FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa)
Registration number: 1966/010753/06
JSE ordinary share code: FSR; ISIN code: ZAE000066304
JSE B preference share code: FSRP; ISIN code: ZAE000060141
NSX ordinary share code: FST
LEI: 529900XYOP8CUZU7R671
(FirstRand or the group)

PROVISIONAL AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2020

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

"The COVID-19 pandemic is a once in a generation event and has had a profound impact on the world. In South Africa it resulted in the deepest GDP contraction since the Second World War. The lockdown devastated the economy and it will be a long hard road back to recovery.

FirstRand's performance for the year to 30 June 2020 reflects the depth of the crisis. However, the group believes that the actions it has taken to strengthen and protect its balance sheet, combined with the structure of its portfolio and its chosen strategies, will ensure ROE and earnings recovery once the current stress scenario normalises."

Alan Pullinger
CEO

FINANCIAL HIGHLIGHTS

R million	2020	2019	% change
Basic and diluted normalised earnings per share (cents)	307.8	497.3	(38)
Normalised earnings	17 265	27 894	(38)
Headline earnings	17 326	27 887	(38)
Normalised net asset value per share (cents)	2 453.1	2 311.3	6
Ordinary dividend per share (cents)	146.0	291.0	(50)
Normalised ROE (%)	12.9	22.8	
Basic and diluted headline earnings per share (cents)	308.9	497.2	(38)
Basic and diluted earnings per share (cents) - IFRS*	303.5	538.6	(44)
Net asset value per share (cents) - IFRS	2 453.1	2 311.8	6
Advances (net of credit impairment)	1 261 715	1 205 752	5
Deposits	1 535 015	1 393 104	10
Credit loss ratio (%)	1.91	0.88	

* Prior year attributable earnings and earnings per share include the after-tax profit on sale of c. R2.3 billion on the Discovery card transaction, which is excluded from headline and normalised earnings.

OVERVIEW OF RESULTS

FirstRand's results for the year to 30 June 2020 reflect the extremely difficult operating environment, with normalised earnings decreasing 38% to R17.3 billion compared to 30 June 2019. ROE declined to 12.9%. Most of this decline was due to the much higher than expected credit impairment charge, driven by forward-looking economic assumptions required under IFRS 9. In addition, post the beginning of lockdown in March 2020, underlying customer income and affordability in all segments deteriorated sharply, as evidenced by lower levels of underlying transactional and credit turnover and in the amount of debt relief requested by customers, resulting in increased arrears and non-performing loans (NPLs).

The group's capital position remained strong, with a Common Equity Tier 1 (CET1) capital adequacy ratio of 11.5%. However, despite this healthy position, the board has not declared a final dividend given the Prudential Authority's (PA's) current guidance to preserve capital.

The table below reflects the breakdown of sources of normalised earnings

Sources of normalised earnings

R million	Year ended 30 June				
	2020	% composition	2019	% composition	% change
FNB	12 271	70	17 745	64	(31)
- FNB South Africa	12 033		17 178		(30)
- FNB rest of Africa	238		567		(58)
RMB	5 819	34	6 975	25	(17)
WesBank	843	5	1 808	6	(53)
UK operations*	865	5	2 292	8	(62)
- Aldermore*,**	1 020		1 722		(41)
- MotoNovo*	(155)		570		(+100)
FirstRand Corporate Centre (FCC) (includes Group Treasury)*,#,+	(1 630)	(9)	(329)	(1)	+100
Ordinary equity instrument holders	(903)	(5)	(597)	(2)	51
Normalised earnings	17 265	100	27 894	100	(38)

* During May 2019, a new legal entity, MotoNovo Finance Limited, was established under the Aldermore Group where all new MotoNovo business since May 2019 has been originated (also referred to as the MotoNovo new book). In the UK operations management view shown in the table, Aldermore refers to Aldermore excluding MotoNovo new book and MotoNovo refers to the standalone performance of MotoNovo which includes the new book and back book. The 2019 figures for FCC and Aldermore in the table above have been restated to reflect the management view of total UK operations.

** After the dividend on the contingent convertible securities of R242 million (2019: R163 million).

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

\+ Includes FirstRand Limited (company).

Pre-provision operating profit showed a decrease of 2%, which points to a resilient operating performance, despite margin pressure, subdued non-interest revenue growth due to lower absolute volumes during the lockdown period, and depressed new business origination.

Pre-provision operating profit

R million	Year ended 30 June		
	2020	2019	% change
FNB	32 349	32 292	-
RMB	11 669	10 271	14
WesBank	4 249	4 565	(7)
UK operations	4 845	4 453	9
FCC/Group Treasury	(4 811)	(2 393)	+100
Total group pre-provision operating profit	48 301	49 188	(2)

- FNB demonstrated operational resilience, supporting its retail, small- and medium-sized enterprise (SME) and commercial customers through a range of debt relief propositions and multi-channel transactional solutions. As South Africa's leading digital bank, FNB was able to fulfil origination, account service and liability gathering digitally throughout the lockdown, with particularly strong growth in deposits.
- RMB delivered solid annuity income growth, underpinned by disciplined balance sheet deployment, with good growth in core advances and deposits. RMB's portfolio benefited from strong flow-trading activities in Nigeria, and the overall performance of RMB's rest of Africa franchise offset, to some degree, the pressures experienced in the domestic businesses.
- WesBank's pre-provisioning operating profit was impacted by lower associate earnings. Excluding this impact, pre-provisioning profits would have been flat year-on-year. The business continued to extract efficiencies.
- Aldermore grew customers on the back of advances and deposit growth.

COVID-19 created unprecedented economic stress, which has had a profound and far-reaching impact on the economy. One of the implications of this stress was the need to provide payment relief solutions for customers. For the South African businesses, some of these solutions are outlined below:

- Retail customers in good standing were offered emergency funds designed to bridge short-term liquidity needs and provide cash flow relief. The loans were priced at the prime interest rate with zero fees and a flexible repayment period starting three months after relief was taken up. No early settlement penalties are levied. This customer-centric approach covers all FNB products and those WesBank customers who bank with FNB. Payment holidays were also offered.
- FNB provided relief to commercial customers primarily in the form of payment holidays and additional relief was offered to SMEs through the government-guaranteed loan scheme.
- For corporate, relief was advanced on a case-by-case basis. Corporate relief was provided in the form of additional liquidity facilities, payment holidays and covenant waivers.

Eligibility for relief followed a risk-based approach and was assessed at an overall customer level.

For retail customers industry guidance set by the Banking Association of South Africa (BASA) was followed. Corporate and commercial portfolios were assessed against the respective sector's sensitivity to the impact of COVID-19.

In the UK, Aldermore's focus was on providing forbearance for existing clients.

Debt relief

	Number of customers (thousands)	Number of accounts (thousands)	Underlying gross advances for which relief was provided (R million)	Total portfolio** (gross advances) (R million)	% of portfolio for which relief was provided
Retail*	203.3	674.3	68 834	473 102	15%
Commercial	16.7	31.0	30 832	135 030	23%
Corporate	n/a	n/a	58 083	359 704	16%
UK operations	86.7	86.7	71 889	306 246	23%
Total group	306.7	792.0	229 638	1 311 095	18%

* Includes FNB rest of Africa core banking customers.

** Total group portfolio includes FCC advances.

Revenue and cost overview

Total group net interest income (NII) increased 4% on the back of resilient balance sheet growth, offset by margin compression given the endowment impact from interest rate cuts. Net interest margin (NIM) declined 30 bps to 445 bps, reflecting a higher proportional increase in liquid assets due to strong growth in deposits whilst advances growth slowed. Advances increased 6% (1% in constant-currency terms) and deposits grew 10% (7% in constant-currency terms). Growth in advances and deposits is unpacked by operating business below.

	Growth in advances %	Growth in deposits %
FNB	3	17
- Retail	4	16
- Commercial	3	19
- Rest of Africa	1	19
RMB	2	-
WesBank	(2)	24
Aldermore and MotoNovo*	4	21**

* In pound terms.

** Reflects growth in customer deposits.

Advances growth in FNB occurred mainly in the premium and commercial segments, with the consumer segment sharply down, reflecting the lack of capacity in lower-income households to take on credit. Overall retail advances growth declined significantly during lockdown reflecting depressed demand and cautious credit origination. At WesBank, the decline in advances reflects the material drop in applications during the first two months of lockdown.

Advances growth to the corporate and commercial sectors was muted due to weak macroeconomic conditions and low levels of business confidence. This was further compounded by the impact of COVID-19.

Deposit growth benefited from strong momentum in savings and investment products and retail customer balances increasing pre- and during lockdown. Commercial customers maintained liquidity to support cash flow demands given the prevailing uncertainty, and large corporate deposit growth was underpinned by clients holding higher current account balances.

The group's operational NIR was down 1% reflecting a reduction in fee and commission income, and negative growth in insurance income of 5% and investment income of 14%. This was partly offset by a 32% increase in revenue from markets' trading activities.

FNB's NIR declined 2% due to the significant decrease in volumes during lockdown. FNB assisted customers by waiving SASwitch fees, rental relief on speedpoints and other devices, and data charges. In addition, as part of its annual pricing review (pre-pandemic), FNB had already reduced certain fee categories. These factors collectively impacted NIR by approximately R529 million.

The decline in insurance income was driven by increased credit life and death claims and forward-looking claims provisions. Pleasingly in-force annual premium equivalent (APE) grew 7% (non-credit life APE increased 14%). The number of new policies declined 2% despite strong growth in underwritten life products.

RMB's private equity income declined due to impairments raised on a limited number of investments in the portfolio reflecting the pressures in the underlying economy. This was despite an uptick in realisations and resilient annuity income which benefited from investments made in previous periods and the current year.

Growth in operating expenses was contained at 3%, reflecting the focus on cost management and lower variable staff expenditure given current year performance, and was achieved despite continued investment in:

- insurance and asset management growth strategies;
- platforms to extract further efficiencies;
- the build-out of the group's footprint in the rest of Africa; and
- the process and system modernisation of the UK business.

Additional costs incurred were associated with managing employee and customer wellbeing on premises and in branches, and the rapid facilitation of remote working for a significant proportion of staff when lockdown commenced.

Despite the level of cost containment, given the degree of pressure on the topline, the group's cost-to-income ratio increased to 52.9%.

Credit performance

FirstRand has revised its macroeconomic outlook for 2020/21, with material downward revisions to key economic variables affecting the group's activities, including a sharp contraction in real GDP of 8%, a significant increase in unemployment and weakness in property markets. These revisions have been incorporated into the group's credit provision models in line with IFRS 9 requirements, with all segments and portfolios experiencing notable incremental impacts from forward-looking adjustments.

This, together with arrears (up 42%), resulted in performing provisions increasing R9 billion, mainly driven by conservative coverage ratios. Group NPLs increased 39% to 4.37% of advances (2019: 3.33%). This required further provision of R6.2 billion, however, coverage has been largely maintained.

All of this combined resulted in a R15.2 billion (45%) increase in provisions (2019: R5.1 billion increase) held against loans and advances across all stages, products and portfolios. The following table unpacks these movements and operational credit losses, and explains the group's materially higher credit impairment charge of R24.4 billion, and the credit loss ratio increase to 191 bps (2019: 88 bps).

Analysis of impairment charge

R million	2020	2019	% change
Performing book provisions	9 040	945	
NPL provision	6 178	4 152	
Credit provision increase	15 218	5 097	+100
Modification	1 007	633	59
Write-off and other	10 532	7 318	44
Post write-off recoveries	(2 374)	(2 548)	(7)
Total impairment charge	24 383	10 500	+100

All provisions raised reflect the group's best estimates against available data and scenario analysis (see pages 183 to 187 of the online version for detailed macro forecasts) and are considered appropriately prudent given the prevailing risk in the system. In addition, the group has conservatively provided for a sharp increase in credit life retrenchment claims, taking account of the latest economic outlook together with write-downs on non-private equity investments - these are reflected under NIR.

The table below unpacks all movements in NPLs.

Total group NPLs

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	10 393	39	25
Loans under COVID-19 relief	1 910	-	5
Restructured debt review	280	8	1
Definition of rehabilitation (technical cures)	(622)	(15)	(2)
Lengthening of write-off period	696	19	2
NPLs (excluding UK operations)	12 657	33	31
UK operations	3 275	96	8
Total group NPLs	15 932	39	39

Segmental analysis of normalised earnings

	Year ended 30 June				
R million	2020	% composition	2019	% composition	% change
Retail	7 663	44	12 795	46	(40)
- FNB*	6 998		11 323		
- WesBank	665		1 472		
Commercial	5 451	32	6 758	24	(19)
- FNB	5 273		6 422		
- WesBank	178		336		
Corporate and investment banking	5 819	34	6 975	25	(17)
- RMB	5 819		6 975		
UK operations**	865	5	2 292	8	(62)
- Aldermore**,#	1 020		1 722		
- MotoNovo**	(155)		570		
Other	(2 533)	(15)	(926)	(3)	+100
-FCC (including Group Treasury)**	(1 630)		(329)		
- Other equity instruments	(903)		(597)		
Normalised earnings	17 265	100	27 894	100	(38)

* Includes FNB rest of Africa.

** During May 2019, a new legal entity, MotoNovo Finance Limited, was established under the Aldermore Group where all new MotoNovo business since May 2019 has been originated (also referred to as the MotoNovo new book). In the UK operations management view shown in the table above, Aldermore refers to Aldermore excluding MotoNovo new book and MotoNovo refers to the standalone performance of MotoNovo which includes the new book and back book. The 2019 figures for FCC and Aldermore in the table above have been restated to reflect the management view of total UK operations.

\# After the dividend on the contingent convertible securities of R242 million (2019: R163 million).

DIVIDEND STRATEGY

The board noted the guidance from the PA regarding dividends. Despite the group's healthy capital position which has built up over many years of strong capital generation, the board has not declared a final dividend. However, it's important to recognise that regular and sustainable dividends, apart from being a material part of any shareholder investment proposition, matter to many beneficiaries dependent on these cash flows, such as pension fund members and, specifically, the FirstRand Empowerment Foundation, whose corporate social investment (CSI) activities will be materially constrained.

At this stage, the board has not adjusted the group's dividend strategy or long-term cover range.

As previously stated, the board will revisit the cover range should:

- capital demand increase to support sustainable balance sheet growth; and/or
- macro risks materially trend outside of the group's current scenarios.

PROSPECTS

Economic activity in South Africa is expected to start to rebound from the depths of the first half of 2020. This is mainly linked to the easing of lockdown measures and could stem the level of job losses and support the start of a recovery. However, given the South African government's limited capacity to inject further stimulus into the economy, there will be ongoing permanent damage to household and business balance sheets. This will limit the extent to which the economy will be able to recoup the output losses sustained during the first half of the year. As a result, private sector credit growth will remain weak and activity levels will continue to trend lower than pre-crisis.

The UK is likely to recover faster, as households and business activity rebound following the easing of lockdown conditions and the government's significant stimulus measures. This rebound will, however, face the added complexity of Brexit uncertainty during the latter part of 2020, which may constrain growth.

For FirstRand, the economic impact of COVID-19 will continue to place acute pressure on the group's performance for the rest of the 2020 calendar year. Trends post lockdown are improving as the economic recovery slowly emerges, however, activity levels will remain muted on a relative basis, balance sheet growth will be subdued, and the credit performance will not materially improve. Whilst this will translate into a recovery of earnings for the six months to December 2020 on a rolling six-month basis, the period-on-period performance compared to the six months to December 2019 (a pre-COVID-19 period) will be a further reduction given the significant base effect.

FirstRand anticipates an upward trajectory in earnings in the second half six months to June 2021, although the absolute level of earnings on a year-on-year basis are unlikely to revert back to June 2020 levels.

FirstRand believes that the actions it has taken to strengthen and protect its balance sheet, combined with the structure of its portfolio and the strategies it continues to execute on, will ensure ROE and earnings recovery once the current stress scenario normalises.

BOARD CHANGES

Changes to the directorate are outlined below.

		Effective date
Resignations		
JJ Durand	Alternate non-executive director	28 November 2019
PJ Makosholo	Independent non-executive director	30 June 2020
HL Bosman	Non-executive director	30 June 2020
Retirements		
NN Gwagwa	Independent non-executive director	28 November 2019
EG Matenge-Sebesho	Independent non-executive director	28 November 2019
APPOINTMENT		
Z Roscherr	Independent non-executive director	1 April 2020

DIVIDENDS

Ordinary shares

In line with Guidance Note 4 of 2020, Recommendations on the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers, in light of the negative economic impact of the COVID-19 pandemic and the temporary regulatory capital relief provided by the Prudential Authority, issued on 6 April 2020, the group has not declared a final dividend for the year ended 30 June 2020.

	Year ended 30 June	
Cents per share	2020	2019
Interim (declared 9 March 2020)	146.0	139.0
Final	N/A	152.0
	146.0	291.0

B preference shares

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

Cents per share	Preference dividends
Period:	
28 August 2018 - 25 February 2019	381.7
26 February 2019 - 26 August 2019	384.2
27 August 2019 - 24 February 2020	374.7
25 February 2020 - 31 August 2020	306.0

WR JARDINE	AP PULLINGER	C LOW
Chairman	CEO	Company secretary

10 September 2020

OTHER INFORMATION

This announcement covers the provisional audited summary consolidated financial results of FirstRand Limited based on International Financial Reporting Standards for the year ended 30 June 2020. The primary results and accompanying commentary are presented on a normalised basis as the group believes this most accurately reflects its economic performance. The normalised results have been derived from the IFRS financial results. A detailed description of the difference between normalised and IFRS results is provided on pages 149 and 150, and pages 162 to 167 of the Analysis of financial results booklet. It constitutes the group's full announcement and is available at www.firstrand.co.za/investors/financial-results/. Commentary is based on normalised results, unless otherwise indicated.

The full set of consolidated financial statements for the year ended 30 June 2020 have been audited by the group's auditors, PricewaterhouseCoopers Inc and Deloitte & Touche, who expressed an unmodified audit opinion thereon.

The content of this announcement is derived from audited information, but is not itself audited. The directors take responsibility for the preparation of this announcement.

Any forecast financial information contained herein has not been reviewed or reported on by the group's external auditors.

Management determines the critical judgemental items that require specific attention annually. In the current year these related to:

- impairment of advances - specific additional disclosure is provided on pages 171 to 192 of the Analysis of financial results; and
- the valuation of complex financial instruments - specific additional disclosure is provided on pages 193 to 210 of the Analysis of financial results.

Further, additional disclosure has been included in the unaudited section of the Analysis of financial results on pages 53 to 69, and 85 to 124, relating to the impairment of advances.

IFRS 16 was adopted effective 1 July 2019 and the statement of financial position as at 1 July 2019 was restated. Other comparatives were not restated, as allowed by IFRS 16. The amendments to IAS 12 were adopted retrospectively and comparative information was restated. AT1 instruments were reclassified from financial liabilities to equity, with a corresponding reclassification from NII to dividends paid. Customer loyalty related expenses were reclassified from operating expenses to fee and commission expenses in NIR. Information relating to the impact of new and amended IFRS, the impact of restatements and changes in presentation are included in the Analysis of financial results for the six months ending 31 December 2019.

Shareholders are advised that this announcement represents a summary of the information contained in the Analysis of financial results (the full announcement) and does not contain full or complete details.

Any investment decisions by investors and/or shareholders should be based on consideration of the announcement as a whole and shareholders are encouraged to review the full Analysis of financial results, which is available for viewing on the group's website and on
https://senspdf.jse.co.za/documents/2020/JSE/ISSE/FSR/FSR0620.pdf

The full Analysis of financial results, Annual financial statements and related audit reports are available for inspection and/or collection from FirstRand's registered office, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton and the offices of the sponsors, Rand Merchant Bank (a division of FirstRand Bank Limited), 1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton. The above is available to investors and/or shareholders at no charge during normal business hours from 11 September 2020.

DIRECTORS

WR Jardine (chairman), AP Pullinger (chief executive officer), HS Kellan (financial director), M Vilakazi (chief operating officer), MS Bomela, JP Burger, GG Gelink, F Knoetze, RM Loubser, TS Mashego, AT Nzimande, Z Roscherr, LL von Zeuner, T Winterboer

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10 September 2020