39**	41
Other fees on non-financial instruments	**1**	1
Total fee and commission income	**40**	42
Gains less losses from investing activities		
Dividends received from subsidiaries - unlisted shares		
Ordinary dividends	**17 909**	23 638
Preference dividends	**234**	234
Total gains less losses from investing activities	**18 143**	23 872
Total revenue	**18 183**	23 914

3 NET INTEREST (EXPENSE)/INCOME

R million	2019 IFRS 9	2018 IAS 39
Interest and similar income		
Cash and cash equivalents	**55**	50
Interest and similar income	**55**	50
Interest expense and similar charges		
Borrowed funds	**(211)**	(85)
Interest expense and similar charges	**(211)**	(85)
Total net interest expense	**(156)**	(35)

4 OPERATING EXPENSES

R million	Notes	2019	2018
Advertising and marketing		**(1)**	(3)
Directors' fees		**(33)**	(34)
Direct staff costs		**(173)**	(165)
- Salaries, wages and allowances		**(54)**	(57)
- Contributions to employee benefit funds		**(1)**	(1)
- Share-based payment expense	11	**(117)**	(106)
- Social security levies		**(1)**	(1)
Travel		**-**	(2)
Professional fees		**(7)**	(5)
Registrar fees		**-**	(1)
Stock exchange fees		**-**	(1)
Corporate memberships		**(2)**	(1)
Other operating expenditure		**(17)**	(9)
Total operating expenses		**(233)**	(221)

5 INDIRECT AND INCOME TAX EXPENSE

	R million	2019	2018
5.1	**Indirect tax**		
	Value-added tax (net)*	**(6)**	(5)
	Total indirect tax	**(6)**	(5)
5.2	**Income tax expense**		
	South African income tax		
	Normal tax current year	**(17)**	(14)
	Total income tax expense	**(17)**	(14)

* The value-added tax rate has increased to 15% effective 1 April 2018 in accordance with legislation.

Tax rate reconciliation South African normal tax

%	2019	2018
Standard rate of income tax	**28**	28
Total tax has been affected by:		
Dividends received	**(28)**	(28)
Effective rate of tax	**-**	-

6 ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

The principal accounting policies from page C27 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned, and therefore by measurement basis and according to when the assets are expected to be realised and liabilities settled.

		2019 (IFRS 9)		
R million	Notes	**Financial assets at Amortised cost**	**Financial liabilities at amortised cost**	**Non-financial instruments**
ASSETS				
Cash and cash equivalents	7	**840**	**-**	**-**
Accounts receivable	8	**-**	**-**	**-**
Current tax asset		**-**	**-**	**-**
Investment in subsidiaries	9	**-**	**-**	**71 557**
Total assets		**840**	**-**	**71 557**
LIABILITIES				
Creditors and accruals	10	**-**	**100**	**5**
Employee liabilities	11	**-**	**-**	**220**
Amounts owing to subsidiaries	9	**-**	**3 145**	**-**
Total liabilities		**-**	**3 245**	**225**

		2018 (IAS 39)		
R million	Notes	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments
ASSETS				
Cash and cash equivalents	7	541	-	-
Accounts receivable	8	-	-	-
Current tax asset		-	-	-
Investment in subsidiaries	9	-	-	70 134
Total assets		541	-	70 134
LIABILITIES				
Creditors and accruals	10	-	99	7
Employee liabilities	11	-	-	199
Amounts owing to subsidiaries	9	-	2 941	-
Total liabilities		-	3 040	206

At the reporting date all accounts receivable are considered to be neither past due nor impaired.

The carrying value of cash and cash equivalents, accounts receivable and creditors and accruals, approximates the fair value.

2019 (IFRS 9)			
	Total carrying value	**Current**	**Non-current**
	840	**840**	**-**
	-	**-**	**-**
	-	**-**	**-**
	71 557	**-**	**71 557**
	72 397	**840**	**71 557**
	105	**105**	**-**
	220	**145**	**75**
	3 145	**3 145**	**-**
	3 470	**3 395**	**75**

2018 (IAS 39)			
	Total carrying value	Current	Non-current
	541	541	-
	-	-	-
	-	-	-
	70 134	-	70 134
	70 675	541	70 134
	106	106	-
	199	135	64
	2 941	2 941	-
	3 246	3 182	64

7 CASH AND CASH EQUIVALENTS

R million	**2019**	2018
Money at call and short notice	**840**	541
Cash and cash equivalents	**840**	541

8 ACCOUNTS RECEIVABLE

R million	**2019 IFRS 9**	2018 IAS 39
Other accounts receivable	**-**	-
Total accounts receivable	**-**	-

9 INVESTMENT IN SUBSIDIARIES

	% owner-ship	% voting rights	Nature of business	Shares at cost 2019 IFRS 9 R million	Shares at cost 2018 IAS 39 R million
FirstRand EMA Holdings Limited (FREMA)			Financial services		
Ordinary shares	**100**	100		**7 665**	7 215
Non-redeemable preference shares	**100**	100		**-**	3 000
FirstRand Bank Limited			Banking		
Ordinary shares	**100**	100		**40 194**	40 194
FirstRand Investment Holdings Proprietary Limited			Other activities		
Ordinary shares	**100**	100		**5 038**	7 338
FirstRand Investment Management Holdings Limited			Investment management		
Ordinary shares	**100**	100		**399**	459
FirstRand Insurance Holdings Proprietary Limited			Insurance services		
Ordinary shares	**100**	100		**653**	653
FirstRand International Limited (FRI)			Banking		
Ordinary shares	**100**	100		**17 191**	10 858
Total				**71 140**	69 717
Investment through equity-settled share incentive scheme			Equity-settled share scheme	**417**	417
Total investments in subsidiaries				**71 557**	70 134
Amounts owing to subsidiaries				**3 145**	2 941

With the exception of FREMA and FRI, which offer financial services across Africa and the UK, the principal place of business for all of the company's subsidiaries is South Africa.

10 CREDITORS AND ACCRUALS

R million	**2019 IFRS 9**	2018 IAS 39
Unclaimed dividends	**93**	76
Accounts payable and accrued liabilities	**5**	23
Audit fee accrual	**7**	7
Total creditors and accruals	**105**	106

11 EMPLOYEE LIABILITIES

R million	**2019 IFRS 9**	2018 IAS 39
Liability for short-term employee benefits		
Opening balance	**68**	66
Additional provisions created	**23**	33
Utilised during the year	**(37)**	(31)
Total liability for short-term employee benefits	**54**	68
Share-based payment liability		
Opening balance	**131**	102
Transfer between legal entities within the group	**-**	15
Share-based payment settlement (cash)	**(82)**	(92)
Charge to profit or loss	**117**	106
Total share-based payment liability	**166**	131
Total employee liabilities	**220**	199
The charge to profit or loss for share-based payments is as follows:		
FirstRand share appreciation rights scheme	**117**	106
Amount included in profit or loss	**117**	106

For a detailed description of share option schemes and trusts in which FirstRand Limited Company participates refer to note 21 of the consolidated annual financial statements.

12 SHARE CAPITAL AND SHARE PREMIUM

12.1 Share capital and share premium classified as equity

Authorised shares

		2019	2018
Ordinary shares		6 001 688 450	6 001 688 450
A preference shares	unlisted variable rate cumulative convertible redeemable	198 311 550	198 311 550
B preference shares	listed variable rate non-cumulative non-redeemable	100 000 000	100 000 000
C preference shares	unlisted variable rate convertible non-cumulative redeemable	100 000 000	100 000 000
D preference shares	unlisted variable rate cumulative redeemable	100 000 000	100 000 000

Issued shares

	2019			2018		
	Number of shares	Ordinary share capital R million	Share premium R million	Number of shares	Ordinary share capital R million	Share premium R million
Opening balance	5 609 488 001	56	8 056	5 609 488 001	56	8 056
Total issued ordinary share capital and share premium	5 609 488 001	56	8 056	5 609 488 001	56	8 056
B preference shares	45 000 000	-	4 519	45 000 000	-	4 519
Total issued share capital attributable to ordinary equityholders		56	12 575		56	12 575

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

Dividends on the B preference shares are calculated at a rate of 75.56% of the prime lending rate of FNB, a division of FirstRand Bank Limited.

13 DIVIDENDS

R million	**2019**	2018
Ordinary dividends		
A final dividend of 145.00 cents (6 September 2017: 136.00 cents) per share was declared on 5 September 2018 in respect of the six months ended 30 June 2018.	**8 134**	7 629
An interim dividend of 139.00 cents (5 March 2018: 130.00 cents) per share was declared on 11 March 2019 in respect of the six months ended 31 December 2018.	**7 797**	7 292
Total ordinary dividends paid for the year	**15 931**	14 921
B preference shares		
A final dividend of 378.30 cents (28 August 2017: 393.60 cents) per share was declared on 27 August 2018 in respect of the six months ended 30 June 2018.	**170**	177
An interim dividend of 381.70 cents (26 February 2018: 386.20 cents) per share was declared on 25 February 2019 in respect of the six months ended 31 December 2018.	**172**	174
Total preference dividends paid for the year	**342**	351
A final ordinary dividend per share was declared on 4 September 2019 (5 September 2018).	**152.0**	145.0

14 RELATED PARTIES

14.1 Balances and transactions with related parties

	2019	
R million	**Entities that have significant influence over FirstRand Limited and its subsidiaries**	**Subsidiaries**
Net interest expense	**-**	**156**
Non-interest revenue	**-**	**39**
Dividends received	**-**	**18 143**
Dividends paid	**5 426**	**-**
Amounts owing to subsidiaries	**-**	**3 145**
Cash and cash equivalents	**-**	**840**

	2018	
R million	Entities that have significant influence over FirstRand Limited and its subsidiaries	Subsidiaries
Net interest received	-	35
Non-interest revenue	-	41
Dividends received	-	23 872
Dividends paid	5 082	-
Amounts owing to subsidiaries	-	2 941
Cash and cash equivalents	-	541

Refer to the remuneration disclosures on page C253 for details of the compensation paid to key management personnel.

15 EVENTS AFTER REPORTING PERIOD

Refer to note 40 of the consolidated annual financial statements of the group for further details.

16 RISK MANAGEMENT

FirstRand Limited Company is not exposed to significant risks. For details on how financial risk is managed in the group refer to the summary risk and capital management report. For quantitative information about financial risk refer to note 38 of the consolidated financial statements of the group.

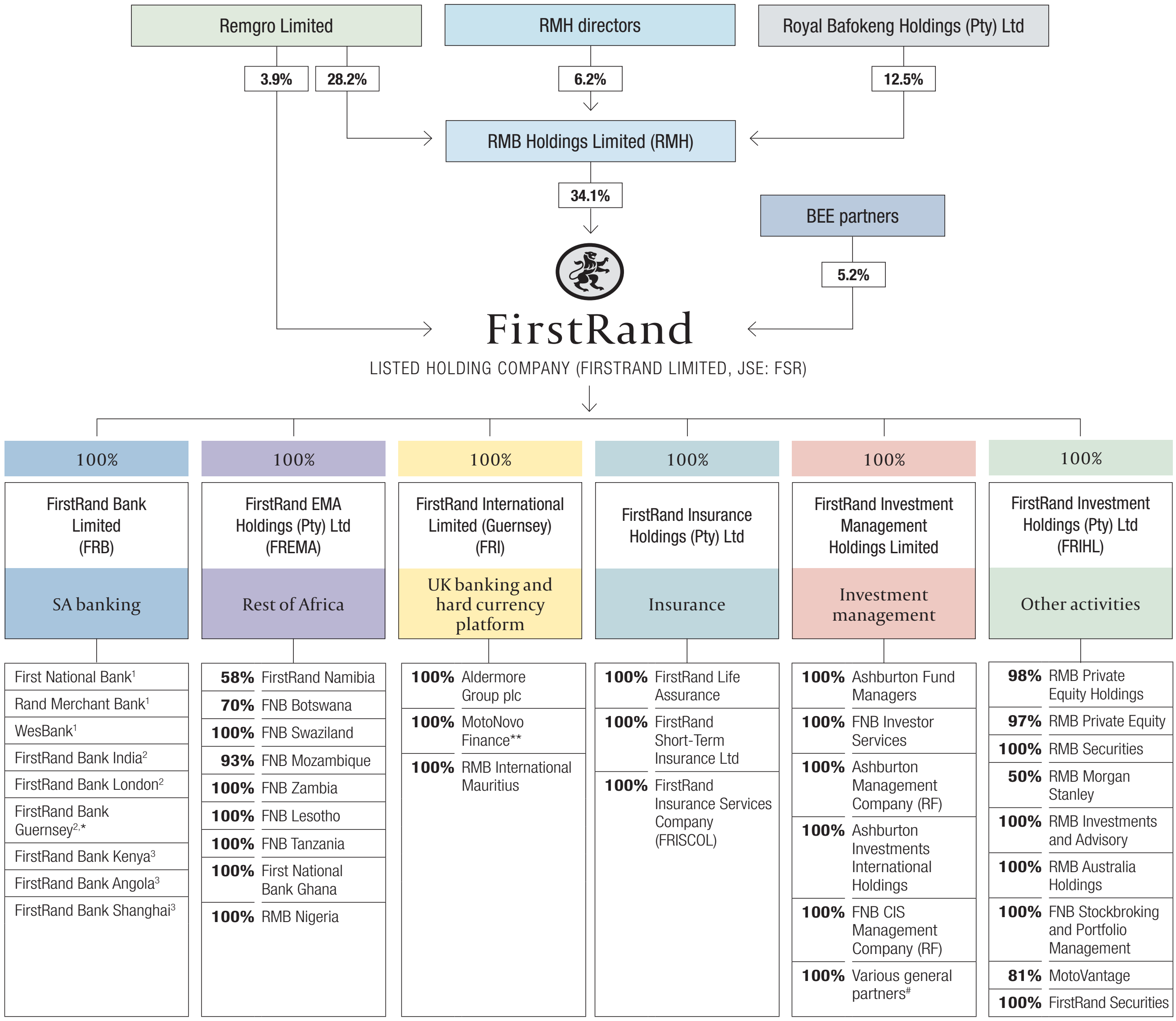
D

shareholders' and supplementary information

shareholders' and supplementary information

D

Simplified group and shareholding structure



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

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

Structure shows effective consolidated shareholding

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

Analysis of ordinary shareholders

	Number of shareholders	Shares held (thousands)	%
Major shareholders			
RMH Asset Holding Company (Pty) Ltd (RMB Holdings)		1 910 433	34.1
Public Investment Corporation		503 719	9.0
BEE partners*		290 603	5.2
Financial Securities Ltd (Remgro)		219 828	3.9
Subtotal		2 924 583	52.2
Other		2 684 905	47.8
Total		5 609 488	100.0
Shareholder type			
Corporates (RMB Holdings and Remgro)		2 130 261	38.0
Pension funds		827 435	14.7
Insurance companies and banks		239 498	4.3
Unit trusts		1 254 776	22.3
Individuals		32 458	0.6
BEE partners*		290 603	5.2
Other		834 457	14.9
Total		5 609 488	100.0
Public and non-public shareholders			
Public	54 538	3 181 115	56.7
Non-public			
– Corporates (RMB Holdings and Remgro)	2	2 130 261	38.0
– Directors and prescribed officers**	9	7 509	0.1
– BEE partners*	6	290 603	5.2
Total	54 555	5 609 488	100.0
Geographic ownership			
South Africa		3 689 255	65.8
International		1 538 572	27.4
Unknown/unanalysed		381 661	6.8
Total		5 609 488	100.0

* *Includes staff assistance trust.*

** *Reflects direct beneficial ownership.*

Analysis of B preference shareholders

	Number of shareholders	Shares held (thousands)	%
Public and non-public shareholders			
Public	6 146	45 000	100.0
Non-public	–	–	–
Total	6 146	45 000	100.0

Performance on the JSE

	2019	2018
Number of shares in issue (thousands)	**5 609 488**	5 609 488
Market price (cents per share)		
Closing	**6 855**	6 389
High	**7 195**	7 725
Low	**5 900**	4 669
Weighted average	**6 608**	5 999
Closing price/net asset value per share	**2.97**	2.96
Closing price/earnings (headline)	**13.79**	13.52
Volume of shares traded (millions)	**2 717**	3 239
Value of shares traded (millions)	**179 308**	196 560
Market capitalisation (R billion)	**384.53**	358.39

Invitation to Shareholders by the Chairman

Mr William Rodger Jardine wishes to extend an invitation to the shareholders to attend the 23rd annual general meeting (AGM) of FirstRand Limited (FirstRand or the company) to be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandton on Thursday, 28 November 2019 at 9:00.

FirstRand recognises and values its shareholders' presence at the AGM. The company believes that this provides a platform for shareholders to actively participate in matters as set forth in the notice of meeting and to raise any matters of concern. Our panel of chairpersons from the various board committees, including senior executive members and external audit, will be present to respond to any questions from the shareholders.

Refer to page D16 of the notice of AGM for the procedural requirements for the purposes of meeting participation.

SUMMARY OF RESOLUTIONS TO BE TABLED AT THE AGM

The following will be dealt with as the ordinary business and the ordinary resolutions below will be tabled for consideration at the AGM:

- present the consolidated audited annual financial statements of the company as approved by the board of directors of the company, including the reports of external audit, audit committee and directors' report for the year ended 30 June 2019;
- present the report of the social, ethics and transformation committee of the company for the financial year ended 30 June 2019;
- in terms of the provisions of the company's memorandum of incorporation (MOI) on director rotation, the directors who retire in terms of this provision offer themselves for re-election and the abridged curricula vitae have been included in the notice of AGM (resolutions number 1.1 to 1.4);
- in terms of the provisions of the company's MOI, the vacancy filled by the board of any person as a director during the year subsequent to the last AGM requires election by the shareholder at the AGM following such appointment (resolution number 1.5);
- to reappoint the company's joint auditors, Deloitte & Touche and PricewaterhouseCoopers Inc. (resolution number 2.1 and 2.2);
- a general authority to issue authorised but unissued ordinary shares for cash up to a maximum of 1.5% (excluding treasury shares) of the ordinary shares in issue as at date of this notice (resolution number 3); and
- to provide signing authority to the directors and/or company secretary of the company to sign documents as deemed necessary for the implementation of resolutions passed at the AGM (resolution number 4).

The advisory endorsement will be tabled for consideration at the AGM:

- To consider and endorse, by way of a non-binding advisory vote, the company's remuneration policy and remuneration implementation report. The full remuneration report is available on page 109 of the *Annual integrated report*.

The following special resolutions will be tabled for consideration at the AGM:

- a renewal of the authority given by shareholders at the previous AGM that will allow the repurchase of the company's shares by the company or any subsidiary during the year, should the directors deem the circumstances to be appropriate. Any repurchases will be made in accordance with the provisions of the Companies Act 71 of 2008 (the Act) and the JSE Limited Listings Requirements (Listings Requirements) (special resolution number 1);
- to provide financial assistance to directors and prescribed officers as employee share scheme beneficiaries and to provide financial assistance to related and interrelated entities. This is subject to compliance with the requirements of the MOI, the Act and any other relevant legislation, the JSE and NSX when applicable (special resolutions number 2.1 and 2.2); and
- to approve the non-executive director's fees with effect from 1 December 2019 in accordance with the provisions of section 66(9) of the Act (special resolution number 3).

The following ordinary resolutions have been requisitioned by two shareholders:

- to report on the company's assessment of its exposure to climate-related risks (resolution number 5); and
- to adopt and publicly disclose a policy on fossil fuel, lending (resolution number 6).

Notice of annual general meeting

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
JSE ordinary share code: FSR ISIN: ZAE000066304
NSX ordinary share code: FST
(FirstRand or the company)

Notice is hereby given to all holders of ordinary shares in the company (shareholders) that the 23rd annual general meeting of FirstRand will be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandton, on Thursday, 28 November 2019, at 09:00, to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary resolutions endorsements and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended (the Act), as read with the JSE Limited Listings Requirements (Listings Requirements) and the Banks Act 94 of 1990 (the Banks Act).

SALIENT DATES	
Record date to be eligible to receive the notice of AGM	Friday, 18 October 2019
Posting date	Thursday, 24 October 2019
Last day to trade to be eligible to attend and vote at the AGM	Tuesday, 19 November 2019
Record date to be eligible to attend and vote at the AGM	Friday, 22 November 2019
Proxies due (for administrative purposes) by 09:00*	Tuesday, 26 November 2019
AGM at 09:00**	Thursday, 28 November 2019

Notes:

The above dates and times are subject to amendment, provided that in the event of an amendment, an announcement will be released on SENS.

All dates and times indicated above are references to South African dates and times.

* *Alternatively, to be handed to the chairman of the AGM prior to its commencement.*

** *Results of AGM to be released on SENS on Friday, 29 November 2019.*

Agenda

1. ANNUAL FINANCIAL STATEMENTS

Presentation of the consolidated audited annual financial statements of the company as approved by the board of directors of the company (directors or board), including the reports of the external auditors, audit committee and directors' report for the year ended 30 June 2019 (available on the company's website, www.firstrand.co.za), and the summary financial statements, which are included in the 2019 annual integrated report, of which this notice forms part, distributed as required by the Act to shareholders.

2. SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

The social, ethics and transformation committee report is set out on pages 167 to 170 in the annual integrated report, as required in terms of regulation 43(5)(c) of the Act's Regulations, 2011.

3. ORDINARY RESOLUTIONS NUMBER 1.1 TO 1.4

Re-election of directors by way of separate resolutions

To re-elect Ms AT Nzimande, Ms MS Bomela, Mr GG Gelink and Mr F Knoetze as directors of the company by way of separate resolutions in accordance with the provisions of the company's memorandum of incorporation (MOI). The directors, being eligible, offer themselves for re-election.

Additional information in respect of ordinary resolutions number 1.1 to 1.4

Skills and experience of these directors are set out below for your information purposes.

The percentage of voting rights required for each ordinary resolution numbered 1.1 to 1.4 to be adopted is more than 50% (fifty per cent) of the voting rights exercised on each resolution.

Directors standing for re-election to the board are as follows:

1.1 **AMANDA TANDIWE (TANDI)** NZIMANDE :: 49*

Independent non-executive
South African
Appointed: 28 February 2008
Qualifications: CTA, CA(SA), HDip Co Law
Expertise in audit, risk and banking

Tandi, a chartered accountant, has had a varied career since qualifying at KPMG in 1996. She worked as a corporate finance advisor at Deutsche Bank for five years, following which she acquired and ran a small business in the postal and courier industry for four years. During that period, she also consulted to WDB Investment Holdings, which she eventually joined as its chief financial officer, a position she vacated in May 2016. Tandi is currently a partner at Chapter One Innovation Brokers, a business model research and development firm. Her past board memberships include OUTsurance, Rennies Travel and Masana Fuel Solutions.

Tandi is a fellow of the Africa Leadership Initiative. She is also a member of the South African Institute of Chartered Accountants, African Women Chartered Accountants as well as the Association of Black Securities and Investment Professionals.

FirstRand – committee memberships:
- Directors' affairs and governance – chairperson
- Remuneration
- Social, ethics and transformation

Other governing body and professional positions held:
- Fellow of Africa Leadership initiative
- African Women Chartered Accountants
- Association of Black Securities Investment professionals

External listed directorships:
- None

1.2 **MARY SINA** BOMELA :: 46*

Independent non-executive
South African
Appointed: 24 September 2011
Qualifications: BCom (Hons), CA(SA), MBA
Expertise in audit, risk and banking, resources and media

Mary was appointed to the position of CEO of the Mineworkers Investment Company Proprietary Limited (MIC) in July 2010 and was appointed to the board in September 2011.

Prior to joining the MIC, Mary was the CFO of Freight Dynamics and an executive in the corporate services division of the South African Institute of Chartered Accountants. She has held executive positions in the resources, media, utilities and financial services sector.

FirstRand – committee memberships:
- Directors' affairs and governance
- Risk, capital management and compliance

Other governing body and professional positions held:
- South African Institute of Chartered Accountants
- Institute of Directors

External listed directorships:
- Ascendis Health Limited
- Metrofile Holdings Limited
- Kumba Iron Ore Limited

* *The Prudential Authority issued Directive 4 of 2018 ("the Directive") on 5 October 2018 in terms of section 6(6) of the Banks Act 94 of 1990. The Directive set out that a director will be deemed as not being "independent" if such a director has served as an independent non-executive director for a period of nine years or longer and may still remain as a director of the company, but will not qualify as "independent." The board is considerate and committed to the requirements as set forth by the PA with specific regard to the composition of the board of directors (the board) to ensure continuity. The PA has granted dispensation to stagger the retirement of the directors affected by the Directive and therefore the retirement of the four female directors affected by the nine-year limit will occur incrementally from the 2019 AGM and will be completed at the end of the 2020 AGM. Amanda Tandiwe (Tandi) Nzimande and Mary Sina Bomela will retire from the board at the end of the 2020 AGM, so it is therefore proposed that they be re-elected for 12 months. During the year, a King IV independence assessment was performed on directors with a tenure of more than nine years. The board is satisfied that the independent non-executive directors who have served continuously for nine years or more are able to act independently in decision-making in the best interests of the group.*

Notice of annual general meeting continued

The following directors are standing for re-election in terms of the MOI:

1.3 **GRANT GLENN** GELINK :: 69

Independent non-executive
South African
Appointed: 1 January 2013
Qualifications: BCom (Hons), BCompt (Hons), CA(SA)
Expertise in audit, risk and banking

Grant has had extensive work experience within Deloitte South Africa, which includes the following positions spanning over 26 years – CEO (2006 to 2012), CEO: human capital corporation (2004 to 2006), managing partner: consulting and advisory services (2001 to 2006) and partner in charge Pretoria office (1997 to 1999).

FirstRand – committee memberships:
- Audit – chairman
- Remuneration – chairman
- Directors' affairs and governance
- Information technology and risk governance
- Risk, capital management and compliance
- Retail and Commercial (formerly FNB) advisory board
- WesBank advisory board

Other governing body and professional positions held:
- South African Institute of Chartered Accountants

External listed directorships:
- Allied Electronics Corporation Limited (ALTRON)
- Grindrod Limited

1.4 **FRANCOIS (FAFFA)** KNOETZE :: 56

Non-executive director
South African
Appointed: 1 April 2016
Qualifications: BCom (Hons), FASSA, FIA
Expertise in finance, risk and insurance

Faffa graduated from the University of Stellenbosch in 1984 and became a fellow of the Actuarial Society of South Africa and the Institute of Actuaries in 1992.

After starting his actuarial career at Sanlam as a marketing actuary in the life business, he spent most of his working career at Alexander Forbes, where he was the valuator and consulting actuary to a number of pension and provident funds.

He joined Remgro in December 2013 and focuses on the company's interests in the financial services (insurance and banking) and sport industries.

FirstRand – committee memberships:
- Directors' affairs and governance
- Risk, capital management and compliance
- Social, ethics and transformation
- Retail and Commercial (formerly FNB) advisory board
- Corporate and Institutional (formerly RMB) advisory board
- WesBank advisory board

Other governing body and professional positions held:
- Fellow of the Institute and Faculty of Actuaries
- Fellow of Actuarial Society of South Africa

External listed directorships:
- Rand Merchant Investment Holdings Limited (alternate)
- RMB Holdings Limited (alternate)

4. ORDINARY RESOLUTION NUMBER 1.5

Vacancies filled by the directors during the year

Upon the recommendation of the nomination committee and the board, LL von Zeuner was appointed by the board to fill a vacancy in accordance with the Act and the company's MOI, and is now recommended by the board for election by shareholders by way of separate resolution.

Additional Information in respect of ordinary resolution number 1.5

Skills and experience of this director is set out below.

The percentage of voting rights required for ordinary resolution number 1.5 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

Director standing for election to the board

LOUIS LEON VON ZEUNER :: 58

Independent non-executive
South African
Appointed: 1 February 2019
Qualifications: BEcon, Chartered Director (SA)
Expertise in audit, risk and banking, insurance

Mr von Zeuner has spent the greater part of his professional career in the banking industry and has more than 30 years' extensive experience in the financial services sector, including a diverse portfolio of other business sectors ranging from industrial, telecommunications, agriculture, sport and non-profit organisations. His exposure to banking and insurance keeps him close to the fast-changing regulatory landscape with a key focus on governance matters aside from strategy, profitability, sustainability and risk management.

His involvement in the turnaround of Telkom and the events of African Bank during and after the curatorship has provided him with the opportunity to play an instrumental role in management's key decisions.

Louis plays a leadership role in the activities of various organisations and contributes to business development and growth.

FirstRand – committee memberships:
- Directors' affairs and governance
- Audit
- Risk, capital management and compliance

Other governing body and professional positions held:
- SA Rugby

External listed directorships:
- Tongaat Hulett
- Transnet
- Telkom SA

5. RETIREMENT/RESIGNATION OF DIRECTORS

The following directors will be retiring at the conclusion of the 2019 annual general meeting and do not offer themselves for re-election.

DIRECTOR	DATE OF RETIREMENT	DESIGNATION
Nolulamo Nobambiswano (Lulu) Gwagwa	At the conclusion of the annual general meeting, 28 November 2019	Independent non-executive director

DIRECTOR	DATE OF RETIREMENT	DESIGNATION
Ethel Gothatamodimo Matenge-Sebesho	At the conclusion of the annual general meeting, 28 November 2019	Independent non-executive director

The following director will be resigning at the conclusion of the 2019 annual general meeting.

DIRECTOR	DATE OF RESIGNATION	DESIGNATION
Jan Jonathan (Jannie) Durand	At the conclusion of the annual general meeting, 28 November 2019	Alternate non-executive director

Notice of annual general meeting continued

6. ORDINARY RESOLUTIONS NUMBER 2.1 TO 2.2

Reappointment of auditors

The audit committee has evaluated the independence, performance and skills of Deloitte & Touche and PricewaterhouseCoopers Inc. and recommend their reappointment as joint auditors of the company.

2.1 Resolved that, as recommended by the audit committee of the company, Deloitte & Touche be appointed auditors of the company until the next annual general meeting.

2.2 Resolved that, as recommended by the audit committee of the company, PricewaterhouseCoopers Inc. be appointed auditors of the company until the next annual general meeting.

Additional information in respect of ordinary resolutions numbers 2.1 to 2.2

The company's audit committee has recommended and the directors have endorsed the proposed appointments. It is proposed that the aforementioned appointments be made on a joint basis. If either resolution 2.1 or resolution 2.2 is not passed, the resolution passed shall be effective.

The remuneration of the company's auditors and the auditors' terms of engagement are determined by the audit committee pursuant to the Act.

The percentage of voting rights required for ordinary resolutions number 2.1 to 2.2 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

7. ORDINARY RESOLUTION NUMBER 3

General authority to issue authorised but unissued ordinary shares for cash

Resolved that the directors be and are hereby authorised by way of a renewable general authority, to issue all or any of the authorised but unissued ordinary shares in the capital of the company for cash (including the issue of any options/convertible shares that are convertible into an existing class of ordinary shares) as and when they in their discretion deem fit, subject to:

→ the aggregate number of shares to be allotted and issued in terms of this resolution shall be limited to 1.5% (one and a half percent) representing 84 136 531 (excluding treasury shares) of the number of the company's shares in issue as at the date of this notice; and

→ the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, when applicable, on the basis that:

- this authority shall be valid until the company's next annual general meeting or for 15 months from the date that this resolution is passed, whichever period is shorter;
- the ordinary shares which are the subject of the issue for cash under this authority must be of a class already in issue;
- the ordinary shares which are the subject of the issue for cash under this authority must be issued to public shareholders and not to related parties;
- any such general issues are subject to exchange control regulations and approval at that point in time;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the shares; and
- in respect of shares which are the subject of the general issue of shares for cash:
  - any ordinary shares issued under this authority during the period contemplated must be deducted from the aggregate number of shares to be allotted and issued in terms of this resolution;
  - in the event of a subdivision or consolidation of issued ordinary shares during the period contemplated above, the existing authority in terms of this resolution must be adjusted accordingly to represent the same allocation ratio; and
  - the calculation of the listed ordinary shares is a factual assessment of the listed ordinary shares as at the date of the notice of the annual general meeting, excluding treasury shares.

Reason and effect of ordinary resolution number 3

This general authority, once granted, allows the board from time to time, when it is appropriate to do so, to issue ordinary shares as may be required.

Additional information in respect of ordinary resolution number 3

The percentage of voting rights required for ordinary resolution number 3 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

8. ORDINARY RESOLUTION NUMBER 4

Signing authority

Resolved that each director and/or the company secretary of the company, be and is hereby authorised to do all such things and sign all such documents as may be necessary for, or incidental to, the implementation of the resolutions passed at the annual general meeting of the company and set out in this notice.

Additional information in respect of ordinary resolution number 4

For the sake of practicality, the directors and/or the company secretary of the company must be empowered to enforce the resolutions so passed by the shareholders at this annual general meeting, if any.

The percentage of voting rights required for ordinary resolution number 4 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

9. ADVISORY ENDORSEMENT OF THE REMUNERATION POLICY AND IMPLEMENTATION REPORT

9.1 Endorsement of remuneration policy

To endorse, through a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees), as set out on pages 114 to 122 in the remuneration report of the *Annual integrated report*.

9.2 Endorsement of remuneration implementation report

To endorse, through a non-binding advisory vote, the company's remuneration implementation report, as set out on pages 123 to 126 in the remuneration report of the annual integrated report.

Additional information in respect of advisory endorsement of remuneration policy and implementation report

The endorsement of the remuneration policy and implementation report is tabled as a non-binding advisory vote, however, the outcome of each vote will be acknowledged when considering the remuneration policy and the implementation thereof. In the event that, either the remuneration policy or the implementation report, or both, are voted against by 25% (twenty-five per cent) or more of the voting rights exercised, the board will, as recommended by King IV and required by the Listing Requirements 3.84(k), implement certain measures to initiate engagement with the relevant shareholders. The outcome thereof will be disclosed in the 2020 annual integrated report.

10. SPECIAL RESOLUTION NUMBER 1

General authority to repurchase ordinary shares

Resolved that the company and/or its subsidiary(ies) (the group) be and are hereby authorised, in terms of a general authority, to acquire, as contemplated in section 48 of the Act, read with section 46, as amended, the company's issued shares from time to time on such terms and conditions and in such amounts as the directors may from time to time decide, but always subject to the approval, to the extent required, of the CEO of the Prudential Authority, the provisions of the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, and subject to the following conditions:

- this general authority will be valid only until the company's next annual general meeting, provided that it will not extend beyond 15 months from the date of the passing of this special resolution, whichever is shorter;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- repurchases may not be made at a price greater than 10% (ten per cent) above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the repurchase of such securities by the company is effected;
- the acquisitions of ordinary shares shall in the aggregate in any one financial year, not exceed 10% (ten per cent) of the company's issued ordinary share capital as at the beginning of the financial year, provided that the number of shares purchased and held by a subsidiary/(ies) of the company shall not exceed 10% (ten per cent) in aggregate of the number of issued shares in the company at any time;
- any such general repurchase will be subject to the applicable provisions of the Act, including sections 114 and 115 to the extent that section 48(8)(b) is applicable in relation to that particular repurchase;
- neither the company nor its subsidiary/(ies) will repurchase securities during a prohibited period, as defined in paragraph 3.67 of the JSE Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been submitted to the JSE in writing prior to the commencement of the prohibited period, as required;
- a resolution having been passed by the board of directors confirming that the board has authorised the repurchase, that the company and the group passed the solvency and liquidity test and that since the test was performed there have been no material changes to the financial position of the group;
- any such general repurchases are subject to exchange control regulations and approval at that time;

Notice of annual general meeting continued

- when the company has cumulatively repurchased 3% (three per cent) of the initial number of the relevant class of securities, and for each 3% (three per cent) in aggregate of the initial number of that class acquired thereafter, an announcement shall be published on SENS in accordance with the JSE Listings Requirements; and
- at any time, the company shall appoint only one agent to effect any repurchase(s) on its behalf.

Reason and effects of special resolution number 1

The reason for special resolution number 1 is to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company.

The directors have no immediate intention to use this authority to repurchase company shares. The directors are, however, of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The directors undertake that the company will not commence a general repurchase of shares as contemplated above unless:

- the company and the group will be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the general repurchase of shares in the open market;
- the assets of the company and the group will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the general repurchase of shares in the open market, for which purpose the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements which comply with the Act;
- the ordinary share capital and reserves of the company and the group will be adequate for ordinary business purposes for the 12 months after the general repurchase of shares in the open market;
- the available working capital will be adequate to continue the operations of the company and the group for a period of 12 months after the repurchase of shares in the open market; and
- a resolution has been passed by the board of directors authorising the repurchase and confirming that the company and its subsidiary(ies) have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the company and the group.

Additional information in respect of special resolution number 1

Further information regarding special resolution number 1, as required by the Listings Requirements, is set out in Annexure 1.

The percentage of voting rights required for this special resolution number 1 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

11. SPECIAL RESOLUTION NUMBER 2.1

Financial assistance to directors and prescribed officers as employee share scheme beneficiaries

Resolved that the directors may, subject to compliance with the requirements of the MOI, the Act and any other relevant legislation, the JSE and NSX, when applicable, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and/or 45 of the Act) to, *inter alia*, any director or prescribed officer of the company or of a related or interrelated company on such terms and conditions as the directors may determine from time to time in order to facilitate the participation by such director or prescribed officer in any employee share incentive scheme, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and/or 45 of the Act or falls within the exemptions contained in those sections.

Additional information in respect of special resolution 2.1

The company may elect to fund the long-term incentive schemes in which executive directors, prescribed officers and identified staff of the company, and related and interrelated companies participate.

The percentage of voting rights required for this special resolution number 2.1 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

12. SPECIAL RESOLUTION NUMBER 2.2

Financial assistance to related and interrelated entities

Resolved that the directors may, subject to compliance with the requirements of the MOI, the Act and any other relevant legislation, the JSE and NSX, when applicable, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and/or 45 of the Act) to, *inter alia*, any related or interrelated company, trust or other entity on such terms and conditions as the directors may determine from time to time, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and/or 45 of the Act or falls within the exemptions contained in those sections.

Additional information in respect of special resolution number 2.2

Companies within the group receive and provide loan financing and other support to one another in the normal and ordinary course of business from time to time.

The percentage of voting rights required for this special resolution number 2.2 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

13. SPECIAL RESOLUTION NUMBER 3

Remuneration of non-executive directors

Resolved to approve as a special resolution as recommended by the remuneration committee and the board, set out in the table below, the remuneration of the non-executive directors, in their capacity as non-executive directors, as contemplated in section 66(9) of the Act, with effect from 1 December 2019:

	Note	Proposed remuneration for the 12-month period from 1 December 2019 to 30 November 2020 (excl. VAT)	Remuneration for the 12-month period from 1 December 2018 to 30 November 2019 (excl. VAT)
Board			
Chairman	1	**6 821 802**	6 496 954
Director	2	**582 558**	554 817
Audit committee			
Chairman	3	**832 225**	792 595
Member		**416 113**	396 298
Risk, capital management and compliance committee			
Chairman	3	**832 225**	792 595
Member		**416 113**	396 298
Remuneration committee			
Chairman	3	**499 335**	475 557
Member		**249 667**	237 778
Directors' affairs and governance committee			
Chairman	3	**159 787**	152 178
Member		**79 893**	76 089
Large exposures committee			
Chairman	3	**587 108**	559 150
Member		**293 554**	279 575
Social, ethics and transformation committee			
Chairman	3/4	**451 148**	438 008
Member	4	**225 574**	219 004
Information technology risk and governance committee			
Chairman	3	**333 900**	318 000
Member		**166 950**	159 000
***Ad-hoc* work**			
Special technical	5	**5 099**	4 856
Standard	6	**3 329**	3 170

1. *The group chairman's fees cover chairmanship and membership of all board committees.*
2. *Executive directors of the company do not receive fees as members of the board.*
3. *Fees for board committee chairpersons are twice that of committee members fees.*
4. *All fees were increased by 5% with the social, ethics and transformation committee increased by 3%, to align with industry benchmarks.*
5. *Special technical rate payable for highly specialised ad-hoc work on an hourly basis at the request of the board.*
6. *Standard ad-hoc rate payable for additional work on an hourly basis at the request of the responsible executive.*

Notice of annual general meeting continued

Additional information in respect of special resolution number 3

The percentage of voting rights required for special resolution number 3 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

14. CLIMATE RISK RESOLUTIONS

These resolutions have been requisitioned by two shareholders in terms of section 65(3) of the Companies Act. The company's position in respect of these resolutions is set out on pages 282 and 283 of the *Annual integrated report*.

Paragraph 10.11(b) of Schedule 10 of the JSE Listing Requirements provides that an ordinary resolution is subject to a minimum notice period of 15 business days. In accordance with the above, these resolutions have been submitted for consideration by FirstRand Limited's (the company's or FirstRand's) shareholders at the company's annual general meeting to be held on 28 November 2019[1]:

ORDINARY RESOLUTION NUMBER 5

To report on the company's assessment of its exposure to climate-related risks

FirstRand states that it "supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and initiated a project during the 2018 financial year to begin implementing the recommendations of the TCFD."[2]

It is therefore resolved that the company should prepare a consolidated report to shareholders, by no later than end October 2020, at reasonable cost and omitting proprietary information, on its assessment of its exposure to climate-related risks (transition and physical) in its lending, investing and financing activities, including:

i. the amount and percentage of fossil fuel-related assets relative to total assets;

ii. a description of any significant concentrations of credit exposure to fossil fuel-related assets; and

iii. the amount of lending and other financing connected with climate-related opportunities.[3]

ORDINARY RESOLUTION NUMBER 6

To adopt and publicly disclose a policy on fossil fuel lending

Resolved that the company should adopt and publicly disclose on its website, by no later than end October 2020, a policy on lending to fossil fuel-related projects, including coal-fired power plants, coal mining operations and oil and gas exploration and production projects.

Brief explanatory note to the resolution as provided by the two shareholders for ordinary resolutions numbers 5 and 6

Banks' financing choices have a major role to play in promoting carbon reduction. Bank lending and investments make up a significant source of external capital for carbon intensive industries. Every rand invested by South African banks in fossil fuel-related assets increases climate risk, renders it harder to achieve a just transition to a low-carbon economy, and exposes those banks to financial, reputational and litigation risks.

FirstRand appears to have been an early leader in the public recognition of climate risk to the financial sector. In its Climate Change Statement of August 2010[4], the company stated that "[i]nvestment and financing decisions have the potential to profoundly change South Africa's GHG emissions footprint and could play a major role in the transition to a low carbon economy in South Africa". It also acknowledged that "a large portion of our climate change risk is as a result of our client's [sic] exposure to risk".

In the 2010 statement, FirstRand's then CEO, Sizwe Nxasana, said that "FirstRand has leading governance structures for addressing climate change, have [sic] a climate change policy, Board oversight and senior management responsibility, employee training and public disclosure efforts. This places FirstRand at an advantage for effectively implementing strategy in addressing climate change risks. Sound corporate governance practices position FirstRand to take early action on emerging opportunities related to climate change. As a developing country we cannot miss the opportunity of transition towards a low carbon economy. Sustainable economic development is not a luxury, but a requirement to strategically position our economy for this century".

Six years later, the FirstRand Climate change and energy report 2016[5] asserted that "FirstRand is committed to assisting in the transition towards a low-carbon economy and supporting the Paris Agreement to keep global temperature increases below 2°C". In relation to "Managing indirect climate risks to FirstRand's financing activities arising from risks to clients", the 2016 report stated that "FirstRand has incorporated the management of indirect climate change risks into client credit risk reviews as part of its lending application processes".

However, FirstRand's progress on addressing climate risk now seems to have stalled: it has not adopted publicly available policies on the financing of fossil fuels, nor has it improved its disclosure on the extent to which its lending, investing and financing activities are exposing the company and its shareholders to climate risk and exacerbating the climate crisis by hindering the transition to a low-carbon economy. This is information which shareholders urgently need in order to make informed investment decisions.

1. *https://www.firstrand.co.za/InvestorCentre/Pages/investor-info.aspx.*
2. *FirstRand 2018 Report to Society, p64.*
3. *See "Climate-related opportunities", p6 TCFD Final Recommendations.*
4. *https://www.banktrack.org/download/climate_change_statement/fsr_climate_change_statement_17_08_10_0.pdf*
5. *https://www.firstrand.co.za/Sustainability/EquatorPrinciplesReports/2016%20FirstRand%20climate%20change%20and%20energy%20report.pdf*

FirstRand's 2018 *Annual integrated report* refers to the fact that a "*Climate change statement detailing the group's commitment to monitor and mitigate the effect of its operations on the climate was approved*", but it is unclear whether this refers to the company's 2016 Climate change and energy report, or to a different statement which is not publicly available.

Furthermore, the company's 2018 reports focus exclusively on emission reduction targets in relation to its direct, operational emissions. FirstRand does not describe its climate-related risks in its lending and other intermediary roles. There is no mention, despite significant public and shareholder interest in these projects over the past two years, of whether FirstRand will finance two proposed new coal-fired power stations, Thabametsi and Khanyisa. In its 2017 Environmental and social risk report, the Company said that it was "concerned about climate change and the risks it poses for Africa, clients and their businesses," but argued that developing nations and financial institutions face a dilemma in terms of balancing climate change against the "need to support economic growth and the energy supply that underpins it"[6] FirstRand does not describe how it manages this "dilemma" in its financing decision-making processes.

In summary, despite its early recognition of climate risk, FirstRand is not currently disclosing adequate information about its financing of fossil-fuel related assets to enable shareholders to make informed investment decisions. The purpose of this resolution is to provide all shareholders with the opportunity to indicate their support for improved disclosure.

Internationally, increasing numbers of banks have adopted policies to reduce carbon exposure in their loan and investment portfolios, including by ending or substantially reducing financing for new coal-fired power, coal mining, and oil and gas projects. Research from the Institute for Energy Economics and Financial Analysis, released on 27 February 2019, finds that over 100 major global financial institutions have introduced policies restricting coal funding.[7]

The Paris Agreement of 2015, agreed to by 197 parties, including South Africa[8], commits to holding the increase in the global average temperature "*to well below 2˚C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5˚C above pre-industrial levels.*"[9] The World Economic Forum states that "*the results of climate inaction are becoming increasingly clear*", and ranks extreme weather events and the failure of climate-change mitigation and adaptation as the top two risks facing the world in 2019.[10]

The Financial Stability Board[11], an international body that monitors and makes recommendations about the global financial system, set up the Task Force on Climate-Related Financial Disclosures (TCFD)[12], chaired by Michael Bloomberg, to establish a set of recommendations for disclosing clear, comparable, and consistent information about the risks and opportunities presented by climate change.

In its Supplemental Guidance for the Financial Sector, the TCFD states that "*A key element of the FSB's proposal for the Task Force was the development of climate-related disclosures that 'would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks*'".[13]

The TCFD highlights that: "***Banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities as well as through their own operations****. As financial intermediaries, banks may assume exposure to material climate-related risks through their borrowers, customers, or counterparties. Banks that provide loans or trade the securities of companies with direct exposure to climate-related risks (e.g., fossil fuel producers, intensive fossil fuel consumers, real property owners, or agricultural/food companies) may accumulate climate-related risks via their credit and equity holdings. In particular, asset-specific credit or equity exposure to large fossil fuel producers or users could present risks that merit disclosure or discussion in a bank's financial filings* ***… Investors, lenders, insurance underwriters, and other stakeholders need to be able to distinguish among banks' exposures and risk profiles so that they can make informed financial decisions***."[14]

BOARD'S NON-ENDORSEMENT of proposed resolution number 5: To report on the company's assessment of its exposure to climate-related risks

As outlined in the above resolution context, shareholders acknowledge that FirstRand has identified climate change as a risk that needs to be assessed, managed and governed. FirstRand is mindful of the TCFD's recommendations and aware of increasing investor interest in climate-related disclosure practices.

Whilst the board does not endorse this resolution, it fully agrees with the need for a consolidated report on the group's assessment of its exposure to climate-related risks (transition and physical) in its lending, investing and financing activities. ***However, the requisite deadline of October 2020 presents an unattainable time frame for the group.***

6. *On page 14.*
7. *http://ieefa.org/ieefa-report-every-two-weeks-a-bank-insurer-or-lender-announces-new-coal-restrictions.*
8. *South Africa ratified the Paris Agreement on 1 November 2016. See https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en*
9. *https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement. In October 2018, the Intergovernmental Panel on Climate Change's released a report which concluded that even the 2 degree limit in the Paris Agreement is insufficient to limit the worst impacts of climate change, and that "rapid, far-reaching changes" must be made to ensure that net emissions of carbon dioxide fall to 45% of 2010 levels by 2030, reaching "net zero" around 2050, to avoid disastrous levels of global warming: see https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/*
10. *https://www.weforum.org/agenda/2019/01/these-are-the-biggest-risks-facing-our-world-in-2019*
11. *https://www.fsb.org/*
12. *https://www.fsb-tcfd.org/about/*
13. *TCFD. Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, p22*
14. *TCFD. Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, p23 (emphasis added)*

Notice of annual general meeting continued

The group is in the process of developing a framework to manage all climate-driven financial risks. The aim of the framework is to support more informed investment, credit and insurance underwriting decisions, and to address and oversee these risks within the group's overall business strategy and risk appetite. This will also assist the FirstRand board and management in identifying any existing concentrations of carbon-related assets in the FirstRand portfolio, as well as exposures to climate-related risks. A formal multi departmental internal working group was established during the year to develop this framework.

This framework is expected to use scenario analysis to explore the resilience and vulnerabilities of FirstRand's business activities, based on different transition paths to a low-carbon economy, as well as a path where no transition occurs. This will, where appropriate, include short-term and long-term assessments. The longer-term exercise will inform strategic planning and decision-making.

The group is also a member of the Banking Association South Africa Climate Risk Committee and The Partnership for Carbon Accounting Financials (Global), which are industry forums that aim to create standardised accounting methodologies for climate risk.

Until the group's framework is fully developed and implemented, which will take longer than the proposed time frame of October 2020, the group cannot provide a full consolidated report on its assessment of its exposure to climate-related risks (transition and physical) in its lending, investing and financing activities.

However, FirstRand has every intention of incrementally increasing its disclosure going forward, which could in the near term include its direct financing of fossil fuel-related assets. Some aspects of the group's lending and other financing connected with climate- related opportunities are already included in the group's annual report to society.

Overall, the group is committed to greater climate risk disclosure, which it expects to evolve from qualitative to quantitative disclosure, spanning the next three to five years.

From a governance perspective, climate change risk is already reported to the board of FirstRand through the Risk, Capital Management and Compliance Committee of the group on a quarterly basis. Clearly as the group's understanding of climate risk improves, it will evaluate whether the group has the requisite skills at all levels of its business to appropriately respond.

Additional information in respect of ordinary resolution number 5

The percentage of voting rights required for ordinary resolution number 5 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

BOARD'S ENDORSEMENT of proposed resolution number 6: To adopt and publicly disclose a policy on fossil fuel lending

The group has a policy on thermal coal financing, which includes coal-fired power plants and coal mining operations. This policy is publicly available on the FirstRand website. The group is in the process of developing a policy for its oil and gas financing, which will be publicly available in the next 12 months.

The group has not participated in the coal IPP transactions presented to the market to date, given that they have not met the requirements of the group's thermal coal financing policy. The group confirms that it has not financed either the Thabametsi or the Khanyisa coal fired IPP projects.

Additional information in respect of ordinary resolution number 6

The percentage of voting rights required for ordinary resolution number 6 to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution.

IMPORTANT NOTES REGARDING ATTENDANCE AT THE ANNUAL GENERAL MEETING

General

Shareholders wishing to attend the meeting should ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

A shareholder entitled to attend and vote at the annual general meeting may appoint one or more persons as his/her proxy to attend, speak and vote in their stead. A proxy need not be a shareholder. Shareholders are referred to the attached proxy form in this regard.

If you are a certificated shareholder or a dematerialised shareholder with own name registration and are unable to attend the annual general meeting and wish to be represented thereat, you must complete and return the attached proxy form in accordance with the instructions contained therein to be received for the orderly arrangement of matters on the day of the annual general meeting by The Meeting Specialist (Proprietary) Limited, JSE Building, One Exchange Square, 2 Gwen Lane, Sandown, 2196 (PO Box 62043, Marshalltown, 2107), by no later than 09:00 on Tuesday, 26 November 2019 for administrative purposes (or alternatively to be handed to the chairman of the annual general meeting prior to its commencement).

If you are a dematerialised shareholder, other than with own-name registration, you must arrange with your broker or CSDP to provide you with the necessary letter of representation to attend the annual general meeting or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into, between you and the broker or CSDP, in the manner and cut-off time stipulated therein.

Dematerialised shareholders without own-name registration

Voting at the annual general meeting

- Your broker or CSDP should contact you to ascertain how you wish to cast your vote at the annual general meeting and thereafter cast your vote in accordance with your instructions.
- If you have not been contacted by your broker or CSDP, it is advisable for you to contact your broker or CSDP and furnish them with your voting instructions.
- If your broker or CSDP does not obtain voting instructions from you, they will be obliged to vote in accordance with the instructions contained in the custody agreement concluded between you and your broker or CSDP.
- You must not complete the attached proxy form.

Attendance and representation at the annual general meeting

- In accordance with the mandate between you and your broker or CSDP, you must advise your broker or CSDP if you wish to attend the annual general meeting and your broker or CSDP will issue the necessary letter of representation to you to attend the annual general meeting.

Dematerialised shareholders with own-name registration

Voting and attendance at the annual general meeting

- You may attend the annual general meeting in person and may vote at the annual general meeting.
- Alternatively, you may appoint a proxy to represent you at the annual general meeting by completing the attached proxy form in relation to the annual general meeting in accordance with the instructions it contains and returning it to the meeting facilitators (The Meeting Specialist) to be received by no later than 09:00 on Tuesday, 26 November 2019 for administrative purposes (or alternatively to be handed to the chairman of the annual general meeting prior to its commencement).

Certificated shareholders

Voting and attendance at the annual general meeting

- You may attend the annual general meeting in person and may vote at the annual general meeting.
- Alternatively, you may appoint a proxy to represent you at the annual general meeting by completing the attached proxy form in relation to the annual general meeting in accordance with the instructions it contains and returning it to the meeting facilitators (The Meeting Specialist) to be received by no later than 09:00 on Tuesday, 26 November 2019 for administrative purposes (or alternatively to be handed to the chairman of the annual general meeting prior to its commencement).

Voting requirements

Voting will be by way of a poll and every shareholder of the company present in person or represented by proxy shall have one vote for every share held in the company by such shareholder.

Proof of identification required

In compliance with section 63 of the Act, note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Acceptable forms of identification include valid identity documents, drivers' licences and passports.

Summary of shareholder rights

In compliance with the provisions of section 58(8)(b)(i) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately below:

- A shareholder entitled to attend and vote at the meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the meeting in the place of the shareholder. A proxy holder need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.

The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.

If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Act or the company's MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.

Attention is also drawn to the notes to the proxy form.

Directions for obtaining a copy of financial statements

The complete financial statements are available for inspection at the registered office and downloading on the company's website www.firstrand.co.za or a copy thereof can be requested in writing from the company secretary, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196.

By order of the board

C LOW
Company secretary

4 September 2019

Transfer secretaries
Computershare Investor Services (Pty) Ltd
1st Floor, Rosebank Towers
15 Biermann Avenue
Rosebank
2196

Meeting facilitators
The Meeting Specialist (Proprietary) Limited
JSE Building, One Exchange Square
2 Gwen Lane
Sandown
2196

Registered office address
4 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton
2196

Annexure 1 – Additional information regarding special resolution number 1

For the purposes of considering special resolution number 1 and in compliance with paragraph 11.26 of the Listings Requirements, the information listed below has been included.

1. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given on pages B7 to B17, collectively and individually accept full responsibility for the accuracy of the information contained in special resolution number 1, as well as the explanatory notes, and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard, and that this resolution contains all information required by law and the Listings Requirements.

2. MAJOR SHAREHOLDERS

Details of major shareholders of the company are set out on page D02.

3. SHARE CAPITAL OF THE COMPANY

Details of the share capital of the company are set out on page C201.

4. MATERIAL CHANGES

There have been no material changes in the financial or trading position of the company and its subsidiaries that have occurred since the end of the last financial period, as detailed in the *Annual integrated report* to which this Annexure 1 forms part.

FirstRand

Form of proxy

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa) (Registration number: 1966/010753/06)
Share code: (JSE): FSR ISIN: ZAE000066304 NSX ordinary share code: FST (FirstRand or the company)

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered shareholders who hold ordinary shares of the company and who are unable to attend the 2019 annual general meeting of the company to be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, on Thursday, 28 November 2019 at 09:00 (the annual general meeting).

I/We

Of (address)

Email: Mobile/contact number:

being the holder(s) of (number of ordinary shares) shares in the company, appoint (see notes overleaf)

1. Or, failing him/her

2. Or, failing him/her

3. The chair of the annual general meeting as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting that will be held for the purpose of considering and, if deemed fit, passing with or without modification the ordinary and special resolutions to be proposed thereat and to vote for and/or against such ordinary and special resolutions and/or to abstain from voting in respect of the shares registered in my/our names, and at any adjournment thereof, in accordance with the following instructions (see notes overleaf):

	For	Against	Abstain
Ordinary resolutions Ordinary resolutions 1.1 to 1.4 – Re-election of directors of the company by way of separate resolution: 1.1 AT Nzimande			
1.2 MS Bomela			
1.3 GG Gelink			
1.4 F Knoetze			
Ordinary resolution 1.5 – Vacancy filled by director during the year 1.5 LL von Zeuner			
Ordinary resolution 2 – Appointment of external auditors 2.1 Appointment of Deloitte & Touche as external auditor			
2.2 Appointment of PricewaterhouseCoopers Inc. as external auditor			
Ordinary resolution 3 – General authority to issue authorised but unissued ordinary shares for cash			
Ordinary resolution 4 – Signing authority			
Advisory endorsement	**For**	**Against**	**Abstain**
Advisory endorsement on a non-binding basis for the remuneration policy			
Advisory endorsement on a non-binding basis for the remuneration implementation report			
Special resolutions	**For**	**Against**	**Abstain**
Special resolution 1 – General authority to repurchase ordinary shares			
Special resolution 2.1 – Financial assistance to directors and prescribed officers as employee share scheme beneficiaries			
Special resolution 2.2 – Financial assistance to related and interrelated entities			
Special resolution 3 – Remuneration of non-executive directors with effect from 1 December 2019			
Ordinary resolutions requisitioned by two shareholders	**For**	**Against**	**Abstain**
Ordinary resolution 5 – To report on the company's assessment of its exposure to climate-related risks by no later than end October 2020 (Not endorsed by the board – refer to pg 282)			
Ordinary resolution 6 – To adopt and publicly disclose a policy on fossil fuel lending by no later than end October 2020 (Endorsed by the board – refer to pg 283)			

Signed at (place) on (date) 2019

Signature

Assisted by me

(where applicable)

Proxy forms should (but are not required to) be received by the meeting facilitators, The Meeting Specialist (Proprietary) Limited, JSE Building, One Exchange Square, 2 Gwen Lane, Sandown, 2196 (PO Box 62043, Marshalltown, 2107), or email proxy@tmsmeetings.co.za, or in Namibia to Transfer Secretaries (Pty) Ltd, PO Box 2401, Windhoek, Namibia, Fax number +264 6124 8531, by no later than 09:00 on Thursday, 28 November 2019 for administrative purposes (or alternatively to be handed to the Chairman of the AGM prior to its commencement). Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

Notes to proxy form

USE OF PROXIES

A shareholder who holds ordinary shares (shareholder) is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.

Instructions on signing and lodging the proxy form:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholders' choice in the space/(s) provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder of his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid the completed proxy forms should (but are not required to) be received by the meeting facilitators, The Meeting Specialist (Proprietary) Limited, JSE Building, One Exchange Square, 2 Gwen Lane, Sandown, 2196 (PO Box 62043, Marshalltown, 2107) or email proxy@tmsmeetings.co.za, or in Namibia to Transfer Secretaries (Pty) Ltd, PO Box 2401, Windhoek, Namibia, fax number +264 6124 8531, by no later than 09:00 on Tuesday, 26 November 2019 for administrative purposes (or alternatively to be handed to the chairman of the AGM prior to its commencement). Proxy forms must only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.
5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting, and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/(ies).
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.
9. A proxy may not delegate his/her authority to any other person.

Company information

DIRECTORS

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

COMPANY SECRETARY AND REGISTERED OFFICE

C Low
4 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149, Benmore 2010
Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

JSE SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)
Corporate Finance
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8000
Fax: +27 11 282 4184

NAMIBIAN SPONSOR

Simonis Storm Securities (Pty) Ltd
4 Koch Street
Klein Windhoek
Namibia

TRANSFER SECRETARIES – SOUTH AFRICA

Computershare Investor Services (Pty) Ltd
1st Floor, Rosebank Towers
15 Biermann Avenue
Rosebank, Johannesburg, 2196
PO Box 61051, Marshalltown 2107
Tel: +27 11 370 5000
Fax: +27 11 688 5248

TRANSFER SECRETARIES – NAMIBIA

Transfer Secretaries (Pty) Ltd
4 Robert Mugabe Avenue, Windhoek
PO Box 2401, Windhoek, Namibia
Tel: +264 612 27647
Fax: +264 612 48531

AUDITORS

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Jukskei View
2090

Deloitte & Touche
Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead, Sandton
2052

Listed financial instruments of the group

at 30 June 2019

LISTED EQUITY INSTRUMENTS

Johannesburg Stock Exchange (JSE)

Ordinary shares

Issuer	Share code	ISIN code
FirstRand Limited	FSR	ZAE000066304

Non-cumulative non-redeemable B preference shares

Issuer	Share code	ISIN code
FirstRand Limited	FSRP	ZAE000060141

Namibian Stock Exchange (NSX)

Ordinary shares

Issuer	Share code	ISIN code
FirstRand Limited	FST	ZAE000066304
FirstRand Namibia Limited	FNB	NA0003475176

Botswana Stock Exchange (BSE)

Ordinary shares

Issuer	Share code	ISIN code
First National Bank of Botswana Limited	FNBB	BW0000000066

LISTED DEBT INSTRUMENTS

Issuer: FirstRand Bank Limited

JSE

Domestic medium-term note programme

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

Structured note and preference share programme

Credit-linked notes					
FRC66	ZAG000088485	FRC69	ZAG000088766	FRC71	ZAG000088923

Note programme

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

Listed financial instruments of the group continued

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

Other

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

London Stock Exchange (LSE)

European medium-term note programme

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

Issuer: First National Bank of Namibia Limited

JSE

ISIN code
ZAG000142803
ZAG000142902

NSX

Domestic medium-term note programme

ISIN code
Senior unsecured
NA000A188PX0
NA000A188PY8
NA000A188PV4
NA000A19FKU3
NA000A188PW2
NA000A19FKV1
NA000A1G3AG0
NA000A1G3AF2

Issuer: Aldermore Group plc

LSE

ISIN code
Tier 2
XS1507529144

Irish Stock Exchange

ISIN code
Contingent convertible securities
XS1150025549

Issuer: First National Bank of Botswana Limited

BSE

Domestic medium-term note programme

Bond code	ISIN code
Subordinated debt	
FNBB007	BW 000 000 1668
FNBB008	BW 000 000 1700

Bond code	ISIN code
Senior unsecured	
FNBB005	BW 000 000 1510
FNBB006	BW 000 000 1528
FNBB009	BW 000 000 1916

Credit ratings

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

SOUTH AFRICAN SOVEREIGN LONG-TERM RATINGS

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

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

FIRSTRAND BANK LIMITED RATINGS

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

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

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

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

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

FIRSTRAND LIMITED RATINGS

		Counterparty rating*		National scale rating	
	Outlook	Long-term	Short-term	Long-term	Short-term
S&P	Stable	B+	B	zaA	zaA-1

* *Relates to the issuer credit rating for S&P.*

Source: S&P Global Ratings.

FirstRand Limited's ratings reflect its status as the non-operating holding company of the FirstRand group and the entity's consequent structural subordination to and reliance on dividends from operating companies to meet its obligations, which exposes it to potential regulatory impositions. It is standard practice for a holding company to be rated below the operating company (in this case, FirstRand Bank Limited). The group issues debt out of the bank, which is the credit counterparty.

Definitions

Additional Tier 1 (AT1) capital	NCNR preference share capital and AT1 capital instruments, as well as qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions
Capital adequacy ratio (CAR)	Total qualifying capital and reserves divided by RWA
Common Equity Tier 1 (CET1) capital	Share capital and premium, qualifying reserves and third-party capital less specified regulatory deductions
Contingent convertible securities	Fixed-rate perpetual subordinated contingent convertible securities issued by Aldermore. These instruments qualify as AT1 capital.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year)
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures
Dividend cover	Normalised earnings per share divided by dividend per share
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement
Impairment charge	Amortised cost impairment charge and credit fair value adjustments
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves
Normalised earnings	The group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares, including treasury shares
Normalised net asset value	Normalised equity attributable to ordinary equityholders
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share
Return on assets (ROA)	Normalised earnings divided by average assets
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets
Shares in issue	Number of ordinary shares listed on the JSE
Technical cures	Performing accounts that are classified as stage 3/NPL because they have defaulted in the past and do not meet the stringent cure definition of performance for several consecutive months
Tier 1 ratio	Tier 1 capital divided by RWA
Tier 1 capital	CET1 capital plus AT1 capital
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying 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 qualifying capital and reserves	Tier 1 capital plus Tier 2 capital
Weighted average number of ordinary shares	Weighted average number of ordinary shares in issue during the year as listed on the JSE

Abbreviations

ALM	Asset and liability management
APE	Annual premium equivalent
ASF	Available stable funding
AT1	Additional Tier 1
AUA	Assets under administration
AUE	Assets under execution
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BEE	Black economic empowerment
BIS	Bank for International Settlements
BPRMF	Business performance and risk management framework
BSE	Botswana Stock Exchange
BTL	Buy-to-let
C&TB	Corporate and transactional banking
CAGR	Compound annual growth rate
Capex	Capital expenditure
CAR	Capital adequacy ratio
CB	RMB corporate banking
CCyB	Countercyclical buffer
CET1	Common Equity Tier 1
CIB	Corporate and investment banking
CIS	Collective investment scheme
CLF	Committed liquidity facility
DA	DirectAxis
DIA	Date of initial application
DIS	Deposit insurance scheme
D-SIB	Domestic systemically important bank
DWT	Dividend withholding tax
ECL	Expected credit loss
ELI	Employee liability insurance
EMTN	European medium-term note
EPS	Earnings per share
FLAC	First loss-absorbing capacity
FLI	Forward-looking information
FML	Full maintenance leasing
FRB	FirstRand Bank Limited
FREMA	FirstRand EMA Holdings (Pty) Ltd
FRIHL	FirstRand Investment Holdings (Pty) Ltd
FRN	Floating rate notes
FSB	Financial Services Board
FSLAB	Financial Sector Laws Amendment Bill
FSR	FirstRand Limited
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
HQLA	High-quality liquid assets
IB	Investment banking
IB&A	Investment banking and advisory
IFRS-IC	IFRS Interpretation Committee

IM	Investment management
INV	Investing
IRRBB	Interest rate risk in the banking book
ISP	Interest in suspense
JSE	Johannesburg Stock Exchange
JV	Joint venture
LCR	Liquidity coverage ratio
LGD	Loss given default
LISP	Linked investment service provider
LSE	London Stock Exchange
LTV	Loan to value
M&S	Markets and structuring
MCA	Market Conduct Authority
Moody's	Moody's Investors Service
MTM	Mark-to-market
NCAA	National Credit Amendment Act
NCD	Negotiable certificate of deposit
NCNR	Non-cumulative non-redeemable
NIACC	Net income after cost of capital
NII	Net interest income
NIR	Non-interest revenue
NPLs	Non-performing loans
NSFR	Net stable funding ratio
NSX	Namibian Stock Exchange
PA	Prudential Authority
PD	Probability of default
P/E	Price/earnings
PN	Promissory note
RA	Resolution Authority
RCC	Risk, capital management and compliance
RMBS	Residential mortgage-backed securities
ROA	Return on assets
ROE	Return on equity
RSF	Required stable funding
RWA	Risk weighted assets
S&P	S&P Global Ratings
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SICR	Significant increase in credit risk
SME	Small and medium enterprises
SOEs	State-owned entities
SPPI	Solely payments of principal and interest
SRB	Special Resolution Bill
TLAC	Total loss-absorbing capacity
TRS	Total return swap
TTC	Through-the-cycle
UK	United Kingdom
VAF	Vehicle asset finance
VAPS	Value-added products and services
WIM	Wealth and investment management

Abbreviations of financial reporting standards

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments – Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 15	Revenue
IFRS 16	Leases
IFRS 17	Insurance Contracts

INTERNATIONAL ACCOUNTING STANDARDS

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Period
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 32	Financial Instruments – Presentation
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