FirstRand Limited
(Incorporated in the Republic of South Africa)
Registration number: 1966/010753/06
JSE ordinary share code: FSR
JSE ordinary share ISIN: ZAE000066304
JSE B preference share code: FSRP
JSE B preference share ISIN: ZAE:000060141
NSX ordinary share code: FST
(FirstRand or the group or the company)

IFRS 9 TRANSITION IMPACT AT 1 JULY 2018

Introduction

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

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

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

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

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

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

Impairment of advances (pre-tax)
+54% (excluding ISP)
+39% (including ISP)

IFRS 9: R29 078 million
IAS 39: R18 835 million

Common Equity Tier 1 (CET1) ratio*
-50 bps

IFRS 9: 11.0%
IAS 39: 11.5%

Group's total equity** (including minorities)
-4.2%

IFRS 9: R125 289 million
IAS 39: R130 798 million

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

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

Basis of presentation

The primary purpose of the transition report is to explain the impact of the IFRS 9 adjustments on 1 July 2018, referred to as the date of initial application (DIA). The 30 June 2018 financial information included in the transition report is based on the group's accounting policies as disclosed in the consolidated annual financial statements for the year ended 30 June 2018. Significant changes to these accounting policies, specifically related to the implementation of IFRS 9, are included in the full transition report available on the group's website, https://www.firstrand.co.za/InvestorCentre/Pages/ifrs9transition.aspx.

The transition report is a special purpose report which includes a consolidated statement of financial position, statement of changes in equity, IFRS 9 summary accounting policies and explanatory notes on the impact that adopting IFRS 9 had on the group's opening reserves on the DIA. This is in terms of the South African Reserve Bank Directive 5/2017. The transition impact and commentary are presented on an IFRS basis because the difference between IFRS and normalised is immaterial on adoption. Refer to the normalised information section later in the document.

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

PricewaterhouseCoopers Inc. and Deloitte & Touche, the group's external auditors, have issued an unmodified ISA 805 audit opinion on the IFRS 9 transition information, which is included in the full transition report available on the website, https://www.firstrand.co.za/InvestorCentre/Pages/ifrs9transition.aspx.

TRANSITION IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION - IFRS
as at DIA

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

* Net of ISP of R2 241 million.

TRANSITION IMPACT ON CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - IFRS
as at DIA

	Ordinary share capital and ordinary equityholders' funds											
R million	Share capital and share premium	Defined benefit post-employment reserve	Cash flow hedge reserve	Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves*	Retained earnings	Reserves attributable to ordinary equityholders	NCNR preference shares and contingent convertible securities	Non-controlling interests	Total equity
Balance as at 30 June 2018	8 050	(723)	343	4	(1 361)	2 832	599	111 281	112 975	5 769	4 004	130 798
Opening retained earnings adjustment for IFRS 9	-	-	-	-	1 361	-	87	(6 859)	(5 411)	-	(98)	(5 509)
Reclassification	-	-	-	-	1 361	-	84	(1 436)	9	-	(9)	-
Investment securities	-	-	-	-	1 844	-	103	(1 938)	9	-	(9)	-
Current tax	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	-	-	-	-	(483)	-	(19)	502	-	-	-	-
Remeasurement	-	-	-	-	-	-	-	887	887	-	9	896
Advances	-	-	-	-	-	-	-	238	238	-	-	238
Investment securities	-	-	-	-	-	-	-	1 835	1 835	-	9	1 844
Deposits	-	-	-	-	-	-	-	(796)	(796)	-	-	(796)
Current tax	-	-	-	-	-	-	-	(8)	(8)	-	-	(8)
Deferred tax	-	-	-	-	-	-	-	(382)	(382)	-	-	(382)
ECL impairment	-	-	-	-	-	-	3	(6 740)	(6 737)	-	(98)	(6 835)
Advances	-	-	-	-	-	-	-	(8 506)	(8 506)	-	(98)	(8 604)
Investment in associates	-	-	-	-	-	-	-	(259)	(259)	-	-	(259)
Non-advances	-	-	-	-	-	-	3	(147)	(144)	-	-	(144)
Current tax	-	-	-	-	-	-	-	478	478	-	-	478
Deferred tax	-	-	-	-	-	-	-	1 694	1 694	-	-	1 694
ISP	-	-	-	-	-	-	-	430	430	-	-	430
Advances	-	-	-	-	-	-	-	596	596	-	-	596
Current tax	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax	-	-	-	-	-	-	-	(166)	(166)	-	-	(166)
Balance as at 1 July 2018	8 050	(723)	343	4	-	2 832	686	104 422	107 564	5 769	3 906	125 289

* Other reserves include the FVOCI reserve.

NORMALISED INFORMATION

Description of difference between normalised and IFRS

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

The normalised reconciliation contstitutes pro-forma financial information in terms of the JSE Listings Requirements. The pro-forma information is the responsibility of the group's board of directors and is presented for illustrative purposes. Due to the nature of the pro-forma information, it may not fairly present the group's consolidated financial position and changes in equity.

Deloitte & Touche and PricewaterhouseCoopers Inc. issued an ISAE 3420 reasonable assurance independent reporting accountant's report on the normalised information, which is available for inspection at the registered office.

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

	IAS 39		
R million	Normalised	Normalised adjustment	IFRS
Advances	1 121 227	-	1 121 227
- Gross advances	1 140 482	(420)	1 140 062
- Impairments	(19 255)	420	(18 835)

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

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

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

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

COMPANY INFORMATION

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