FirstRand Bank

'18 analysis of financial results

for the six months ended 31 December

about this report

This report covers the unaudited condensed financial results of FirstRand Bank Limited (FRB or the bank) based on International Financial Reporting Standards (IFRS) for the six months ended 31 December 2018. Some of the information relating to the statement of financial position at 1 July 2018 was restated following the adoption of IFRS 9 and IFRS 15. The restated information is included in this report on pages 123 to 133.

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

Normalised results include a summary income statement, statement of comprehensive income and statement of financial position. A detailed description of the difference between normalised and IFRS results is provided on pages 112 and 113. Detailed reconciliations of normalised to IFRS results are provided on pages 121 and 122. Commentary is based on normalised results, unless indicated otherwise.

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

FirstRand Bank

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

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

contents

Overview of **results** 01

Income **statement analysis** 02

Balance sheet **analysis and financial resource management**

03

IFRS **information**

04

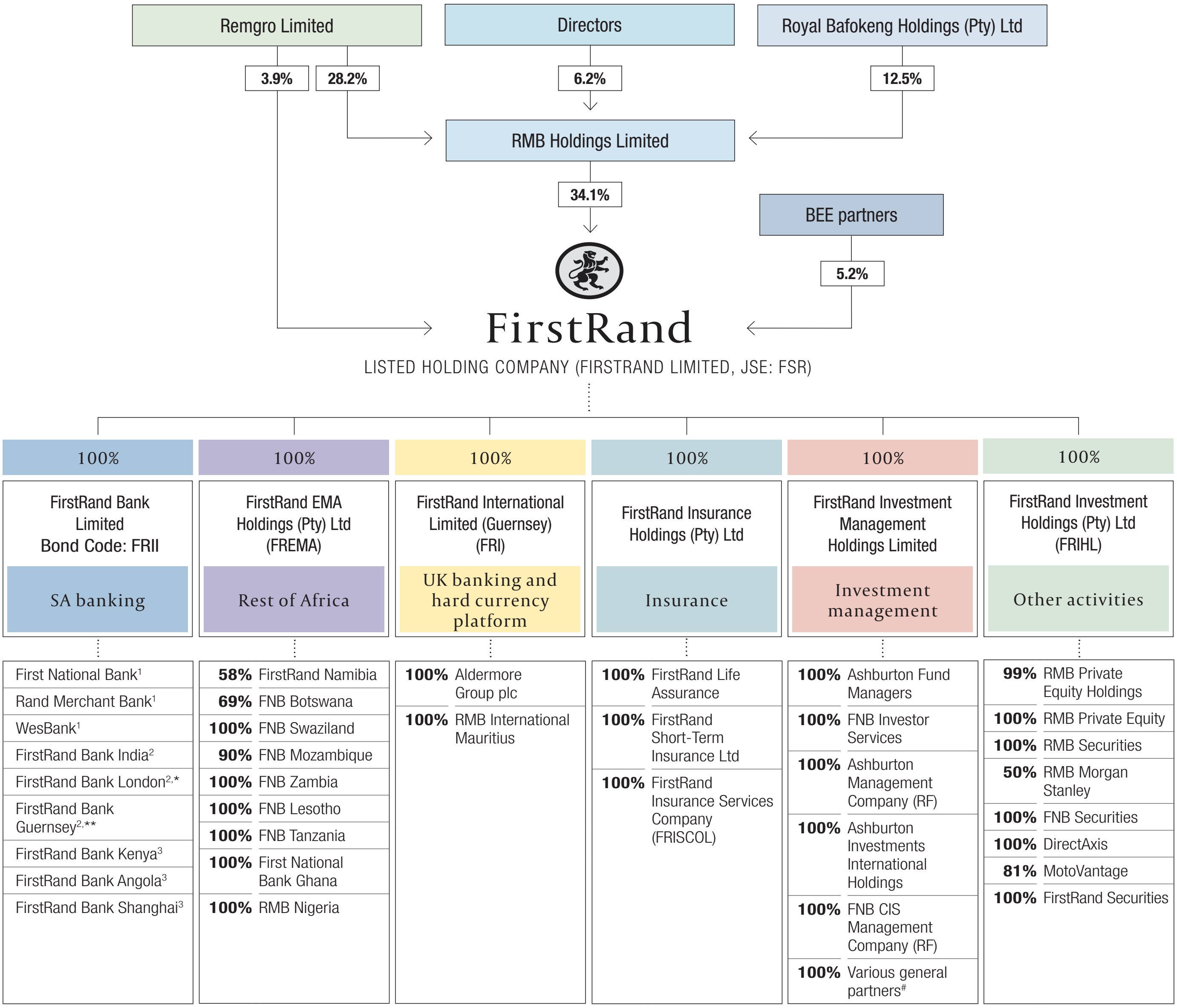
Supplementary **information**

05

01 overview of results

03 – 41

Simplified group and shareholding structure



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

* *MotoNovo Finance is a business segment of FirstRand Bank Limited (London branch).*

** *Trading as FNB Channel Islands.*

[#] *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, FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of the results of the managing business (i.e. FNB, RMB, WesBank or FCC). The group's securitisations and conduits are in FRIHL, FRI and FRB.

FirstRand Bank

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

NORMALISED EARNINGS
↑ 16%
Dec 17: 1%

NORMALISED RETURN ON EQUITY
24.2%
Dec 17: 21.1%

NORMALISED RETURN ON ASSETS
1.73%
Dec 17: 1.64%

CET1 RATIO
13.1%
Dec 17: 13.9%

LCR RATIO
130%
Dec 17: 101%

NSFR RATIO
110%
Dec 17: N/A

ADVANCES (net of impairments)
↑ 6%
Dec 17: 9%

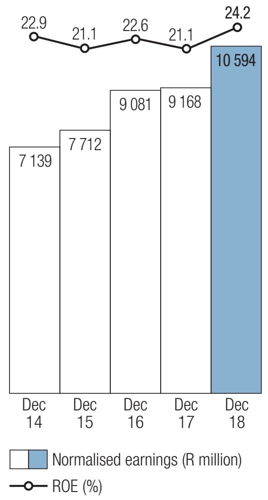
DEPOSITS
↑ 11%
Dec 17: 10%

CREDIT LOSS RATIO
0.93%
Dec 17: 0.84%

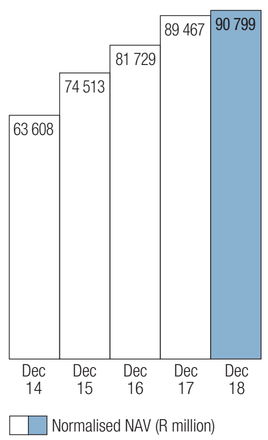
FNB RMB WesBank

Track record

NORMALISED EARNINGS *(R million)*
AND ROE *(%)*
CAGR 10%



NORMALISED
NET ASSET VALUE *(R million)*
CAGR 9%



Note: 31 December 2014 to 2017 figures are prepared on an IAS 39 basis.
31 December 2018 figures are prepared on an IFRS 9 basis.

Key financial results, ratios and statistics – normalised

This section is based on normalised results. A detailed reconciliation between IFRS and normalised results is set out on pages 121 and 122. IFRS 9 and IFRS 15 were adopted effective 1 July 2018 and the statement of financial position at 1 July 2018 was restated. The adoption of IFRS 15 had no impact on the bank. Other comparatives were not restated, as allowed by IFRS 9. The income statement and statement of comprehensive income for the six months to 31 December 2017 and the year ended 30 June 2018, and earnings-related ratios were not restated. The column headings indicate the basis of presentation. Refer to pages 123 to 133 for more information on the restatement.

	Six months ended 31 December			Year ended 30 June	As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39	**2018 IFRS 9**
Earnings performance					
Attributable earnings – IFRS (refer page 114)	**12 126**	9 437	28	20 283	
Headline earnings	**10 582**	9 361	13	20 076	
Normalised earnings	**10 594**	9 168	16	20 170	
Normalised net asset value	**90 799**	89 467	1	87 900	**84 117***
Average normalised net asset value	**87 458**	86 920	1	86 137	
Ratios and key statistics					
ROE (%)	**24.2**	21.1		23.4	
ROA (%)	**1.73**	1.64		1.76	
Diversity ratio (%)	**42.2**	43.3		42.5	
Credit impairment charge	**4 118**	3 524	17	6 659	
Stage 3/NPLs as a % of advances	**3.34**	2.17		2.47	**3.01**
Credit loss ratio (%)	**0.93**	0.84		0.80	
Total impairment coverage ratio (%)	**85.9**	81.1		72.8	**89.2**
Specific coverage ratio (%)	**47.5**	38.0		36.2	**43.6**
Performing book coverage ratio (%)	**1.33**	0.96		0.93	**1.41**
Cost-to-income ratio (%)	**53.7**	55.2		54.3	
Effective tax rate (%)	**23.4**	24.6		23.0	
Number of employees	**37 143**	36 319	2	36 449	

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

R million	As at 31 December 2018 IFRS 9	As at 31 December 2017 IAS 39	% change	As at 30 June 2018 IAS 39	As at 1 July 2018 IFRS 9
Balance sheet					
Normalised total assets	**1 243 583**	1 160 365	7	1 203 877	**1 200 890**
Advances (net of credit impairment)	**886 983**	839 866	6	843 806	**837 883**
Average gross loan-to-deposit ratio (%)	**88.3**	92.3		90.3	
Capital adequacy* – IFRS					
Capital adequacy ratio (%)	**16.9**	17.3		16.8	**16.8**
Tier 1 ratio (%)	**13.6**	14.1		12.8	**12.7**
Common Equity Tier 1 ratio (%)	**13.1**	13.9		12.7	**12.5**
Leverage – IFRS					
Leverage ratio (%)	**7.2**	7.3		6.8	**6.8**
Liquidity – IFRS					
Liquidity coverage ratio (%)	**130**	101		118	**118**
Net stable funding ratio (%)	**110**	–		111	**111**

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

Condensed income statement – normalised

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Net interest income before impairment of advances	**23 338**	20 668	13	42 746
Impairment charge	**(4 118)**	(3 524)	17	(6 659)
Net interest income after impairment of advances	**19 220**	17 144	12	36 087
Non-interest revenue	**17 034**	15 799	8	31 602
– Fee and commission income	**13 004**	11 494	13	23 275
– Insurance income	**416**	491	(15)	988
– Markets, client and other fair value income	**1 683**	1 884	(11)	3 210
– Investment income	**27**	153	(82)	485
– Other non-interest revenue	**1 904**	1 777	7	3 644
Income from operations	**36 254**	32 943	10	67 689
Operating expenses	**(21 699)**	(20 146)	8	(40 378)
Income before indirect tax	**14 555**	12 797	14	27 311
Indirect tax	**(572)**	(475)	20	(805)
Profit before income tax	**13 983**	12 322	13	26 506
Income tax expense	**(3 276)**	(3 036)	8	(6 102)
Profit for the period	**10 707**	9 286	15	20 404
NCNR preference shareholders	**(113)**	(118)	(4)	(234)
Normalised earnings attributable to ordinary equityholders of the bank	**10 594**	9 168	16	20 170

Condensed statement of other comprehensive income – normalised

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Profit for the period	**10 707**	9 286	15	20 404
Items that may subsequently be reclassified to profit or loss				
Cash flow hedges	**77**	594	(87)	185
Gains arising during the period	**566**	832	(32)	325
Reclassification adjustments for amounts included in profit or loss	**(459)**	(7)	>100	(68)
Deferred income tax	**(30)**	(231)	(87)	(72)
FVOCI reserve/available-for-sale financial assets	**5**	(69)	(>100)	(731)
Gains/(losses) arising during the period	**8**	(89)	(>100)	(848)
Reclassification adjustments for amounts included in profit or loss	**(1)**	–	–	(144)
Deferred income tax	**(2)**	20	(>100)	261
Exchange differences on translating foreign operations	**149**	(237)	(>100)	285
Gains/(losses) arising during the period	**149**	(237)	(>100)	285
Items that may not subsequently be reclassified to profit or loss				
Remeasurements on defined benefit post-employment plans	**18**	13	38	122
Gains arising during the period	**25**	18	39	169
Deferred income tax	**(7)**	(5)	40	(47)
Other comprehensive income/(loss) for the period	**249**	301	(17)	(139)
Total comprehensive income for the period	**10 956**	9 587	14	20 265
Attributable to				
Ordinary equityholders	**10 843**	9 469	15	20 031
NCNR preference shareholders	**113**	118	(4)	234
Total comprehensive income for the period	**10 956**	9 587	14	20 265

Condensed statement of financial position – normalised

	As at 31 December		As at 30 June	As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	2018 IAS 39	**2018 IFRS 9***
ASSETS				
Cash and cash equivalents	**59 311**	50 552	71 511	**71 511**
Derivative financial instruments	**33 778**	53 364	41 386	**41 386**
Commodities	**17 815**	15 489	13 424	**13 424**
Investment securities	**167 823**	145 581	157 238	**158 875**
Advances	**886 983**	839 866	843 806	**837 883**
– Advances to customers	**825 218**	784 327	787 441	**781 518**
– Marketable advances	**61 765**	55 539	56 365	**56 365**
Accounts receivable	**7 569**	6 094	6 075	**6 007**
Current tax asset	**797**	174	94	**562**
Amounts due by holding company and fellow subsidiaries	**51 001**	32 464	52 419	**52 336**
Investments in associates	**66**	–	–	**65**
Property and equipment	**15 406**	15 281	15 379	**15 379**
Intangible assets	**463**	250	383	**383**
Deferred income tax asset	**2 571**	1 250	2 162	**3 079**
Total assets	**1 243 583**	1 160 365	1 203 877	**1 200 890**
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	**6 042**	15 231	9 981	**9 981**
Derivative financial instruments	**40 652**	57 406	50 238	**50 238**
Creditors, accruals and provisions	**14 148**	13 170	14 194	**14 194**
Current tax liability	**114**	46	86	**86**
Deposits	**1 030 827**	932 699	977 258	**978 054**
Employee liabilities	**8 018**	7 480	10 178	**10 178**
Other liabilities	**3 279**	4 274	4 381	**4 381**
Amounts due to holding company and fellow subsidiaries	**20 436**	18 101	19 993	**19 993**
Additional Tier 1 and Tier 2 liabilities	**26 268**	19 491	26 668	**26 668**
Total liabilities	**1 149 784**	1 067 898	1 112 977	**1 113 773**
Equity				
Ordinary shares	**4**	4	4	**4**
Share premium	**16 804**	16 804	16 804	**16 804**
Reserves	**73 991**	72 659	71 092	**67 309**
Capital and reserves attributable to ordinary equityholders	**90 799**	89 467	87 900	**84 117**
NCNR preference shares	**3 000**	3 000	3 000	**3 000**
Total equity	**93 799**	92 467	90 900	**87 117**
Total equity and liabilities	**1 243 583**	1 160 365	1 203 877	**1 200 890**

* *Restated, refer to pages 123 to 133 for details.*

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

Flow of funds analysis – normalised

R million	December 2018 IFRS 9 vs 1 July 2018 IFRS 9 6-month movement	December 2017 IAS 39 vs June 2017 IAS 39 6-month movement	June 2018 IAS 39 vs June 2017 IAS 39 12-month movement
Sources of funds			
Capital account movement (including profit and reserves)	**6 682**	5 094	3 527
Working capital movement	**(2 791)**	(1 561)	(16 568)
Short trading positions and derivative financial instruments	**(5 917)**	(4 500)	(4 940)
Deposits and long-term liabilities	**52 373**	57 130	108 866
Total	**50 347**	56 163	90 885
Application of funds			
Advances	**(49 100)**	(40 447)	(44 387)
Investments	**(4 499)**	(1 479)	355
Cash and cash equivalents	**12 200**	3 372	(17 587)
Investment securities (e.g. liquid asset portfolio)	**(8 948)**	(17 609)	(29 266)
Total	**(50 347)**	(56 163)	(90 885)

"FirstRand Bank produced quality topline growth and a superior ROE despite a very challenging operating environment.

FNB's results were impressive – earnings increased 18% on the back of strong growth in customers, transactional volumes, advances and deposits.

RMB's portfolio delivered high-quality earnings from both its domestic and cross-border activities.

WesBank's operational performance remained resilient despite competitive pressures and low vehicle sales.

These results demonstrate the effectiveness of FirstRand's strategy and consistent focus on delivering sustainable returns."

ALAN PULLINGER
CEO

INTRODUCTION

FirstRand Limited is a portfolio of integrated financial services businesses operating in South Africa, certain markets in sub-Saharan Africa and in the UK. Many of these businesses are leaders in their respective segments and markets, and offer a universal set of transactional, lending, investment and insurance products and services. FirstRand Bank is a wholly-owned subsidiary of FirstRand Limited and primarily comprises the group's domestic banking activities.

The macroeconomic environments in most of the jurisdictions in which the group operates remained challenging in the period to December 2018. Globally it was a mixed picture with growth slowing in the euro zone, Japan, China and a few emerging economies. Although economic activity in the US remained relatively robust, US financial markets came under pressure and global financial conditions tightened. The US Federal Reserve has subsequently been more measured in statements relating to rate increases.

Although global growth remained fairly supportive of commodity prices, tightening financial conditions and increased geopolitical uncertainty resulted in increased risk aversion and reduced capital flows to emerging economies. The South African Reserve Bank (SARB) increased interest rates, which attracted capital inflows or, at least, reduced the pace of outflows, as domestic policy uncertainty and political instability continued to weigh on GDP growth, and investor and consumer sentiment.

South African economic activity slowed in the second half of 2018, with rising CPI inflation, moderating wage inflation and elevated personal income taxes constraining real income (and, by implication, consumer spending) growth. Further pressure was added by rising inflation and slightly higher debt servicing costs after the SARB increased the repo rate to 6.75% in November 2018.

Low business confidence continues to impact the corporate investment cycle, whilst the government's growing debt burden means the fiscus remains unable to increase spending in order to boost investment activity.

Similar themes played out in the rest of the sub-Saharan region. Regional economic activity was extremely subdued due to South African macroeconomic weakness.

In the UK, the macros continued to be impacted by the uncertain political outcomes relating to its exit from the European Union (which is likely to formally take effect at the end of March 2019). Notwithstanding this uncertainty, consumer demand and house prices held up reasonably well and the Bank of England is expected to join the US Federal Reserve and other developed markets in gradually tightening monetary policy.

GROUP STRATEGY

FirstRand's strategy accommodates a broad set of growth opportunities across the entire financial services universe from a product, market, segment and geographic perspective. Its approach is to build an integrated financial services value proposition, underpinned by leading digital and data platforms and capabilities.

SOUTH AFRICA

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

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

At the same time, FirstRand is working hard to find other sources of capital-light revenues and its strategy to deliver integrated financial services to the bank's 8.2 million customers in South Africa is gaining traction. This approach, which is underpinned by the disciplined allocation of financial resources and enabled by disruptive digital and data platforms, allows FirstRand to better optimise the franchise value of its broader portfolio.

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

REST OF AFRICA

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

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

UK

In the UK, FirstRand recently acquired Aldermore Group plc (Aldermore), a UK specialist lender. It is still in the process of integrating MotoNovo, a leading second-hand vehicle finance business the group has operated in the UK for the past nine years, into Aldermore.

MotoNovo is currently part of the bank's London branch and contributed R279 million (<3%) of the bank's normalised earnings for the six months ended 31 December 2018.

Once MotoNovo has been fully integrated into Aldermore (which is not part of the bank), all new business written by MotoNovo will be funded through further scaling Aldermore's deposit and funding platform. MotoNovo's current loans will continue to be funded through existing funding mechanisms, but will be run down over time. As a result, MotoNovo will ultimately cease to be part of the bank.

OVERVIEW OF RESULTS

Despite the challenging macroeconomic backdrop, FRB's portfolio of businesses produced quality topline growth. The bank continued to strengthen its balance sheet and protect its return profile. Normalised earnings for the six months ended 31 December 2018 increased 16% with a normalised ROE of 24.2%.

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

- DirectAxis, previously reported as part of WesBank's earnings, has been moved into a personal loans cluster within FNB, alongside the FNB loans business. This will allow faster execution of collaboration between FNB and DirectAxis across products and channels, including core transactional accounts where penetration is currently low.
- MotoNovo, the UK-based vehicle finance business, was also previously reported under WesBank's results, however, until the integration with Aldermore is completed, the total operational performance of MotoNovo will reside in the London branch. This performance is therefore currently reflected, for the first time, in the results 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 GTSY.

A further component of the performance of GTSY was the approximately R730 million of interest not earned on the capital deployed to purchase Aldermore. In the prior year, this capital provided a return to GTSY which was not repeated in the current reporting period.

In addition, FCC's performance was negatively affected by the central credit overlay releases in the prior period of >R110 million, and an increase in operational expenses.

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

SOURCES OF NORMALISED EARNINGS

	Six months ended 31 December					Year ended 30 June	
R million	**2018 IFRS 9**	**% composition**	2017 IAS 39	% composition	% change	2018 IAS 39	% composition
FNB	**7 360**	**69**	6 250	68	18	13 303	66
RMB	**2 403**	**23**	2 265	25	6	4 719	23
WesBank	**542**	**5**	597	6	(9)	1 048	5
FCC	**402**	**4**	174	2	>100	1 334	7
– MotoNovo	**279**		145			357	
– FCC (includes Group Treasury) and other*,#	**123**		29			977	
NCNR preference dividend	**(113)**	**(1)**	(118)	(1)	(4)	(234)	(1)
Normalised earnings	**10 594**	**100**	9 168	100	16	20 170	100

* 31 December 2017 and 30 June 2018 figures have been restated to reflect the changes to the composition of earnings at a operating business level as described above. Refer to pages 38 to 41 for a detailed reconciliation.

Includes negative accounting mismatches, improvement in interest rate management and improvement in foreign currency liquidity management.

FNB's results reflect another strong operating performance from its domestic franchise, driven by healthy non-interest revenue (NIR) growth on the back of ongoing customer gains and increased transactional volumes, and high-quality net interest income (NII) growth, particularly from deposit generation.

RMB's portfolio also delivered a resilient performance driven by good growth in high-quality earnings and solid operational leverage. WesBank delivered a subdued performance.

Total NII increased 13%, underpinned by strong growth in deposits of 11% and solid advances growth of 7%, offset by the negative capital and deposit endowment impact given the lower average interest rates in the reporting period. Lending margins at FNB benefited from lower funding costs, although FNB's deposit margins decreased due to the negative endowment impact, competitive pressures and strong growth in lower-margin deposit products. Lending margins at RMB were supported by higher-yielding transactions and core advances growth of 10% was achieved despite ongoing competition and the continued discipline in origination to preserve returns. WesBank's retail VAF margins were also impacted by competitive pressures and a mix change in new business.

NIR increased 8% and reflects strong fee and commission income growth of 13% supported by higher volumes across FNB's digital and electronic channels and increased customer numbers. Fee and commission income represents 76% of NIR.

Total cost growth of 8% continues to trend above inflation due to ongoing investment in platforms and infrastructure. The bank's cost-to-income ratio decreased from 55.2% to 53.7%.

FRB adopted IFRS 9* on 1 July 2018 and (as permitted under the accounting standard) did not restate prior period financial information. As a result, the credit performance commentary below covers the period from 1 July 2018 to 31 December 2018, for comparability purposes (as December 2017 results were prepared on an IAS 39 basis).

IFRS 9 had a material impact on the increase in non-performing loans (NPLs) due to:

- the inclusion of interest in suspense (ISP) in NPLs;
- the lengthening of the write-off period from six months to 12 months for retail unsecured loans; and
- a more stringent definition of customer rehabilitation which results in customers staying in NPLs for longer (technical cures).

In addition, IFRS 9 required FRB move to a forward-looking impairment model from a point-in-time model under IAS 39. This results in earlier recognition of credit impairments and a significant increase in total balance sheet impairments.

* *For detailed information, refer to the IFRS 9 financial instruments transition report on the group's website, www.firstrand.co.za/InvestorCentre/Pages/ifrs9transition.aspx*

NPLs increased 18% or R4.6 billion since 1 July 2018 as shown in the table below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	2 328	13	9
Restructured debt review (D7)	126	3	–
Definition of rehabilitation (technical cures)	246	7	1
Lengthening of write-off period	1 943	–	8
Total	**4 643**	**18**	**18**

Operational NPLs reflect strong book growth, especially in certain unsecured portfolios. IFRS 9-related changes accounted for approximately 8% growth in NPLs, driven mainly by the lengthening of the write-off period. This performance is within expectations and trend rate, given growth in underlying advances.

The adoption of IFRS 9 did not result in a material increase in the income statement credit impairment charge during the period under review.

The bank's credit loss ratio of 93 bps increased 17% on the back of strong advances growth, but remains below the bank's through-the-cycle range of 100 – 110 bps. Most of the bank's lending books are trending in line with expectations.

The credit impairment charge was driven by the following factors:

- an increase in FNB card, reflecting new business strain, particularly on the back of cross-sell and up-sell strategies;
- higher operational NPLs in personal loans, but in line with expectations, given the strong book growth in the prior year and in the six-month period to December 2018. The charge benefited from active collection strategies;
- a lower charge in residential mortgages, reflecting muted NPL formation on the back of conservative credit extension, and the benefit of a strong collections performance;
- an improvement in WesBank's SA VAF charge, benefiting from tightening appetite in higher-risk origination, specifically in the self-employed and small business segments;
- a deterioration in MotoNovo's impairments of 21% in rand, however, the credit impairment charge increased significantly, reflecting the high level of securitisations during the last 12 months;
- FNB commercial NPLs increased 13% driven by higher collateralised agricultural and commercial property finance portfolios; and
- an increase in corporate NPLs due to the migration of certain secured counterparties, with a normalisation of the credit charge in the current period.

Overall portfolio provisions were flat, with an increase in retail portfolio impairments reflective of ongoing book growth offset by a migration of certain wholesale exposures into NPL status.

OPERATING REVIEWS

FNB

FNB represents bank's activities in the retail and commercial segments in South Africa. It is growing its franchise on the back of a compelling customer offering that provides a broad range of innovative financial services products.

FNB's pre-tax profits increased 18% to R10.2 billion.

FNB FINANCIAL HIGHLIGHTS

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39	As at 1 July 2018 IFRS 9
Normalised earnings	**7 360**	6 250	18	13 303	
Normalised profit before tax	**10 223**	8 690	18	18 488	
– South Africa	**10 382**	9 010	15	18 979	
– Rest of Africa	**(159)**	(320)	(50)	(491)	
Total assets	**396 177**	368 366	8	383 786	**379 066**
Total liabilities	**390 598**	359 551	9	365 191	**365 243**
Stage 3/NPLs as a % of advances (%)	**5.27**	3.23		3.48	**4.52**
Credit loss ratio (%)	**1.48**	1.33		1.27	
Cost-to-income ratio (%)	**51.3**	54.0		53.1	
Advances margin (%)	**4.33**	4.21		4.33	

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

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

SEGMENT RESULTS

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Normalised PBT				
Retail	**6 005**	5 149	17	11 058
FNB Africa*	**(159)**	(320)	(50)	(491)
Commercial	**4 377**	3 861	13	7 921
Total FNB	**10 223**	8 690	18	18 488

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

A breakdown of key performance measures is shown below.

%	FNB SA
PBT growth	15
Cost increase	8
Credit loss ratio	1.48
Advances growth	10
NPLs	5.27
Deposit growth	11
Cost-to-income ratio	50.0
Operating jaws	4.0

Despite the negative endowment impact due to lower average interest rates in the period, FNB's total NII increased 11%, driven by strong volume growth in both advances (+10%) and deposits (+11%).

FNB's focus on customer acquisition and cross-selling into its core transactional retail and commercial customer bases continues to be the main driver of both advances and deposits growth in the premium and commercial segments.

The table below unpacks the growth in advances and deposits on a segment basis. FNB's success in growing its deposit franchise, particularly in retail, continues to be driven by cross-sell and product innovation.

SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

	Deposit growth		Advances growth	
Segments	**%**	**R billion**	**%**	**R billion**
Retail	10	21.6	9	24.8
– Consumer	5	4.3	5	2.1
– Premium	13	17.2	10	21.2
– DirectAxis	–	–	11	1.5
Commercial	12	25.8	11	9.6
FNB Africa*	–	–	(100)	(0.1)
Total FNB	11	47.4	10	34.3

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

FNB continued to see strong growth in deposits in both retail and commercial, driven by historic customer growth together with specific strategies to gather cash investment balances.

The mix of FNB's advances growth reflects its targeted, segment-specific origination strategies. The focus has been to lend to main-banked clients, creating a strong reinforcement to the transactional relationship. Growth in both the premium and consumer segments was driven by unsecured lending origination. In consumer, this was on the back of writing back to credit appetite after severe risk cuts in previous periods. The very strong growth in premium personal loans was driven by:

- FNB's strategy to displace other providers of credit to its main-banked client base;
- upward migration of customers from consumer to premium; and
- leveraging digital platforms for origination based on customer behaviour.

DirectAxis, which has been transferred from WesBank to FNB, has performed well on the back of strong advances growth of 11%.

Commercial continued to benefit from strong cross-sell momentum and focused asset growth.

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

	Consumer			
	Advances			
	As at 31 December			As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	% change	**2018 IFRS 9**
Residential mortgages	**25 448**	23 811	7	**24 679**
Card	**4 707**	4 895	(4)	**4 711**
Personal loans	**23 558**	21 212	11	**21 907**
Retail other	**2 815**	2 941	(4)	**2 801**

	Premium			
	Advances			
	As at 31 December			As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	% change	**2018 IFRS 9**
Residential mortgages	**185 036**	174 893	6	**180 951**
Card	**20 092**	15 910	26	**18 094**
Personal loans	**12 340**	7 597	62	**10 153**
Retail other	**14 167**	12 160	17	**13 103**

	Commercial			
	As at 31 December			As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	% change	**2018 IFRS 9**
Advances	**97 521**	87 890	11	**94 534**

The strength and quality of FNB's transactional franchise is clearly demonstrated in the strong NIR growth of 12%, resulting from good growth in customers (total up 4% to 8.2 million) and transaction volumes. Customer growth per segment is shown in the table below. Approximately half of the growth in the premium segment resulted from upward migration from consumer.

CUSTOMERS

Customer segment	Growth in customer numbers %
Consumer	**1**
Premium	**20**
Commercial	**5**

NIR growth was driven by strong growth in transactional volumes across all segments. Premium saw strong growth in card transactional volumes, lending NIR and digital volumes, as can be seen in the table below.

CHANNEL VOLUMES

Thousands of transactions	Six months ended 31 December 2018	Six months ended 31 December 2017	% change	Year ended 30 June 2018
ATM/ADT	**130 558**	121 389	8	243 023
Internet banking	**102 756**	104 024	(1)	205 200
Banking app	**111 687**	73 590	52	164 018
Mobile (excluding prepaid)	**21 845**	22 776	(4)	43 716
Point-of-sale merchants	**291 172**	246 832*	18	496 673
Card swipes	**441 154**	391 425*	13	785 405

* *The December 2017 numbers for point-of-sale have been split out into point-of-sale merchants and card swipes. The numbers have been restated due to a refinement in methodology.*

Cost growth continues to trend above inflation at 7%, but is in line with expectations given the level of ongoing investment in platform technology, and above-inflation wage settlements. Despite these pressures, given the strong topline growth, FNB achieved positive jaws and the cost-to-income ratio improved to 51.3% (December 2017: 54.0%).

FNB recorded an increase of 21% in NPLs since 1 July 2018, in part reflecting the impact of the adoption of IFRS 9 (extension of write-off periods for unsecured advances and more stringent rehabilitation rules).

Operational NPLs in the retail books have increased 10% since 1 July 2018, in line with expectations given strong book growth in unsecured lending, whilst residential mortgage NPLs reflect a muted increase of 2% since 1 July 2018, given ongoing disciplined origination and a strong collections performance.

NPLs in the commercial book have increased 17% since 1 July 2018, reflecting the expected residual pressure in the agricultural sector given the drought in certain parts of the country over the last three years.

Overall provisioning levels have remained robust with the performing book coverage ratio constant at 1.74% (1 July 2018: 1.76%) and the total impairment coverage ratio remaining stable at 82.8% (1 July 2018: 83.3%).

RMB

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

RMB FINANCIAL HIGHLIGHTS

	Six months ended 31 December			Year ended 30 June	As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39	**2018 IFRS 9**
Normalised earnings	**2 403**	2 265	6	4 719	
Normalised profit before tax	**3 337**	3 147	6	6 555	
Total assets	**455 823**	405 905	12	406 976	**407 207**
Total liabilities	**453 581**	402 512	13	402 194	**402 534**
Credit loss ratio (%)	**0.06**	0.04		(0.04)	
Cost to-income ratio (%)	**51.8**	50.9		52.4	

RMB's diversified portfolio delivered a solid performance, with pre-tax profits increasing 6% to R3.3 billion. RMB remains disciplined in its financial resource allocation to ensure preservation of returns and has maintained strong credit provisioning levels.

RMB continues to focus on growing its corporate and institutional client base and revenue pools, which resulted in strong contributions from investment banking and advisory activities, and solid corporate and transactional banking earnings. In addition, ongoing cost discipline supported continued investment into the enhancement and transformation of core platforms.

RMB continues to execute on its client-led strategy on the continent by leveraging platforms, expertise and diversified product offerings.

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39
Investment banking and advisory	**2 031**	1 725	18	4 191
Corporate and transactional banking	**709**	682	4	1 351
Markets and structuring	**585**	574	2	1 114
Investing**	**(29)**	85	(>100)	292
Other	**41**	81	(49)	(393)
Total	**3 337**	3 147	6	6 555

* *Refer to additional activity and business unit disclosure on page 36. To improve peer group comparability, core activities now include the associated endowment earned on capital invested net of group cost allocations. Comparatives have been restated accordingly.*

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

The investment banking and advisory activities delivered strong growth in an environment characterised by low corporate confidence, subdued economic activity and a constrained credit cycle, which resulted in some normalisation of the credit charge. However, the franchise continued to deliver solid lending income from prior-year advances growth and resilient fee income from structuring and arranging mandates both locally and cross-border. This performance was also underpinned by higher-margin balance sheet growth, both domestically and cross-border.

RMB's corporate and transactional franchise continued to focus on leveraging its platforms to grow product offerings locally. The results were underpinned by higher transactional volumes, average deposit balances and good demand for working capital solutions.

Markets and structuring delivered an improved performance, driven by a solid performance in soft commodities and the non-repeat of an isolated operational event in the hard commodities portfolio. The credit trading portfolio produced solid growth, although this was somewhat offset by a softer performance in fixed income. Foreign exchange activities in SA were resilient.

Other activities primarily benefited from the reduction of losses in the legacy portfolios, which was offset by increased costs associated with continued investment in the markets infrastructure platform.

WESBANK

Following the structural changes outlined earlier, WesBank now represents the bank's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa.

The restructuring allows WesBank to focus on protecting and growing its unique and long-standing model of partnering with leading motor manufacturers, suppliers and dealer groups. This gives WesBank a market-leading point-of-sale presence.

WESBANK FINANCIAL HIGHLIGHTS

	Six months ended 31 December			Year ended 30 June	As at 1 July
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39	2018 IFRS 9
Normalised earnings	**542**	597	(9)	1 048	
Normalised profit before tax	**753**	829	(9)	1 456	
Total assets	**125 396**	127 520	(2)	126 868	**125 743**
Total liabilities	**125 769**	126 690	(1)	125 412	**125 412**
Stage 3/NPLs as a % of advances (%)	**5.83**	4.85		5.40	**5.58**
Credit loss ratio (%)	**1.32**	1.45		1.51	
Cost-to-income ratio (%)	**54.7**	50.7		52.2	
Net interest margin (%)	**3.21**	3.31		3.18	

On a like-for-like basis, with DirectAxis and MotoNovo excluded, normalised earnings decreased to R542 million (2017: R597 million). Both the retail and corporate VAF businesses had a challenging six months and, in the face of increasing competition, focused on protecting the origination franchise and return profile through disciplined risk appetite. WesBank's operating model and relationships strengthened with new partnerships with KTM, Harley Davidson, Triumph and Vespa.

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

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY*

	Six months ended 31 December			Year ended 30 June
	2018	2017	% change	2018
Normalised PBT				
VAF	**753**	829	(9)	1 456
– Retail SA	**595**	631	(6)	1 036
– Corporate and commercial	**158**	198	(20)	420
Total WesBank	**753**	829	(9)	1 456

* *Refer to additional segmental disclosure on page 37.*

The performance of the SA retail VAF business benefited from improved impairment levels, down from 1.87% in the prior period to 1.59%. The corporate VAF business, however, saw a deterioration in credit quality emanating from stress in the transport, mining and construction sectors.

NPLs increased 4% since 1 July 2018, impacted by protracted collection timelines and more customers opting for debt review. In addition, as previously disclosed, higher-than-expected NPLs in the self-employed and small business segments resulting from operational issues with some scorecards, including third-party data quality, continued to play out in the reporting period.

Advances in retail VAF declined marginally period-on-period, and margin pressure continued, partly due to increased competitive activity and WesBank's current focus on originating lower-risk business, which is generally written at lower margins, and a new business origination mix change from fixed to floating-rate business. The full maintenance leasing (FML) book continued to perform well on the back of meaningful deals signed during the reporting period partly offset by ongoing cost drag.

Total WesBank NIR growth – mainly insurance and fleet revenues – continues, based on new deals written, however, rental revenues benefited from growth of >11% in the full maintenance leasing book.

WesBank continues to control operational expenditure and invest in process improvements, and whilst the cost-to-income ratio has decreased due to topline pressure, cost growth is tracking at less than inflation.

MOTONOVO

MotoNovo profits increased 85% to £21.1 million period-on-period.

MotoNovo's performance reflects:

- higher net interest margins as a result of significant securitisation transactions during the last 12 months;
- lower new business origination (-18% in pound terms) due to risk cutbacks and competitors benefiting from relatively lower funding costs; and
- ongoing investment drag of findandfundmycar.com, and the costs associated with the terminated diversification strategies.

SEGMENT ANALYSIS OF NORMALISED EARNINGS

	Six months ended 31 December					Year ended 30 June	
R million	2018 IFRS 9	% composition	2017 IAS 39	% composition	% change	2018 IAS 39	% composition
Retail	**4 637**	**43**	3 924	42	18	8 346	41
– FNB*	**4 209**		3 470			7 600	
– WesBank	**428**		454			746	
Commercial	**3 265**	**31**	2 923	32	12	6 005	30
– FNB	**3 151**		2 780			5 703	
– WesBank	**114**		143			302	
Corporate and investment banking	**2 403**	**23**	2 265	25	6	4 719	23
– RMB	**2 403**		2 265			4 719	
Other**	**289**	**3**	56	1	>100	1 100	6
– FCC (including Group Treasury) and elimination adjustments	**402**		174			1 334	
– Dividends paid on NCNR preference shares	**(113)**		(118)			(234)	
Normalised earnings	**10 594**	**100**	9 168	100	16	20 170	100

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

** *Includes the central credit overlay.*

MANAGEMENT OF FINANCIAL RESOURCES

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

The management of the group's financial resources is executed through Group Treasury and is independent of the operating businesses. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the portfolio's growth, return and volatility targets to deliver shareholder value. The group continues to monitor and proactively manage a fast-changing regulatory environment 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 a self-imposed structural borrowing limit and a liquidity risk limit more onerous than required in terms of regulations.

BALANCE SHEET STRENGTH

Capital and leverage position

Capital and leverage ratios as at 31 December 2018 are summarised below.

%	Capital			Leverage
	CET1	**Tier 1**	**Total**	**Total**
Regulatory minimum*	**7.4**	**8.9**	**11.2**	**4.0**
Targets	**10.0 – 11.0**	**>12.0**	**>14.0**	**>5.0**
Actual**	**13.1**	**13.6**	**16.9**	**7.2**

* *Excluding the bank-specific capital requirements, but including the countercyclical buffer requirement.*

** *FRB includes foreign branches. Ratios include unappropriated profits.*

The bank's Common Equity Tier 1 (CET1) ratio was 13.1% at 31 December 2018 (June 2018: 12.7%; December 2017: 13.9%). The period-on-period movement in the CET1 position is unpacked as follows:

- June 2018 vs December 2017: 110 bps decrease due to the dividend payment to FirstRand to facilitate the funding of the Aldermore acquisition.
- December 2018 vs June 2018: 40 bps increase as a result of:
  - ongoing net internal capital generation;
  - once-off Discovery card transaction; and
  - successful optimisation strategies, e.g. securitisation structures.

  This was partly offset by the Day 1 transitional impact of IFRS 9 (≈11 bps) on 1 July 2018 and RWA growth tracking asset growth.

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

The bank continues to actively manage its capital composition and, to this end, issued its first Basel III-compliant Additional Tier 1 (AT1) instrument (R2.3 billion) in the domestic market. It follows the successful issuance of its inaugural $500 million Tier 2 bond in the international markets. This resulted in a more efficient capital structure, which is closely aligned with the bank's internal targets. It remains the bank's intention to continue optimising its capital stack by issuing AT1 and Tier 2 capital instruments in the domestic and/or international markets. This will ensure sustainable support for ongoing growth initiatives and redemption of existing capital instruments.

Liquidity position

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

The liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) for FRB (excluding foreign branches) as at 31 December 2018 are summarised below.

%	LCR	NSFR
Regulatory minimum	**90**	**100**
Actual	**130**	**110**
Average available HQLA (billion)	**200**	**n/a**

Regulatory update

The Draft Financial Sector Laws Amendment Bill was published for comment by National Treasury in October 2018. In order to support the pending resolution framework, the bill proposes the necessary amendments to various acts, including the Insolvency Act, South African Reserve Bank Act, Banks Act, Mutual Banks Act, Competition Act, Financial Markets Act and Insurance Act, with a view to strengthening the ability of the SARB to manage the orderly resolution or winding down of a failing financial institution with minimum disruption to the broader economy. One of the key amendments included in the bill is the establishment of the Corporation of Deposit Insurance (CoDI) designed to protect depositors' funds and enhance financial stability.

The bill is awaiting promulgation by parliament before it is enacted, but in the interim, the relevant regulators are continuously engaging with industry to continue working on the design and finalisation of the outstanding elements of the resolution framework.

PROSPECTS

Given the structural nature of many of South Africa's challenges, the group believes that domestic fundamentals will not change quickly.

Global financial conditions will prevent the SARB from easing monetary policy despite the low-growth outlook. This, combined with low commodity prices and a further slowdown in global growth, means that domestic economic activity will remain under pressure for the rest of 2019. Against this backdrop, private sector activities, such as corporate investment and household consumption, will remain subdued.

In the medium to longer term, given the market-leading positions of its businesses in South Africa and the growth strategies it is executing on, FirstRand considers itself strategically well positioned to benefit from renewed system growth. FNB's momentum is expected to continue on the back of customer and volume growth, and cross-sell and up-sell strategies will deliver higher insurance revenues and good deposit and advances growth.

The wind-down of MotoNovo's in-force book will reduce the UK's contribution to the bank's overall earnings.

DISCOVERY CARD

FirstRand received the final consideration for the Discovery card transaction on 21 November 2018, with a resultant after-tax profit of ±R2.3 billion for the FirstRand group, with the profit attributable to the bank of approximately R1.5 billion, which was included in attributable earnings for the period under review. However, given the non-operational nature of the profit, it was excluded from headline and normalised earnings.

At 31 December 2018, FCC included Discovery card advances with a gross value of R4.3 billion, which will be transferred at carrying value.

EVENTS AFTER REPORTING PERIOD

The terms of the NCNR preference shares were amended during December 2018 to make these shares redeemable at the discretion of FirstRand Bank. These shares were redeemed at their subscription price during February 2019.

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

BOARD CHANGES

Changes to the directorate are outlined below.

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

WR JARDINE
Chairman

AP PULLINGER
CEO

C LOW
Company secretary

11 March 2019

Segment report

for the six months ended 31 December 2018 IFRS 9

	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Net interest income before impairment of advances	2 272	1 164	1 691	1 506	3 197	3 502	**10 135**	5 247
Impairment of advances	(93)	(349)	(655)	(652)	(1 307)	(683)	**(2 432)**	(376)
Net interest income after impairment of advances	2 179	815	1 036	854	1 890	2 819	**7 703**	4 871
Non-interest revenue	202	884	475	112	587	5 776	**7 449**	4 261
Income from operations	2 381	1 699	1 511	966	2 477	8 595	**15 152**	9 132
Operating expenses	(961)	(924)	(586)	(682)	(1 268)	(5 666)	**(8 819)**	(4 729)
Income before indirect tax	1 420	775	925	284	1 209	2 929	**6 333**	4 403
Indirect tax	(7)	(24)	(9)	(40)	(49)	(248)	**(328)**	(26)
Profit before income tax	1 413	751	916	244	1 160	2 681	**6 005**	4 377
Income tax expense	(396)	(210)	(256)	(68)	(324)	(751)	**(1 681)**	(1 226)
Profit for the period	1 017	541	660	176	836	1 930	**4 324**	3 151
Attributable to								
Ordinary equityholders	1 017	541	660	176	836	1 930	**4 324**	3 151
NCNR preference shareholders	–	–	–	–	–	–	**–**	–
Profit for the period	1 017	541	660	176	836	1 930	**4 324**	3 151
Attributable earnings to ordinary shareholders	1 017	541	660	176	836	1 930	**4 324**	3 151
Headline earnings adjustments	–	–	–	–	–	–	**–**	–
Headline earnings	1 017	541	660	176	836	1 930	**4 324**	3 151
TRS and IFRS 2 liability remeasurement	–	–	–	–	–	–	**–**	–
IAS 19 adjustment	–	–	–	–	–	–	**–**	–
Normalised earnings	1 017	541	660	176	836	1 930	**4 324**	3 151

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

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

** *Refer to additional activity and business unit disclosure on page 36.*

\# *Refer to additional segment information on page 37.*

† *FCC represents group-wide functions.*

Notes:

During the current financial period:

- *Discovery card is included in FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, is included in FNB retail personal loans; and*
- *MotoNovo is included in FCC (including Group Treasury) and other.*

		RMB							
FNB Africa*	Total FNB	Investment banking	Corporate banking	Total RMB**	WesBank#	FCC† (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
(26)	15 356	2 411	975	3 386	2 369	2 227	23 338	860	24 198
–	(2 808)	(71)	(12)	(83)	(835)	(392)	(4 118)	–	(4 118)
(26)	12 548	2 340	963	3 303	1 534	1 835	19 220	860	20 080
436	12 146	2 949	924	3 873	1 236	(221)	17 034	1 076	18 110
410	24 694	5 289	1 887	7 176	2 770	1 614	36 254	1 936	38 190
(568)	(14 116)	(2 590)	(1 173)	(3 763)	(1 972)	(1 848)	(21 699)	41	(21 658)
(158)	10 578	2 699	714	3 413	798	(234)	14 555	1 977	16 532
(1)	(355)	(71)	(5)	(76)	(45)	(96)	(572)	–	(572)
(159)	10 223	2 628	709	3 337	753	(330)	13 983	1 977	15 960
44	(2 863)	(735)	(199)	(934)	(211)	732	(3 276)	(445)	(3 721)
(115)	7 360	1 893	510	2 403	542	402	10 707	1 532	12 239
(115)	7 360	1 893	510	2 403	542	289	10 594	1 532	12 126
–	–	–	–	–	–	113	113	–	113
(115)	7 360	1 893	510	2 403	542	402	10 707	1 532	12 239
(115)	7 360	1 893	510	2 403	542	289	10 594	1 532	12 126
–	–	–	–	–	–	–	–	(1 544)	(1 544)
(115)	7 360	1 893	510	2 403	542	289	10 594	(12)	10 582
–	–	–	–	–	–	–	–	64	64
–	–	–	–	–	–	–	–	(52)	(52)
(115)	7 360	1 893	510	2 403	542	289	10 594	–	10 594

Segment report continued

for the six months ended 31 December 2018 IFRS 9

	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Cost-to-income ratio (%)	38.8	45.1	27.1	42.2	33.5	61.1	**50.2**	49.7
Diversity ratio (%)	8.2	43.2	21.9	6.9	15.5	62.3	**42.4**	44.8
Credit loss ratio (%)	0.09	2.93	7.03	8.50	7.69	8.31	**1.72**	0.78
Stage3/NPLs as a percentage of advances (%)	3.84	6.82	12.34	15.66	13.80	9.81	**5.69**	4.02
Income statement includes								
Depreciation	(3)	(2)	(1)	–	(1)	(785)	**(791)**	(24)
Amortisation	–	(6)	–	–	–	(18)	**(24)**	–
Net impairment charges	–	–	–	–	–	(51)	**(51)**	1
Statement of financial position includes								
Advances (before impairments)	210 484	24 799	20 072	15 826	35 898	16 982	**288 163**	97 521
Stage 3/NPLs	8 081	1 691	2 476	2 478	4 954	1 666	**16 392**	3 925
Investment in associated companies	–	–	–	–	–	–	**–**	–
Total deposits	565	1 445	9	–	9	237 080	**239 099**	232 419
Total assets	208 073	22 752	16 747	13 217	29 964	35 710	**296 499**	98 784
Total liabilities‡	207 883	22 948	16 971	14 121	31 092	30 104	**292 027**	97 519
Capital expenditure	9	17	2	57	59	674	**759**	44

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

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

** *Refer to additional activity and business unit disclosure on page 36.*

Refer to additional segment information on page 37.

† *FCC represents group-wide functions.*

‡ *Total liabilities are net of interdivisional balances.*

Notes:

During the current financial period:

- *Discovery card is included in FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, is included in FNB retail personal loans; and*
- *MotoNovo is included in FCC (including Group Treasury) and other.*

		RMB							
FNB Africa*	**Total FNB**	Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC† (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
>100	**51.3**	48.3	61.8	**51.8**	**54.7**	92.1	**53.7**	–	**51.2**
>100	**44.2**	55.0	48.7	**53.4**	**34.3**	(11.0)	**42.2**	–	**42.8**
–	**1.48**	0.06	0.04	**0.06**	**1.32**	0.95	**0.93**	–	**0.93**
–	**5.27**	0.52	1.05	**0.63**	**5.83**	1.07	**3.34**	–	**3.34**
(1)	**(816)**	(52)	(5)	**(57)**	**(317)**	(36)	**(1 226)**	–	**(1 226)**
–	**(24)**	(19)	–	**(19)**	**(2)**	(7)	**(52)**	–	**(52)**
–	**(50)**	–	(3)	**(3)**	**2**	–	**(51)**	–	**(51)**
–	**385 684**	258 396	64 673	**323 069**	**126 128**	78 309	**913 190**	–	**913 190**
–	**20 317**	1 344	679	**2 023**	**7 347**	835	**30 522**	–	**30 522**
–	**–**	–	–	**–**	**–**	66	**66**	–	**66**
–	**471 518**	82 768	115 648	**198 416**	**72**	360 821	**1 030 827**	–	**1 030 827**
894	**396 177**	386 633	69 190	**455 823**	**125 396**	266 187	**1 243 583**	–	**1 243 583**
1 052	**390 598**	384 035	69 546	**453 581**	**125 769**	179 836	**1 149 784**	–	**1 149 784**
1	**804**	91	1	**92**	**850**	55	**1 801**	–	**1 801**

Segment report continued

for the six months ended 31 December 2017 IAS 39

	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Net interest income before impairment of advances	2 164	1 081	1 268	1 320	2 588	3 220	**9 053**	4 741
Impairment charge	(144)	(263)	(400)	(526)	(926)	(635)	**(1 968)**	(333)
Net interest income after impairment of advances	2 020	818	868	794	1 662	2 585	**7 085**	4 408
Non-interest revenue	204	735	397	99	496	5 102	**6 537**	3 803
Income from operations	2 224	1 553	1 265	893	2 158	7 687	**13 622**	8 211
Operating expenses	(924)	(816)	(471)	(636)	(1 107)	(5 338)	**(8 185)**	(4 329)
Income before indirect tax	1 300	737	794	257	1 051	2 349	**5 437**	3 882
Indirect tax	(6)	(20)	(9)	(41)	(50)	(212)	**(288)**	(21)
Profit before income tax	1 294	717	785	216	1 001	2 137	**5 149**	3 861
Income tax expense	(363)	(200)	(236)	(60)	(296)	(583)	**(1 442)**	(1 081)
Profit for the period	931	517	549	156	705	1 554	**3 707**	2 780
Attributable to								
Ordinary equityholders	931	517	549	156	705	1 554	**3 707**	2 780
NCNR preference shareholders	–	–	–	–	–	–	**–**	–
Profit for the period	931	517	549	156	705	1 554	**3 707**	2 780
Attributable earnings to ordinary shareholders	931	517	549	156	705	1 554	**3 707**	2 780
Headline earnings adjustments	–	–	–	–	–	–	**–**	–
Headline earnings	931	517	549	156	705	1 554	**3 707**	2 780
TRS and IFRS 2 liability remeasurement	–	–	–	–	–	–	**–**	–
IAS 19 adjustment	–	–	–	–	–	–	**–**	–
Normalised earnings	931	517	549	156	705	1 554	**3 707**	2 780

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

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

** *Refer to additional activity and business unit disclosure on page 36.*

Refer to additional segment information on page 37.

† *FCC represents group-wide functions.*

Notes:

The six months ended 31 December 2017 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 loans to FNB retail personal loans; and*
- *MotoNovo was reclassified from WesBank to FCC (including Group Treasury) and other.*

The effect of these transfers can be found on pages 38 to 41.

		RMB							
FNB Africa*	**Total FNB**	Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC† (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
(4)	**13 790**	1 910	886	**2 796**	**2 465**	**1 617**	**20 668**	(504)	**20 164**
(1)	**(2 302)**	(47)	(6)	**(53)**	**(920)**	**(249)**	**(3 524)**	–	**(3 524)**
(5)	**11 488**	1 863	880	**2 743**	**1 545**	**1 368**	**17 144**	(504)	**16 640**
420	**10 760**	3 042	817	**3 859**	**1 142**	**38**	**15 799**	1 256	**17 055**
415	**22 248**	4 905	1 697	**6 602**	**2 687**	**1 406**	**32 943**	752	**33 695**
(734)	**(13 248)**	(2 375)	(1 012)	**(3 387)**	**(1 828)**	**(1 683)**	**(20 146)**	(396)	**(20 542)**
(319)	**9 000**	2 530	685	**3 215**	**859**	**(277)**	**12 797**	356	**13 153**
(1)	**(310)**	(65)	(3)	**(68)**	**(30)**	**(67)**	**(475)**	–	**(475)**
(320)	**8 690**	2 465	682	**3 147**	**829**	**(344)**	**12 322**	356	**12 678**
83	**(2 440)**	(691)	(191)	**(882)**	**(232)**	**518**	**(3 036)**	(87)	**(3 123)**
(237)	**6 250**	1 774	491	**2 265**	**597**	**174**	**9 286**	269	**9 555**
(237)	**6 250**	1 774	491	**2 265**	**597**	**56**	**9 168**	269	**9 437**
–	**–**	–	–	**–**	**–**	**118**	**118**	–	**118**
(237)	**6 250**	1 774	491	**2 265**	**597**	**174**	**9 286**	269	**9 555**
(237)	**6 250**	1 774	491	**2 265**	**597**	**56**	**9 168**	269	**9 437**
–	**–**	–	–	**–**	**–**	**–**	**–**	(76)	**(76)**
(237)	**6 250**	1 774	491	**2 265**	**597**	**56**	**9 168**	193	**9 361**
–	**–**	–	–	**–**	**–**	**–**	**–**	(137)	**(137)**
–	**–**	–	–	**–**	**–**	**–**	**–**	(56)	**(56)**
(237)	**6 250**	1 774	491	**2 265**	**597**	**56**	**9 168**	–	**9 168**

Segment report continued

for the six months ended 31 December 2017 IAS 39

	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Cost-to-income ratio (%)	39.0	44.9	28.3	44.8	35.9	64.1	**52.5**	50.7
Diversity ratio (%)	8.6	40.5	23.8	7.0	16.1	61.3	**41.9**	44.5
Credit loss ratio (%)	0.15	2.60	5.53	7.58	6.53	8.48	**1.51**	0.77
Stage 3/NPLs as a percentage of advances (%)	2.28	4.17	8.75	11.20	9.96	5.27	**3.44**	2.54
Income statement includes								
Depreciation	(2)	(2)	(1)	–	(1)	(746)	**(751)**	(22)
Amortisation	–	(4)	–	–	–	(22)	**(26)**	–
Net impairment charges	–	–	–	–	–	(14)	**(14)**	(1)
Statement of financial position includes								
Advances (before impairments)	198 704	20 805	14 562	14 247	28 809	15 101	**263 419**	87 890
Stage 3/NPLs	4 535	867	1 274	1 595	2 869	796	**9 067**	2 235
Total deposits	677	1 421	–	–	–	215 364	**217 462**	206 666
Total assets	197 237	19 977	13 163	13 191	26 354	34 829	**278 397**	89 437
Total liabilities‡	196 918	19 664	12 751	12 976	25 727	29 210	**271 519**	87 212
Capital expenditure	4	16	1	–	1	884	**905**	30

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

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

** *Refer to additional activity and business unit disclosure on page 36.*

Refer to additional segment information on page 37.

† *FCC represents group-wide functions.*

‡ *Total liabilities are net of interdivisional balances.*

Notes:

The six months ended 31 December 2017 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 loans to FNB retail personal loans; and*
- *MotoNovo was reclassified from WesBank to FCC (including Group Treasury) and other.*

The effect of these transfers can be found on pages 38 to 41.

		RMB							
FNB Africa*	**Total FNB**	Investment banking	Corporate banking	**Total RMB****	**WesBank#**	FCC† (including Group Treasury) and other	**FRB – normalised**	Normalised adjustments	**FRB – IFRS**
>100	**54.0**	48.0	59.4	**50.9**	**50.7**	>100	**55.2**	**–**	**55.2**
>100	**43.8**	61.4	48.0	**58.0**	**31.7**	2.3	**43.3**	–	**45.8**
1.24	**1.33**	0.04	0.03	**0.04**	**1.45**	0.55	**0.84**	–	**0.84**
100.00	**3.23**	0.28	0.07	**0.24**	**4.85**	0.38	**2.17**	–	**2.17**
(1)	**(774)**	(75)	(3)	**(78)**	**(294)**	(27)	**(1 173)**	–	**(1 173)**
–	**(26)**	(17)	–	**(17)**	**(2)**	(1)	**(46)**	–	**(46)**
(161)	**(176)**	–	–	**–**	**5**	–	**(171)**	–	**(171)**
50	**351 359**	225 440	48 532	**273 972**	**126 836**	102 756	**854 923**	(281)	**854 642**
50	**11 352**	633	35	**668**	**6 156**	389	**18 565**	–	**18 565**
–	**424 128**	77 127	115 875	**193 002**	**44**	315 525	**932 699**	–	**932 699**
532	**368 366**	354 514	51 391	**405 905**	**127 520**	258 574	**1 160 365**	–	**1 160 365**
820	**359 551**	351 926	50 586	**402 512**	**126 690**	179 145	**1 067 898**	–	**1 067 898**
1	**936**	55	20	**75**	**753**	14	**1 778**	–	**1 778**

Segment report
for the year ended 30 June 2018 IAS 39

	FNB							
	Retail							
R million	Residential mortgages	Card	**FNB loans**	**DirectAxis loans**	Total personal loans	Retail other	**Retail**	Commercial
Net interest income before impairment of advances	4 516	2 232	**2 693**	**2 712**	5 405	6 793	**18 946**	9 602
Impairment charge	(149)	(599)	**(793)**	**(1 125)**	(1 918)	(1 171)	**(3 837)**	(670)
Net interest income after impairment of advances	4 367	1 633	**1 900**	**1 587**	3 487	5 622	**15 109**	8 932
Non-interest revenue	390	1 485	**814**	**203**	1 017	10 222	**13 114**	7 647
Income from operations	4 757	3 118	**2 714**	**1 790**	4 504	15 844	**28 223**	16 579
Operating expenses	(1 822)	(1 630)	**(943)**	**(1 251)**	(2 194)	(11 063)	**(16 709)**	(8 615)
Income before indirect tax	2 935	1 488	**1 771**	**539**	2 310	4 781	**11 514**	7 964
Indirect tax	(11)	(41)	**(17)**	**(59)**	(76)	(328)	**(456)**	(43)
Profit before income tax	2 924	1 447	**1 754**	**480**	2 234	4 453	**11 058**	7 921
Income tax expense	(818)	(405)	**(492)**	**(134)**	(626)	(1 248)	**(3 097)**	(2 218)
Profit for the year	2 106	1 042	**1 262**	**346**	1 608	3 205	**7 961**	5 703
Attributable to								
Ordinary equityholders	2 106	1 042	**1 262**	**346**	1 608	3 205	**7 961**	5 703
NCNR preference shareholders	–	–	**–**	**–**	–	–	**–**	–
Profit for the year	2 106	1 042	**1 262**	**346**	1 608	3 205	**7 961**	5 703
Attributable earnings to ordinary shareholders	2 106	1 042	**1 262**	**346**	1 608	3 205	**7 961**	5 703
Headline earnings adjustments	–	–	**–**	**–**	–	–	**–**	–
Headline earnings	2 106	1 042	**1 262**	**346**	1 608	3 205	**7 961**	5 703
TRS and IFRS 2 liability remeasurement	–	–	**–**	**–**	–	–	**–**	–
Private equity-related realisations	–	–	**–**	**–**	–	–	**–**	–
IAS 19 adjustment	–	–	**–**	**–**	–	–	**–**	–
Normalised earnings	2 106	1 042	**1 262**	**346**	1 608	3 205	**7 961**	5 703

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

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

** *Refer to additional activity and business unit disclosure on page 36.*

\# *Refer to additional segment information on page 37.*

† *FCC represents group-wide functions.*

Notes:

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

- *Discovery card was reclassified from Card in FNB to FCC (including Group Treasury) and other;*
- *DirectAxis loans, previously referred to as WesBank loans, was reclassified from WesBank to FNB retail personal loans; and*
- *MotoNovo was reclassified from WesBank to FCC (including Group Treasury) and other.*

The effect of these transfers can be found on pages 38 to 41.

		RMB							
FNB Africa*	Total FNB	Investment banking	Corporate banking	Total RMB**	WesBank#	FCC† (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
(33)	28 515	4 125	1 798	5 923	4 793	3 515	42 746	(1 583)	41 163
2	(4 505)	105	(3)	102	(1 904)	(352)	(6 659)	–	(6 659)
(31)	24 010	4 230	1 795	6 025	2 889	3 163	36 087	(1 583)	34 504
814	21 575	6 205	1 667	7 872	2 336	(181)	31 602	2 085	33 687
783	45 585	10 435	3 462	13 897	5 225	2 982	67 689	502	68 191
(1 272)	(26 596)	(5 118)	(2 104)	(7 222)	(3 722)	(2 838)	(40 378)	(319)	(40 697)
(489)	18 989	5 317	1 358	6 675	1 503	144	27 311	183	27 494
(2)	(501)	(113)	(7)	(120)	(47)	(137)	(805)	–	(805)
(491)	18 488	5 204	1 351	6 555	1 456	7	26 506	183	26 689
130	(5 185)	(1 458)	(378)	(1 836)	(408)	1 327	(6 102)	(70)	(6 172)
(361)	13 303	3 746	973	4 719	1 048	1 334	20 404	113	20 517
(361)	13 303	3 746	973	4 719	1 048	1 100	20 170	113	20 283
–	–	–	–	–	–	234	234	–	234
(361)	13 303	3 746	973	4 719	1 048	1 334	20 404	113	20 517
(361)	13 303	3 746	973	4 719	1 048	1 100	20 170	113	20 283
–	–	–	–	–	–	–	–	(207)	(207)
(361)	13 303	3 746	973	4 719	1 048	1 100	20 170	(94)	20 076
–	–	–	–	–	–	–	–	(56)	(56)
–	–	–	–	–	–	–	–	259	259
–	–	–	–	–	–	–	–	(109)	(109)
(361)	13 303	3 746	973	4 719	1 048	1 100	20 170	–	20 170

Segment report continued
for the year ended 30 June 2018 IAS 39

	FNB							
	Retail							
R million	Residential mortgages	Card	FNB loans	DirectAxis loans	Total personal loans	Retail other	**Retail**	Commercial
Cost-to-income ratio (%)	37.1	43.9	26.9	42.9	34.2	65.0	**52.1**	49.9
Diversity ratio (%)	7.9	40.0	23.2	7.0	15.8	60.1	**40.9**	44.3
Credit loss ratio (%)	0.07	2.83	5.03	7.93	6.40	7.62	**1.44**	0.75
Stage 3/NPLs as a percentage of advances (%)‡	3.86	4.47	8.90	12.61	10.62	6.59	**4.85**	3.54
Income statement includes								
Depreciation	(3)	(4)	(1)	–	(1)	(1 510)	**(1 518)**	(47)
Amortisation	–	(9)	–	–	–	(40)	**(49)**	–
Net impairment charges	–	–	–	–	–	(10)	**(10)**	(3)
Statement of financial position includes								
Advances (before impairments)‡	205 630	22 805	17 200	14 860	32 060	15 904	**276 399**	94 534
Stage 3/NPLs‡	7 934	1 019	1 531	1 874	3 405	1 048	**13 406**	3 350
Investment in associated companies‡	–	–	–	–	–	–	**–**	–
Total deposits‡	543	1 347	8	–	8	224 977	**226 875**	207 388
Total assets‡	203 336	21 307	14 873	12 649	27 522	31 754	**283 919**	94 557
Total liabilities^,‡	202 603	21 240	14 694	13 225	27 919	21 114	**272 876**	91 316
Capital expenditure	8	17	2	57	59	1 744	**1 828**	56

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

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

** *Refer to additional activity and business unit disclosure on page 36.*

\# *Refer to additional segment information on page 37.*

† *FCC represents group-wide functions.*

‡ *1 July 2018 IFRS 9.*

^ *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:

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- *DirectAxis loans, previously referred to as WesBank loans, was reclassified from WesBank to FNB retail personal loans; and*
- *MotoNovo was reclassified from WesBank to FCC (including Group Treasury) and other.*

The effect of these transfers can be found on pages 38 to 41.

		RMB							
FNB Africa*	Total FNB	Investment banking	Corporate banking	Total RMB**	WesBank#	FCC† (including Group Treasury) and other	FRB – normalised	Normalised adjustments	FRB – IFRS
>100	**53.1**	49.5	60.7	**52.4**	**52.2**	85.1	**54.3**	–	**54.3**
>100	**43.1**	60.1	48.1	**57.1**	**32.8**	(5.4)	**42.5**	–	**45.0**
(1.47)	**1.27**	(0.05)	0.01	**(0.04)**	**1.51**	0.43	**0.80**	–	**0.80**
–	**4.52**	0.50	0.37	**0.47**	**5.58**	0.87	**3.01**	–	**3.01**
(2)	**(1 567)**	(133)	(7)	**(140)**	**(603)**	(56)	**(2 366)**	–	**(2 366)**
–	**(49)**	(35)	–	**(35)**	**(5)**	(5)	**(94)**	–	**(94)**
(161)	**(174)**	–	–	**–**	**(1)**	–	**(175)**	–	**(175)**
–	**370 933**	230 854	46 636	**277 490**	**126 352**	86 186	**860 961**	–	**860 961**
–	**16 756**	1 145	173	**1 318**	**7 052**	753	**25 879**	–	**25 879**
–	**–**	–	–	**–**	**–**	65	**65**	–	**65**
–	**434 263**	68 842	110 825	**179 667**	**50**	364 074	**978 054**	–	**978 054**
590	**379 066**	357 744	49 463	**407 207**	**125 743**	288 874	**1 200 890**	–	**1 200 890**
1 051	**365 243**	353 530	49 004	**402 534**	**125 412**	220 584	**1 113 773**	–	**1 113 773**
2	**1 886**	130	30	**160**	**1 288**	101	**3 435**	–	**3 435**

Additional activity and business unit disclosure – RMB

	Six months ended 31 December 2018 IFRS 9						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	608	–	–	(121)*	487
Investment Banking Division	2 031	–	–	4	–	–	2 035
Private Equity	–	–	–	(33)	–	–	(33)
Other RMB	–	–	(23)	–	–	162	139
Investment banking	2 031	–	585	(29)	–	41	2 628
Corporate banking	–	709	–	–	–	–	709
Total RMB	2 031	709	585	(29)	–	41	3 337

	Six months ended 31 December 2017 IAS 39**						
R million	IB&A	C&TB	M&S	INV	IM	Other	Total
Normalised PBT							
Global Markets	–	–	597	1	–	(75)*	523
Investment Banking Division	1 725	–	–	4	–	–	1 729
Private Equity	–	–	–	80	–	–	80
Other RMB	–	–	(23)	–	–	156	133
Investment banking	1 725	–	574	85	–	81	2 465
Corporate banking	–	682	–	–	–	–	682
Total RMB	1 725	682	574	85	–	81	3 147

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

* *Includes investments in Global Market's infrastructure programme.*
** *To improve peer comparability, core activities now include the associated endowment earned on capital invested net of group allocations. Comparatives have been restated accordingly.*

Note:
IB&A – investment banking and advisory
C&TB – corporate and transactional banking
M&S – markets and structuring
INV – investing
IM – investment management

Additional segmental disclosure – WesBank

R million	Six months ended 31 December 2018 IFRS 9 Retail	Corporate and commercial	Total WesBank
NII before impairment of advances	**2 090**	**279**	**2 369**
Impairment of advances	**(757)**	**(78)**	**(835)**
Normalised profit before tax	**595**	**158**	**753**
Normalised earnings	**428**	**114**	**542**
Advances	**95 932**	**30 196**	**126 128**
Stage 3/NPLs	**6 876**	**471**	**7 347**
Advances margin (%)	**3.52**	**2.21**	**3.21**
Stage 3/NPLs as a % of advances (%)	**7.17**	**1.56**	**5.83**
Credit loss ratio (%)	**1.59**	**0.50**	**1.32**

R million	Six months ended 31 December 2017 IAS 39 Retail	Corporate and commercial	Total WesBank
NII before impairment of advances	2 178	287	2 465
Impairment of advances	(901)	(19)	(920)
Normalised profit before tax	631	198	829
Normalised earnings	454	143	597
Advances	97 069	29 767	126 836
Stage 3/NPLs	5 916	240	6 156
Advances margin (%)	3.64	2.16	3.31
Stage 3/NPLs as a % of advances (%)	6.09	0.81	4.85
Credit loss ratio (%)	1.87	0.12	1.45

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

* *1 July 2018 IFRS 9.*

Additional segmental disclosure – MotoNovo

R million	Six months ended 31 December 2018 IFRS 9	2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
NII before impairment of advances	**1 382**	973	42	1 938
Impairment of advances	**(353)**	(329)	7	(511)
Normalised profit before tax	**387**	201	93	496
Normalised earnings	**279**	145	92	357
Advances	**24 210**	37 369	(35)	25 513*
Stage 3/NPLs	**693**	263	>100	612*
Advances margin (%)	**5.25**	2.43		5.37
Stage 3/NPLs as a % of advances (%)	**2.86**	0.70		2.40*
Credit loss ratio (%)	**2.84**	1.95		1.84

* *1 July 2018 IFRS 9.*

Additional information on the internal restructure

for the six months ended 31 December 2017

	FNB			
R million	**Total FNB as per published**	Discovery card	DirectAxis loans	**Total FNB after reallocation**
Net interest income before impairment of advances	**12 675**	(205)	1 320	**13 790**
Impairment charge	**(1 808)**	32	(526)	**(2 302)**
Net interest income after impairment of advances	**10 867**	(173)	794	**11 488**
Non-interest revenue	**10 935**	(274)	99	**10 760**
Income from operations	**21 802**	(447)	893	**22 248**
Operating expenses	**(12 879)**	267	(636)	**(13 248)**
Income before indirect tax	**8 923**	(180)	257	**9 000**
Indirect tax	**(281)**	12	(41)	**(310)**
Profit before income tax	**8 642**	(168)	216	**8 690**
Income tax expense	**(2 436)**	56	(60)	**(2 440)**
Profit for the year	**6 206**	(112)	156	**6 250**
Attributable to				
Ordinary equityholders	**6 206**	(112)	156	**6 250**
NCNR preference shareholders	**–**	–	–	**–**
Profit for the year	**6 206**	(112)	156	**6 250**
Attributable earnings to ordinary shareholders	**6 206**	(112)	156	**6 250**
Headline earnings adjustments	**–**	–	–	**–**
Headline earnings	**6 206**	(112)	156	**6 250**
TRS and IFRS 2 liability remeasurement	**–**	–	–	**–**
IAS 19 adjustment	**–**	–	–	**–**
Normalised earnings	**6 206**	(112)	156	**6 250**
Cost-to-income ratio (%)	**54.5**			**54.0**
Diversity ratio (%)	**46.3**			**43.8**
Credit loss ratio (%)	**1.07**			**1.33**
Stage 3/NPLs as a percentage of advances (%)	**2.90**			**3.23**
Income statement includes				
Depreciation	**(774)**	–	–	**(774)**
Amortisation	**(26)**	–	–	**(26)**
Impairment charges	**(176)**	–	–	**(176)**
Statement of financial position includes				
Advances (before impairments)	**341 370**	(4 258)	14 247	**351 359**
Stage 3/NPLs	**9 883**	(126)	1 595	**11 352**
Total deposits	**424 421**	(293)	–	**424 128**
Total assets	**359 300**	(4 125)	13 191	**368 366**
Total liabilities	**350 613**	(4 038)	12 976	**359 551**
Capital expenditure	**936**	–	–	**936**

WesBank				FCC (Including Group Treasury) and other			
Total WesBank as per published	MotoNovo retail	DirectAxis loans	**Total WesBank after reallocation**	**Total FCC as per published**	Discovery card	MotoNovo retail	**Total FCC after reallocation**
4 758	(973)	(1 320)	**2 465**	**439**	205	973	**1 617**
(1 775)	329	526	**(920)**	**112**	(32)	(329)	**(249)**
2 983	(644)	(794)	**1 545**	**551**	173	644	**1 368**
1 391	(150)	(99)	**1 142**	**(386)**	274	150	**38**
4 374	(794)	(893)	**2 687**	**165**	447	794	**1 406**
(3 035)	571	636	**(1 828)**	**(845)**	(267)	(571)	**(1 683)**
1 339	(223)	(257)	**859**	**(680)**	180	223	**(277)**
(93)	22	41	**(30)**	**(33)**	(12)	(22)	**(67)**
1 246	(201)	(216)	**829**	**(713)**	168	201	**(344)**
(348)	56	60	**(232)**	**630**	(56)	(56)	**518**
898	(145)	(156)	**597**	**(83)**	112	145	**174**
898	(145)	(156)	**597**	**(201)**	112	145	**56**
–	–	–	**–**	**118**	–	–	**118**
898	(145)	(156)	**597**	**(83)**	112	145	**174**
898	(145)	(156)	**597**	**(201)**	112	145	**56**
–	–	–	**–**	**–**	–	–	**–**
898	(145)	(156)	**597**	**(201)**	112	145	**56**
–	–	–	**–**	**–**	–	–	**–**
–	–	–	**–**	**–**	–	–	**–**
898	(145)	(156)	**597**	**(201)**	112	145	**56**
49.4			**50.7**	**>100**			**>100**
22.6			**31.7**	**(>100)**			**2.3**
2.04			**1.45**	**(0.03)**			**0.55**
4.49			**4.85**	**–**			**0.38**
(315)	21	–	**(294)**	**(6)**	–	(21)	**(27)**
(2)	–	–	**(2)**	**(1)**	–	–	**(1)**
5	–	–	**5**	**–**	–	–	**–**
178 452	(37 369)	(14 247)	**126 836**	**61 129**	4 258	37 369	**102 756**
8 014	(263)	(1 595)	**6 156**	**–**	126	263	**389**
44	–	–	**44**	**315 232**	293	–	**315 525**
178 703	(37 992)	(13 191)	**127 520**	**216 457**	4 125	37 992	**258 574**
177 494	(37 828)	(12 976)	**126 690**	**137 279**	4 038	37 828	**179 145**
763	(10)	–	**753**	**4**	–	10	**14**

Additional information on the internal restructure continued

for the year ended 30 June 2018

	FNB			
R million	**Total FNB as per published**	Discovery card	DirectAxis loans	**Total FNB after reallocation**
Net interest income before impairment of advances	**26 212**	(409)	2 712	**28 515**
Impairment charge	**(3 451)**	71	(1 125)	**(4 505)**
Net interest income after impairment of advances	**22 761**	(338)	1 587	**24 010**
Non-interest revenue	**21 925**	(553)	203	**21 575**
Income from operations	**44 686**	(891)	1 790	**45 585**
Operating expenses	**(25 906)**	561	(1 251)	**(26 596)**
Income before indirect tax	**18 780**	(330)	539	**18 989**
Indirect tax	**(467)**	25	(59)	**(501)**
Profit before income tax	**18 313**	(305)	480	**18 488**
Income tax expense	**(5 136)**	85	(134)	**(5 185)**
Profit for the year	**13 177**	(220)	346	**13 303**
Attributable to				
Ordinary equityholders	**13 177**	(220)	346	**13 303**
NCNR preference shareholders	**–**	–	–	**–**
Profit for the year	**13 177**	(220)	346	**13 303**
Attributable earnings to ordinary shareholders	**13 177**	(220)	346	**13 303**
Headline earnings adjustments	**–**	–	–	**–**
Headline earnings	**13 177**	(220)	346	**13 303**
TRS and IFRS 2 liability remeasurement	**–**	–	–	**–**
IAS 19 adjustment	**–**	–	–	**–**
Normalised earnings	**13 177**	(220)	346	**13 303**
Cost-to-income ratio (%)	**53.8**	–	–	**53.1**
Diversity ratio (%)	**45.5**	–	–	**43.1**
Credit loss ratio (%)	**1.00**	–	–	**1.27**
Stage 3/NPLs as a percentage of advances (%)*	**4.17**	–	–	**4.52**
Income statement includes				
Depreciation	**(1 567)**	–	–	**(1 567)**
Amortisation	**(49)**	–	–	**(49)**
Impairment charges	**(174)**	–	–	**(174)**
Statement of financial position includes				
Advances (before impairments)*	**360 423**	(4 350)	14 860	**370 933**
Stage 3/NPLs*	**15 023**	(141)	1 874	**16 756**
Investment in associated companies*	**–**	–	–	**–**
Total deposits*	**434 548**	(285)	–	**434 263**
Total assets*	**370 531**	(4 114)	12 649	**379 066**
Total liabilities*	**356 046**	(4 028)	13 225	**365 243**
Capital expenditure	**1 829**	–	57	**1 886**

* *1 July 2018 IFRS 9.*

WesBank				FCC (Including Group Treasury) and other			
Total WesBank as per published	MotoNovo retail	DirectAxis loans	**Total WesBank after reallocation**	**Total FCC as per published**	Discovery card	MotoNovo retail	**Total FCC after reallocation**
9 443	(1 938)	(2 712)	**4 793**	**1 168**	409	1 938	**3 515**
(3 540)	511	1 125	**(1 904)**	**230**	(71)	(511)	**(352)**
5 903	(1 427)	(1 587)	**2 889**	**1 398**	338	1 427	**3 163**
2 877	(338)	(203)	**2 336**	**(1 072)**	553	338	**(181)**
8 780	(1 765)	(1 790)	**5 225**	**326**	891	1 765	**2 982**
(6 186)	1 213	1 251	**(3 722)**	**(1 064)**	(561)	(1 213)	**(2 838)**
2 594	(552)	(539)	**1 503**	**(738)**	330	552	**144**
(162)	56	59	**(47)**	**(56)**	(25)	(56)	**(137)**
2 432	(496)	(480)	**1 456**	**(794)**	305	496	**7**
(681)	139	134	**(408)**	**1 551**	(85)	(139)	**1 327**
1 751	(357)	(346)	**1 048**	**757**	220	357	**1 334**
1 751	(357)	(346)	**1 048**	**523**	220	357	**1 100**
–	–	–	**–**	**234**	–	–	**234**
1 751	(357)	(346)	**1 048**	**757**	220	357	**1 334**
1 751	(357)	(346)	**1 048**	**523**	220	357	**1 100**
–	–	–	**–**	**–**	–	–	**–**
1 751	(357)	(346)	**1 048**	**523**	220	357	**1 100**
–	–	–	**–**	**–**	–	–	**–**
–	–	–	**–**	**–**	–	–	**–**
1 751	(357)	(346)	**1 048**	**523**	220	357	**1 100**
50.2	–	–	**52.2**	**>100**	–	–	**85.1**
23.4	–	–	**32.8**	**(>100)**	–	–	**(5.4)**
2.10	–	–	**1.51**	**(0.03)**	–	–	**0.43**
5.72	–	–	**5.58**	**–**	–	–	**0.87**
(646)	43	–	**(603)**	**(13)**	–	(43)	**(56)**
(9)	4	–	**(5)**	**(1)**	–	(4)	**(5)**
(1)	–	–	**(1)**	**–**	–	–	**–**
166 725	(25 513)	(14 860)	**126 352**	**56 323**	4 350	25 513	**86 186**
9 538	(612)	(1 874)	**7 052**	**–**	141	612	**753**
–	–	–	**–**	**65**	–	–	**65**
50	–	–	**50**	**363 789**	285	–	**364 074**
165 718	(27 326)	(12 649)	**125 743**	**257 434**	4 114	27 326	**288 874**
165 781	(27 144)	(13 225)	**125 412**	**189 412**	4 028	27 144	**220 584**
1 442	(97)	(57)	**1 288**	**4**	–	97	**101**

02 income statement analysis

Introduction

FRB adopted IFRS 9 and IFRS 15 effective 1 July 2018.

The comparative financial information for the six months ended 31 December 2017 and for the year ended 30 June 2018 is presented on an IAS 39 and IAS 18 *Revenue* (IAS 18) basis. The 1 July 2018 statement of financial position was restated for the impact of IFRS 9. Refer to pages 123 to 133 for more detailed information. IFRS 15 did not impact the bank.

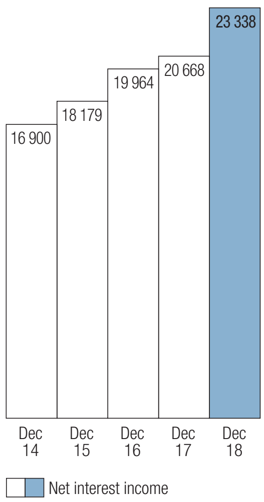
FRB disclosed comprehensive IFRS 9-related transitional information on 21 November 2018, in the bank's *IFRS 9 financial instruments transition report* which is available on the group's website, www.firstrand.co.za. The IFRS 9 transition report was presented on an IFRS and not on a normalised basis.

Given the material impact of the adoption of IFRS 9 on the level of stage 3/NPL balances and balance sheet provisions, the majority of the period-on-period credit information, e.g. NPL growth rates, is not comparable. As a result, all balance sheet related credit information analysis focuses on the changes between credit metrics on 1 July 2018 (restated IFRS 9) and 31 December 2018 unless otherwise stated.

Net interest income (before impairment of advances)

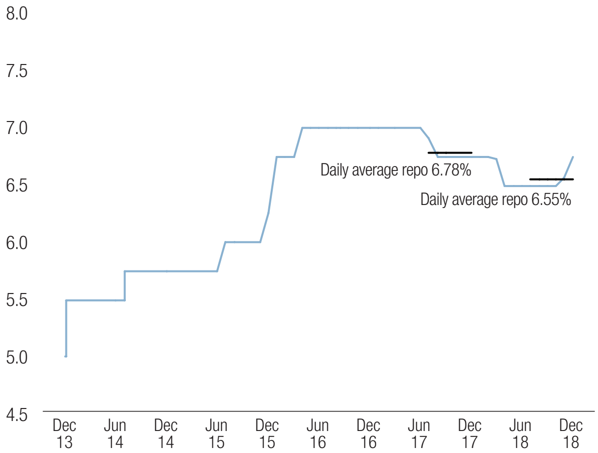
NET INTEREST INCOME (BEFORE IMPAIRMENT OF ADVANCES) – UP 13%

NET INTEREST INCOME
R million
CAGR 8%



Note: December 2014 to December 2017 figures are presented on an IAS 39 basis, whilst December 2018 figures are presented on an IFRS 9 basis.

REPO RATE – SOUTH AFRICA
%



Note: R217 billion = average endowment book for the period. Rates were lower by 23 bps on average in the current period, which translates into a negative endowment impact of approximately R246 million for the period.

MARGIN CASCADE TABLE

Percentage of average interest-earning banking assets	%
December 2017 normalised margin	**5.07**
Capital and deposit endowment	**0.02**
– Volume	**0.07**
– Average rate	**(0.05)**
Interest-earning assets	**(0.02)**
– Change in balance sheet advances mix	**(0.04)**
– Increase in HQLA	**(0.11)**
– Change in basis spreads (difference between prime and JIBAR)	**(0.02)**
– Asset pricing	**0.05**
– Impact of securitisation*	**0.10**
Liabilities	**(0.07)**
– Change in deposit franchise composition	**0.01**
– Deposit pricing	**(0.08)**
Group Treasury and other movements	**0.14**
– Accounting mismatches (MTM vs accrual on term issuance)	**0.04**
– Term funding costs	**0.03**
– Interest rate and FX management	**0.07**
December 2018 normalised operating margin excluding Aldermore foregone interest	**5.14**
– Aldermore foregone interest relating to invested capital	**(0.16)**
December 2018 normalised margin	**4.98**

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

Net interest income (before impairment of advances) continued

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017* IAS 39	% change	2017 IAS 39
Net interest income				
Lending	**11 115**	9 774	14	19 967
Transactional**	**7 931**	7 058	12	15 205
Deposits	**1 586**	1 498	6	2 928
Capital endowment	**3 100**	2 867	8	5 187
Group Treasury	**(1 055)**	(389)	>100	112
Other (negative endowment, e.g. fixed assets)	**661**	(140)	>100	(653)
Total net interest income	**23 338**	20 668	13	42 746

* *2017 numbers were restated in order to provide better attribution of NII by nature of activity.*

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

KEY DRIVERS

- NII growth was supported by gross advances and deposit growth of 7% and 11%, respectively.
- The cumulative impact of the 25 bps cut in the repo rate on 29 March 2018 and the 25 bps increase in the repo rate on 23 November 2018 was a decrease of 23 bps in the average repo rate period-on-period. This resulted in a negative endowment impact on capital and deposits. This was offset by higher capital levels and deposit volumes.
- FNB's deposit margins decreased 14 bps, impacted by negative endowment and a change in mix, with strong growth in lower-margin deposit products, as well as increased competitive pressures. Overall NII was bolstered by strong growth in deposits, especially from cash investment products in the consumer and premium segments, Islamic banking and public sector deposits.
- FNB's advances margin increased 13 bps, benefiting from lower ISP under IFRS 9 and a reduction in average funding costs period-on-period.
- WesBank's SA VAF margins decreased by 10 bps, impacted by the mix change in new business in the retail SA VAF book as well as increased competitive pressures.
- RMB's NII benefited from strong advances growth period-on-period, with margins supported by higher-yielding cross-border activities and a change in transfer pricing in the second half of the 2018 financial year.
- Group Treasury NII was impacted by:
  - an increase in income from interest rate risk, foreign exchange and asset/liability management activities of approximately R240 million;
  - higher levels of interest on capital paid to the operating businesses of >R250 million;
  - the continued build-up of HQLA, with a resultant negative impact of >R600 million;
  - a decrease of R50 million (December 2017: R63 million decrease) in dollar funding carry costs given more effective deployment;
  - positive mark-to-market movements of c.R60 million (December 2017: c.R160 million positive movement) on fair value term and structured funding instruments due to movements in the domestic yield curve. This will reverse over the duration of the underlying instruments, which are long dated and have decreased significantly from the prior period following the reclassification of certain liabilities from fair value through profit or loss to amortised cost on adoption of IFRS 9; and
  - the foregone interest of ±R730 million on the capital deployed on the acquisition of Aldermore on 1 April 2018.
- MotoNovo margins increased 282 bps period-on-period due to the day-one recognition of future margin following the securitisation transactions. These eliminate at a group level.

Net interest income (before impairment of advances) continued

AVERAGE BALANCE SHEET

		December 2018 IFRS 9			December 2017 IAS 39		
R million	Notes	Average balance*	Interest income/ (expense)	Average rate %	Average balance	Interest income/ (expense)	Average rate %
INTEREST-EARNING ASSETS							
Average prime rate (RSA)				**10.05**			10.28
Balances with central banks		**23 583**	**–**	**–**	21 281	–	–
Cash and cash equivalents		**31 645**	**777**	**4.87**	17 043	331	3.85
Liquid assets portfolio		**131 150**	**4 873**	**7.37**	89 329	3 445	7.65
Loans and advances to customers	1	**742 435**	**40 398**	**10.79**	680 847	36 853	10.74
Interest-earning assets		**928 813**	**46 048**	**9.83**	808 500	40 629	9.97
INTEREST-BEARING LIABILITIES							
Average JIBAR				**6.98**			7.15
Deposits due to customers	2	**(586 788)**	**(14 224)**	**4.81**	(526 882)	(12 931)	4.87
Group Treasury funding		**(362 395)**	**(12 226)**	**6.69**	(305 746)	(10 681)	6.93
Interest-bearing liabilities		**(949 183)**	**(26 450)**	**5.53**	(832 628)	(23 612)	5.63
ENDOWMENT AND TRADING BOOK							
Other assets**		**235 075**	**–**	**–**	223 166	–	–
Other liabilities#		**(123 251)**	**–**	**–**	(105 306)	–	–
NCNR preference shareholders		**(3 000)**	**–**	**–**	(3 000)	–	–
Equity		**(88 454)**	**–**	**–**	(90 732)	–	–
Endowment and trading book		**20 370**	**3 740**	**36.42**	24 128	3 651	30.02
Total interest-bearing liabilities, endowment and trading book		**(928 813)**	**(22 710)**	**4.85**	(808 500)	(19 961)	4.90
Net interest margin on average interest-earning assets		**928 813**	**23 338**	**4.98**	808 500	20 668	5.07

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

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

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

Includes trading liabilities.

NOTE 1 – MARGIN ANALYSIS ON LOANS AND ADVANCES TO CUSTOMERS

	December 2018 IFRS 9		December 2017 IAS 39	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average prime rate (RSA)		**10.05**		10.28
ADVANCES				
Retail – secured	**339 133**	**2.65**	321 912	2.46
Residential mortgages	**207 412**	**1.82**	195 660	1.87
VAF	**131 721**	**3.96**	126 252	3.37
Retail – unsecured	**80 785**	**11.91**	70 191	11.83
Card	**28 614**	**8.12**	24 652	8.90
Personal loans	**35 324**	**16.40**	30 172	15.82
– FNB	**20 057**	**15.13**	16 317	13.92
– DirectAxis	**15 267**	**18.06**	13 855	18.05
Retail other	**16 847**	**8.95**	15 367	8.69
Corporate and commercial	**322 517**	**2.37**	288 744	2.32
FNB commercial	**93 657**	**3.57**	83 620	3.52
– Mortgages	**23 616**	**2.33**	20 293	2.43
– Overdrafts	**35 173**	**4.82**	31 042	4.56
– Term loans	**34 868**	**3.14**	32 285	3.21
WesBank corporate	**29 990**	**2.21**	28 312	2.16
RMB investment banking*	**148 810**	**1.97**	137 330	1.86
RMB corporate banking	**50 060**	**1.46**	39 482	1.51
Total advances	**742 435**	**3.54**	680 847	3.37

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

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

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

The funds transfer pricing is further explained on page 99.

Net interest income (before impairment of advances) continued

NOTE 2 – MARGIN ANALYSIS ON DEPOSITS DUE TO CUSTOMERS

	December 2018 IFRS 9		December 2017* IAS 39	
R million	**Average balance**	**Average margin %**	Average balance	Average margin %
Average JIBAR rate (RSA)		**6.98**		7.16
DEPOSITS				
Retail	**215 916**	**2.34**	191 723	2.57
Current and savings	**63 419**	**5.82**	58 327	6.22
Call	**73 885**	**0.98**	59 181	1.11
Term	**78 612**	**0.79**	74 215	0.86
Commercial	**224 685**	**2.67**	206 741	2.71
Current and savings	**83 613**	**5.55**	74 004	5.79
Call	**73 827**	**1.46**	76 493	1.40
Term	**67 245**	**0.41**	56 244	0.44
Corporate and investment banking	**146 187**	**0.91**	128 418	0.90
Current and savings	**59 528**	**1.43**	60 395	1.36
Call	**53 270**	**0.68**	50 289	0.49
Term	**33 389**	**0.34**	17 734	0.49
Total deposits	**586 788**	**2.11**	526 882	2.22

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

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

Credit highlights

CREDIT HIGHLIGHTS AT A GLANCE

R million	Notes	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	As at 1 July 2018 IFRS 9	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change	Year ended 30 June 2018 IAS 39
Total gross advances*	1 on p. 70	**913 190**	854 923	**860 961**	6	859 235
Stage 3/NPLs*	2 on p. 74	**30 522**	18 565	**25 879**	18	21 183
Stage 3/NPLs as a % of advances	2 on p. 74	**3.34**	2.17	**3.01**		2.47
Impairment charge	3 on p. 80	**4 118**	3 524			6 659
Credit loss ratio (%)	3 on p. 80	**0.93**	0.84			0.80
Total impairments	4 on p. 82	**26 207**	15 057	**23 078**	14	15 429
Portfolio impairments	4 on p. 82	**11 706**	8 007	**11 793**	(1)	7 761
– Stage 1/IBNR		**5 770**	3 017	**5 260**	10	3 721
– Stage 2/PSI		**5 936**	4 990	**6 533**	(9)	4 040
Stage 3/Specific impairments**		**14 501**	7 050	**11 285**	28	7 668
Specific coverage ratio (%)#	4 on p. 82	**47.5**	38.0	**43.6**		36.2
Total impairment coverage ratio (%)†	4 on p. 82	**85.9**	81.1	**89.2**		72.8
Performing book coverage ratio (%)‡		**1.33**	0.96	**1.41**		0.93

* *Total gross advances and stage 3/NPLs at 31 December 2018 include an IFRS 9 transitional ISP adjustment of R1 661 million.*

** *Stage 3 impairments at 31 December 2018 include an IFRS 9 transitional ISP adjustment of R1 065 million.*

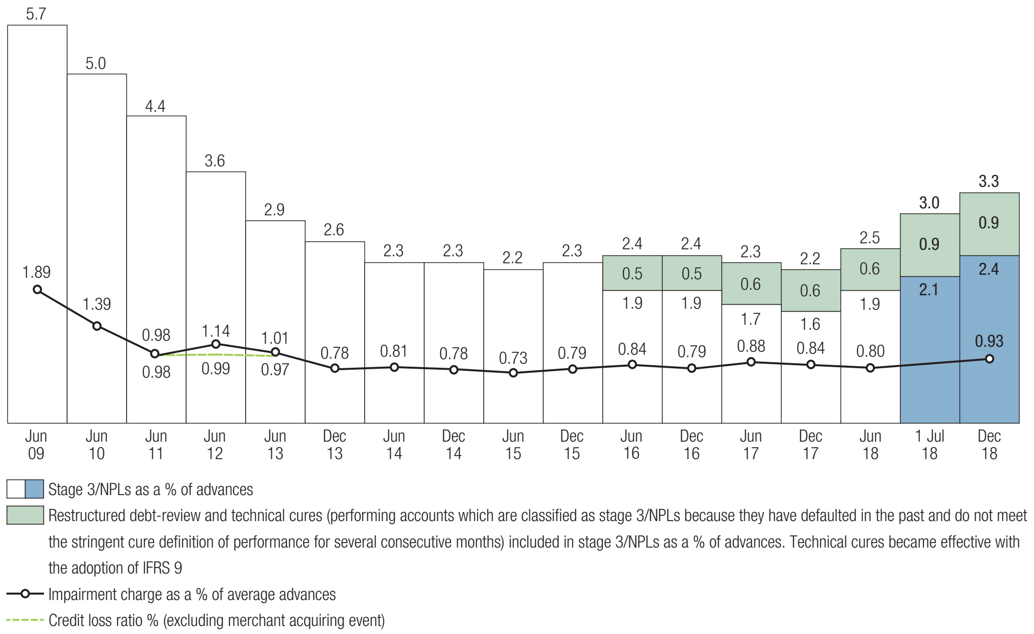
\# *Specific impairments as % of Stage3/NPLs.*

† *Total impairments as % of Stage3/NPLs.*

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

NPL AND IMPAIRMENT HISTORY

%

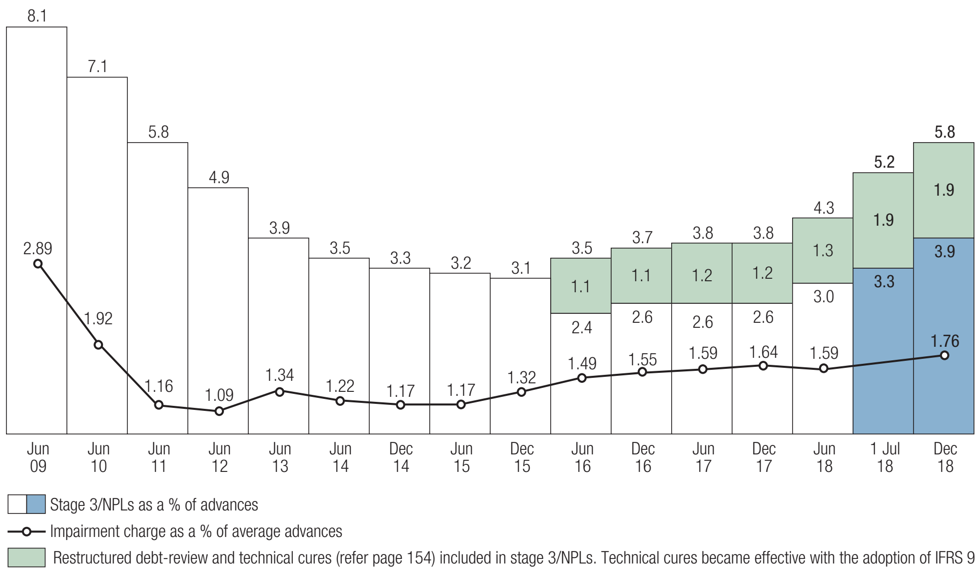


Note: 30 June 2009 to 30 June 2018 figures were prepared on an IAS 39 basis. 1 July 2018 figures were restated and therefore 1 July 2018 and 31 December 2018 figures are prepared on an IFRS 9 basis.

Credit highlights continued

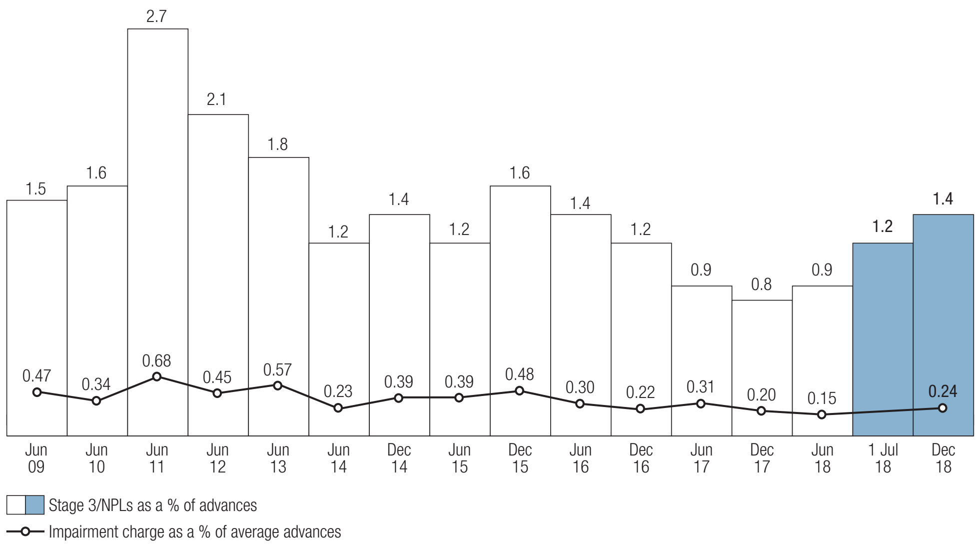
RETAIL NPLs AND IMPAIRMENTS

%



CORPORATE AND COMMERCIAL NPLs AND IMPAIRMENTS

%



Note: 30 June 2009 to 30 June 2018 figures are presented on an IAS 39 basis. 1 July 2018 figures were restated and therefore 1 July 2018 and 31 December 2018 figures are presented on an IFRS 9 basis.

The focus of the credit commentary is on the credit performance between 1 July 2018 restated for IFRS 9 and 31 December 2018, for improved comparability.

NPLs increased 18% to 3.34% of advances from the 1 July 2018 ratio of 3.01%. The R4 643 million increase in total NPLs to R30 522 million since 1 July 2018 is further analysed below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	**2 328**	13	9
Restructured debt review (D7)	**126**	3	–
Definition of rehabilitation (technical cures)	**246**	7	1
Lengthening of write-off period	**1 943**	–	8
Total	**4 643**	18	18

The extension of the write-off point impacts the bank's unsecured lending portfolios, with the most pronounced impact in this reporting period, due to the write-off point for the majority of the book changing from six months to 12 months. This impact is expected to start normalising in the second half of the financial year.

Credit impairments increased 17% period-on-period, resulting in a credit loss ratio of 93 bps, compared to 84 bps at December 2017 and 80 bps at June 2018.

Retail impairments reflected a deterioration of 11% period-on-period to 176 bps (December 2017: 164 bps; June 2018: 159 bps), with increases in the unsecured portfolios partially offset by an improved performance in the secured portfolios.

Commercial impairments deteriorated marginally to 78 bps, in line with through-the-cycle expectations.

The RMB investment banking portfolio incurred a modest 6 bps charge, whilst maintaining a conservative impairment coverage ratio in excess of 200 bps.

Portfolio impairments (stage 1 and stage 2 impairments) remained flat compared to 1 July 2018, although stage 1 impairments increased by 10%, primarily due to book growth, whilst stage 2 impairments decreased 9% reflecting the migration of certain counters into NPL status. As a result, the performing book coverage ratio decreased marginally from 141 bps at 1 July 2018 to 133 bps.

The total impairment coverage ratio decreased marginally from 89.2 bps at 1 July 2018 to 85.9 bps, reflecting the impact of paying debt-review customers which carries lower coverage ratios and a mix change in NPLs. At 31 December 2017, the total coverage ratio was 81.1 bps on an IAS 39 basis.

Credit highlights continued

KEY DRIVERS

> Retail NPLs as a percentage of advances increased 16% to 5.84% from 5.20% on 1 July 2018 (December 2017: 3.82%), driven by book growth, especially in the unsecured portfolios, resulting in increases in cycle-driven operational NPL balances, as well as the impact of new cure and write-off definitions under IFRS 9. A further analysis of the R3 286 million increase in NPLs is provided below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational	971	7	5
Restructured debt review (D7)	126	3	1
Technical cures/curing rules	246	7	1
Change in write-off point	1 943	–	9
Total	**3 286**	**16**	**16**

The R1 943 million increase in NPLs due to the change in write-off point is further analysed below.

	R million
Card	371
FNB loans	692
FNB retail other	442
DirectAxis loans	438
	1 943

– The increase in card and FNB loans NPLs since 1 July 2018 is analysed below:

	Card		FNB loans	
	R million	% change	R million	% change
Operational – new business strain	294	38	200	25
Debt review (D7)	42	13	77	14
Technical cures/curing rules	(34)	(43)	(24)	(13)
Write-off point extension	371	–	692	–
Total	**673**	**58**	**945**	**62**

– The increase in operational NPLs reflects expected new business strain, given the seasoning of the book following strong advances growth in the current and previous periods. Debt-review and technical cure NPLs comprise 31% and 22% of the FNB loans and card NPL portfolios, respectively. FNB loans reflected an impairment charge of 7.03% (December 2017: 5.53%; June 2018: 5.03%) with FNB card reflecting a charge of 2.93% (December 2017: 2.60%; June 2018: 2.83%), both within through-the-cycle appetite.

– DirectAxis NPLs increased 32% since 1 July 2018, compared to the 34% increase recorded in the financial year to June 2018. The increase was impacted by:
  - operational NPLs increasing 11%, in line with book growth, reflecting the benefit of a more conservative origination appetite;
  - a change in write-off policy under IFRS 9 (+R438 million); and
  - a further increase in the combined value of restructured debt-review and technical cure NPLs of 7% (+R62 million).

  The DirectAxis impairment ratio of 8.50% (June 2018: 7.93%; December 2017: 7.58%) reflects the seasoning of the book and continued strong advances growth.

– Residential mortgage NPLs reflect a modest increase of 2% since 1 July 2018, benefiting from strong collections and targeted origination. NPLs in the affordable housing book increased 9%, impacted by resilient book growth and a normalisation of the credit cycle.

KEY DRIVERS

- RMB CIB NPLs increased 53% since 1 July 2018, reflecting the migration of certain counters in distressed industries.
- FNB commercial NPLs increased 17% since 1 July 2018, primarily due to increases in higher collateralised agric NPLs and increases in commercial property finance and specialised finance.
- MotoNovo VAF NPLs increased 18% in pound terms (14% in rand) since 1 July 2018, reflecting the impact of slower book growth on the back of origination risk cuts and increased securitisations.
- Post write-off recoveries at R1 249 million (December 2017: R1 085 million; June 2018: R2 289 million) remained resilient in spite of the change to a later write-off point for unsecured NPLs in terms of IFRS 9, driven by the unsecured retail lending portfolios and retail SA VAF.

Credit highlights continued

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

R million	Operational stage 3/ NPLs*	Technical cures	Write-offs**	Paying restructured debt-review stage 3/ NPLs	
December 2018 IFRS 9					
Residential mortgages	5 281	2 279	–	521	
Card (excluding Discovery)	952	46	371	322	
Personal loans	1 010	155	692	619	
DirectAxis loans#	1 079	84	438	877	
Retail other	923	33	442	268	
FNB Retail NPLs	9 245	2 597	1 943	2 607	
WesBank Retail NPLs	4 177	1 358	–	1 341	
Discovery card	110	–	–	32	
Total NPLs	20 644	3 955	1 943	3 980	

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

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

\# *Formerly called WesBank loans.*

	Total stage 3/ NPLs	Total stage 3/ NPLs % increase since 1 July 2018	Operational stage 3/ NPLs % change since 1 July 2018	Technical cures as a % of stage 3/ NPLs	Write-offs as a % of stage 3/ NPLs**	Restructured debt-review stage 3/ NPLs as a % of total stage 3/ NPLs
	8 081	2	2	28	–	6
	1 691	66	42	3	22	19
	2 476	62	25	6	28	25
	2 478	32	11	3	18	35
	1 666	59	20	2	27	16
	16 392	22	10	16	12	16
	6 876	3	1	20	–	20
	142	1	13	–	–	23
	30 522	18	13	13	6	13

Credit highlights continued

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

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

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

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

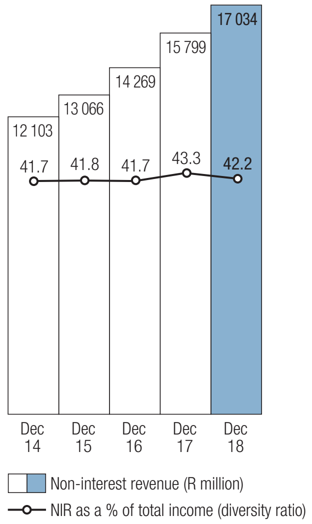
\# *Formerly called WesBank loans.*

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

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

Non-interest revenue – up 8%

NON-INTEREST REVENUE AND DIVERSITY RATIO
NIR CAGR 9%



Note: December 2014 to December 2017 figures are presented on an IAS 39 basis, whilst December 2018 figures are presented on an IFRS 9 basis.

ANALYSIS OF NON-INTEREST REVENUE

R million	Notes	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Fee, commission and insurance income		**13 420**	11 985	12	24 263
– Fee and commission income	1	**13 004**	11 494	13	23 275
– Insurance income	2	**416**	491	(15)	988
Markets, client and other fair value income	3	**1 683**	1 884	(11)	3 210
Investment income		**27**	153	(82)	485
Other non-interest revenue		**1 904**	1 777	7	3 644
Non-interest revenue		**17 034**	15 799	8	31 602

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

The NIR performance was underpinned by robust fee and commission income growth, driven by strong electronic transaction volumes and ongoing customer acquisition. Fee, commission and insurance income represents 79% (December 2017: 76%) of operational NIR.

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

NII

- focus on growing retail and commercial deposit businesses;
- targeted origination strategies to main-banked customers resulted in sustained good advances growth and a change in mix; and
- repricing strategies.

NIR

- incremental loss of NIR due to lower fees charged on digital transactions, partially offset by a focus on customer acquisition, resulting in increased transaction volumes and fees;
- incrementally increasing contribution from new initiatives such as full maintenance leasing (FML); and
- the bank is investing in strategies to diversify, protect and grow NIR.

NOTE 1 – FEE AND COMMISSION INCOME – UP 13%

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39
Bank commissions and fee income	**14 099**	12 518	13	25 023
– Card commissions	**2 248**	1 997	13	3 960
– Cash deposit fees	**908**	851	7	1 649
– Commission on bills, drafts and cheques	**1 284**	1 154	11	2 369
– Bank charges	**9 659**	8 516	13	17 045
– Commitment fees	**701**	706	(1)	1 397
– Other bank charges*	**8 958**	7 810	15	15 648
Knowledge-based fees	**636**	572	11	1 384
Management and fiduciary fees	**459**	399	15	791
Other non-bank commissions	**402**	362	11	745
Gross fee and commission income	**15 596**	13 851	13	27 943
Fee and commission expenditure	**(2 592)**	(2 357)	10	(4 668)
Total fee and commission income	**13 004**	11 494	13	23 275

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

KEY DRIVERS

> FNB delivered 13% growth in NIR, driven by growth in main-banked clients and increased cross-sell and up-sell.

> Transactional volumes increased 11%. Electronic volumes grew 12%, whilst manual volumes grew 7%. Branch and cash centre transactional volumes decreased 17% and 5%, respectively.

%	Increase in transactional volumes
ATM/ADT	**8**
Internet banking	**(1)**
Banking app	**52**
Mobile (excluding prepaid)	**(4)**
Point-of-sale merchants	**18**
Card swipes	**13**

> Knowledge-based fees remained resilient, increasing 11% due to strong structuring and arranging fees, especially those related to cross-border transactions. Low deal volumes resulted in flat advisory fees and a muted performance from capital market and underwriting activities.

> The bank's management and fiduciary fee income growth of 15% reflects increased management fees from the group's associates and joint ventures.

Non-interest revenue continued

NOTE 2 – INSURANCE INCOME – DOWN 15%

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39
Insurance commission	**277**	350	(21)	694
Insurance brokerage	**139**	141	(1)	294
Total insurance income	**416**	491	(15)	988

KEY DRIVERS

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

NOTE 3 – MARKETS, CLIENT AND OTHER FAIR VALUE INCOME – DOWN 11%

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39
Client	**734**	962	(24)	1 835
Markets	**696**	506	38	982
Other	**253**	416	(39)	393
Total markets, client and other fair value income	**1 683**	1 884	(11)	3 210

KEY DRIVERS

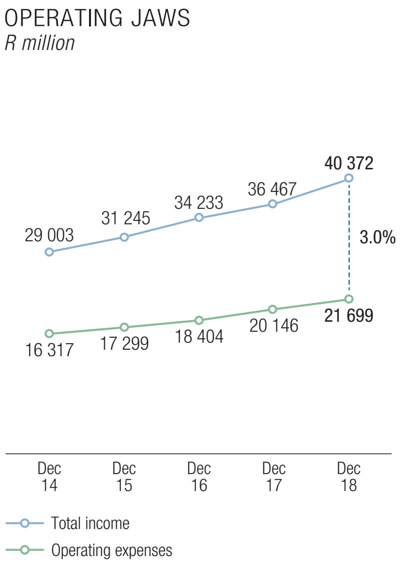
- The overall markets and client businesses' performances reflect the ongoing uncertain SA macro environment, as well as the impact of heightened global trade war tensions.
- Underlying client revenues came under pressure during the period due to subdued large corporate activity in SA. This negatively impacted income from structuring activities.
- Flow trading and residual risk activities benefited from a strong performance from the soft commodities business on the back of increased maize prices. The FX business delivered a strong performance driven by higher levels of volatility in emerging markets. The fixed income business experienced a difficult trading environment due to weakening real bond yields, and lower levels of liquidity and market demand given the benign interest rate environment. In addition, the performance benefited from a recovery in the hard commodities business and the non-repeat of an isolated operational loss event and losses in the credit trading portfolios in the comparative period.
- The decrease in other fair value income was due to negative mark-to-market movements on economic FX hedges, which will pull to par over the duration of the instruments. In addition, the net TRS fair value income was lower than the prior period due to grant date values and vesting of the various schemes.

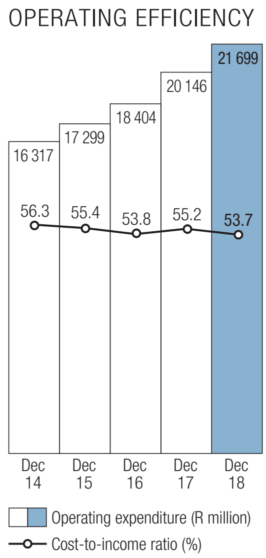
NOTE 4 – OTHER NON-INTEREST REVENUE – UP 7%

KEY DRIVERS

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

Operating expenses – up 8%





Note: December 2014 to December 2017 figures are presented on an IAS 39 basis, whilst December 2018 figures are presented on an IFRS 9 basis.

OPERATING EXPENSES

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39
Staff expenditure	**12 415**	11 391	9	23 400
– Direct staff expenditure	**8 476**	7 679	10	15 397
– Other staff-related expenditure	**3 939**	3 712	6	8 003
Depreciation of property and equipment	**1 226**	1 173	5	2 366
Amortisation of intangible assets	**52**	46	13	94
Advertising and marketing	**707**	626	13	1 364
Insurance	**130**	126	3	235
Lease charges	**632**	628	1	1 260
Professional fees	**830**	734	13	1 601
Audit fees	**167**	121	38	284
Computer expenses	**1 191**	970	23	2 029
Repairs and maintenance	**591**	508	16	1 076
Telecommunications	**180**	174	3	355
Cooperation agreements and joint ventures	**380**	343	11	694
Property	**419**	424	(1)	823
Business travel	**206**	176	17	355
Assets costing less than R7 000	**172**	159	8	278
Stationery and printing	**86**	91	(5)	175
Donations	**251**	237	6	243
Other expenditure	**2 064**	2 219	(7)	3 746
Total operating expenses	**21 699**	20 146	8	40 378

KEY DRIVERS

- Cost growth of 8% reflects the impact of continuing investment spend on new initiatives and platforms.
- Staff costs, which comprise 57% of the bank's operating expenses, increased 9%.

	% CHANGE	REASONS
Direct staff costs	10	Impacted by unionised increases in South Africa at an average of 7.8% in August 2018 and a 2% increase in staff complement across the bank, largely due to the recruitment of 1 500 people as part of the FirstJob work experience programme.
Other staff-related expenditure	6	The increase in variable costs reflects the growth in earnings and NIACC in the current period. Normalised share-based payment expenses increased marginally, given the increase in the group's share price, resulting in higher grant values.

- The 5% increase in depreciation was driven by strong growth in WesBank's FML book, continuing investment in infrastructure (e.g. ATMs/ADTs), ongoing investment in electronic platforms and commissioning of new premises over the previous three financial years.
- The 13% increase in amortisation of intangible assets was due to software capitalisation across the operating businesses.
- Advertising and marketing cost growth of 13% resulted from key new sport sponsorships, the marketing of new digital platforms and other general TV campaigns.
- Professional fees grew 13% following regulatory, IT, security and integration projects.
- The 38% increase in audit fees was driven by the cost associated with the adoption of IFRS 9.
- Computer expenses growth of 23% reflects the continued spend on projects related to various electronic platforms, infrastructure, cybersecurity and credit-related reporting upgrades, both domestically and in the UK.
- Repairs and maintenance increased 16% following green energy-related property and other hardware upgrades.
- Cooperation agreements and joint venture costs increased 11%, following the Discovery transaction, whereby 100% of the profit in the Discovery card book is now being paid to Discovery, as well as improved performance in WesBank's underlying alliances.
- Other expenses include various items such as entertainment, bank charges, subscriptions and memberships and intercompany charges.

03 balance sheet analysis and financial resource management

66 – 109

Economic view of the balance sheet

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

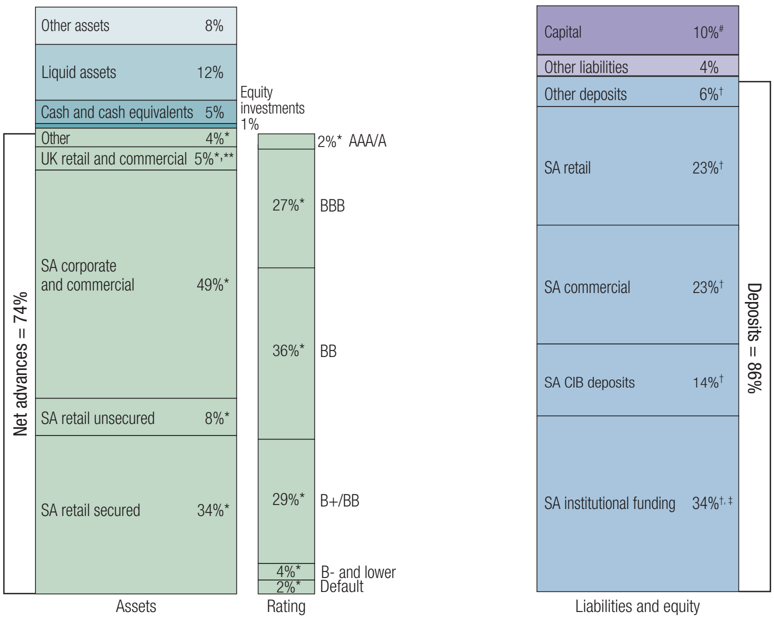
When assessing the underlying risk in the balance sheet, the bank's asset profile is dominated by a balanced advances portfolio, which constitutes 74% of total assets. The composition of the net advances portfolio consists mostly of SA retail secured (34%), SA retail unsecured (8%), SA corporate and commercial (49%), UK retail and commercial secured (5%) and other (4%). At 31 December 2018, total NPLs were R30 522 million (3.34% as a percentage of advances) with a credit loss ratio of 0.93%.

Cash and cash equivalents, and liquid assets represent 5% and 12%, respectively, of total assets. Only a small portion of assets relate to the investment and markets businesses. Market risk arising from trading activities has remained low.

FRB's funding profile continues to reflect the structural funding issues associated with the South African banking sector. The bank has, however, continued to improve its risk-adjusted funding profile through targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of the bank's institutional funding was 36 months at 31 December 2018 (December 2017: 34 months).

The bank's capital ratios exceeded stated targets with the CET1 ratio 13.1%, Tier 1 ratio 13.6% and total capital adequacy ratio 16.9%. Gearing increased to 14.0 times (December 2017: 12.9 times).

ECONOMIC VIEW OF THE BALANCE SHEET
%



* *As a proportion of net advances.*

** *Based on advances originated in MotoNovo and London branch.*

\# *Ordinary equity (8%), NCNR preference shares, AT1 and Tier 2 liabilities (2%).*

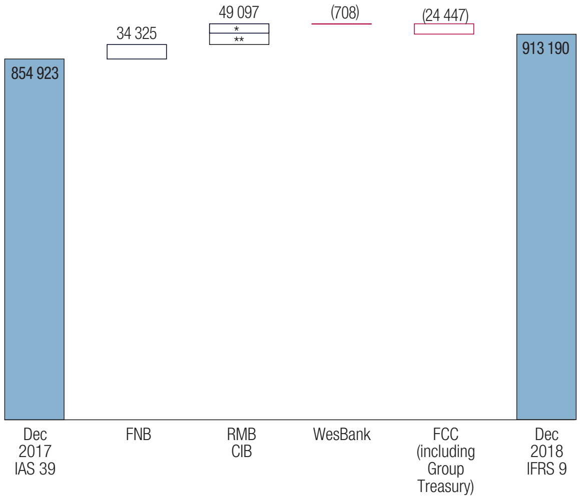
† *As a proportion of deposits.*

‡ *Includes CIB institutional funding.*

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

Gross advances – up 7%

GROSS ADVANCES GROWTH BY BUSINESS
R million



* *Advances net of assets under agreements to resell of R28 774 million.*

** *Assets under agreements to resell of R20 323 million.*

ADVANCES

	As at 31 December			As at 1 July	As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	**2018 IFRS 9**	2018 IAS 39
Gross advances	**913 190**	854 923	7	**860 961**	859 235
Impairment of advances	**(26 207)**	(15 057)	74	**(23 078)**	(15 429)
Net advances	**886 983**	839 866	6	**837 883**	843 806

Gross advances increased 7% in line with nominal GDP growth, and was impacted by repo advances in RMB CIB growing >100% period-on-period. Excluding growth in the RMB CIB repo advances, core advances grew 5%. The adoption of IFRS 9 on 1 July 2018 did not have a material impact on advances growth, but resulted in reclassifications between fair value through profit or loss (FVTPL) and amortised cost (AC), and significantly impacted impairment of advances. Net advances grew 6% since 1 July 2018.

Growth rates in retail SA VAF, MotoNovo and FNB consumer, were more subdued than in some of the other portfolios due to a tightening in credit appetite, especially in higher-risk origination buckets and were further impacted by securitisations.

RMB continued to exercise discipline in an environment characterised by low corporate activity in South Africa as well as competitive pressures, especially in the investment-grade segment. Growth was, however, strong in the RMB CIB cross-border books.

Advances

DECEMBER 2018 IFRS 9 VS DECEMBER 2017 IAS 39		
PORTFOLIO/PRODUCT	% CHANGE	KEY DRIVERS
FNB retail	**9**	
Residential mortgages	**6**	> FNB HomeLoans grew 2% period-on-period, reflecting a muted 3.5% rise in nominal house price inflation and lower demand. > Growth in secured affordable housing slowed to 7% on the back of lower client demand. > Private bank mortgage lending showed resilient growth of 9% benefiting from new client acquisition and the upward segment migration of existing clients.
Card	**19**	> Underpinned by targeted new client acquisition, and client migration as well as increased limits and utilisation in the premium segment. Growth in the consumer segment was marginally negative, given reduced risk appetite.
FNB personal loans	**38**	> Mainly driven by strong growth in the premium segment, as a result of client scoring process enhancements and the activation of new digital channels to existing customers. Advances in the consumer segment reflected satisfactory growth of 11%, following declines in the prior financial year, due to measured loan extension in line with risk appetite.
DirectAxis loans	**11**	> Driven by increased growth in lower-risk segments and repeat business, offset by cuts in higher-risk buckets and the introduction of NCAA rate caps in prior financial periods.
Retail other	**12**	> Driven by increases in transactional banking accounts (primarily overdrafts).
FNB commercial	**11**	> Driven by targeted new client acquisition in the business segment, resulting in growth of 10% in agric and 14% in commercial property finance.

DECEMBER 2018 IFRS 9 VS DECEMBER 2017 IAS 39

PORTFOLIO/PRODUCT	% CHANGE	KEY DRIVERS
RMB CIB*	**10**	> Growth from the SA core advances book was satisfactory, despite competitive pressures, and was underpinned by >25% growth in SA corporate bank advances, due to increased working capital utilisation by clients. Cross-border advances in RMB CIB grew 21% in dollar terms, reflecting targeted new credit extension. In rand terms, the cross-border book increased 41%.
WesBank VAF	**(1)**	> New business production in overall retail SA VAF contracted 6%, impacted by the run-off of business now written on associates' balance sheets, further risk cuts in origination, increased competitive pressures and the impact of the curtailment of a joint venture relationship during the year.
MotoNovo	**(35)**	> New business volumes in MotoNovo contracted 18% in pound terms (10% in rand), impacted by ongoing credit origination conservatism, constrained appetite for higher-risk origination, negative growth in new and used car sales in the UK, and a slower uptake in the findandfundmycar.com initiative. Advances growth was impacted by securitisation transactions.

* *Core advances.*

Credit

Overall credit appetite is managed as part of the broader financial resource management process and is aligned with bank's view of the trends in the wider economy. The notes that follow relate to the credit highlights section on pages 51 to 59.

NOTE 1: ANALYSIS OF ADVANCES

SEGMENTAL ANALYSIS OF ADVANCES

	As at 31 December					
				IFRS 9		
R million	2018 IFRS 9	2017 IAS 39	Dec 18 IFRS 9 vs Dec 17 IAS 39 % change	Stage 1	Stage 2	Stage 3
Retail	**412 619**	402 115	3	**360 579**	**27 937**	**24 103**
Retail – secured	**329 791**	332 206	(1)	**291 589**	**22 573**	**15 629**
Residential mortgages	**210 484**	198 704	6	**190 332**	**12 071**	**8 081**
VAF	**119 307**	133 502	(11)	**101 257**	**10 502**	**7 548**
– SA	**95 932**	97 069	(1)	**80 122**	**8 934**	**6 876**
– MotoNovo*	**23 375**	36 433	(36)	**21 135**	**1 568**	**672**
Retail – unsecured	**82 828**	69 909	18	**68 990**	**5 364**	**8 474**
Card	**29 113**	25 063	16	**25 971**	**1 309**	**1 833**
– FNB	**24 799**	20 805	19	**21 872**	**1 236**	**1 691**
– Discovery	**4 314**	4 258	1	**4 099**	**73**	**142**
Personal loans	**36 733**	29 745	23	**28 839**	**2 919**	**4 975**
– FNB	**20 072**	14 562	38	**15 992**	**1 604**	**2 476**
– DirectAxis loans**	**15 826**	14 247	11	**12 051**	**1 297**	**2 478**
– MotoNovo	**835**	936	(11)	**796**	**18**	**21**
Retail other	**16 982**	15 101	12	**14 180**	**1 136**	**1 666**
Corporate and commercial	**465 430**	408 609	14	**411 311**	**47 700**	**6 419**
FNB commercial	**97 521**	87 890	11	**85 749**	**7 847**	**3 925**
WesBank corporate	**30 196**	29 767	1	**28 028**	**1 697**	**471**
RMB investment banking#	**258 396**	225 440	15	**224 129**	**32 923**	**1 344**
RMB corporate banking#	**64 673**	48 532	33	**58 964**	**5 030**	**679**
HQLA corporate advances†	**14 644**	16 980	(14)	**14 441**	**203**	**–**
FNB Africa	**–**	50	(100)	**–**	**–**	**–**
FCC (including Group Treasury)	**35 141**	44 149	(20)	**35 141**	**–**	**–**
Securitisation notes	**25 994**	24 238	7	**25 994**	**–**	**–**
Other	**9 147**	19 911	(54)	**9 147**	**–**	**–**
Total advances‡,^	**913 190**	854 923	7	**807 031**	**75 637**	**30 522**
Of which:						
Accrual book	**843 445**	645 094	31	**739 685**	**73 338**	**30 422**
Fair value book^	**69 745**	209 829	(67)	**67 346**	**2 299**	**100**

* *MotoNovo VAF book £1.28 billion (-5% from 1 July 2018) (December 2017: £2.19 billion; 1 July 2018: £1.35 billion).*

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

‡ *Total advances at 31 December 2018 include the IFRS 9 transitional ISP adjustment of R1 661 million.*

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

		As at 1 July		As at 30 June
	2018 % com-position	**2018 IFRS 9**	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change	2018 IAS 39
	46	**400 450**	3	399 666
	37	**324 294**	2	323 619
	23	**205 630**	2	204 969
	14	**118 664**	1	118 650
	11	**94 188**	2	94 171
	3	**24 476**	(4)	24 479
	9	**76 156**	9	76 047
	3	**27 155**	7	27 140
	3	**22 805**	9	22 792
	–	**4 350**	(1)	4 348
	4	**33 097**	11	33 055
	2	**17 200**	17	17 161
	2	**14 860**	7	14 859
	–	**1 037**	(19)	1 035
	2	**15 904**	7	15 852
	50	**422 822**	10	421 813
	11	**94 534**	3	93 962
	3	**32 164**	(6)	32 149
	27	**230 854**	12	230 481
	7	**46 636**	39	46 592
	2	**18 634**	(21)	18 629
	–	**–**	–	–
	4	**37 689**	(7)	37 756
	3	**23 674**	10	23 674
	1	**14 015**	(35)	14 082
	100	**860 961**	6	859 235
	92	**809 572**	4	663 725
	8	**51 389**	36	195 510

Credit continued

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

	Advances						
	As at 31 December				As at 1 July		As at 30 June
R million	2018 IFRS 9	2017 IAS 39	Dec 18 IFRS 9 vs Dec 17 IAS 39 % change	2018 % composition	2018 IFRS 9	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change	2018 IAS 39
Corporate and investment banking advances*	**323 069**	273 972	18	**100**	**277 490**	16	277 073
Less: assets under agreements to resell	**(39 903)**	(19 580)	>100	**(12)**	**(23 233)**	72	(23 233)
RMB advances net of assets under agreements to resell	**283 166**	254 392	11	**88**	**254 257**	11	253 840

* *Excludes HQLA advances managed by the Group Treasurer.*

STRATEGY VIEW OF CORPORATE AND INVESTMENT BANKING ADVANCES

	Advances						
	As at 31 December				As at 1 July		As at 30 June
R million	2018 IFRS 9	2017 IAS 39	Dec 18 IFRS 9 vs Dec 17 IAS 39 % change	2018 % composition	2018 IFRS 9	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change	2018 IAS 39
RMB investment banking	**258 396**	225 440	15	**87**	**230 854**	12	230 481
Less: assets under agreements to resell	**(39 017)**	(19 472)	>100	**(13)**	**(22 778)**	71	(22 778)
RMB investment banking core advances	**219 379**	205 968	7	**74**	**208 076**	5	207 703
– South Africa	**188 301**	183 685	3	**64**	**180 225**	4	179 852
– Cross-border (rest of Africa)	**31 078**	22 283	39	**10**	**27 851**	12	27 851
RMB corporate banking	**64 673**	48 532	33	**22**	**46 636**	39	46 592
Less: assets under agreements to resell	**(886)**	(108)	>100	**–**	**(455)**	95	(455)
RMB corporate banking core advances	**63 787**	48 424	32	**21**	**46 181**	38	46 137
– South Africa	**51 754**	40 226	29	**17**	**38 175**	36	38 131
– Cross-border (rest of Africa)	**12 033**	8 198	47	**4**	**8 006**	50	8 006
HQLA corporate advances	**14 644**	16 980	(14)	**5**	**18 634**	(21)	18 629
CIB total core advances	**297 810**	271 372	10	**100**	**272 891**	9	272 469
CIB core advances – South Africa*	**254 699**	240 891	6	**86**	**237 034**	7	236 612
CIB core advances – rest of Africa**	**43 111**	30 481	41	**14**	**35 857**	20	35 857
CIB total core advances	**297 810**	271 372	10	**100**	**272 891**	9	272 469

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

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

SECTOR AND GEOGRAPHICAL ANALYSIS OF ADVANCES

	Advances					
	As at 31 December				As at 1 July	As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	**2018 % composition**	2017 % composition	**2018 IFRS 9***	2018 IAS 39
Gross advances	**913 190**	856 651	**100**	100	**860 961**	860 734
Less: interest in suspense	**–**	(1 728)	**–**	–	**–**	(1 499)
Advances net of interest in suspense	**913 190**	854 923	**100**	100	**860 961**	859 235
Sector analysis						
Agriculture	**35 410**	30 094	**4**	4		32 859
Banks	**16 344**	19 493	**2**	2		20 867
Financial institutions	**149 218**	142 884	**16**	17		137 937
Building and property development	**49 120**	44 672	**5**	5		48 961
Government, Land Bank and public authorities	**22 709**	22 504	**2**	3		22 471
Individuals	**396 709**	387 184	**44**	44		384 235
Manufacturing and commerce	**107 226**	99 669	**12**	12		100 870
Mining	**11 480**	10 031	**1**	1		11 297
Transport and communication	**24 199**	16 857	**3**	2		18 737
Other services	**100 775**	81 535	**11**	10		81 001
Total advances	**913 190**	854 923	**100**	100		859 235
Geographic analysis						
South Africa	**820 201**	759 580	**90**	89		770 540
Other Africa	**36 973**	27 331	**4**	3		33 611
UK	**28 076**	55 324	**3**	6		35 973
Other Europe	**15 641**	5 716	**2**	1		12 129
North America	**4 304**	2 406	**–**	–		2 021
South America	**3**	–	**–**	–		260
Australasia	**2**	1	**–**	–		2
Asia	**7 990**	4 565	**1**	1		4 699
Total advances	**913 190**	854 923	**100**	100		859 235

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

Credit continued

NOTE 2: ANALYSIS OF STAGE 3/NPLs

Segmental analysis of stage 3/NPLs.

	Stage 3/NPLs				
	As at 31 December			As at 1 July	
R million	**2018 IFRS 9**	2017 IAS 39	**2018 % composition**	**2018 IFRS 9**	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change
Retail	**24 103**	15 372	**79**	**20 817**	16
Retail – secured	**15 629**	10 702	**51**	**15 182**	3
Residential mortgages	**8 081**	4 535	**26**	**7 934**	2
VAF	**7 548**	6 167	**25**	**7 248**	4
– SA	**6 876**	5 916	**23**	**6 658**	3
– MotoNovo*	**672**	251	**2**	**590**	14
Retail – unsecured	**8 474**	4 670	**28**	**5 635**	50
Card	**1 833**	993	**6**	**1 160**	58
– FNB	**1 691**	867	**6**	**1 019**	66
– Discovery	**142**	126	**–**	**141**	1
Personal loans	**4 975**	2 881	**16**	**3 427**	45
– FNB	**2 476**	1 274	**8**	**1 531**	62
– DirectAxis loans**	**2 478**	1 595	**8**	**1 874**	32
– MotoNovo	**21**	12	**–**	**22**	(5)
Retail other	**1 666**	796	**6**	**1 048**	59
Corporate and commercial	**6 419**	3 143	**21**	**5 062**	27
FNB commercial	**3 925**	2 235	**13**	**3 350**	17
WesBank corporate	**471**	240	**2**	**394**	20
RMB investment banking#	**1 344**	633	**4**	**1 145**	17
RMB corporate banking#	**679**	35	**2**	**173**	>100
HQLA corporate advances†	**–**	–	**–**	**–**	–
FNB Africa	**–**	50	**–**	**–**	–
FCC (including Group Treasury)	**–**	–	**–**	**–**	–
Securitisation notes	**–**	–	**–**	**–**	–
Other	**–**	–	**–**	**–**	–
Total NPLs‡	**30 522**	18 565	**100**	**25 879**	18
Of which					
Accrual book	**30 422**	18 239	**100**	**25 761**	18
Fair value book	**100**	326	**–**	**118**	(15)

* *MotoNovo VAF NPLs of £37 million (18% from 1 July 2018 IFRS 9) (December 2017: £15 million; 1 July 2018: £32 million).*

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

‡ *Total stage 3/NPLs at 31 December 2018 include R1 661 million ISP recognised on IFRS 9 transition.*

	Stage 3/NPLs as a % of advances				
As at 30 June	As at 31 December		As at 1 July	As at 30 June
2018 IAS 39	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39
17 198	**5.84**	3.82	**5.20**	4.30
11 965	**4.74**	3.22	**4.68**	3.70
5 075	**3.84**	2.28	**3.86**	2.48
6 890	**6.33**	4.62	**6.11**	5.81
6 572	**7.17**	6.09	**7.07**	6.98
318	**2.87**	0.69	**2.41**	1.30
5 233	**10.23**	6.68	**7.40**	6.88
1 082	**6.30**	3.96	**4.27**	3.99
952	**6.82**	4.17	**4.47**	4.18
130	**3.29**	2.96	**3.24**	2.99
3 159	**13.54**	9.69	**10.35**	9.56
1 337	**12.34**	8.75	**8.90**	7.79
1 800	**15.66**	11.20	**12.61**	12.11
22	**2.51**	1.28	**2.12**	2.13
992	**9.81**	5.27	**6.59**	6.26
3 985	**1.38**	0.77	**1.20**	0.94
2 714	**4.02**	2.54	**3.54**	2.89
244	**1.56**	0.81	**1.22**	0.76
898	**0.52**	0.28	**0.50**	0.39
129	**1.05**	0.07	**0.37**	0.28
–	**–**	–	**–**	–
–	**–**	100.00	**–**	–
–	**–**	–	**–**	–
–	**–**	–	**–**	–
–	**–**	–	**–**	–
21 183	**3.34**	2.17	**3.01**	2.47
20 566	**3.61**	2.83	**3.18**	3.10
617	**0.14**	0.16	**0.23**	0.32

Credit continued

SECTOR AND GEOGRAPHIC ANALYSIS OF NPLs

	Stage 3/NPLs			
	As at 31 December			As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	**2018 % composition**	**2018 IAS 39**
Sector analysis				
Agriculture	**1 415**	661	**5**	**908**
Banks	**–**	–	**–**	**–**
Financial institutions	**148**	309	**–**	**79**
Building and property development	**1 030**	612	**3**	**672**
Government, Land Bank and public authorities	**558**	13	**2**	**313**
Individuals	**22 964**	14 693	**76**	**16 307**
Manufacturing and commerce	**1 232**	708	**4**	**1 134**
Mining	**643**	435	**2**	**521**
Transport and communication	**285**	178	**1**	**191**
Other services	**2 247**	956	**7**	**1 058**
Total NPLs	**30 522**	18 565	**100**	**21 183**
Geographic analysis				
South Africa	**28 967**	17 796	**95**	**20 246**
Other Africa	**248**	84	**1**	**166**
UK	**694**	263	**2**	**340**
Other Europe	**–**	24	**–**	**27**
North America	**552**	348	**2**	**404**
Asia	**61**	50	**–**	**–**
Total NPLs	**30 522**	18 565	**100**	**21 183**

	Stage 3/NPLs as a % of advances		
	As at 31 December		As at 30 June
	2018 IFRS 9	2017 IAS 39	2018 IAS 39
	4.00	2.20	2.76
	–	–	–
	0.10	0.22	0.06
	2.10	1.37	1.37
	2.46	0.06	1.39
	5.79	3.79	4.24
	1.15	0.71	1.12
	5.60	4.34	4.61
	1.18	1.06	1.02
	2.23	1.17	1.31
	3.34	2.17	2.47
	3.53	2.34	2.63
	0.67	0.31	0.49
	2.47	0.48	0.95
	–	0.42	0.22
	12.83	14.46	19.99
	0.76	1.10	–
	3.34	2.17	2.47

Credit continued

SECURITY AND RECOVERABLE AMOUNTS BY PORTFOLIO

	As at 31 December 2018			As at 31 December 2017		
	IFRS 9			IAS 39		
R million	**Stage 3/NPLs**	**Security held and expected recoveries**	**Specific impairment**	Stage 3/NPLs	Security held and expected recoveries	Specific impairment
Retail	**24 103**	**13 094**	**11 009**	15 372	9 868	5 504
Retail – secured	**15 629**	**11 304**	**4 325**	10 702	7 784	2 918
Residential mortgages	**8 081**	**6 261**	**1 820**	4 535	3 516	1 019
VAF	**7 548**	**5 043**	**2 505**	6 167	4 268	1 899
– SA	**6 876**	**4 654**	**2 222**	5 916	4 164	1 752
– MotoNovo	**672**	**389**	**283**	251	104	147
Retail – unsecured	**8 474**	**1 790**	**6 684**	4 670	2 084	2 586
Card	**1 833**	**323**	**1 510**	993	329	664
– FNB	**1 691**	**316**	**1 375**	867	284	583
– Discovery	**142**	**7**	**135**	126	45	81
Personal loans	**4 975**	**1 170**	**3 805**	2 881	1 516	1 365
– FNB	**2 476**	**490**	**1 986**	1 274	504	770
– DirectAxis loans*	**2 478**	**679**	**1 799**	1 595	1 011	584
– MotoNovo	**21**	**1**	**20**	12	1	11
Retail other	**1 666**	**297**	**1 369**	796	239	557
Corporate and commercial	**6 419**	**2 927**	**3 492**	3 143	1 624	1 519
FNB commercial	**3 925**	**1 820**	**2 105**	2 235	1 278	957
WesBank corporate	**471**	**294**	**177**	240	124	116
RMB investment banking**	**1 344**	**526**	**818**	633	201	432
RMB corporate banking**	**679**	**287**	**392**	35	21	14
HQLA corporate advances#	**–**	**–**	**–**	–	–	–
FNB Africa	**–**	**–**	**–**	50	23	27
FCC (including Group Treasury)	**–**	**–**	**–**	–	–	–
Securitisation notes	**–**	**–**	**–**	–	–	–
Other	**–**	**–**	**–**	–	–	–
Total	**30 522**	**16 021**	**14 501**	18 565	11 515	7 050

* *Formerly called WesBank loans.*

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

Managed by the Group Treasurer.

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

Credit continued

NOTE 3: ANALYSIS OF INCOME STATEMENT CREDIT IMPAIRMENTS

INCOME STATEMENT IMPAIRMENTS

	Total impairment charge			
	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	Dec 18 IFRS 9 vs Dec 17 IAS 39 % change	2018 IAS 39
Retail	**3 578**	3 230	11	6 275
Retail – secured	**1 222**	1 352	(10)	2 467
Residential mortgages	**93**	144	(35)	149
VAF	**1 129**	1 208	(7)	2 318
– SA	**757**	901	(16)	1 856
– MotoNovo*	**372**	307	21	462
Retail – unsecured	**2 356**	1 878	25	3 808
Card	**385**	295	31	670
– FNB	**349**	263	33	599
– Discovery	**36**	32	13	71
Personal loans	**1 288**	948	36	1 967
– FNB	**655**	400	64	793
– DirectAxis loans**	**652**	526	24	1 125
– MotoNovo	**(19)**	22	(>100)	49
Retail other	**683**	635	8	1 171
Corporate and commercial	**537**	405	33	616
FNB commercial	**376**	333	13	670
WesBank corporate	**78**	19	>100	48
RMB investment banking#	**71**	47	51	(105)
RMB corporate banking#	**12**	6	100	3
HQLA corporate advances†	**–**	–	–	–
FNB Africa	**–**	1	(100)	(2)
FCC (including Group Treasury)	**3**	(112)	(>100)	(230)
Securitisation notes	**3**	–	–	–
Other	**–**	(112)	100	(230)
Total impairment charge	**4 118**	3 524	17	6 659
Portfolio impairment charge	**1 398**	326	>100	96
Specific impairment charge	**2 720**	3 198	(15)	6 563

* *MotoNovo VAF impairment charge: £20 million (+17% from December 2017) (December 2017: £17 million; June 2018: £27 million).*

** *Formerly called WesBank loans.*

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

† *Managed by the Group Treasurer.*

As a % of average advances			
Six months ended 31 December		Year ended 30 June	Six months ended 30 June
2018 IFRS 9	2017 IAS 39	2018 IAS 39	2018 IAS 39
1.76	1.64	1.59	1.52
0.75	0.83	0.77	0.68
0.09	0.15	0.07	–
1.90	1.87	1.90	1.76
1.59	1.87	1.96	2.00
3.11	1.86	1.71	1.02
5.93	5.48	5.32	5.29
2.74	2.41	2.63	2.87
2.93	2.60	2.83	3.08
1.66	1.51	1.66	1.81
7.38	6.52	6.40	6.49
7.03	5.53	5.03	4.96
8.50	7.58	7.93	8.23
(4.06)	6.15	6.41	5.48
8.31	8.48	7.62	6.93
0.24	0.20	0.15	0.10
0.78	0.77	0.75	0.74
0.50	0.12	0.15	0.19
0.06	0.04	(0.05)	(0.13)
0.04	0.03	0.01	(0.01)
–	–	–	–
–	1.24	(1.47)	(24.00)
0.02	(0.03)	(0.03)	(0.03)
0.02	–	–	–
–	(0.03)	(0.03)	(0.03)
0.93	0.84	0.80	0.73
0.32	0.08	0.01	(0.05)
0.61	0.76	0.79	0.78

Credit continued

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

	Total portfolio impairments			
	As at 31 December			
			IFRS 9	
R million	**2018 IFRS 9**	2017 IAS 39	**Stage 1**	**Stage 2**
Portfolio impairments				
Retail	**7 305**	3 671	**3 979**	**3 326**
Retail – secured	**2 870**	1 549	**1 145**	**1 725**
Residential mortgages	**664**	495	**278**	**386**
VAF	**2 206**	1 054	**867**	**1 339**
– SA	**1 793**	872	**660**	**1 133**
– MotoNovo	**413**	182	**207**	**206**
Retail – unsecured	**4 435**	2 122	**2 834**	**1 601**
Card	**858**	372	**571**	**287**
– FNB	**751**	320	**495**	**256**
– Discovery	**107**	52	**76**	**31**
Personal loans	**2 358**	1 101	**1 429**	**929**
– FNB	**1 360**	635	**835**	**525**
– DirectAxis loans*	**915**	447	**526**	**389**
– MotoNovo	**83**	19	**68**	**15**
Retail other	**1 219**	649	**834**	**385**
Corporate and commercial	**4 200**	4 071	**1 590**	**2 610**
FNB commercial	**1 459**	570	**695**	**764**
WesBank corporate	**184**	213	**102**	**82**
RMB investment banking**	**1 972**	2 405	**751**	**1 221**
RMB corporate banking**	**585**	883	**42**	**543**
HQLA corporate advances	**–**	–	**–**	**–**
FNB Africa	**–**	–	**–**	**–**
FCC (including Group Treasury)	**201**	265	**201**	**–**
Securitisation notes	**27**	–	**27**	**–**
Other	**174**	265	**174**	**–**
Total portfolio impairments	**11 706**	8 007	**5 770**	**5 936**

* *Formerly called WesBank loans.*

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

Total portfolio impairments			Performing book coverage ratio (% of performing advances)					
As at 1 July		As at 30 June	As at 31 December		As at 31 December		As at 1 July	As at 30 June
			IFRS 9					
2018 IFRS 9	Dec 18 IFRS 9 vs Jun 18 IFRS 9 % change	2018 IAS 39	**Stage 1**	**Stage 2**	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39
7 048	4	3 760	**1.10**	**11.91**	**1.88**	0.95	**1.86**	0.98
2 816	2	1 595	**0.39**	**7.64**	**0.91**	0.48	**0.91**	0.51
647	3	566	**0.15**	**3.20**	**0.33**	0.25	**0.33**	0.28
2 169	2	1 029	**0.86**	**12.75**	**1.97**	0.83	**1.95**	0.92
1 812	(1)	855	**0.82**	**12.68**	**2.01**	0.96	**2.07**	0.98
357	16	174	**0.98**	**13.14**	**1.82**	0.50	**1.49**	0.72
4 232	5	2 165	**4.11**	**29.85**	**5.96**	3.25	**6.00**	3.06
809	6	407	**2.20**	**21.93**	**3.15**	1.55	**3.11**	1.56
699	7	354	**2.26**	**20.71**	**3.25**	1.60	**3.21**	1.62
110	(3)	53	**1.85**	**42.47**	**2.56**	1.26	**2.61**	1.26
2 240	5	1 265	**4.96**	**31.83**	**7.42**	4.10	**7.55**	4.23
1 289	6	751	**5.22**	**32.73**	**7.73**	4.78	**8.23**	4.75
849	8	492	**4.36**	**29.99**	**6.85**	3.53	**6.54**	3.77
102	(19)	22	**8.54**	**83.33**	**10.20**	2.06	**10.05**	2.17
1 183	3	493	**5.88**	**33.89**	**7.96**	4.54	**7.96**	3.32
4 546	(8)	3 827	**0.39**	**5.47**	**0.92**	1.00	**1.09**	0.92
1 559	(6)	537	**0.81**	**9.74**	**1.56**	0.67	**1.71**	0.59
184	–	197	**0.36**	**4.83**	**0.62**	0.72	**0.58**	0.62
1 917	3	2 211	**0.34**	**3.71**	**0.77**	1.07	**0.83**	0.96
886	(34)	882	**0.07**	**10.80**	**0.91**	1.82	**1.91**	1.90
–	–	–	**–**	**–**	**–**	–	**–**	–
–	–	–	**–**	**–**	**–**	–	**–**	–
199	1	174	**0.57**	**–**	**0.57**	0.60	**0.53**	0.46
25	8	–	**0.10**	**–**	**0.10**	–	**0.11**	–
174	–	174	**1.90**	**–**	**1.90**	1.33	**1.24**	1.24
11 793	(1)	7 761	**0.71**	**7.85**	**1.33**	0.96	**1.41**	0.93

Credit continued

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

IMPLIED LOSS GIVEN DEFAULT AND TOTAL IMPAIRMENT COVERAGE RATIOS

	Stage 3/specific impairments				
	As at 31 December		As at 1 July		As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change	2018 IAS 39
Specific impairments					
Retail	**11 009**	5 504	**8 387**	31	5 977
Retail – secured	**4 325**	2 918	**4 103**	5	3 050
Residential mortgages	**1 820**	1 019	**1 715**	6	905
VAF	**2 505**	1 899	**2 388**	5	2 145
– SA	**2 222**	1 752	**2 139**	4	1 961
– MotoNovo	**283**	147	**249**	14	184
Retail – unsecured	**6 684**	2 586	**4 284**	56	2 927
Card	**1 510**	664	**996**	52	724
– FNB card	**1 375**	583	**870**	58	638
– Discovery card	**135**	81	**126**	7	86
Personal loans	**3 805**	1 365	**2 448**	55	1 485
– FNB	**1 986**	770	**1 051**	89	800
– DirectAxis loans*	**1 799**	584	**1 365**	32	665
– MotoNovo	**20**	11	**32**	(38)	20
Retail other	**1 369**	557	**840**	63	718
Corporate and commercial	**3 492**	1 519	**2 898**	20	1 691
FNB commercial	**2 105**	957	**1 898**	11	1 015
WesBank corporate	**177**	116	**149**	19	116
RMB investment banking**	**818**	432	**792**	3	546
RMB corporate banking**	**392**	14	**59**	>100	14
HQLA corporate advances#	**–**	–	**–**	–	–
FNB Africa	**–**	27	**–**	–	–
FCC (including Group Treasury)	**–**	–	**–**	–	–
Securitisation notes	**–**	–	**–**	–	–
Other	**–**	–	**–**	–	–
Total specific impairments/implied loss given default†,^	**14 501**	7 050	**11 285**	28	7 668
Portfolio impairments‡	**11 706**	8 007	**11 793**	(1)	7 761
Total impairments/total impairment coverage ratio◊	**26 207**	15 057	**23 078**	14	15 429

* *Formerly called WesBank loans.*

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

Managed by the Group Treasurer.

† *Specific impairments as a percentage of stage 3/NPLs.*

‡ *Portfolio impairments as a percentage of stage 3/NPLs.*

^ *Stage 3 impairments at 31 December 2018 include R1 065 million ISP recognised on IFRS 9 transition.*

◊ *Total impairments as a percentage of stage 3/NPLs.*

Coverage ratios (% of stage 3/NPLs)			
As at 31 December		As at 1 July	As at 30 June
2018 IFRS 9	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39
45.7	35.8	**40.3**	34.8
27.7	27.3	**27.0**	25.5
22.5	22.5	**21.6**	17.8
33.2	30.8	**32.9**	31.1
32.3	29.6	**32.1**	29.8
42.1	58.6	**42.2**	57.9
78.9	55.4	**76.0**	55.9
82.4	66.9	**85.9**	66.9
81.3	67.2	**85.4**	67.0
95.1	64.3	**89.4**	66.2
76.5	47.4	**71.4**	47.0
80.2	60.4	**68.6**	59.8
72.6	36.6	**72.8**	36.9
95.2	91.7	**145.5**	90.9
82.2	70.0	**80.2**	72.4
54.4	48.3	**57.3**	42.4
53.6	42.8	**56.7**	37.4
37.6	48.3	**37.8**	47.5
60.9	68.2	**69.2**	60.8
57.7	40.0	**34.1**	10.9
–	–	**–**	–
–	54.0	**–**	–
–	–	**–**	–
–	–	**–**	–
–	–	**–**	–
47.5	38.0	**43.6**	36.2
38.4	43.1	**45.6**	36.6
85.9	81.1	**89.2**	72.8

Credit continued

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

	Balance sheet impairments				
	As at 31 December		As at 1 July		As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	Dec 18 IFRS 9 vs 1 Jul 18 IFRS 9 % change	2018 IAS 39
Total impairments					
Retail	**18 314**	9 175	**15 435**	19	9 737
Retail – secured	**7 195**	4 467	**6 919**	4	4 645
Residential mortgages	**2 484**	1 514	**2 362**	5	1 471
VAF	**4 711**	2 953	**4 557**	3	3 174
– SA	**4 015**	2 624	**3 951**	2	2 816
– MotoNovo	**696**	329	**606**	15	358
Retail – unsecured	**11 119**	4 708	**8 516**	31	5 092
Card	**2 368**	1 036	**1 805**	31	1 131
– FNB card	**2 126**	903	**1 569**	36	992
– Discovery card	**242**	133	**236**	3	139
Personal loans	**6 163**	2 466	**4 688**	31	2 750
– FNB	**3 346**	1 405	**2 340**	43	1 551
– DirectAxis loans*	**2 714**	1 031	**2 214**	23	1 157
– MotoNovo	**103**	30	**134**	(23)	42
Retail other	**2 588**	1 206	**2 023**	28	1 211
Corporate and commercial	**7 692**	5 590	**7 444**	3	5 518
FNB commercial	**3 564**	1 527	**3 457**	3	1 552
WesBank corporate	**361**	329	**333**	8	313
RMB investment banking**	**2 790**	2 837	**2 709**	3	2 757
RMB corporate banking**	**977**	897	**945**	3	896
HQLA corporate advances#	**–**	–	**–**	–	–
FNB Africa	**–**	27	**–**	–	–
FCC (including Group Treasury)	**201**	265	**199**	1	174
Securitisation notes	**27**	–	**25**	8	–
Other	**174**	265	**174**	–	174
Total impairments/total impairment coverage ratio†	**26 207**	15 057	**23 078**	14	15 429

* *Formerly called WesBank loans.*

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

Managed by the Group Treasurer.

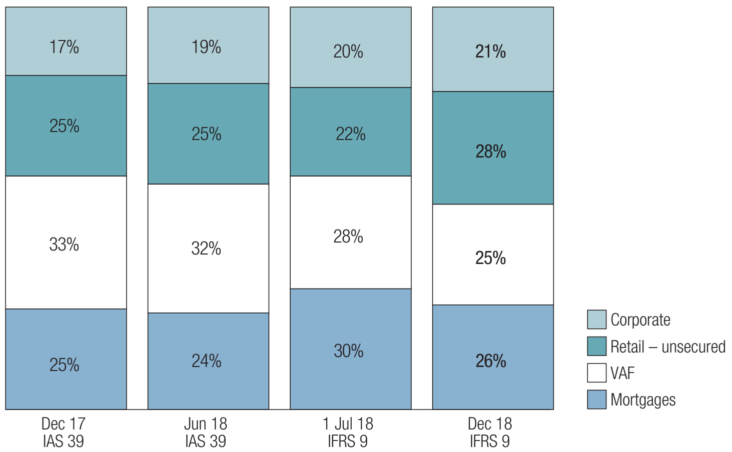
† *Stage 3 impairments at 31 December 2018 include an IFRS 9 transitional adjustment of R1 065 million.*

	Coverage ratios (% of stage 3/NPLs)			
	As at 31 December		As at 1 July	As at 30 June
	2018 IFRS 9	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39
	76.0	59.7	**74.1**	56.6
	46.0	41.7	**45.6**	38.8
	30.7	33.4	**29.8**	29.0
	62.4	47.9	**62.9**	46.1
	58.4	44.4	**59.3**	42.8
	103.6	131.1	**102.7**	112.6
	131.2	100.8	**151.1**	97.3
	129.2	104.3	**155.6**	104.5
	125.7	104.2	**154.0**	104.2
	170.4	105.6	**167.4**	106.9
	123.9	85.6	**136.8**	87.1
	135.1	110.3	**152.8**	116.0
	109.5	64.6	**118.1**	64.3
	490.5	250.0	**609.1**	190.9
	155.3	151.5	**193.0**	122.1
	119.8	177.9	**147.1**	138.5
	90.8	68.3	**103.2**	57.2
	76.6	137.1	**84.5**	128.3
	207.4	448.2	**236.6**	307.0
	143.9	2 562.9	**546.2**	694.6
	–	–	**–**	–
	–	54.0	**–**	–
	0.7	1.4	**0.8**	0.8
	0.1	–	**0.1**	–
	0.6	1.4	**0.7**	0.8
	85.9	81.1	**89.2**	72.8

Credit continued

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

NPL DISTRIBUTION



RECONCILIATION OF IMPAIRMENTS

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

BALANCE SHEET AMORTISED COST IMPAIRMENTS AND CREDIT FAIR VALUE ADJUSTMENTS

	Amortised cost book				Fair value book				Total book			
	As at 31 December		As at 1 July	As at 30 June	As at 31 December		As at 1 July	As at 30 June	As at 31 December		As at 1 July	As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39	**2018 IFRS 9**	2017 IAS 39	**2018 IFRS 9**	2018 IAS 39
Non-performing book	**14 497**	6 901	**11 285**	7 469	**4**	149	**–**	199	**14 501**	7 050	**11 285**	7 668
Performing book	**11 434**	6 048	**11 513**	6 459	**272**	1 959	**280**	1 302	**11 706**	8 007	**11 793**	7 761
Total impairments	**25 931**	12 949	**22 798**	13 928	**276**	2 108	**280**	1 501	**26 207**	15 057	**23 078**	15 429

TOTAL BALANCE SHEET IMPAIRMENTS

The following table provides an analysis of balance sheet impairments.

	As at 31 December		As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	2018 IAS 39
Opening balance	**15 429**	14 859	14 859
IFRS 9 adjustments	**7 649**	–	–
Restated opening balance	**23 078**	14 859	14 859
Acquisitions	**30**	6	16
Exchange rate difference	**50**	(50)	61
Unwinding and discounted present value on NPLs	**–**	(59)	(105)
Bad debts written off	**(2 827)**	(4 308)	(8 350)
Net new impairments created	**5 166**	4 609	8 948
Interest suspended	**710**	–	–
Closing balance	**26 207**	15 057	15 429

INCOME STATEMENT IMPAIRMENTS

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

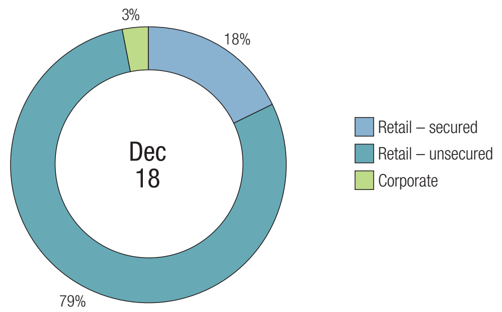
	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	Dec 18 IFRS 9 vs Dec 17 IAS 39 % change	2018 IAS 39
Specific impairment charge	**3 783**	4 283	(12)	8 852
Specific impairment charge – amortised cost	**3 783**	4 295	(12)	8 840
Credit fair value adjustments – non-performing book	**–**	(12)	100	12
Portfolio impairment charge	**1 383**	326	>100	96
Portfolio impairment charge – amortised cost	**1 387**	482*	>100	893*
Credit fair value adjustments – performing book	**(4)**	(156)*	(97)	(797)*
Total impairments before recoveries and modifications	**5 166**	4 609	12	8 948
Modification losses	**201**	–	100	–
Recoveries of bad debts written off	**(1 249)**	(1 085)	15	(2 289)
Total impairments	**4 118**	3 524	17	6 659

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

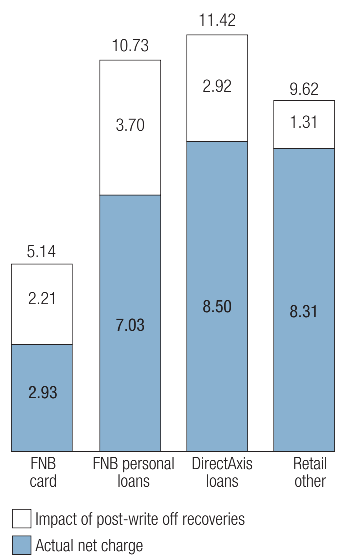
IMPACT OF POST WRITE-OFF RECOVERIES

Post-write off recoveries amounted to R1 249 million (December 2017: R1 085 million; June 2018: R2 289 million), primarily emanating from the unsecured retail lending portfolios, specifically FNB loans, DirectAxis loans and FNB card.

POST WRITE-OFF RECOVERIES



RETAIL UNSECURED CREDIT LOSS RATIOS AND RECOVERIES
%



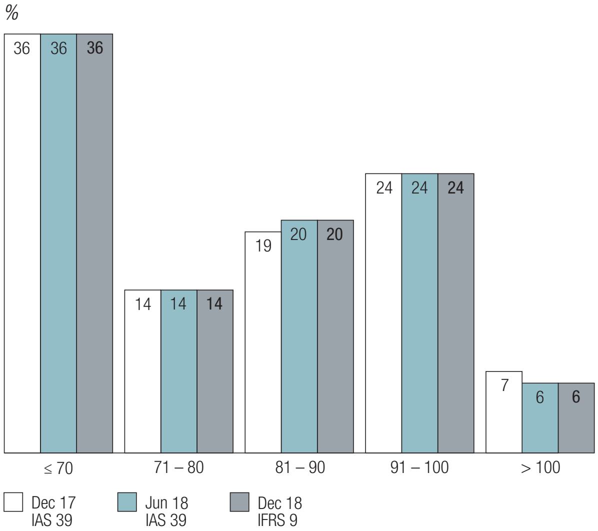
Credit continued

RISK ANALYSIS

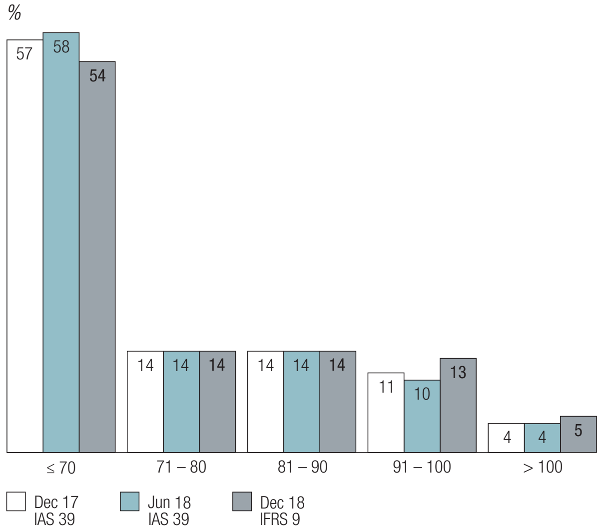
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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

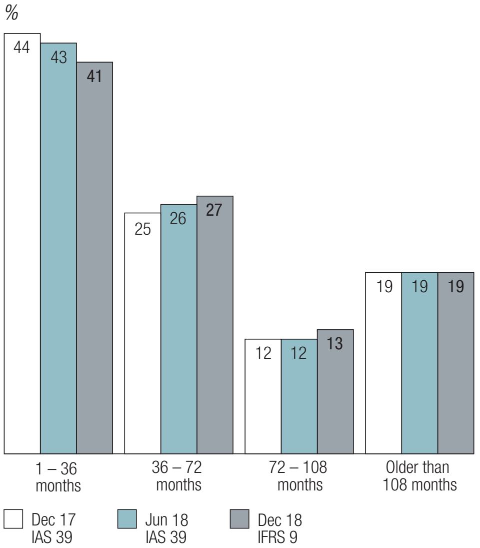
FNB RESIDENTIAL MORTGAGES
BALANCE-TO-ORIGINAL VALUE



FNB RESIDENTIAL MORTGAGES
BALANCE-TO-MARKET VALUE



FNB RESIDENTIAL MORTGAGES
AGE DISTRIBUTION

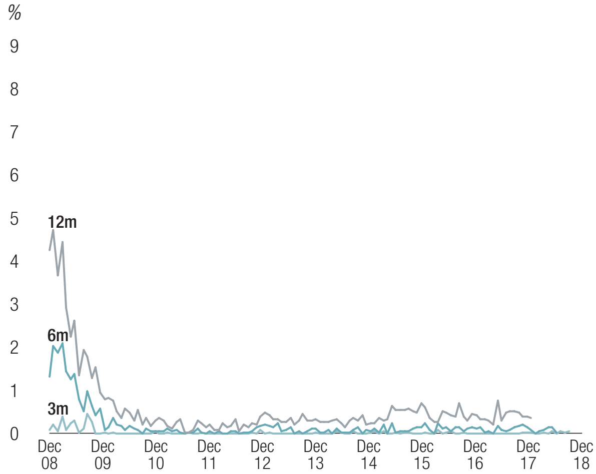


The following graph shows arrears in the FNB HomeLoans portfolio. It includes accounts where more than one full payment is in arrears, expressed as a percentage of total advances. Collections performance has been strong in the portfolio.

FNB HOMELOANS ARREARS

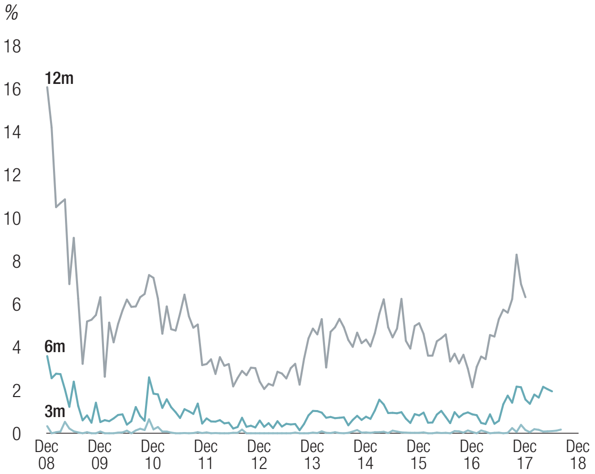
Vintages in FNB HomeLoans remained stable as collections improved. Lower new business volumes constrained book growth in the current period.

FNB HOMELOANS VINTAGE ANALYSIS



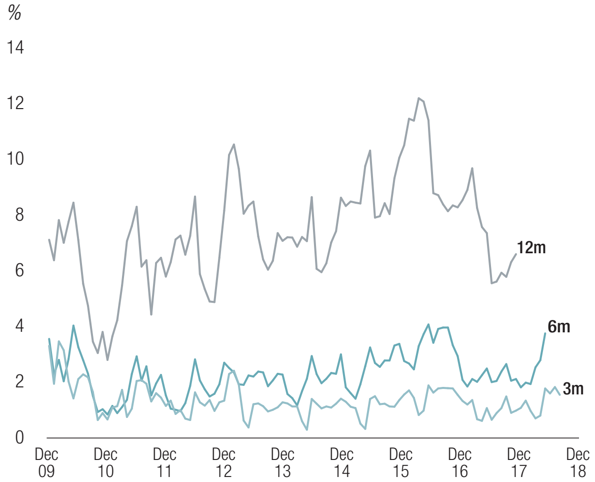
FNB card growth differed across segments over the period. Card growth in premium benefited from customer growth and up-sell, whilst the book contracted in the consumer segment as appetite remained conservative. The 12- and 6-month vintages have trended higher. To counter this, risk cuts have been implemented to ensure that performance remains within expectations.

FNB CARD VINTAGE ANALYSIS



FNB personal loans growth was focused on the premium segment and was driven by increased penetration into the main-banked base. The 12-month vintage increase towards year end primarily relates to seasonality and some changes to credit underwriting strategies. Performance remained well within internal thresholds and the increase was expected due to origination strategy changes implemented during 2018.

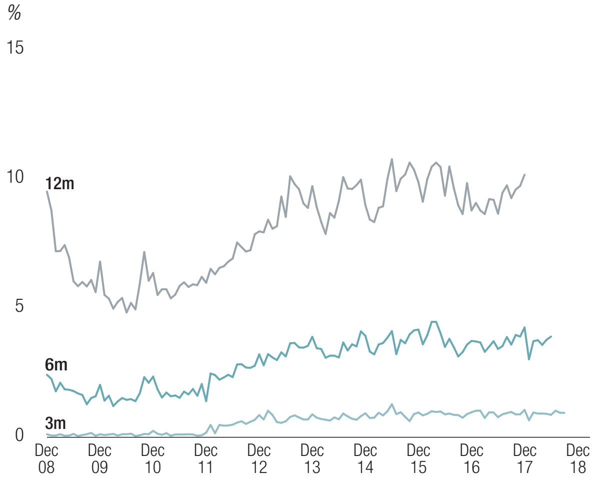
FNB PERSONAL LOANS VINTAGE ANALYSIS



Credit continued

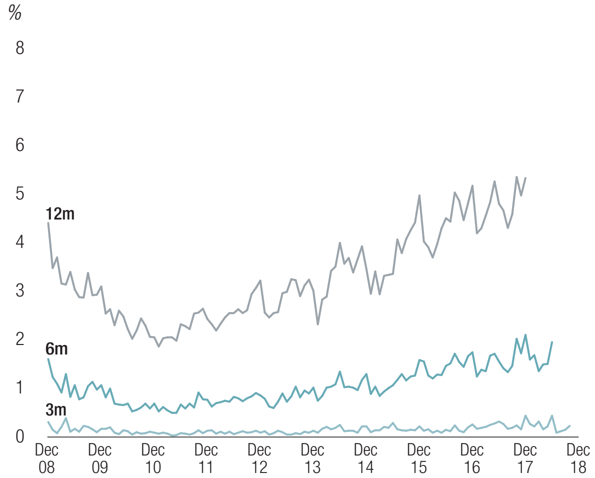
DirectAxis loans' vintages have remained stable since December 2013 while the business continued to see positive growth in disbursements. This is due to active credit origination management within the portfolio.

DIRECTAXIS LOANS VINTAGE ANALYSIS



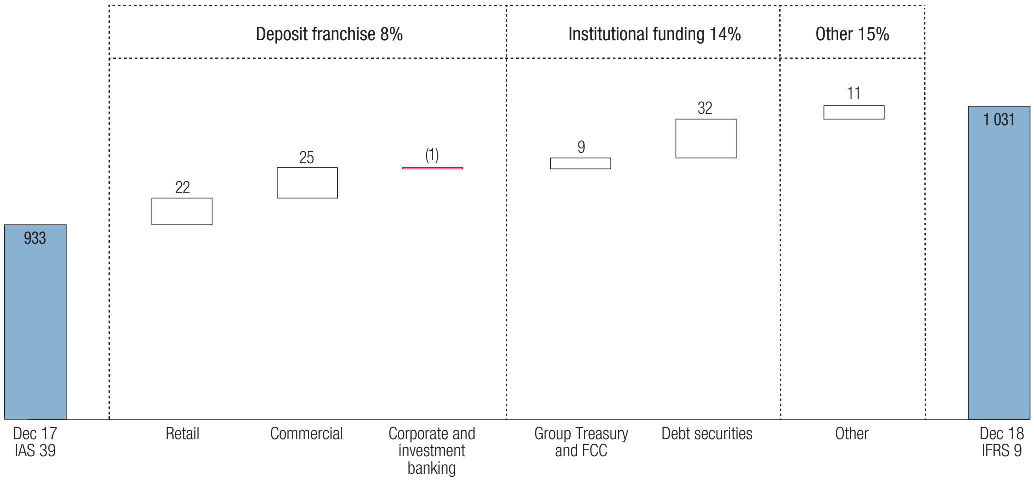
The retail SA VAF vintages experienced strain in the latter part of 2018 due to the continued increase in customers opting for court orders for repossession as well as increased macroeconomic challenges. The portfolio remains weighted towards lower and medium risk. During 2018 a few strategic changes were implemented to improve the performance of the portfolio, and the impact of these changes can already be seen in the reduction of the three-month vintage performance. Portfolio arrears and NPL levels have stabilised during the last six months.

WESBANK RETAIL VAF VINTAGE ANALYSIS



Deposits – up 11%

FUNDING PORTFOLIO GROWTH BY SEGMENT
R billion



KEY DRIVERS

- FNB's deposits increased 11%:
  - Retail deposit growth of 10% was supported by ongoing new client acquisition and continued growth in flagship deposit products.
  - Commercial deposit growth of 12% was driven by new client acquisition and cross-sell strategies; and
  - FNB remains the number one household deposit franchise in terms of market share in South Africa.
- RMB corporate and investment banking deposits declined marginally over the reporting period due to large cyclical withdrawals. Average deposits grew >10%, underpinned by new client acquisition and ongoing product rollout.
- With respect to institutional funding, Group Treasury deposits grew 8% whilst debt securities showed robust growth of 16%. This was a result of:
  - an increase in debt securities, attributable to taps of existing senior bonds and issuances of new bonds, additional NCDs and floating rate notes (FRNs) underpinning the bank's prudential liquidity requirements, an uptick in the demand for fixed deposits from institutional investors, and an increase in the interbank position;
  - structured issuances in the domestic market and growth in foreign-currency funding – the absolute amount of which was impacted by rand depreciation over the reporting period; and
  - overall growth in other deposits which resulted from growth in repurchase agreements, partly offset by a decrease in cash collateral received.

Funding and liquidity

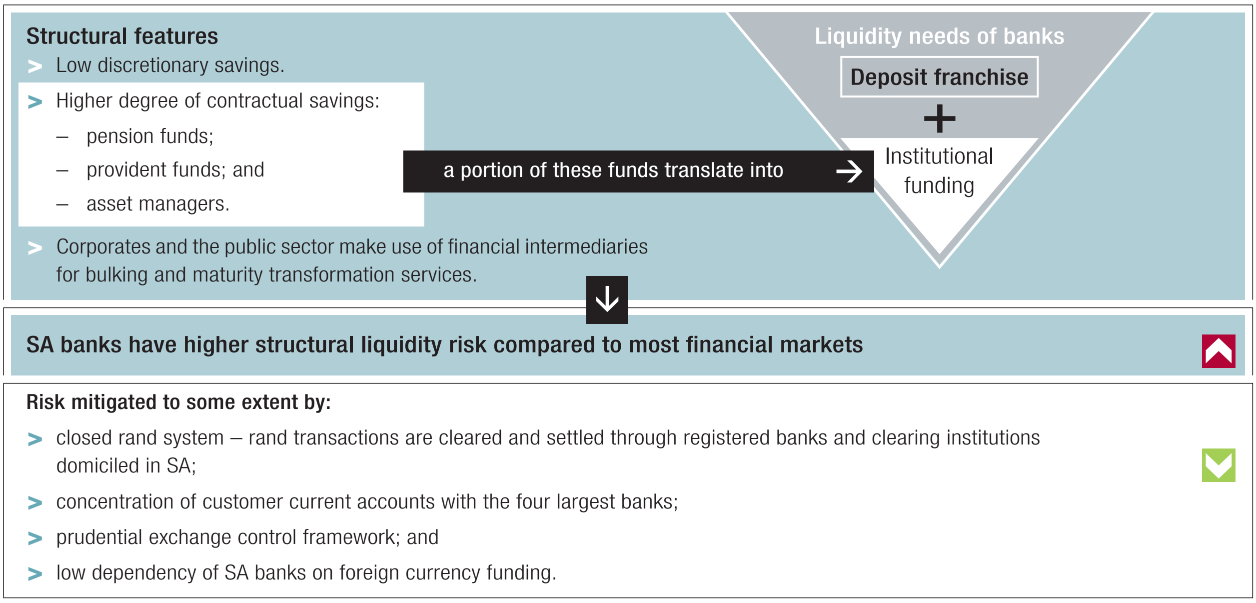
INTRODUCTION AND OBJECTIVES

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

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

FUNDING MANAGEMENT

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



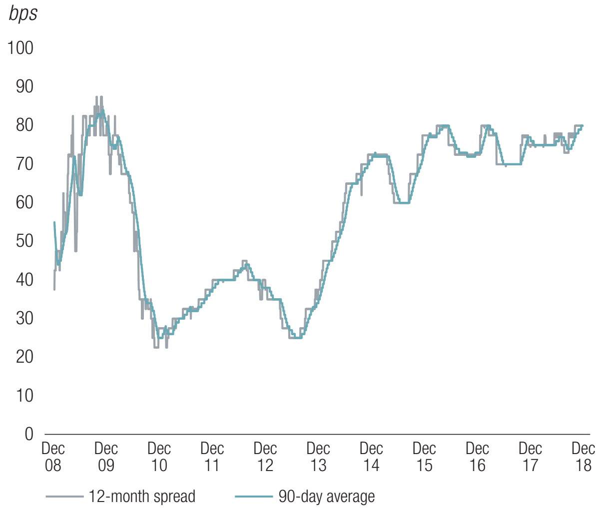
Additional liquidity required by banks due to money supply constraints introduced by the LCR and the central bank's open market operations, without a commensurate increase in savings flows, has ultimately resulted in higher liquidity costs.

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

To maximise efficiency and flexibility in accessing funding opportunities, a range of domestic and international debt programmes have been established. The bank's strategy for domestic vanilla public issuances is to create actively traded benchmark bonds to facilitate secondary market liquidity. The inherent value of this strategy is the ability to identify cost-effective funding opportunities whilst maintaining an understanding of available market liquidity.

The following graph is indicative of the market cost of liquidity, measured as the spread paid on the bank's 12-month funding instruments, which include NCDs and FRNs. The graph shows that short-dated liquidity spreads remain elevated.

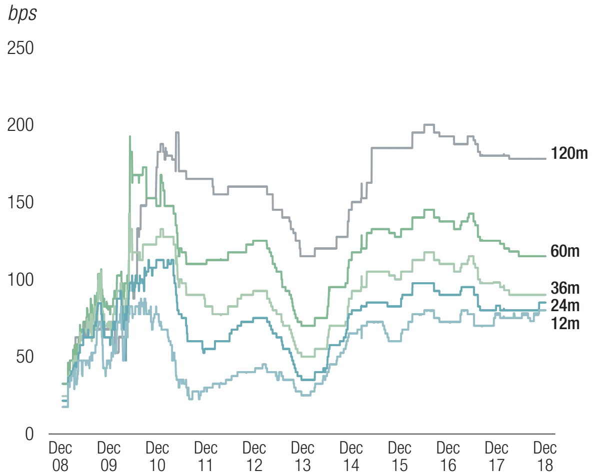
12-MONTH MID-MARKET FUNDING SPREAD



Sources: Bloomberg (RMBP screen) and Reuters.

The following graph shows that long-term funding spreads remain elevated from a historical perspective. Longer-dated funding spreads have moderated to a small degree, while near-dated spreads remain elevated.

LONG-TERM FUNDING SPREADS



Sources: Bloomberg (RMBP screen) and Reuters.

FUNDING MEASUREMENT AND ACTIVITY

The bank generates a larger proportion of its funding from deposits when compared to the South African aggregate, but its funding profile also reflects the structural features described previously.

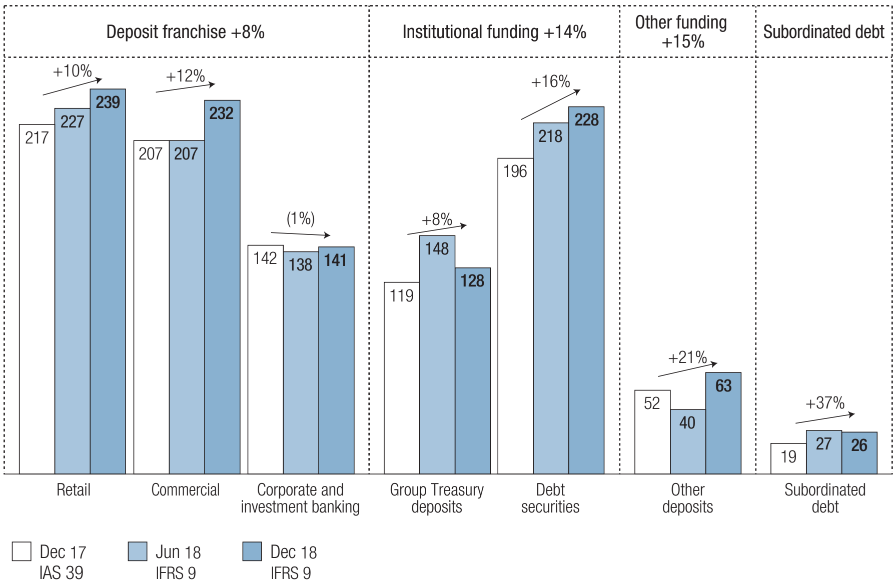
The group manages its funding profile by source, counterparty type, product, currency and market. The deposit franchise is the most efficient source of funding and represented 58% of total bank funding liabilities as at 31 December 2018 (December 2017: 59%).

The bank continued to focus on growing its deposit franchise across all segments, with increased emphasis on savings and investment products. Progress continues to be made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing for source and behaviour. To fund operations, the bank accesses the domestic money markets daily and, from time to time, capital markets. The bank issues various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis, with strong support from investors, both domestically and internationally.

Funding and liquidity continued

The following graph provides a segmental analysis of the bank's funding base and illustrates the success of its deposit franchise focus.

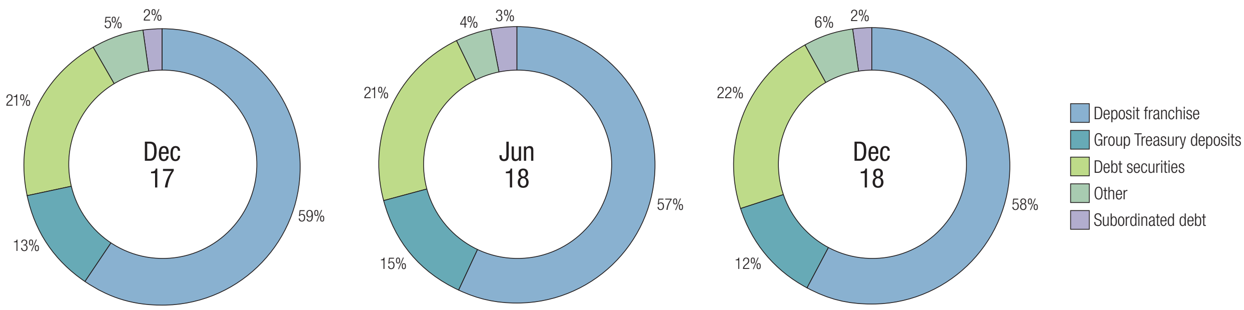
FUNDING PORTFOLIO GROWTH
R billion



Note 1: Percentage change is based on actual, not rounded, numbers shown in the bar graphs above.
Note 2: The above graph is completed using the bank segmental reporting split based on funding product type. The segment breakdown above differs from the risk counterparty view on page 93, which is segment and product neutral. These views primarily highlight the bank's strength in raising deposits across segments, as well as the diversification of funding from a counterparty perspective.
Note 3: December 2018 subordinated debt includes Tier 2 and AT1 capital instruments.

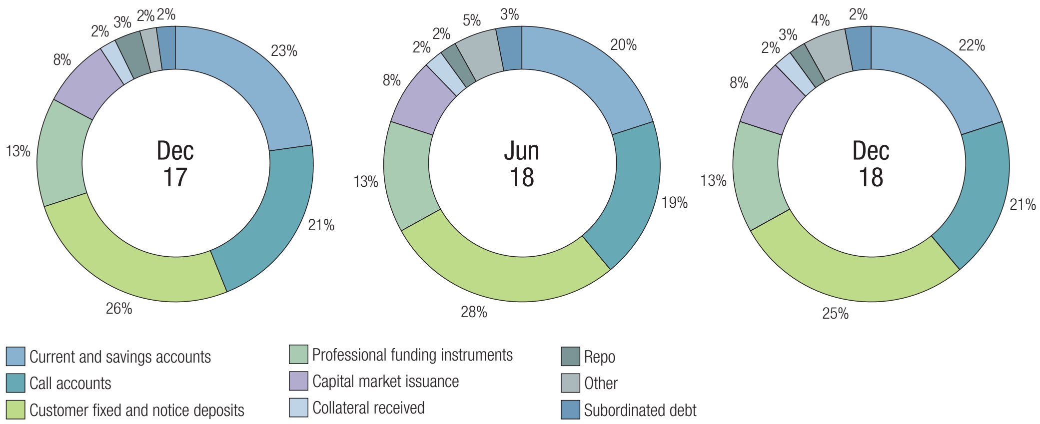
The graphs below show that the bank's funding mix has remained relatively stable over the last six months.

FUNDING MIX



The following graphs illustrate the bank's funding instruments by type, including senior debt and securitisations.

FUNDING ANALYSIS BY INSTRUMENT TYPE



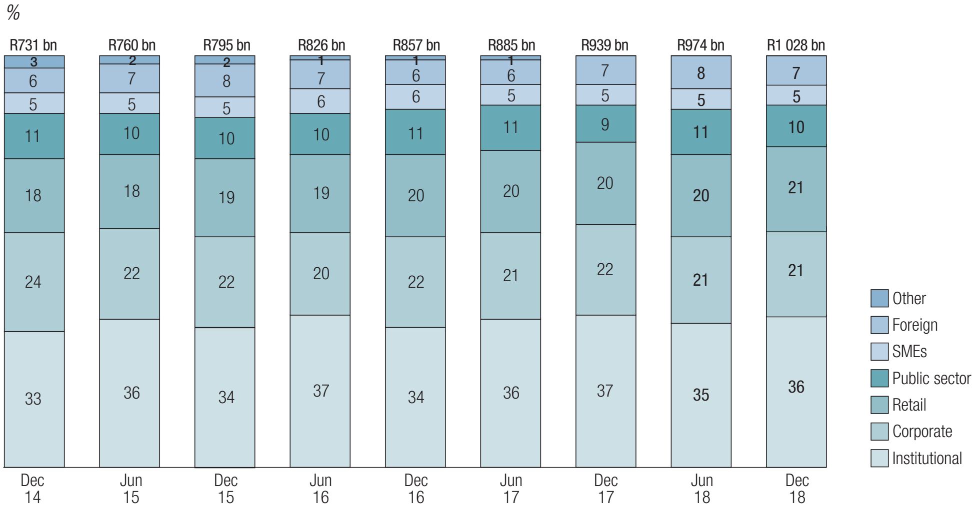
As a consequence of the bank's focus on growing its deposit and transactional banking franchise, a significant proportion of funds is contractually short-dated. As these deposits are anchored to clients' service requirements and given the balance granularity created by individual clients' independent activity, the resultant liquidity risk profile is improved.

The table below provides an analysis of FRB's (excluding foreign branches) funding sources per counterparty type, which differs from the segment view on page 96.

	December 2018 IFRS 9				December 2017 IAS 39	June 2018 IAS 39
% of funding liabilities	**Total**	**Short-term**	**Medium-term**	**Long-term**	Total	Total
Institutional funding	**36.5**	**11.4**	**7.1**	**18.0**	36.8	35.0
Deposit franchise	**63.5**	**49.6**	**8.3**	**5.6**	63.2	65.0
Corporate	**20.6**	**17.7**	**2.1**	**0.8**	21.9	20.6
Retail	**20.5**	**15.9**	**3.2**	**1.4**	20.2	20.3
SMEs	**5.1**	**4.3**	**0.5**	**0.3**	5.3	5.3
Governments and parastatals	**9.8**	**7.9**	**1.2**	**0.7**	9.0	11.0
Foreign	**7.4**	**3.7**	**1.3**	**2.4**	6.8	7.8
Other	**0.1**	**0.1**	**–**	**–**	–	–
Total	**100.0**	**61.0**	**15.4**	**23.6**	100.0	100.0

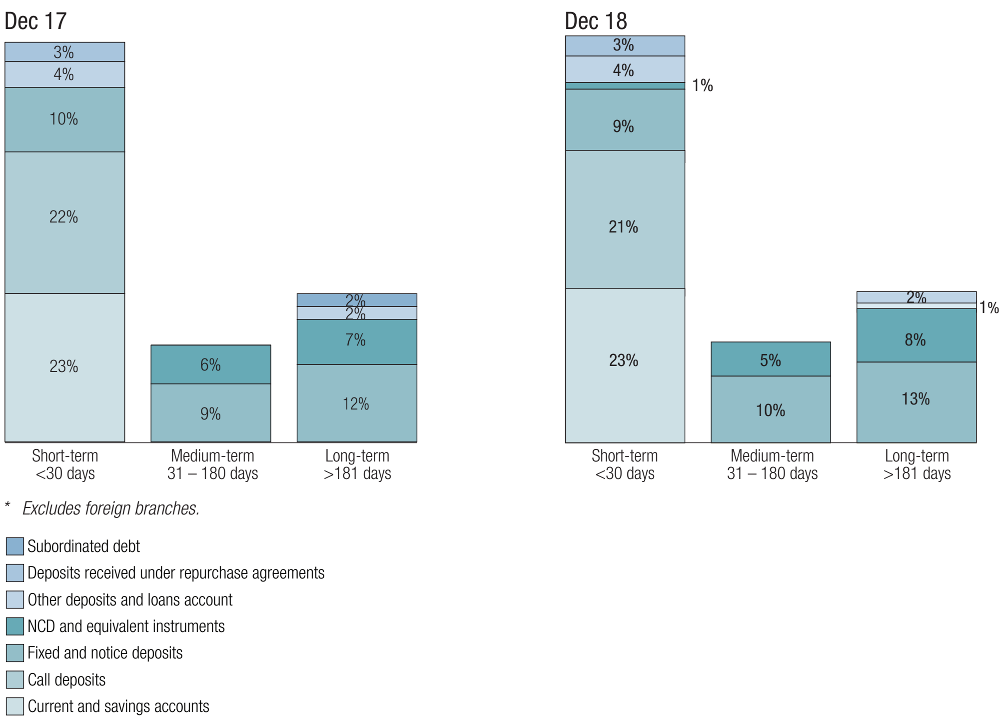
Funding and liquidity continued

FUNDING ANALYSIS FOR FIRSTRAND BANK BY SOURCE*



* Excludes foreign branches.

FUNDING LIABILITIES BY INSTRUMENT TYPE AND TENOR*

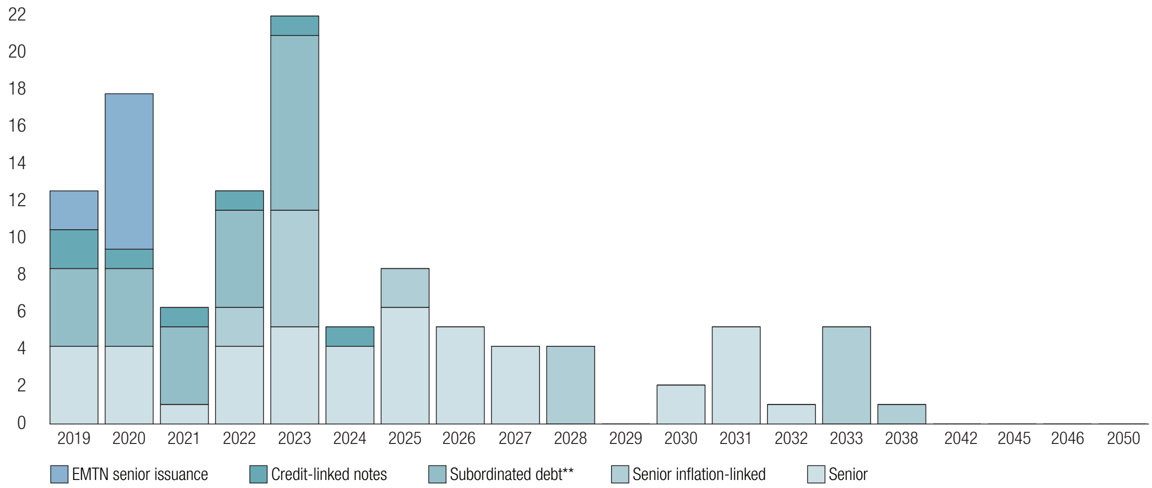


* Excludes foreign branches.

The maturity profile of all issued capital market instruments is depicted in the following chart. The bank does not have significant concentration risk in any one year and seeks to efficiently issue across the maturity spectrum taking into consideration investor demand.

MATURITY PROFILE OF CAPITAL MARKET INSTRUMENTS OF FIRSTRAND BANK*

R billion



* *Includes foreign branches.*

** *Subordinated debt includes EMTN Tier 2 and AT1 capital instruments.*

FUNDS TRANSFER PRICING

The group operates a funds transfer pricing framework which incorporates liquidity costs and benefits as well as regulatory friction costs into product pricing and performance measurement for all on- and off-balance sheet activities. The active management of foreign currency liquidity risk remains a strategic focus given the group's rest of Africa growth strategy. Where fixed-rate commitments are undertaken (fixed-rate loans or fixed deposits), transfer pricing will also include the interest rate transfer price. Businesses are effectively incentivised to:

> enhance and preserve funding stability;

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

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

> manage contingencies with respect to potential funding drawdowns.

FOREIGN CURRENCY BALANCE SHEET

MOTONOVO

The acquisition of Aldermore alleviates some pressure on the group's foreign currency funding capacity. Once integrated with Aldermore, MotoNovo will be supported by Aldermore's funding platform through which all new business will be funded via a combination of on-balance sheet deposits, wholesale and structured funding. MotoNovo's existing asset book, which currently forms part of the bank's London branch, continues to be funded through existing funding mechanisms and will, over time, be run down. Consequently, the funding capacity currently allocated to MotoNovo from the group's domestic balance sheet can ultimately be redeployed into other growth strategies.

RISK MANAGEMENT APPROACH

The bank seeks to avoid undue liquidity risk exposure and thus maintains liquidity risk within the risk appetite approved by the board and risk committee. The SARB, via *Exchange Control Circular 6/2010,* introduced macro-prudential limits applicable to authorised dealers. The group utilises its own foreign currency balance sheet measures based on economic risk and has set internal limits below those allowed by the macro-prudential limits framework.

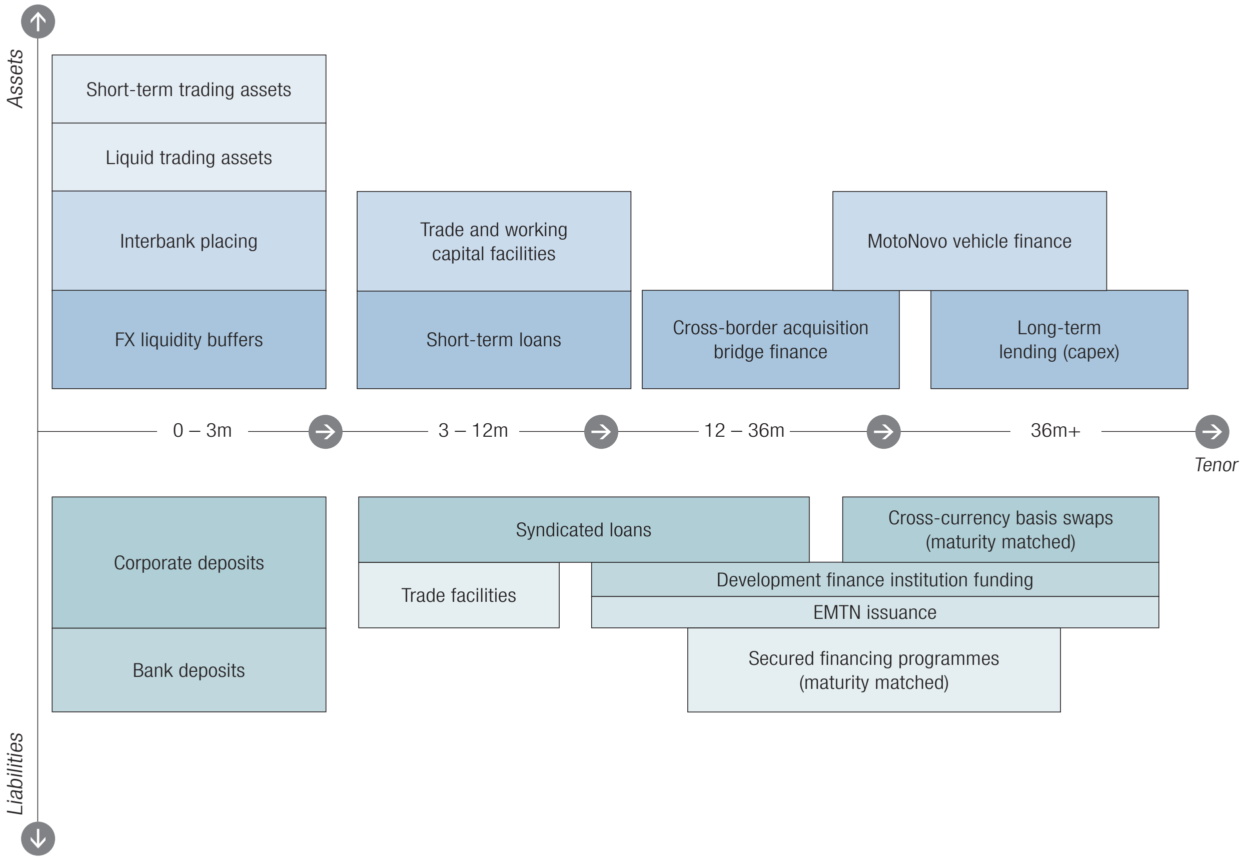
The bank's foreign currency activities, specifically lending and trade finance, have steadily increased over the past six years. It is, therefore, important to have a sound framework for the assessment and management of foreign currency external debt, given the inherent vulnerabilities and liquidity risks associated with cross-border financing. This limit includes the bank's exposure to branches, foreign currency assets and guarantees.

Funding and liquidity continued

PHILOSOPHY ON FOREIGN CURRENCY EXTERNAL DEBT

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

GRAPHICAL REPRESENTATION OF THE BANK'S FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK POSITION

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

COMPOSITION OF LIQUID ASSETS

	As at 31 December	
R billion	**2018**	2017
Cash and deposits with central banks	**32**	29
Government bonds and bills	**126**	110
Other liquid assets	**42**	38
Total liquid assets	**200**	177

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

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

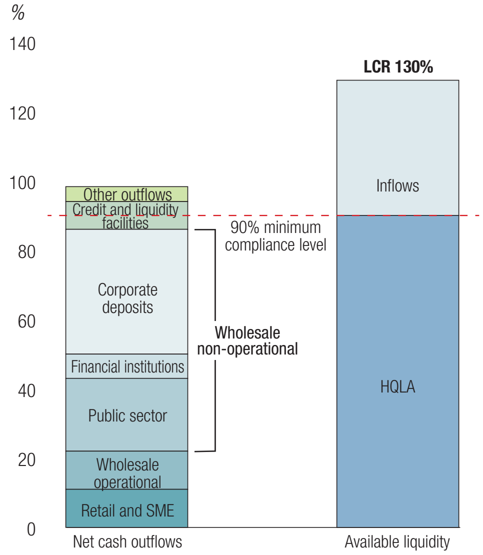
The bank's (excluding foreign branches) liquidity ratios at 31 December 2018 are summarised below. The NSFR became effective on 1 January 2018.

	LCR*	**NSFR**
Regulatory minimum	90%	100%
Actual	130%	110%

* *LCR is calculated as a simple average of 90 calendar days' LCR observations over the preceding quarter.*

The following graph illustrates the bank's LCR position and demonstrates compliance with the 90% minimum requirement at 31 December 2018 (1 January 2019 requirement increased to 100%).

FRB LCR (excluding foreign branches)



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

Capital

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

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

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

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

The bank is subject to the PA's transitional capital requirements as at 31 December 2018, which includes a 75% phased-in requirement for the capital conservation, countercyclical (CCyB) and domestic systemically important bank (D-SIB) buffer add-ons. The PA has not implemented any CCyB requirement for South African exposures. However, the bank is required to calculate the CCyB requirement on private sector exposures in foreign jurisdictions where these buffers are applicable. Effective 28 November 2018, the Prudential Regulation Authority's CCyB requirement for UK exposures stepped up to 1.0% from 0.5%. The CCyB requirement for the bank as at 31 December 2018 was 5 bps and is included in the disclosed minimum requirement. Effective 1 January 2019, the PA's minimum capital requirements will be fully phased in, including 100% of the capital conservation, CCyB and D-SIB add-ons.

The PA issued Directive 5/2017, *Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects*, which allows banks to apply a transitional phase-in of the IFRS 9 Day 1 impact for regulatory capital purposes. The Day 1 implementation reduced the bank's CET1 position by 44 bps, and will be transitioned over a four-year period.

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.

PERIOD UNDER REVIEW

The capital and leverage positions as at 31 December 2018 exceeded internal targets, and are summarised in the following table.

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

	Capital			Leverage
%	CET 1	Tier 1	Total	Total
Regulatory minimum*	7.4	8.9	11.2	4.0
Internal target	10.0 – 11.0	>12.0	>14.0	>5.0
Actual**				
FRB including foreign branches	**13.1**	**13.6**	**16.9**	**7.2**
FRB excluding foreign branches	**12.9**	**13.4**	**16.4**	**6.8**

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

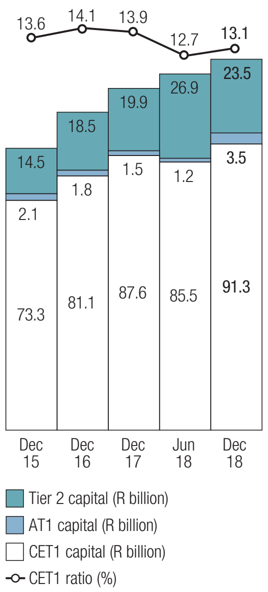
** *Includes the transitional Day 1 impact of IFRS 9, and unappropriated profits of R8.9 billion for FRB (including foreign branches). Refer to the Pillar 3 standardised disclosure templates for ratios excluding unappropriated profits (www.firstrand.co.za).*

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

CAPITAL

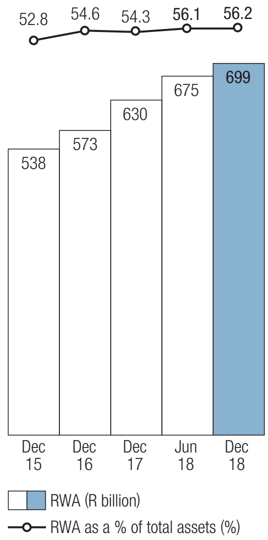
The graphs below show the historical overview of capital adequacy and RWA.

CAPITAL ADEQUACY*



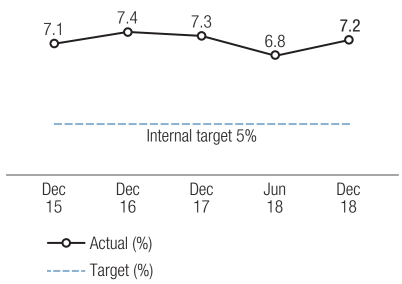
** Includes unappropriated profits.*

RWA HISTORY



LEVERAGE

LEVERAGE*



** Includes unappropriated profits.*

Note: December 2015 to December 2017 figures are presented on an IAS 39 basis, whilst December 2018 figures are presented on an IFRS 9 basis.

Capital continued

SUPPLY OF CAPITAL

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

COMPOSITION OF CAPITAL ANALYSIS*

	As at 31 December		As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	2018 IAS 39
CET1	**91 320**	87 573	85 474
Tier 1	**94 785**	89 073	86 674
Total qualifying capital	**118 255**	108 973	113 637

* *Includes unappropriated profits of R8.9 billion.*

KEY DRIVERS: DECEMBER 2018 vs JUNE 2018

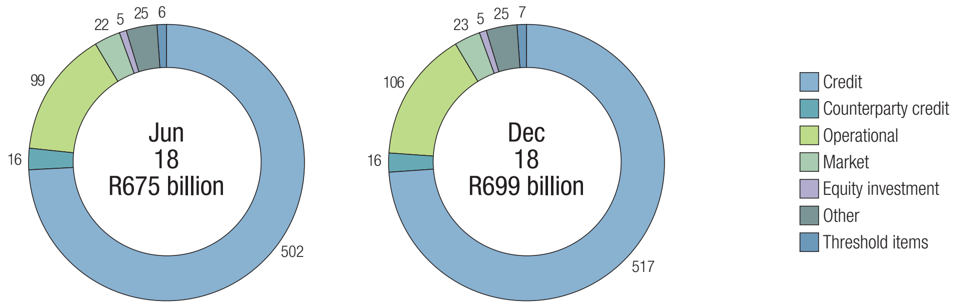
CET1	▲	> Ongoing internal capital generation through earnings. > Once-off realisation relating to the Discovery transaction (±R1.5 billion) partly reduced by the Day 1 transitional impact of IFRS 9.
AT1	▲	> Issuance of Basel III compliant AT1 instruments in November 2018 (R2.3 billion).
Tier 2	▼	> Redemption of the FRB05, FRBC21 and FRBC22 in December 2018 (R3.1 billion). The capital stack no longer includes any old-style Tier 2 instruments.

DEMAND FOR CAPITAL

The charts and table below unpack the RWA movement from June 2018 to December 2018.

RWA ANALYSIS

R billion



KEY DRIVERS: DECEMBER 2018 vs JUNE 2018		
Credit	▲	> Organic growth, model recalibrations and exchange rate movements, partly offset by movements in securitisation funding structures.
Operational	▲	> Increase in gross income for entities on advanced measurement approach (AMA) used to calculate the AMA capital floor. > Increase in gross income for entities on the standardised approach.
Market	▲	> Volumes and mark-to-market movements.
Threshold items	▲	> Movement in deferred tax assets and investments in financial and banking entities (subject to 250% risk weighting). > Increase in deferred tax assets due to the IFRS 9 implementation.

Capital continued

CAPITAL ADEQUACY POSITION FOR THE BANK AND ITS FOREIGN BRANCHES

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

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

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

RWA AND CAPITAL ADEQUACY POSITIONS OF FRB AND ITS FOREIGN BRANCHES

	As at 31 December				As at 30 June
	2018 IFRS 9			2017 IAS 39	2018 IAS 39
	RWA R million	**Tier 1 %**	**Total capital adequacy %**	Total capital adequacy %	Total capital adequacy %
Basel III (PA regulations)					
FirstRand Bank*,**	**698 853**	**13.6**	**16.9**	17.3	16.8
FirstRand Bank South Africa*	**645 474**	**13.4**	**16.4**	17.3	16.7
FirstRand Bank London	**51 789**	**9.8**	**15.7**	14.0	14.8
FirstRand Bank India	**1 943**	**34.3**	**34.9**	32.9	39.9
FirstRand Bank Guernsey#	**238**	**12.7**	**12.7**	16.5	15.3

* *Includes unappropriated profits.*

** *Includes foreign branches.*

Trading as FNB Channel Islands.

Standardised disclosures

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

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

Refer to www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx.

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

Regulatory update

BASEL III REFORMS	The Basel Committee on Banking Supervision (BCBS) finalised the Basel III reforms in December 2017, with a specific focus on reducing the variability of RWA. The BCBS has agreed on a five-year transitional period, beginning 1 January 2022. The 2017 reforms aim to address weaknesses identified during the global financial crisis, i.e. credibility of the risk-based capital framework and to introduce constraints on the estimates banks used within internal models for regulatory capital purposes. The PA further issued *Guidance Note 6 of 2018, Proposed implementation dates in respect of specified regulatory reforms*, which includes the proposed implementation dates of the outstanding Basel III regulatory reforms. The impact on the bank capital position depends on the final implementation by the PA given a level of national discretion. The bank continues to participate in the BCBS quantitative impact studies to assess and understand the impact of such reforms.
LIQUIDITY COVERAGE RATIO	The LCR has been fully adopted by the PA with the inclusion of a committed liquidity facility (CLF). Phasing in of the LCR commenced in 2015 and banks are required to be fully compliant by 2019. The minimum LCR requirement is currently 90%, with a 10% incremental step-up to 100% on 1 January 2019. The bank remains focused on building a diversified pool of available HQLA, which is constrained by the limited availability of these assets in the South African market.
NET STABLE FUNDING RATIO	The NSFR is a structural balance sheet ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The ratio was effective from 1 January 2018. Replacing *Directive 4 of 2016, Directive 8 of 2017* set out the elements of national discretion exercised by the PA in relation to the calibration of the NSFR framework for South Africa. The PA, after due consideration and noting that rand funding is contained in the financial system, concluded it to be appropriate to apply a 35% ASF factor to deposits from financial institutions with a residual maturity of less than six months. In line with several other international regulators, the PA also provided clarity on the alignment of the LCR and NSFR, applying a 5% RSF factor to the assets net of their haircut eligible for CLF purposes. These changes are anchored in the assessment of the true liquidity risk and greatly assist the South African banking sector in meeting the NSFR requirements.
RESOLUTION FRAMEWORK	The South African regulatory architecture has undergone significant transformation to create a regulatory framework that will support an effective resolution regime. The country has adopted a twin peaks supervisory framework model that reduces the number of agencies involved in supervision. The PA, established within the SARB, and the Financial Sector Conduct Authority (FSCA), which replaces the Financial Services Board, were established on 1 April 2018. Whilst the PA/SARB is responsible for monitoring and enhancing financial stability as part of its explicit financial stability mandate, the SARB will also be responsible for assisting with the prevention of systemic events by means of its designation as the Resolution Authority (RA). The FSCA will supervise how financial institutions conduct their business and treat customers. It is also responsible for the efficiency and integrity of financial markets. In January 2018, a draft resolution framework was released to the banking industry for initial review, following which it will be released to the public for general comment. This draft framework sets out the broad principles for the resolution of banks, systemically important non-bank financial institutions and holding companies of banks, and highlights the various legislative amendments required to ensure the framework is enforceable. Detailed definitions of key elements of the resolution framework are subject to finalisation, and directives or addendums to this framework will be published once finalised. The resolution plans will allow the PA to prepare for an event from which the bank's recovery actions have failed or are deemed likely to fail. Bank resolution plans will be owned and maintained by the RA, but will require a significant amount of bilateral engagement and input from the individual banks to enable the RA to develop a customised plan that is most appropriate to each bank. The Draft Financial Sector Laws Amendment Bill was published for comment by National Treasury in October 2018. In order to support the pending Resolution Framework, the bill proposes the necessary amendments to various acts including the Insolvency Act, the South African Reserve Bank Act, the Banks Act, the Mutual Banks Act, the Competition Act, the Financial Markets Act and the Insurance Act with a view to strengthening the ability of the South African Reserve Bank to manage the orderly resolution or winding down of a failing financial institution with minimum disruption to the broader economy. One of the key amendments included in the bill is the establishment of the CoDI designed to protect depositors' funds and enhance financial stability. The bill is awaiting promulgation by parliament before it is enacted, but in the interim the relevant regulators are continuously engaging with industry to continue working on the design and finalisation of the outstanding elements of the resolution framework.
FINANCIAL CONGLOMERATES	The Financial Sector Regulation Act further empowers the PA to designate a group of companies as a financial conglomerate as well as to regulate and supervise such designated financial conglomerates. Draft standards provide an early signal to the industry and affected stakeholders on the approach to the classification, regulation and supervision of designated financial conglomerates. Comments were due by the end of August 2018. The expected implementation date for the standards is not known.

Credit ratings

The ratings of South African-based banks are constrained by the country's sovereign rating. This is due to the direct and indirect impact of sovereign distress on domestic banks' operations. The following tables summarise the credit ratings of the South African sovereign and FirstRand Bank Limited as at 11 March 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 deposits 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, focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

04 IFRS information

112 – 148

Presentation

BASIS OF PRESENTATION

FirstRand Bank prepared its unaudited condensed interim financial report in accordance with:

- International Financial Reporting Standard, *IAS 34 Interim Financial Reporting*;
- framework concepts and the recognition and measurement requirements of IFRS;
- interpretations issued by the IFRS Interpretation Committee (IFRS-IC);
- Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council;
- SAICA Financial Reporting Guides as issued by the Accounting Practices Committee;
- the JSE Listings Requirements; and
- requirements of the Companies Act no 71 of 2008.

The condensed interim report for the six months ended 31 December 2018 has not been audited or independently reviewed by the bank's external auditors.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed interim financial report are in terms of IFRS and are consistent with those applied for the year ended 30 June 2018, except for the adoption of certain IFRS that became effective in the current year.

The condensed interim financial report is prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

IFRS 9 – *Financial Instruments* (IFRS 9) and IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15) became effective in the current year. IFRS 9, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), had the most significant impact on the bank, as IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model and changed the way impairments are calculated on financial assets at amortised cost from the incurred loss model to the expected loss model.

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

The adoption of IFRS 9 impacted the bank's results on the date of initial adoption, being 1 July 2018. FirstRand Bank prepared an IFRS 9 *Transitional Report*, on which a reasonable assurance audit report was provided by the external auditors. The IFRS 9 *Transitional Report* is available on www.firstrand.co.za/InvestorCentre/IFRS9. A summary of the changes to the accounting policies relating to IFRS 9 can be found on pages 128 to 133.

No other new or amended IFRS become effective for the six months ended 31 December 2018 which impacted the bank's reported earnings, financial position or reserves, or the accounting policies.

NORMALISED RESULTS

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

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

This *pro forma* financial information, which is the responsibility of the bank's directors, has been prepared for illustrative purposes to more accurately reflect operational performance and, because of its nature, may not fairly present, in terms of IFRS, the bank's financial position, changes in equity, and results of operations or cash flows.

DESCRIPTION OF DIFFERENCE BETWEEN NORMALISED AND IFRS RESULTS

MARGIN RELATED ITEMS INCLUDED IN FAIR VALUE INCOME

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

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

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

IAS 19 REMEASUREMENT OF PLAN ASSETS

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

CASH-SETTLED SHARE-BASED PAYMENTS AND THE ECONOMIC HEDGE

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

In terms of *IFRS 9 Financial Instruments*, 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 Share-based Payments*, the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense.

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

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

HEADLINE EARNINGS ADJUSTMENTS

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

The description and the amount of these adjustments are provided in the reconciliation between headline earnings and IFRS profit on page 120.

Condensed income statement – IFRS

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Net interest income before impairment of advances	**24 198**	20 164	20	41 163
Impairment and fair value of credit of advances	**(4 118)**	(3 524)	17	(6 659)
Net interest income after impairment of advances	**20 080**	16 640	21	34 504
Non-interest revenue	**18 110**	17 055	6	33 687
Income from operations	**38 190**	33 695	13	68 191
Operating expenses	**(21 658)**	(20 542)	5	(40 697)
Income before indirect tax	**16 532**	13 153	26	27 494
Indirect tax	**(572)**	(475)	20	(805)
Profit before income tax	**15 960**	12 678	26	26 689
Income tax expense	**(3 721)**	(3 123)	19	(6 172)
Profit for the period	**12 239**	9 555	28	20 517
Attributable to				
Ordinary equityholders	**12 126**	9 437	28	20 283
NCNR preference shareholders	**113**	118	(4)	234
Profit for the period	**12 239**	9 555	28	20 517

Condensed statement of other comprehensive income – IFRS

	Six months ended 31 December			Year ended 30 June
R million	**2018 IFRS 9**	2017 IAS 39	% change	2018 IAS 39
Profit for the period	**12 239**	9 555	28	20 517
Items that may subsequently be reclassified to profit or loss				
Cash flow hedges	**77**	594	(87)	185
Gains arising during the period	**566**	832	(32)	325
Reclassification adjustments for amounts included in profit or loss	**(459)**	(7)	>100	(68)
Deferred income tax	**(30)**	(231)	(87)	(72)
FVOCI reserve/available-for-sale financial assets	**5**	(69)	(>100)	(731)
Gains/(losses) arising during the period	**8**	(89)	(>100)	(848)
Reclassification adjustments for amounts included in profit or loss	**(1)**	–	–	(144)
Deferred income tax	**(2)**	20	(>100)	261
Exchange differences on translating foreign operations	**149**	(237)	(>100)	285
Gains/(losses) arising during the period	**149**	(237)	(>100)	285
Items that may not subsequently be reclassified to profit or loss				
Remeasurements on defined benefit post-employment plans	**(34)**	(43)	(21)	13
(Losses)/gains arising during the period	**(47)**	(60)	(22)	18
Deferred income tax	**13**	17	(24)	(5)
Other comprehensive income/(loss) for the period	**197**	245	(20)	(248)
Total comprehensive income for the period	**12 436**	9 800	27	20 269
Attributable to				
Ordinary equityholders	**12 323**	9 682	27	20 035
NCNR preference shareholders	**113**	118	(4)	234
Total comprehensive income for the period	**12 436**	9 800	27	20 269

Condensed statement of financial position – IFRS

R million	As at 31 December 2018 IFRS 9	As at 31 December 2017 IAS 39	As at 30 June 2018 IAS 39	As at 1 July 2018 IFRS 9
ASSETS				
Cash and cash equivalents	**59 311**	50 552	71 511	**71 511**
Derivative financial instruments	**33 778**	53 364	41 386	**41 386**
Commodities	**17 815**	15 489	13 424	**13 424**
Investment securities	**167 823**	145 581	157 238	**158 875**
Advances	**886 983**	839 866	843 806	**837 883**
– Advances to customers	**825 218**	784 327	787 441	**781 518**
– Marketable advances	**61 765**	55 539	56 365	**56 365**
Accounts receivable	**7 569**	6 094	6 075	**6 007**
Current tax asset	**797**	174	94	**562**
Amounts due by holding company and fellow subsidiaries	**51 001**	32 464	52 419	**52 336**
Investments in associates	**66**	–	–	**65**
Property and equipment	**15 406**	15 281	15 379	**15 379**
Intangible assets	**463**	250	383	**383**
Deferred income tax asset	**2 571**	1 250	2 162	**3 079**
Total assets	**1 243 583**	1 160 365	1 203 877	**1 200 890**
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	**6 042**	15 231	9 981	**9 981**
Derivative financial instruments	**40 652**	57 406	50 238	**50 238**
Creditors, accruals and provisions	**14 148**	13 170	14 194	**14 194**
Current tax liability	**114**	46	86	**86**
Deposits	**1 030 827**	932 699	977 258	**978 054**
Employee liabilities	**8 018**	7 480	10 178	**10 178**
Other liabilities	**3 279**	4 274	4 381	**4 381**
Amounts due to holding company and fellow subsidiaries	**20 436**	18 101	19 993	**19 993**
Additional Tier 1 and Tier 2 liabilities	**26 268**	19 491	26 668	**26 668**
Total liabilities	**1 149 784**	1 067 898	1 112 977	**1 113 773**
Equity				
Ordinary shares	**4**	4	4	**4**
Share premium	**16 804**	16 804	16 804	**16 804**
Reserves	**73 991**	72 659	71 092	**67 309**
Capital and reserves attributable to ordinary equityholders	**90 799**	89 467	87 900	**84 117**
NCNR preference shares	**3 000**	3 000	3 000	**3 000**
Total equity	**93 799**	92 467	90 900	**87 117**
Total equity and liabilities	**1 243 583**	1 160 365	1 203 877	**1 200 890**

Condensed statement of cash flows – IFRS

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	Year ended 30 June 2018 IAS 39
Cash generated from operating activities			
Interest, fee and commission receipts	**63 261**	50 156	102 413
Trading and other income	**1 686**	2 335	3 681
Interest payments	**(26 297)**	(18 350)	(37 662)
Other operating expenses	**(18 431)**	(16 646)	(31 571)
Dividends received	**326**	1 777	3 368
Dividends paid	**(5 754)**	(4 706)	(16 742)
Taxation paid	**(3 768)**	(3 315)	(7 244)
Cash generated from operating activities	**11 023**	11 251	16 243
Movements in operating assets and liabilities	**(18 582)**	(14 269)	(3 201)
Liquid assets and trading securities	**(8 038)**	(17 703)	(28 339)
Advances	**(47 536)**	(44 922)	(47 181)
Deposits	**51 266**	57 767	98 888
Movement in accounts receivable and creditors	**(1 187)**	(272)	(153)
Employee liabilities	**(4 819)**	(4 298)	(4 595)
Other operating liabilities	**(8 268)**	(4 841)	(21 821)
Net cash (utilised by)/generated from operating activities	**(7 559)**	(3 018)	13 042
Cash flows from investing activities			
Acquisition of property and equipment	**(1 668)**	(1 715)	(3 208)
Proceeds on disposal of property and equipment	**484**	210	416
Acquisition of intangible assets	**(132)**	(63)	(241)
Net cash outflow from investing activities	**(1 316)**	(1 568)	(3 033)
Cash flows from financing activities			
Proceeds from the issue of other liabilities	**980**	282	889
Redemption of other liabilities	**(3 873)**	(159)	(790)
Proceeds from the issue of additional Tier 1 and Tier 2 liabilities	**2 265**	2 750	8 815
Repayment of additional Tier 1 and Tier 2 liabilities	**(2 736)**	(1 630)	(1 372)
Net cash outflow/(inflow) from financing activities	**(3 364)**	1 243	7 542
Net (decrease)/increase in cash and cash equivalents	**(12 239)**	(3 343)	17 551
Cash and cash equivalents at the beginning of the year	**71 511**	53 924	53 924
Effect of exchange rate changes on cash and cash equivalents	**39**	(29)	36
Cash and cash equivalents at the end of the period	**59 311**	50 552	71 511
Mandatory reserve balances included above*	**24 234**	22 518	23 478

* *Banks are required to deposit a minimum average balance, calculated monthly with the central bank, which is not available for use in the bank's day-to-day operations. The deposit bears no or low interest. Money at short notice constitutes amounts withdrawable in 32 days or less.*

Condensed statement of changes in equity – IFRS

for the six months ended 31 December 2018

	Ordinary share capital and ordinary equityholders' funds				
R million	Share capital	Share premium	**Share capital and share premium**	Defined benefit post-employment reserve	Cash flow hedge reserve
Balance as at 1 July 2017	4	16 804	**16 808**	(727)	158
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Total comprehensive income for the period	–	–	**–**	(43)	594
Balance as at 31 December 2017	4	16 804	**16 808**	(770)	752
Balance as at 1 July 2018	4	16 804	**16 808**	(714)	343
Restated	–	–	**–**	–	–
Balance as at 1 July 2018 restated	4	16 804	**16 808**	(714)	343
Ordinary dividends	–	–	**–**	–	–
Preference dividends	–	–	**–**	–	–
Total comprehensive income for the period	–	–	**–**	(34)	77
Balance as at 31 December 2018	4	16 804	**16 808**	(748)	420

* *Other reserves include FVOCI reserve.*

Ordinary share capital and ordinary equityholders' funds						
Available-for-sale reserve	Foreign currency translation reserve	Other reserves*	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shares**	**Total equity**
(493)	446	1 345	66 836	**67 565**	**3 000**	**87 373**
–	–	–	(4 588)	**(4 588)**	**–**	**(4 588)**
–	–	–	–	**–**	**(118)**	**(118)**
(69)	(237)	–	9 437	**9 682**	**118**	**9 800**
(562)	209	1 345	71 685	**72 659**	**3 000**	**92 467**
(1 224)	731	1 345	70 611	**71 092**	**3 000**	**90 900**
1 224	–	60	(5 067)	**(3 783)**	**–**	**(3 783)**
–	731	1 405	65 544	**67 309**	**3 000**	**87 117**
–	–	–	(5 641)	**(5 641)**	**–**	**(5 641)**
–	–	–	–	**–**	**(113)**	**(113)**
–	149	5	12 126	**12 323**	**113**	**12 436**
–	880	1 410	72 029	**73 991**	**3 000**	**93 799**

Statement of headline earnings – IFRS

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Profit for the period (refer to page 114)	**12 239**	9 555	28	20 517
NCNR preference shareholders	**(113)**	(118)	(4)	(234)
Earnings attributable to ordinary equityholders	**12 126**	9 437	28	20 283
Adjusted for	**(1 544)**	(76)	>100	(207)
Gain on investment activities of a capital nature*	**(1 928)**	(31)		(29)
Gain on disposal of available-for-sale assets	**–**	–		(144)
Gain on disposal of property and equipment	**(66)**	(27)		(9)
Other	**–**	(30)		(31)
Tax effects of adjustments*	**450**	12		6
Headline earnings	**10 582**	9 361	13	20 076

* *Includes gain on the Discovery transaction and the related tax effect.*

Reconciliation from headline to normalised earnings

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Headline earnings	**10 582**	9 361	13	20 076
Adjusted for	**12**	(193)	(>100)	94
TRS and IFRS 2 liability remeasurement*	**64**	(137)	(>100)	(56)
Private equity – related realisation	**–**	–	–	259
IAS 19 adjustment	**(52)**	(56)	(7)	(109)
Normalised earnings	**10 594**	9 168	16	20 170

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

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

In the current period, FirstRand's share price increased R1.67 and during the prior period increased by R20.10.

This results in mark-to-market volatility period-on-period being included in the bank's IFRS attributable earnings. The normalised results reflect the adjustment to normalise this period-on-period IFRS fair value volatility from the TRS, as described in more detail on page 113.

Reconciliation of normalised to IFRS condensed income statement

for the six months ended 31 December 2018 IFRS 9

R million	**Normalised**	Margin-related items included in fair value income	IAS 19 adjustment	Headline earnings	TRS adjustment	**IFRS**
Net interest income before impairment of advances	**23 338**	822	–	–	38	**24 198**
Impairment charge	**(4 118)**	–	–	–	–	**(4 118)**
Net interest income after impairment of advances	**19 220**	822	–	–	38	**20 080**
Non-interest revenue	**17 034**	(822)	–	1 994	(96)	**18 110**
Income from operations	**36 254**	–	–	1 994	(58)	**38 190**
Operating expenses	**(21 699)**	–	72	–	(31)	**(21 658)**
Income before indirect tax	**14 555**	–	72	1 994	(89)	**16 532**
Indirect tax	**(572)**	–	–	–	–	**(572)**
Profit before income tax	**13 983**	–	72	1 994	(89)	**15 960**
Income tax expense	**(3 276)**	–	(20)	(450)	25	**(3 721)**
Profit for the period	**10 707**	–	52	1 544	(64)	**12 239**
Attributable to						
NCNR preference shareholders	**(113)**	–	–	–	–	**(113)**
Ordinary equityholders	**10 594**	–	52	1 544	(64)	**12 126**
Headline and normalised earnings adjustments	**–**	–	(52)	(1 544)	64	**(1 532)**
Normalised earnings attributable to ordinary equityholders of the bank	**10 594**	–	–	–	–	**10 594**

Reconciliation of normalised to IFRS condensed income statement

for the six months ended 31 December 2017 IAS 39

R million	Normalised	Margin-related items included in fair value income	IAS 19 adjustment	Headline earnings	TRS adjustment	IFRS
Net interest income before impairment of advances	20 668	(551)	–	–	47	20 164
Impairment charge	(3 524)	–	–	–	–	(3 524)
Net interest income after impairment of advances	17 144	(551)	–	–	47	16 640
Non-interest revenue	15 799	551	–	88	617	17 055
Income from operations	32 943	–	–	88	664	33 695
Operating expenses	(20 146)	–	78	–	(474)	(20 542)
Income before indirect tax	12 797	–	78	88	190	13 153
Indirect tax	(475)	–	–	–	–	(475)
Profit before income tax	12 322	–	78	88	190	12 678
Income tax expense	(3 036)	–	(22)	(12)	(53)	(3 123)
Profit for the period	9 286	–	56	76	137	9 555
Attributable to						
NCNR preference shareholders	(118)	–	–	–	–	(118)
Ordinary equityholders	9 168	–	56	76	137	9 437
Headline and normalised earnings adjustments	–	–	(56)	(76)	(137)	(269)
Normalised earnings attributable to ordinary equityholders of the bank	9 168	–	–	–	–	9 168

Reconciliation of normalised to IFRS condensed income statement

for the year ended 30 June 2018 IAS 39

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

Impact of adopting revised accounting standards
at 1 July 2018

The bank adopted IFRS 9 and IFRS 15 during the current period. The bank, as permitted by these standards, elected not to restate any comparative information. Accordingly, the impact of adopting the revised requirements has been applied retrospectively with an adjustment to the bank's 1 July 2018 opening reserves. Reported information in the prior interim period and the financial year to 30 June 2018 were unaffected by the application of IFRS 9 and IFRS 15.

NOTE	REQUIREMENT	DESCRIPTION OF CHANGE	IMPACT ON FIRSTRAND BANK
1 and 2	**Classification and measurement**	IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which relate solely to payments of principal and interest (SPPI), are classified at amortised cost. Financial assets held in a mixed business model (for example, held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL). The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value. Any changes in the fair value of the liability due to the entity's own credit risk will now be recognised in other comprehensive income. IFRS 9 also allows for the once-off reclassification of financial liabilities.	The bank's approach was to first reclassify the items, and then to remeasure the item. Based on the business model assessments performed, the following were the significant reclassifications and remeasurements: > R143 007 million of advances (net of IAS 39 impairments) in the RMB investment banking division and a minor portfolio within FNB commercial were reclassified from FVTPL to amortised cost. These advances are held with the intention of collecting the cash flows that meet the SPPI test, resulting in a measurement adjustment of R238 million. > Advances to empowerment development funds were reclassified from amortised cost to FVTPL as these advances do not meet the SPPI test, and the off-market impact of R65 million was reclassified to investment in associates. > R63 828 million investment securities held in the bank's liquid asset portfolio were reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows that meet the SPPI test. R1 364 million was reclassified to FVOCI as it is held in a mixed business model, resulting in a R1 707 million (pre-tax) release of available-for-sale reserve. > R41 million net interest in post-retirement employee liability first party cell captives was reclassified from accounts receivable to investment securities classified as FVTPL because it does not meet the SPPI test, with no change in measurement. > R173 million of investment securities classified as available-for-sale were reclassified to advances at amortised cost with no change in measurement. This reclassification reflects the nature of the instruments. > Deposits worth R59 237 million were reclassified from FVTPL to amortised cost to ensure that the measurement of liabilities matches the measurement of the assets which they fund, resulting in a R796 million remeasurement.
3	**ECL impairment**	IFRS 9 introduced an expected credit loss (ECL) model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as off-balance sheet exposures. The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12-month ECL. If there has been a significant increase in credit risk (SICR), impairment is based on LECL.	The revised impairment requirements increased impairments by R6 865 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period.

Impact of adopting revised accounting standards continued

at 1 July 2018

NOTE	REQUIREMENT	DESCRIPTION OF CHANGE	IMPACT ON FIRSTRAND BANK
3.1	**Other ECL**	Investment securities, non-advances and amounts due by the holding company and fellow subsidiaries.	Debt investment securities comprising government and corporate bonds were classified as available-for-sale under IAS 39. These securities are short dated and held under a business model to collect contractual cash flows until maturity. These contractual cash flows are SPPI and these debt investment securities have therefore been classified at amortised cost under IFRS 9. Accordingly, an ECL provision of R50 million has been raised against these securities, referenced to the sovereign credit rating where these relate to government bonds. As a result of the reclassification, the available-for-sale reserve of R1 707 million (net of tax R1 224 million) was released, resulting in an adjustment to the carrying amount of the investment securities and the non-distributable reserves. An ECL provision of R27 million has been raised on non-advances with credit risk, such as accounts receivable, which were not previously provided for under IAS 39. An ECL provision of R83 million was raised on amounts due by holding company and fellow subsidiaries.
4	**Hedge accounting**	IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted.	The revised hedge accounting requirements were applied by the bank prospectively, as required by IFRS 9, to its existing hedge accounting relationships and as such did not have an impact on the amounts recognised on the date of initial application (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 R1 499 million and the ISP on the reclassified book amounted to R162 million. The impact of these amounts resulted in a gross-up of advances amounting to R1 661 million. The change in ISP due to the difference in coverage ratio was R596 million, with a deferred tax impact of R166 million. ISP under IFRS 9 is R1 065 million and is recognised against the credit loss allowance. For a detailed reconciliation of the impact of ISP, please refer to the *IFRS 9 Transition Report.*
6	**IFRS 15**	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all the current revenue recognition guidance, except for contracts that are out of scope, e.g. leases and insurance. The model specifies that revenue is recognised as and when control of goods or services are transferred to a customer, and that revenue is recognised at the amount that an entity expects to receive. Depending on certain criteria, revenue is recognised at a point in time or over time.	IFRS 15 requires that goods and services are split into their separate performance obligations and that the revenue from each performance obligation is recognised at a point in time or over time depending on the specific criteria for revenue recognition. The application of the revised requirements had no impact on the bank's results.

Transition impact on IFRS financial position

as at 1 July 2018

			IFRS 9 adjustments					
R million	Notes	As reported 30 June 2018 IAS 39	Reclassi-fication	Remeasure-ment	ECL impairment	ISP	Total adjustments	Restated 1 July 2018 for IFRS 9
			Note 1	Note 2	Note 3	Note 5		
ASSETS								
Investment securities	3.1	157 238	(132)	1 819	(50)	–	1 637	158 875
Advances		843 806	108	238	(6 865)*	596	(5 923)	837 883
Accounts receivable	3.1	6 075	(41)	–	(27)	–	(68)	6 007
Current tax asset		94	2	(8)	474	–	468	562
Amounts due by holding company and fellow subsidiaries	3.1	52 419	–	–	(83)	–	(83)	52 336
Investments in associates	1 and 2	–	65	–	–	–	65	65
Deferred income tax asset		2 162	(2)	(382)	1 467	(166)	917	3 079
Other financial assets		112 897	–	–	–	–	–	112 897
Non-financial assets		29 186	–	–	–	–	–	29 186
Total assets		1 203 877	–	1 667	(5 084)	430	(2 987)	1 200 890
EQUITY AND LIABILITIES								
Liabilities								
Creditors, accruals and provisions		14 194	–	–	–	–	–	14 194
Current tax liability		86	–	–	–	–	–	86
Deposits		977 258	–	796	–	–	796	978 054
Other liabilities		4 381	–	–	–	–	–	4 381
Amounts due to holding company and fellow subsidiary companies		19 993	–	–	–	–	–	19 993
Other financial liabilities		76 906	–	–	–	–	–	76 906
Non-financial liabilities		20 159	–	–	–	–	–	20 159
Total liabilities		1 112 977	–	796	–	–	796	1 113 773
Equity								
Ordinary shares		4	–	–	–	–	–	4
Share premium		16 804	–	–	–	–	–	16 804
Reserves		71 092	–	871	(5 084)	430	(3 783)	67 309
Capital and reserves attributable to ordinary equityholders		87 900	–	871	(5 084)	430	(3 783)	84 117
NCNR preference shares		3 000	–	–	–	–	–	3 000
Total equity		90 900	–	871	(5 084)	430	(3 783)	87 117
Total equity and liabilities		1 203 877	–	1 667	(5 084)	430	(2 987)	1 200 890

* *Net of ISP of R1 661 million.*

Refer to detailed note explanations on pages 123 and 124.

Reconciliation of IFRS statement of changes in equity

as at 1 July 2018

R million	Note	Share capital and share premium	Defined benefit post-employment reserve	Cash flow hedge reserve	Available-for-sale reserve
Balance as at 30 June 2018 IAS 39		**16 808**	**(714)**	**343**	**(1 224)**
Opening retained earnings adjustment for IFRS 9		**–**	**–**	**–**	**1 224**
Reclassification	1	–	–	–	1 224
Remeasurement		–	–	–	–
ECL impairment		–	–	–	–
ISP		–	–	–	–
Balance as at 1 July 2018		**16 808**	**(714)**	**343**	**–**

* *Other reserves include the FVOCI reserve.*

Refer to detailed note explanations on pages 123.

Ordinary share capital and ordinary equityholders' funds					
Foreign currency translation reserve	Other reserves*	Retained earnings	Reserves attributable to ordinary equityholders	NCNR preference shares	Total equity
731	1 345	70 611	71 092	3 000	90 900
–	60	(5 067)	(3 783)	–	(3 783)
–	60	(1 284)	–	–	–
–	–	871	871	–	871
–	–	(5 084)	(5 084)	–	(5 084)
–	–	430	430	–	430
731	1 405	65 544	67 309	3 000	87 117

Summary accounting policies

The following is an extract of the changes made to the accounting policies as a result of the implementation of IFRS 9 and IFRS 15.

CLASSIFICATION AND MEASUREMENT

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

IMPAIRMENT OF FINANCIAL ASSETS

This policy applies to:

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

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

Stage 1	At initial recognition, the financial asset is classified as stage 1 and 12-month ECL is recognised. This is a credit loss related to default events expected to occur within the next 12 months.
Stage 2	If the asset has experienced a SICR since initial recognition but the asset is not credit impaired, it is classified as stage 2, and LECL is recognised.
Stage 3	If the asset has become credit impaired since initial recognition, it is classified as stage 3, with ECL measured and recognised on a lifetime basis.

ECL are calculated by multiplying the exposure at default (EAD) of a financial asset by the probability or default (PD) and the loss given default (LGD) of the asset and by discounting this figure to the reporting date, using the original effective interest rate. Impairment losses are recognised in profit or loss. The loss allowance on debt instruments measured at FVOCI is recognised in other comprehensive income.

In the section below, the term financial asset also refers to loan commitments, finance lease debtors where the bank is the lessor, and financial guarantees, unless stated otherwise.

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

Summary accounting policies continued

<table>
<tr><th colspan="2">IMPAIRMENT OF FINANCIAL ASSETS continued</th></tr>
<tr><td colspan="2">DEFINITIONS</td></tr>
<tr><td>Credit-impaired financial assets</td><td>Advances are considered credit impaired if they meet the definition of default.

The definition of default applied by the bank for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, to operational management of credit and for internal risk management purposes.

Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments.

In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the bank to actions such as the realisation of security. Indicators of the unlikelihood to pay are determined based on the requirements of Regulation 67 of the Banks Act. Examples include application for bankruptcy or obligor insolvency.

Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events.

Accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of redefault rates.</td></tr>
<tr><td>Write-offs</td><td>Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised).
> By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.
> Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries. Within wholesale exposures, a judgemental approach to write-off is followed based on a case-by-case basis 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.</td></tr>
<tr><td colspan="2">DEFINITIONS</td></tr>
<tr><td>Modifications and derecognition</td><td>Financial instruments are derecognised when:
> the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
> they are transferred and the derecognition criteria of IFRS 9 are met; or
> the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

Financial assets are derecognised when the bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (such as the passthrough arrangement under IFRS 9).

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

Derecognition of financial liabilities includes when there is a substantial modification to 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.</td></tr>
</table>

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

HEDGE ACCOUNTING

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

REVENUE RECOGNITION

NON-INTEREST REVENUE RECOGNISED IN PROFIT OR LOSS

Non-interest revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. At contract inception, an assessment of goods and services promised in a contract with a customer is performed to identify a performance obligation for each promise to transfer goods or services to the customer.

The bank earns fee and commission income by providing banking and related services to its customers. It also earns commissions on products and services sold to these customers, where the products and services may be provided by external entities.

Other non-interest revenue includes revenue relating to products and services sold to customers, where the underlying products and services are provided by the bank through various of its subsidiaries.

Summary accounting policies continued

NET FEE AND COMMISSION INCOME	
Fee and commission income	The fee and commission income the bank earns from providing customers with services and selling products and services provided by external entities, consists of the following main categories: > banking fees and commissions; > non-banking fees and commissions; > insurance commissions (excluding insurance risk-related income); and > management, trust and fiduciary fees. Fees and commissions that form an integral part of the effective interest rate are excluded from fee and commission income and are recognised as part of net interest revenue. All other fees and commissions earned from customers are recognised as the bank satisfies its performance obligations, which can either be satisfied at a specific point in time or over a period of time. For fees earned on the execution of a significant act, the performance obligation is satisfied when the significant act or transaction takes place. These fees typically include transactional banking fees, such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income. Where the performance obligation is satisfied over a period of time, the fees are recognised as follows: > fees for services rendered are recognised on an accrual basis as the service is rendered and the bank's performance obligation is satisfied, e.g. annual card fees and asset management and related fees; > 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; and > commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the bank, are recognised as revenue on a straight-line basis over the period for which the funds are kept available. Commissions earned on the sale of insurance products to customers of the bank on behalf of an insurer, as well as the income arising from third-party insurance cell captives and profit share agreements, are recognised as fee and commission income. 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, and commission earned from the sale of prepaid airtime, data vouchers, electricity and traffic fines paid through FNB channels.
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.

NET FEE AND COMMISSION INCOME	
Other non-interest revenue from customers	The bank, through its various subsidiaries in the operating businesses, sells the following value-added products and services to customers: > vehicle-related products consisting of warranties, bodyline maintenance contracts and vehicle maintenance and service products; and > telecommunication products and services which consist of smart devices, data and airtime contracts, and bundled products. Other non-interest revenue from contracts with customers consists of sales transactions which occur within the bank. The related revenue, net of any finance components of revenue, is recognised as soon as the goods are delivered to the customer.
Customer loyalty programmes	The bank operates a customer loyalty programme, eBucks, in terms of which it undertakes to provide reward credits to certain customers to buy goods and services. The bank defers an amount of revenue as a result of providing these reward credits to customers. The amount deferred is equal to the maximum cash flow that could be required in order to settle the liability with the customer. The deferred revenue in respect of which the eBucks liability is raised is recognised as revenue in the period in which the customer utilises their reward credits. Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as incurred.

Fair value measurements

VALUATION METHODOLOGY

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

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

NON-RECURRING FAIR VALUE MEASUREMENTS

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

- the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5) where the recoverable amount is based on the fair value less costs to sell; and
- IAS 36 *Impairment of Assets* (IAS 36) where the recoverable amount is based on the fair value less costs to sell.

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

FINANCIAL INSTRUMENTS

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

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

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

This category includes assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. Except for the amounts included on page 146, for all other financial instruments at amortised cost the carrying value is equal to or a reasonable approximation of the fair value.

FAIR VALUE HIERARCHY AND MEASUREMENTS

The bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. Fair value may be determined using unadjusted quoted prices in active markets for identical assets or liabilities, where this is readily available and the price represents actual and regularly occurring market transactions. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Where a valuation model is applied and the bank cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The bank will consider the following in assessing whether a mark-to-model valuation is appropriate:

- as far as possible, market inputs are sourced in line with market prices;
- generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- where a model has been developed in-house, it 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 of the weaknesses of the models used and appropriate reflection in the valuation output;
- the model is subject to periodic review to determine the accuracy of its performance; and
- valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation. The bank considers factors such as counterparty and own credit risk when making appropriate valuation adjustments.

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

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

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	OBSERVABLE INPUTS
DERIVATIVE FINANCIAL INSTRUMENTS			
Forward rate agreements	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. The reset date is determined in terms of legal documents.	Market interest rates, 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 rates and interest rate, credit and currency basis curves
Options	Option pricing model	The Black Scholes model is used.	Strike price of the option; market-related discount rate and forward rate
Forwards	Discounted cash flows	Future cash flows are projected using a forward curve and then discounted using a market-related discount curve over the contractual period. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot price of underlying instrument, interests 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 rates, interest rate curves, volatilities, dividends and share prices
LOANS AND ADVANCES TO CUSTOMERS			
Other loans and advances	Discounted cash flows	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period. Although the fair value of credit is not significant year-on-year it may become significant in future. In the event that credit spreads are observable for a counterparty, loans and advances to customers are classified as level 2 of the fair value hierarchy.	Market interest rates, interest rate curves and credit spreads
INVESTMENT SECURITIES			
Equities listed in an inactive market	Discounted cash flows	For listed equities, the listed price is used where the market is active (i.e. level 1). However, if the market is not active and the listed price is not representative of fair value, a valuation technique is used to determine the fair value. The valuation technique will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. Future cash flows are discounted using market-related interest rates. Where the valuation technique incorporates observable inputs, level 2 of the fair value hierarchy is deemed appropriate.	Market interest rates and interest rate curves

Fair value measurements continued

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

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

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	OBSERVABLE INPUTS
DEPOSITS			
Call and non-term deposits	None – the undiscounted amount is used	The undiscounted amount of the deposit is the fair value due to the short-term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand, i.e. the undiscounted amount of the deposit.	None – the undiscounted amount approximates fair value and no valuation is performed
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and 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 at level 2.	Market interest rates and performance of underlying
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Market interest rates and curves

Fair value measurements continued

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

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

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

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

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

Fair value measurements continued

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

INSTRUMENT	VALUATION TECHNIQUE	DESCRIPTION OF VALUATION TECHNIQUE AND MAIN ASSUMPTIONS	SIGNIFICANT UNOBSERVABLE INPUTS
DEPOSITS			
Deposits that represent collateral on credit-linked notes	Discounted cash flows	These deposits represent the collateral leg of credit-linked notes. The forward curve adjusted for liquidity premiums and business unit margins is used. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs on related advances
Other deposits	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Credit inputs
Other liabilities	Discounted cash flows	For preference shares which require the bank to share a portion of profits of underlying contracts with a third party, the value of the liability is linked to the performance of the underlying. Where the underlying is not observable, these liabilities are therefore classified as level 3. Future cash flows are discounted using market-related interest rates, adjusted for the performance of the underlying contracts.	Performance of underlying contracts
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Discounted cash flows	Future cash flows are discounted using market-related interest rates and curves adjusted for credit inputs.	Credit inputs

NON-RECURRING FAIR VALUE MEASUREMENTS

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. There were no assets or liabilities measured at fair value on a non-recurring basis in the current and prior years.

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

FAIR VALUE HIERARCHY

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

	As at 31 December 2018 IFRS 9			
R million	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Assets				
Recurring fair value measurements				
Derivative financial instruments	**795**	**32 163**	**820**	**33 778**
Advances	**1 102**	**44 426**	**23 941**	**69 469**
Investment securities	**50 413**	**11 693**	**1 340**	**63 446**
Commodities	**17 815**	**–**	**–**	**17 815**
Amounts due by holding company and fellow subsidiaries	**–**	**1 041**	**–**	**1 041**
Total assets measured at fair value	**70 125**	**89 323**	**26 101**	**185 549**
Liabilities				
Recurring fair value measurements				
Short trading positions	**6 042**	**–**	**–**	**6 042**
Derivative financial instruments	**603**	**39 560**	**490**	**40 653**
Deposits	**1 393**	**52 340**	**182**	**53 915**
Other liabilities	**–**	**302**	**344**	**646**
Amounts due to holding company and fellow subsidiaries	**–**	**1 104**	**–**	**1 104**
Total liabilities measured at fair value	**8 038**	**93 306**	**1 016**	**102 360**

	As at 31 December 2017 IAS 39			
R million	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	747	52 547	70	53 364
Advances	–	23 908	183 813	207 721
Investment securities	107 437	10 388	1 792	119 617
Commodities	15 489	–	–	15 489
Amounts due by holding company and fellow subsidiaries	–	1 440	–	1 440
Total assets measured at fair value	123 673	88 283	185 675	397 631
Liabilities				
Recurring fair value measurements				
Short trading positions	15 231	–	–	15 231
Derivative financial instruments	481	56 705	220	57 406
Deposits	1 904	81 228	535	83 667
Other liabilities	–	2 330	1 510	3 840
Amounts due to holding company and fellow subsidiaries	–	275	–	275
Total liabilities measured at fair value	17 616	140 538	2 265	160 419

Fair value measurements continued

FAIR VALUE HIERARCHY AND MEASUREMENTS continued

R million	As at 30 June 2018 IAS 39			
	Level 1	Level 2	Level 3	Total fair value
Assets				
Recurring fair value measurements				
Derivative financial instruments	244	40 579	563	41 386
Advances	–	26 958	167 052	194 010
Investment securities	94 672	29 872	1 468	126 012
Commodities	13 424	–	–	13 424
Amounts due by holding company and fellow subsidiaries	–	603	–	603
Total assets measured at fair value	108 340	98 012	169 083	375 435
Liabilities				
Recurring fair value measurements				
Short trading positions	9 981	–	–	9 981
Derivative financial instruments	21	49 587	630	50 238
Deposits	1 354	93 006	344	94 704
Other liabilities	–	2 079	1 529	3 608
Amounts due to holding company and fellow subsidiaries	–	336	–	336
Total liabilities measured at fair value	11 356	145 008	2 503	158 867

TRANSFERS BETWEEN FAIR VALUE HIERARCHY LEVELS

The following represents the significant transfers into level 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.

	As at 31 December 2018		
R million	**Transfers in**	**Transfers out**	**Reasons for significant transfer in**
Level 1	**1 102**	**–**	It is the bank's policy to classify debt investment securities qualifying as HQLA, that are under the control of the Group Treasurer, as marketable advances. The underlying debt securities held in this specific portfolio of marketable advances are listed and actively traded. It is therefore more appropriate to reflect these advances in level 1 of the fair value hierarchy.
Level 2	**8**	**–**	There were no significant transfers into level 2.
Level 3	**–**	**(1 110)**	There were no transfers into level 3.
Total transfers	**1 110**	**(1 110)**	

	As at 31 December 2017		
R million	Transfers in	Transfers out	Reasons for significant transfer in
Level 1	–	–	There were no transfers into level 1.
Level 2	–	–	There were no transfers into level 2.
Level 3	–	–	There were no transfers into level 3.
Total transfers	–	–	

	As at 30 June 2018		
R million	Transfers in	Transfers out	Reasons for significant transfer in
Level 1	–	–	There were no transfers into level 1.
Level 2	34	(1 070)	Certain over-the-counter equity options have been transferred into level 2 in the current year as the inputs used in the valuation of these positions have become observable as the maturity of these trades are less than 12 months.
Level 3	1 070	(34)	Market volatilities are only available for a limited range of strike prices. The further away over-the-counter equity options are from their trade date, the more likely it becomes that their strike prices are outside the prevailing range of strike prices for which volatilities are available. During the current year the observability of volatilities used in determining the fair value of certain over-the-counter equity options became unobservable and resulted in the transfer into level 3 of the fair value hierarchy.
Total transfers	1 104	(1 104)	

There were no transfers into or out of the various levels for the financial period ended 31 December 2017.

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS

CHANGES IN LEVEL 3 INSTRUMENTS WITH RECURRING FAIR VALUE MEASUREMENTS

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

R million	Derivative financial assets	Advances	Investment securities	Derivative financial liabilities	Deposits	Other liabilities
Balance as at 30 June 2018	**563**	**167 052**	**1 468**	**630**	**344**	**1 529**
IFRS 9 adjustment		**(119 159)**	**(132)**			
Gains/(losses) recognised in profit or loss	**(144)**	**1 307**	**–**	**(99)**	**(4)**	**(1 843)***
Gains/(losses) recognised in other comprehensive income	**–**	**4**	**–**	**–**	**–**	**–**
Purchases, sales, issues and settlements	**401**	**(24 253)**	**4**	**(33)**	**(158)**	**658**
Transfer into/(out) level 3	**–**	**(1 102)**	**–**	**(8)**	**–**	**–**
Exchange rate differences	**–**	**92**	**–**	**–**	**–**	**–**
Balance as at 31 December 2018 – IFRS 9	**820**	**23 941**	**1 340**	**490**	**182**	**344**

R million	Derivative financial assets	Advances	Investment securities	Derivative financial liabilities	Deposits	Other liabilities
Balance as at 30 June 2017	8	195 376	1 989	233	386	1 519
IFRS 9 adjustment	–	–	–	–	–	–
Gains/(losses) recognised in profit or loss	72	7 518	3	18	(7)	59
Gains/(losses) recognised in other comprehensive income	–	(1)	(82)	–	–	–
Purchases, sales, issues and settlements	(10)	(18 694)	(118)	(31)	156	(68)
Transfer into/(out) level 3	–	–	–	–	–	–
Exchange rate differences	–	(386)	–	–	–	–
Balance as at 31 December 2017 – IAS 39	70	183 813	1 792	220	535	1 510

R million	Derivative financial assets	Advances	Investment securities	Derivative financial liabilities	Deposits	Other liabilities
Balance as at 30 June 2017	8	195 376	1 989	233	386	1 519
IFRS 9 adjustment	–	–	–	–	–	–
Gains/(losses) recognised in profit or loss	(17)	15 480	(66)	(109)	9	159
Gains/(losses) recognised in other comprehensive income	–	(2)	(31)	–	–	–
Purchases, sales, issue and settlements	40	(44 079)	(424)	2	(51)	(149)
Transfer into/(out) level 3	532	–	–	504	–	–
Exchange rate differences	–	277	–	–	–	–
Balance as at 30 June 2018 – IAS 39	563	167 052	1 468	630	344	1 529

* *The gain recognised in other liabilities relates to the revaluation of preference shares issued to Discovery. This gain forms part of the overall transaction of transferring the Discovery card book and the remaining profit share in the Discovery card business to Discovery.*

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 acquisition of subsidiaries.

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

Fair value measurements continued

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS continued

UNREALISED GAINS OR LOSSES ON LEVEL 3 INSTRUMENTS WITH RECURRING FAIR VALUE MEASUREMENTS

The valuation model for level 3 assets or liabilities typically relies on a number of inputs that are 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 in level 3 that are still held at reporting date. With the exception of interest on funding instruments and available-for-sale financial assets, all gains or losses are recognised in non-interest revenue.

	Six months ended December 2018 IFRS 9		Six months ended 31 December 2017 IAS 39		Year ended 30 June 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	Gains/(losses) recognised in the income statement	Gains/(losses) recognised in other comprehensive income
Assets						
Derivative financial instruments	**35**	**–**	73	–	11	–
Advances*	**997**	**–**	5 654	(1)	11 667	–
Investment securities	**(22)**	**–**	1	(82)	(25)	11
Total	**1 010**	**–**	5 728	(83)	11 653	11
Liabilities						
Derivative financial instruments	**(248)**	**–**	19	–	(299)	–
Deposits	**2**	**–**	(7)	–	11	–
Other liabilities	**(27)**	**–**	59	–	41	–
Total	**(273)**	**–**	71	–	(247)	–

* *Amount is mainly accrued interest on fair value loans and advances and movements in interest rates that have been economically hedged. This relates to the portion of RMB's advances that is classified as fair value to effectively manage the interest rate and foreign exchange risks on these portfolios. These are classified as level 3 primarily as credit spreads could be a significant input and are not observable for loans and advances in the most of RMB's key markets. 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 acquisition of subsidiaries.

ADDITIONAL DISCLOSURES FOR LEVEL 3 FINANCIAL INSTRUMENTS continued

EFFECT OF CHANGES IN SIGNIFICANT UNOBSERVABLE ASSUMPTIONS OF LEVEL 3 INSTRUMENTS TO REASONABLY POSSIBLE ALTERNATIVES

The tables below illustrate the sensitivity of the significant inputs when changed to reasonable 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	Scenario analysis	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 changes in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case.
Investment securities	Credit, growth rates and P/E ratios of unlisted investments	Credit, growth rates or P/E ratios of unlisted investments	Increased and decreased by 10%.
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix	The deposits included in level 3 of the hierarchy represent the collateral leg of credit-linked notes. The most significant unobservable input in determining the fair value of the credit-linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix, with the deposit representing the cash collateral component thereof.
Other liabilities	Performance of underlying contracts	Profits on the underlying contracts	Increased and decreased by 1%.

	Reasonably possible alternative fair value								
	As at 31 December 2018 IFRS 9			As at 31 December 2017 IAS 39			As at 30 June 2018 IAS 39		
R million	**Fair value**	**Using more positive assumptions**	**Using more negative assumptions**	Fair value	Using more positive assumptions	Using more negative assumptions	Fair value	Using more positive assumptions	Using more negative assumptions
Assets									
Derivative financial instruments	**820**	**821**	**816**	70	71	69	563	569	556
Advances	**23 941**	**24 031**	**23 847**	183 813	184 360	183 434	167 052	167 445	166 738
Investment securities	**1 340**	**1 387**	**1 251**	1 792	1 934	1 672	1 468	1 617	1 383
Total financial assets measured at fair value in level 3	**26 101**	**26 239**	**25 914**	185 675	186 365	185 175	169 083	169 631	168 677
Liabilities									
Derivative financial instruments	**490**	**484**	**494**	220	179	224	630	622	636
Deposits	**182**	**164**	**200**	535	535	536	344	310	379
Other liabilities	**344**	**341**	**348**	1 510	1 495	1 525	1 529	1 513	1 544
Total financial liabilities measured at fair value in level 3	**1 016**	**989**	**1 042**	2 265	2 209	2 285	2 503	2 445	2 559

Financial instruments not measured at fair value

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

	As at 31 December 2018 IFRS 9	
R million	**Carrying value**	**Total fair value**
Assets		
Advances	**817 514**	**826 689**
Investment securities	**104 377**	**102 023**
Total assets at amortised cost	**921 891**	**928 712**
Liabilities		
Deposits	**976 912**	**976 184**
Other liabilities	**2 586**	**2 623**
Additional Tier 1 and Tier 2 liabilities	**26 268**	**26 518**
Total liabilities at amortised cost	**1 005 766**	**1 005 325**

	As at 31 December 2017 IAS 39	
R million	Carrying value	Total fair value
Assets		
Advances	632 145	637 416
Investment securities	25 964	26 215
Total assets at amortised cost	658 109	663 631
Liabilities		
Deposits	849 032	849 622
Other liabilities	428	427
Additional Tier 1 and Tier 2 liabilities	19 491	19 804
Total liabilities at amortised cost	868 951	869 853

	As at 30 June 2018 IAS 39	
R million	Carrying value	Total fair value
Assets		
Advances	649 796	656 550
Investment securities	31 226	31 166
Total assets at amortised cost	681 022	687 716
Liabilities		
Deposits	882 554	882 480
Other liabilities	773	773
Additional Tier 1 and Tier 2 liabilities	26 668	27 036
Total liabilities at amortised cost	909 995	910 289

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.

	As at 31 December		As at 30 June
R million	**2018 IFRS 9**	2017 IAS 39	2018 IAS 39
Opening balance	**54**	51	51
Day 1 profits or losses not recognised on financial instruments initially recognised in the current year	**6**	2	13
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(9)**	–	(10)
Closing balance	**51**	53	54

Contingencies and commitments

R million	Six months ended 31 December 2018 IFRS 9	Six months ended 31 December 2017 IAS 39	% change	Year ended 30 June 2018 IAS 39
Contingencies and commitments				
Guarantees (endorsements and performance guarantees)	**35 926**	33 178	8	34 711
Letters of credit	**9 573**	7 857	22	9 969
Total contingencies	**45 499**	41 035	11	44 680
Irrevocable commitments	**112 606**	108 303	4	111 642
Committed capital expenditure	**1 749**	2 417	(28)	2 592
Operating lease commitments	**2 259**	2 877	(21)	2 504
Other	**1**	3	(67)	3
Contingencies and commitments	**162 114**	154 635	5	161 421
Legal proceedings				
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis.				
Provision raised for liabilities that are expected to materialise.	**73**	65	12	125
Commitments				
Commitments in respect of capital expenditure and long-term investments approved by directors.	**1 749**	2 417	(28)	2 592

Events after reporting period

The terms of the NCNR preference shares were amended during December 2018 to make these shares redeemable at the discretion of FirstRand Bank. These shares were redeemed at their subscription price during February 2019.

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

05 supplementary information

Company information

DIRECTORS

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

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 DEBT SPONSOR

(in terms of JSE debt listing requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)
Debt Capital Markets
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8000
Fax: +27 11 282 4184

AUDITORS

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Jukskei View
2090

Deloitte & Touche
Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead, Sandton
2052

Listed debt instruments

JSE

Domestic medium-term note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Subordinated debt					
FRB12	ZAG000116278	FRB17	ZAG000127630	FRB22	ZAG000141219
FRB13	ZAG000116286	FRB18	ZAG000135229	FRB23	ZAG000146754
FRB14	ZAG000116294	FRB19	ZAG000135310	FRB24	ZAG000155102
FRB15	ZAG000124199	FRB20	ZAG000135385		
FRB16	ZAG000127622	FRB21	ZAG000140856		
Senior unsecured					
FRBZ01	ZAG000049255	FRJ25	ZAG000124256	FRX27	ZAG000142506
FRBZ02	ZAG000072711	FRJ27	ZAG000141912	FRX28	ZAG000152836
FRBZ03	ZAG000080029	FRX19	ZAG000073685	FRX30	ZAG000124264
FRJ19	ZAG000104563	FRX20	ZAG000109604	FRX31	ZAG000084195
FRJ20	ZAG000109596	FRX23	ZAG000104969	FRX32	ZAG000142514
FRJ21	ZAG000115858	FRX24	ZAG000073693	FRX45	ZAG000076480
FRJ22	ZAG000142498	FRX25	ZAG000152828		
FRJ23	ZAG000149436	FRX26	ZAG000112160		
Inflation-linked bonds					
FRBI22	ZAG000079666	FRBI29	ZAG000145608	FRI33	ZAG000141706
FRBI23	ZAG000076498	FRBI33	ZAG000079245	FRI38	ZAG000141862
FRBI25	ZAG000109588	FRBI46	ZAG000135302		
FRBI28	ZAG000079237	FRBI50	ZAG000141649		

Structured note and preference share programme

Credit-linked notes					
FRC66	ZAG000088485	FRC69	ZAG000088766	FRC71	ZAG000088923

Listed debt instruments continued

Note programme

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Structured notes					
FRS36	ZAG000077397	FRS124	ZAG000122953	FRS163	ZAG000145129
FRS37	ZAG000077793	FRS126	ZAG000125188	FRS164	ZAG000145160
FRS43	ZAG000078643	FRS127	ZAG000125394	FRS165	ZAG000145178
FRS46	ZAG000079807	FRS129	ZAG000125865	FRS166	ZAG000145756
FRS49	ZAG000081787	FRS131	ZAG000126186	FRS167	ZAG000145764
FRS51	ZAG000086117	FRS132	ZAG000126194	FRS168	ZAG000145772
FRS62	ZAG000090614	FRS133	ZAG000126541	FRS169	ZAG000145780
FRS64	ZAG000092529	FRS134	ZAG000126574	FRS170	ZAG000145954
FRS81	ZAG000100892	FRS135	ZAG000126608	FRS171	ZAG000147448
FRS85	ZAG000104985	FRS136	ZAG000126780	FRS172	ZAG000147455
FRS87	ZAG000105420	FRS137	ZAG000127549	FRS173	ZAG000148180
FRS90	ZAG000106410	FRS138	ZAG000127556	FRS174	ZAG000148198
FRS100	ZAG000111634	FRS142	ZAG000130782	FRS175	ZAG000149451
FRS101	ZAG000111774	FRS143	ZAG000130790	FRS176	ZAG000149444
FRS103	ZAG000111840	FRS145	ZAG000134263	FRS177	ZAG000152885
FRS104	ZAG000111857	FRS146	ZAG000134636	FRS178	ZAG000153107
FRS108	ZAG000113515	FRS147	ZAG000135724	FRS179	ZAG000153321
FRS109	ZAG000113564	FRS149	ZAG000136573	FRS180	ZAG000154147
FRS110	ZAG000113663	FRS150	ZAG000136615	FRS181	ZAG000154188
FRS112	ZAG000115395	FRS151	ZAG000136987	FRS182	ZAG000154386
FRS113	ZAG000115478	FRS152	ZAG000136995	FRS183	ZAG000154568
FRS114	ZAG000116070	FRS153	ZAG000137670	FRS184	ZAG000155490
FRS119	ZAG000118951	FRS158	ZAG000145012	FRS185	ZAG000155540
FRS120	ZAG000119298	FRS159	ZAG000145020	RMBI01	ZAG000050865
FRS121	ZAG000120643	FRS160	ZAG000145038	RMBI02	ZAG000052986
FRS122	ZAG000121062	FRS161	ZAG000145046		
FRS123	ZAG000121328	FRS162	ZAG000145111		
Credit-linked notes					
FRC169	ZAG000104852	FRC210	ZAG000120296	FRC239	ZAG000135245
FRC178	ZAG000107897	FRC212	ZAG000121054	FRC240	ZAG000135252
FRC179	ZAG000108168	FRC213	ZAG000121047	FRC241	ZAG000135393
FRC181	ZAG000108549	FRC215	ZAG000121021	FRC242	ZAG000135401
FRC188	ZAG000111873	FRC219	ZAG000121138	FRC243	ZAG000135419
FRC189	ZAG000112145	FRC221	ZAG000121229	FRC244	ZAG000135427
FRC192	ZAG000114521	FRC225	ZAG000121435	FRC245	ZAG000135468
FRC195	ZAG000114745	FRC233	ZAG000128752	FRC246	ZAG000135476
FRC206	ZAG000116088	FRC234	ZAG000130816	FRC247	ZAG000135484
FRC207	ZAG000117649	FRC236	ZAG000135211	FRC248	ZAG000135450
FRC208	ZAG000117656	FRC237	ZAG000135203	FRC249	ZAG000135542
FRC209	ZAG000118613	FRC238	ZAG000135237	FRC250	ZAG000135559

Bond code	ISIN code	Bond code	ISIN code	Bond code	ISIN code
Credit-linked notes					
FRC251	ZAG000141813	FRC264	ZAG000149345	FRC276	ZAG000152430
FRC252	ZAG000142225	FRC265	ZAG000149485	FRC277	ZAG000153552
FRC254	ZAG000144825	FRC266	ZAG000149824	FRC278	ZAG000153560
FRC256	ZAG000145806	FRC267	ZAG000150004	FRC279	ZAG000153578
FRC257	ZAG000146564	FRC269	ZAG000150806	FRC280	ZAG000153776
FRC258	ZAG000146580	FRC270	ZAG000151234	FRC281	ZAG000153834
FRC259	ZAG000147414	FRC271	ZAG000151556	FRC282	ZAG000154063
FRC260	ZAG000147596	FRC272	ZAG000151564	FRC283	ZAG000154394
FRC261	ZAG000147653	FRC273	ZAG000151945	FRC284	ZAG000154642
FRC262	ZAG000147646	FRC274	ZAG000151952	FRC285	ZAG000155201
FRC263	ZAG000148230	FRC275	ZAG000152372		

LONDON STOCK EXCHANGE (LSE)

European medium-term note programme

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

SWISS STOCK EXCHANGE (SIX)

ISIN code
Senior unsecured
CH0238315680

Definitions

Additional Tier 1 (AT1) capital	Non-cumulative non-redeemable (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 plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties 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 bank believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares, including treasury shares.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
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
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 capital
CIB	Corporate and investment banking
CIS	Collective investment scheme
CLF	Committed liquidity facility
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 programme
EPS	Earnings per share
FLI	Forward looking information
FML	Full maintenance leasing
FRB	FirstRand Bank Limited
FREMA	FirstRand EMA Holdings (Pty) Ltd
FRIHL	FirstRand Investment Holdings (Pty) Ltd
FSB	Financial Services Board
FSR	FirstRand Limited
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
GBP	British pound
HQLA	High-quality liquid assets
IB	RMB investment banking
IB&A	Investment banking and advisory
IFRS-IC	IFRS Interpretation Committee

IM	Investment management
INV	Investing
ISP	Interest in suspense
JSE	Johannesburg Stock Exchange
JV	Joint venture
LCR	Liquidity coverage ratio
LGD	Loss given default
LISP	Linked investment service provider
LSE	London Stock Exchange
LTV	Loan to value
M&S	Markets and structuring
MCA	Market Conduct Authority
MTM	Mark-to-market
NCAA	National Credit Amendment Act
NCNR	Non-cumulative non-redeemable
NIACC	Net income after cost of capital
NII	Net interest income
NIR	Non-interest revenue
NPLs	Non-performing loans
NSFR	Net stable funding ratio
NSX	Namibian Stock Exchange
PA	Prudential Authority
PD	Probability of default
P/E	Price/earnings
PN	Promissory note
RA	Resolution Authority
RMBS	Residential mortgage-backed securities
ROA	Return on assets
ROE	Return on equity
RSF	Required stable funding
RWA	Risk weighted assets
S&P	S&P Global Ratings
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SICR	Significant increase in credit risk
SIX	Swiss Stock Exchange
SPPI	Solely payments of principal and interest
SRB	Special Resolution Bill
TLAC	Total loss-absorbing capacity
TRS	Total return swap
UK	United Kingdom
VAF	Vehicle asset finance
VAPS	Value added products and services
WIM	Wealth and investment management

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