02 review of operations

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Jacques Celliers *CEO* | FNB

NORMALISED EARNINGS

16% > R14.9 billion

ROE

40.7%

FNB represents FirstRand's activities in the **retail and commercial** segments in South Africa and the broader African continent. It is growing its franchise strongly in both existing and new markets on the back of **innovative financial services products** and delivery channels, particularly focusing on **electronic and digital platforms.**

Excellent results in tough economy with a strong performance from the SA business

DEPOSITS

9%

Excellent growth resulting from customer acquisition, cross-sell and product innovation

RETAIL 12%

COMMERCIAL 7%

FNB is the **leading retail deposit taker** in the domestic market

ADVANCES

7%

Targeted segment-specific origination strategies

RETAIL 7%

Consumer affordable housing 9%

Premium card 24%

COMMERCIAL 12%

Strong cross-selling and focused asset growth

Performance in SA businesses underpinned by successful strategies:

- Grow and retain core transactional accounts
- Provide market-leading digital platforms to deliver cost effective and innovative transactional propositions to customers
- Apply disciplined origination strategies

SA CUSTOMER GROWTH

4% > 8.15 million
customers in total

FNB

TRANSACTIONAL

10% NIR

Record levels of sales and strong growth in customer acquisition and product innovation

Debit card and credit card transactional volumes

10%

Premium NIR growth

14%

Driven by:

17%
growth in customers

Strong transactional volumes

INSURANCE

Revenue 8%

Funeral
20%

Credit life
8%

Number of policies
3.7 million

Recurring premium growth
35%

DIGITAL

Significant momentum in digital fulfilment and leveraging cross-sell opportunities

Digital strategy key to FNB's growth

Digital loan origination initiated

65%
Growth in **FNB app** volumes

eWallet send value
R21 bn

900 000
monthly senders

NAV lifestyle orientated solutions on FNB app

Invest, Connect and Insure now on digital platform

Use deep customer relationships and sophisticated data analytics to effectively cross-sell and up-sell a broad range of financial services products

Provide innovative savings products to grow and retain deposit franchise

Right-size physical infrastructure to achieve efficiencies

FNB

FNB represents FirstRand's activities in the retail and commercial segments in South Africa and the broader African continent. It is growing its franchise on the back of a compelling customer offering that provides a broad range of innovative financial services products. FNB grew its pre-tax profits 15% to R21.4 billion, driven by a strong performance from its South African business, which grew pre-tax profits 16%. The turnaround in the rest of Africa portfolio continued. PBT for FNB's rest of Africa businesses declined 11%, an improvement compared to the 29% decline in the prior year. FNB produced an ROE of 40.7%.

FNB FINANCIAL HIGHLIGHTS

	Year ended 30 June		
R million	**2018**	2017	% change
Normalised earnings	**14 877**	12 801	16
Normalised profit before tax	**21 416**	18 624	15
– South Africa	**20 510**	17 744	16
– Rest of Africa*	**906**	880	3
Total assets	**429 234**	401 937	7
Total liabilities	**409 151**	383 680	7
NPLs (%)	**3.48**	3.24	
Credit loss ratio (%)	**1.11**	1.20	
ROE (%)	**40.7**	36.9	
ROA (%)	**3.53**	3.28	
Cost-to-income ratio (%)	**53.5**	54.5	
Advances margin (%)	**3.74**	3.57	

* *Includes FNB's activities in India, which were discontinued in 2017. 2018 includes a once-off profit in FNB India.*

SEGMENT RESULTS

	Year ended 30 June		
R million	**2018**	2017	% change
Normalised PBT			
Retail	**12 505**	10 620	18
Commercial	**8 005**	7 124	12
Rest of Africa	**906**	880	3
Total FNB	**21 416**	18 624	15

FNB South Africa'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.

FNB's rest of Africa portfolio represents a mix of mature businesses with significant scale and market share (Namibia, Botswana and Swaziland), combined with recently established (sub-scale) and start-up businesses, such as Mozambique, Zambia, Tanzania and Ghana. Whilst the portfolio has shown some recovery in the year under review, with losses reducing in the start-up subsidiaries, its performance continues to be impacted by increased credit impairments and continued investment in the organic build-out strategies.

A breakdown of key performance measures from the South African and rest of Africa businesses is shown below.

%	FNB SA	Rest of Africa
PBT growth	**16**	**3**
Cost increase*	**8**	**2**
Advances growth	**8**	**1**
Deposit growth	**10**	**4**
NPLs	**3.12**	**6.33**
Credit loss ratio	**1.00**	**2.00**
Cost-to-income ratio	**51.2**	**70.6**
Operating jaws	**1.9**	**1.6**

* *Rest of Africa cost increase benefited from a reduction in FNB India operating expenses as these activities were discontinued in 2017. Excluding this, rest of Africa costs increased 6%.*

Despite the negative endowment impact of the 25 bps cuts in the repo rate in July 2017 and March 2018, FNB's NII increased 8%, driven by strong volume growth in both advances (+7%) and deposits (+9%).

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	12	24.3	7	16.6
– Consumer	5	4.1	3	1.1
– Premium	16	20.2	7	15.5
Commercial	7	14.4	12	9.8
FNB Africa	4	1.3	1	0.4
Total FNB	**9**	**40.0**	**7**	**26.8**

The mix of FNB's advances growth reflects its targeted, segment-specific origination strategies. Growth in the premium segment was driven by unsecured lending origination, whilst the consumer segment experienced ongoing strong demand in affordable housing. 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		
R million	2018	2017	% change
Residential mortgages	**24 583**	22 480	9
Card	**9 056**	9 211	(2)
Personal loans	**7 024**	7 419	(5)
Retail other	**2 788**	3 199	(13)

	Premium		
	Advances		
R million	2018	2017	% change
Residential mortgages	**180 386**	173 018	4
Card	**18 084**	14 589	24
Personal loans	**10 137**	6 953	46
Retail other	**13 064**	11 664	12

	Commercial		
R million	2018	2017	% change
Advances	**93 987**	84 146	12

The strength and quality of FNB's transactional franchise is clearly demonstrated in the strong NIR growth of 10% resulting from good growth in customers (total up 4% to 8.15 million) and transaction volumes. Customer growth per segment is shown in the table below.

CUSTOMERS

	Year-on-year growth
Customer segment	Customer numbers %
Consumer	**3**
Premium	**17**
Commercial	**2**

Premium's NIR growth of 14% reflects customer acquisition, transactional volumes and the first-time inclusion of the wealth and investment management (WIM) activities. The benefits of the product rationalisation and pricing actions taken last year are clearly showing up in the 7% increase in consumer's NIR. Overall fee and commission income benefited from transactional volume growth of 10% driven by FNB's digital and electronic channels, as can be seen from the table below.

CHANNEL VOLUMES

Thousands of transactions	2018	2017	% change
ATM/ADT	**243 023**	232 310	5
Internet banking	**205 200**	214 701	(4)
Banking app	**164 018**	99 410	65
Mobile (excluding prepaid)	**43 716**	43 818	–
Point of sale merchants	**496 673**	429 715	16
Card swipes	**785 405**	698 698	12

Cost growth is well controlled but continues to trend above inflation at 7%, mainly due to continued investment in diversification strategies and expansion in the rest of Africa. The domestic cost-to-income ratio improved to 51.2% (2017: 52.1%).

Whilst FNB's overall bad debt charge was marginally lower (R120 million), NPLs increased year-on-year (+15%), with the South African retail books tracking well within expectations at this point in the cycle. This reflects the quality of new business written, appropriate pricing strategies, the positive effect of cutbacks in higher risk origination buckets in prior periods and active collection strategies. NPL formation in the commercial book and FNB card are ticking up, as expected, given previous book growth and some residual pressure in the agricultural sector due to the drought. There was some cyclical normalisation in residential mortgage NPLs, which increased 11%, but this was expected given the low levels in previous years. Overall provisioning levels and overlays have increased.

Insurance revenue increased 8%, benefiting from good volume growth of 20% and 8% in funeral and credit life policies, respectively.

As disclosed previously, from 1 July 2017 the WIM activities were transferred from Ashburton Investments to FNB. Total WIM assets increased 8% to R245 billion at year end. Collective investment scheme (CIS) funds were launched to the FNB customer base (branded FNB Horizon) in July 2016.

During the current investment cycle, customers opted for lower risk, fixed income funds which resulted in FNB Horizon AUM declining 1% to R3.6 billion, whilst the Ashburton Stable Income fund grew from R3.6 billion to R5.6 billion over the same period. Share trading and stockbroking assets under execution (AUE) reduced 3% to R70.7 billion driven mainly by market decline, however, brokerage revenues showed good growth with trade values for the year up 7% to R23 billion.

Assets under administration on the LISP platform increased from R16 billion to R19 billion, and customers on the platform increased to 28 070 with sales through banker channels now enabled via phase 1 of robo-advice. Trust assets under administration also showed good growth from R34 billion to R38 billion, particularly in the philanthropy trust offering. Private client-managed share portfolio AUM grew 22% to R47 billion, including good growth in offshore portfolio management. Assets under advice increased from R61 billion to R67 billion, including net inflows of R5 billion for the year.

WIM ASSETS

R million	2018	2017	% change
FNB Horizon Series AUM	**3 588**	3 629	(1)
Assets under advice	**66 812**	60 811	10
Assets under administration	**19 234**	15 912	21
Trust assets under administration	**37 906**	34 318	10
Assets under management	**46 775**	38 396	22
Assets under execution	**70 693**	73 081	(3)
Total WIM assets	**245 008**	226 147	8

OPERATIONAL HIGHLIGHTS

- FNB continues to gain market share driven by it's consistent strategy to grow and retain core transactional accounts, increasing active base and transactional volumes strongly.
- FNB has become the leading provider of household deposits.
- The number of customers using the FNB app increased from 1.8 million to 2.6 million, with volumes increasing 65%.
- Digital platforms were further activated to deliver cost effective and innovative value propositions and were successfully leveraged for incremental credit origination.
- In addition, the various NAV offerings on the app continued to grow, increasing the value proposition and creating further convenience for customers:
  - NAV Home has grown strongly contributing to 18% of home-loan payouts,
  - NAV Car has grown to 230 000 customers in just over a year,
  - NAV Money, launched in April 2018, is a money management application that enables customers to view expenses, monthly cash flow and credit health and already has 130 000 customers registered within two months.
- The consistent strategy to migrate service activity from physical to digital channels has resulted in 71% of customer financial transactions being performed on digital channels. This, in turn created efficiencies within branches Sales and advice continue to grow, becoming a larger portion of branch activity.
- The Insurance business continued to increase segment penetration, growing the product set and leveraging multiple distribution channels. The number of policies increased 14% to 3.7 million.
- eWallet eXtra, a fully mobile bank account, was launched in March 2018, transforming the current product from a simple "send money" facility to a fully-fledged mobile account.

CUSTOMER FRANCHISE AND OPERATING FOOTPRINT

FNB believes that establishing strong customer relationships underpins the sustainability of its business and has two key measures of success; growth in active customers and increased cross-sell. Customers grew 4% to 8.15 million and the successful cross-sell and up-sell strategies has grown VSI from 2.83 to 2.97.

FNB continued to perform well in the South African Customer Satisfaction Index maintaining a leadership position with an overall score of 79.4.

The table below shows an overall reduction in physical representation points which is expected given the migration of transactional activity to digital platforms.

	FNB SA			FNB Africa		
	2018	2017	% change	2018	2017	% change
Representation points (branches, agencies)	**628**	645	(3%)	**173**	166	4%
ATMs	**4 033**	4 360	(8%)	**833**	924	(10%)
ADTs	**1 888**	1 921	(2%)	**202**	153	32%
Total ATMs and ADTs	**5 921**	6 281	(6%)	**1 035**	1 077	(4%)

2018 Brand Finance® Banking 500 Report
Most Valuable Banking Brand in Africa
Ranked South Africa's 3rd Most Valuable brand overall

2017
Banking Finance® Banking 500 Report
Ranked World's 4th Most Powerful
Strongest Banking Brand in Africa

2015 – 2018
RepTrak® Pulse Reputation Survey
Most Reputable
Bank in South Africa

2016
FinTech Africa
Most Innovative Bank in Africa

2016
PriceCheck Tech & e-Commerce Awards
Best Online Financial Services Platform

2016
Lafferty Global Awards 2016
Excellence in mobile banking

2016 and 2018
Columinate SITEisfaction® Survey
Best Internet Banking
Best Mobile Banking
Best Digital Bank

2017
Columinate SITEisfaction® Survey
Best Internet Banking
Best Banking App

2016 – 2017
SAcsi Customer Satisfaction Index
Industry Leader in
Cellphone Banking
Online Banking
Banking App

2016
BCX Summit, Chicago
Best in Customer Experience
FNB Banking App

2013 – 2017
Sunday Times Top Brands
#1 Business Bank

2017 – 2018
Global Finance World's Best FX Providers
Best Foreign Exchange Provider
In South Africa

2015 – 2016
Telecoms.com Awards
Most Innovative
Mobile Virtual Network Operator

2016
Banker Africa Awards
Best Islamic Banking
In Southern Africa

2012 – 2018
Sunday Times Generation Next
SA's Coolest Bank

James Formby *CEO* | RMB

NORMALISED EARNINGS

6% > R7.3 billion

ROE

25.3%

A diversified portfolio coupled with a disciplined approach to balancing risk, return and growth, delivered a strong performance

INVESTMENT BANKING AND ADVISORY

21%

Strong growth in a tough environment

- **Solid lending** and resilient fee income
- **Lower credit impairments**
- **New deal** origination

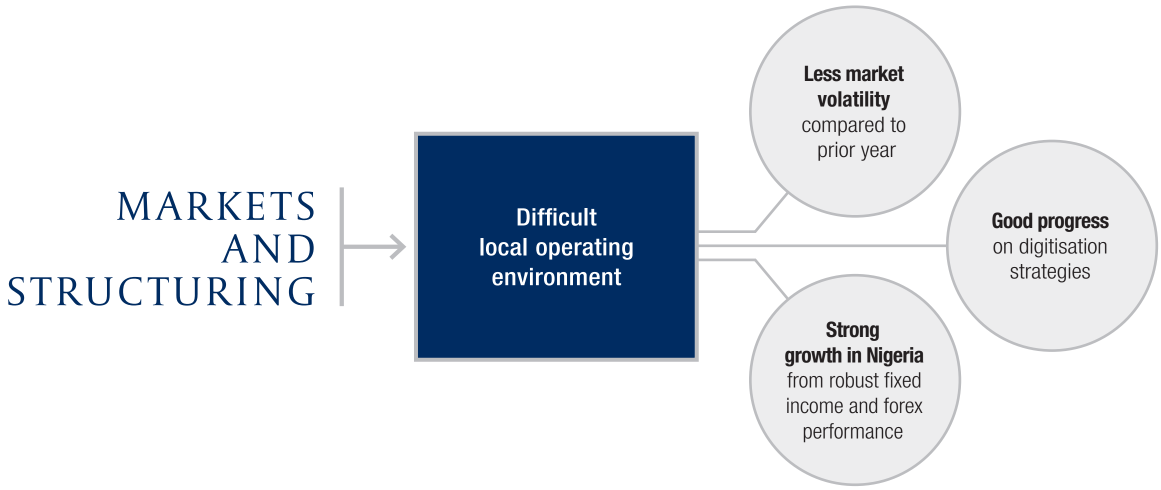
CORPORATE AND TRANSACTIONAL BANKING

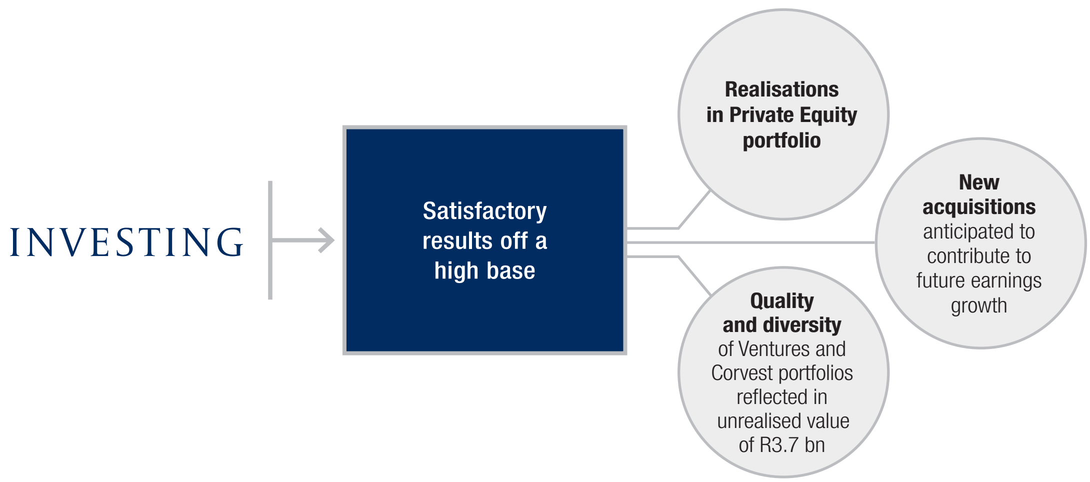
8%

Solid performance

- **Leveraging platforms** to grow product offerings
- **Higher transactional volumes** in rest of Africa
- **Increased demand** for working capital solutions

RMB represents the group's activities in the **corporate and investment banking segments** in South Africa, the broader African continent and India. The business strategy leverages a market-leading origination franchise to deliver an integrated corporate and investment banking value proposition to corporate and institutional clients.





REST OF AFRICA Pre-tax profit R1.7 bn ^31%

Contributes 17% to RMB's overall pre-tax profits (2017: 13%)	Continued execution of client-led strategy of leveraging platform, expertise and diversified product offerings	Strong corporate and transactional banking and flow trading activities

RMB

RMB represents the group'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 strong private equity track record 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

	Year ended 30 June		
R million	2018	2017	% change
Normalised earnings	**7 327**	6 918	6
Normalised profit before tax	**10 350**	9 781	6
– South Africa and other	**8 629**	8 466	2
– Rest of Africa*	**1 721**	1 315	31
Total assets	**453 084**	432 652	5
Total liabilities	**442 516**	420 983	5
NPLs (%)	**0.85**	0.62	
Credit loss ratio (%)	**0.08**	0.20	
ROE (%)	**25.3**	25.8	
ROA (%)	**1.64**	1.61	
Cost-to-income ratio (%)	**44.0**	43.4	

* *Includes in-country and cross-border activities.*

RMB's diversified portfolio delivered a solid performance, with pre-tax profits increasing 6% to R10.4 billion. The ROE of 25.3% was underpinned by RMB's high quality earnings and solid operational leverage. RMB remains disciplined in its financial resource allocation to ensure preservation of returns and has maintained strong credit provisioning levels.

Notwithstanding the difficult operating environment, which included sovereign rating downgrades, RMB's continued focus on growing the group's corporate and institutional client base and revenue pools underpinned the performance of the South African portfolio with strong contributions from investment banking and advisory activities, and solid corporate and transactional banking earnings. In addition, excellent cost discipline enabled continued investment into the enhancement of core platforms.

The rest of Africa portfolio remains key to RMB's strategy. It produced pre-tax profits of R1.7 billion, up 31% on the prior year and now contributes 17% (2017: 13%) to RMB's overall pre-tax profits. This performance was supported by strong corporate and transactional banking and flow trading activities, combined with credit impairment overlay releases given the improvement in the oil and gas sector. 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

	Year ended 30 June		
R million	2018	2017	% change
Investment banking and advisory	**4 391**	3 630	21
Corporate and transactional banking	**1 861**	1 731	8
Markets and structuring	**1 532**	1 598	(4)
Investing	**2 507**	2 837	(12)
Investment management	**21**	29	(28)
Other	**38**	(44)	(>100)
Total RMB	**10 350**	9 781	6

The investment banking and advisory activities delivered strong growth in an environment characterised by tough credit markets and low economic growth. This performance was underpinned by new deal origination, solid lending income and resilient fee income due to client mandates requiring advisory, capital markets and structuring activities, and lower credit impairments.

RMB's corporate and transactional franchise continued to focus on leveraging its platforms to grow product offerings locally and in the rest of Africa. This resulted in higher transactional volumes and average deposit balances in the rest of Africa. In addition, increased demand for working capital solutions supported performance.

Markets and structuring activities faced a difficult local operating environment, which resulted in reduced appetite from large clients. The performance was further impacted by a weaker result in the credit trading portfolio and an isolated operational event in the hard commodities portfolio. This was partially offset by a robust fixed income and foreign exchange performance, with the latter generating strong growth in Nigeria.

Investing activities produced satisfactory results off a high base, supported by realisations in the private equity portfolio. Given the macroeconomic environment and the significant realisations in prior periods, annuity earnings have come under pressure. The quality and diversity of the Ventures and Corvest portfolios are, however, still reflected in the strong unrealised value which has been maintained at R3.7 billion. The business remains in an investment cycle and, during the year, several additional acquisitions were made which will contribute to earnings growth in future periods.

Other activities benefited from the reduction in losses in the legacy portfolios and higher endowment earned on capital invested, together with continued investment into the group's markets infrastructure platform.

The strength of RMB's franchise is reflected in the number of major awards it received during the year, including:

BANKING AWARDS

The Banker Investment Banking Awards 2018
- Most Innovative Investment Bank in Africa (3rd year running)

The Banker Transaction Banking Awards 2018
- Most Innovative Transaction Bank from Africa

Euromoney Awards for Excellence 2018
- Best Investment Bank in South Africa

Financial Mail Ranking the Analysts 2018
- RMBMS Awards: Execution - Equities, Sales Team, Corporate Access, Administration Efficiency
- Winning Analysts: Industrial Metals, Forestry & Paper, Food Producers, Investment Strategy, Economic Analysis International, Commodities

Global Finance Awards 2018
- Best Bank for Supply Chain Finance – Africa
- Best Trade Bank – Namibia
- Best FX Provider in South Africa (2nd year running)
- Best FX Provider in Botswana (2nd year running)
- Best Treasury and Cash Management Provider 2018 in Namibia
- Best Investment Bank – South Africa
- Best Investment Bank – Mozambique
- Best Debt Bank in Africa
- Best Bank in Africa for New Financial Technology

African Banker Awards 2018
- Equity Deal of the Year (STAR listing)
- Infrastructure Deal of the Year (Nacala Railway and Port Corridor)

The Banker Deals of the Year 2018
- Green Finance (Cape Town Green Bond)
- Infrastructure & Project Finance (Nacala Railway and Port Corridor)
- Restructuring (Avesoro Resources)

GTR Best Deals 2018
- Afcons Infrastructure Limited

GTR Leaders in Trade Awards 2018
- Best Trade Finance Bank in Southern and East Africa

DealMakers 2017
- Leading M&A Advisor by Deal Value

JSE Spire Awards 2017
- ***House Awards***
  - Best Fixed Income and Currencies House
  - Best Forex House
  - Best Interest Rate Derivative House
- ***Team Awards***
  - Best Debt Origination Team
  - Best Market Making Team – Cash Settled Commodity Derivatives
  - Best Market Making Team – Forex
  - Best Team – Listed Interest Rate Derivatives
  - Best On-Screen Market Making Team – Forex
  - Best Sales Team – Forex
  - Best Sales Team – Interest Rate Derivatives
  - Best Team – Inflation Bonds

Global Custodian 2017
- Agent Banks in Major Markets Survey
  - Markets Outperformer — South Africa
- Agent Banks in Major Markets Survey
  - Category Outperformer — South Africa

OTHER AWARDS

Business Arts South Africa 2018
- Increasing Access to the Arts Award for Enable Through Dance (in partnership with Moving into Dance Mophatong)

Chris de Kock *CEO* | WesBank

NORMALISED EARNINGS	ROE	ROA
↓9%	17.4%	1.61%

Retail vehicle and asset finance had a challenging year, but personal loans and corporate lending delivered solid operational performances

WESBANK

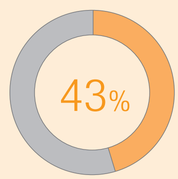
RETAIL SA VAF

Business impacted by margin pressure from increased competition

Focus on protecting return profile

Specific sector challenges but new relationships signed

Lower-risk origination = lower margins



CORPORATE AND COMMERCIAL

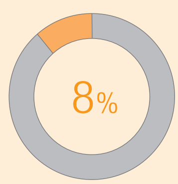
Strong operational performance despite sector slow down

Volume growth in SME and business segments = greater collaboration with FNB commercial

Profits up **19%** driven by FML portfolio

Reduced impairments: 28% year-on-year

5% improvement in NPLs



Contribution to total WesBank profits by activity, excluding rest of Africa.

WesBank represents the group's activities in **instalment credit and related services in the retail, commercial and corporate segments** of South Africa and the rest of Africa (where represented), and through MotoNovo Finance in the UK. Through the Direct Axis brand, WesBank also operates in the unsecured lending market in South Africa. WesBank's leading position in its chosen markets is due to its long-standing alliances with leading motor manufacturers, suppliers and dealer groups, strong point-of-sale presence and innovative channel origination strategies.

DIRECT AXIS

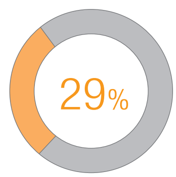
PERSONAL LOANS

Profits up **9%** on the back of **10%** advances growth

Continued focus on lower risk origination

Margins stabilised post NCAA rate caps and targeted risk cuts

Growth through optimisation of direct marketing channels and streamlining approval processes



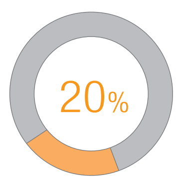
MOTONOVO

RETAIL UK VAF

Profits impacted by investment drag and funding costs

Exited higher risk origination

New business reduced 4% (in pound terms) due to targeted risk cuts



Contribution to total WesBank profits by activity, excluding rest of Africa.

WESBANK

WesBank represents the group's activities in instalment credit and related services in the retail, commercial and corporate segments of South Africa and the rest of Africa (where represented), and through MotoNovo in the UK. Through the Direct Axis brand, WesBank also operates in the unsecured lending market in South Africa. WesBank's leading position in its chosen markets is due to its longstanding alliances with leading motor manufacturers, suppliers and dealer groups, strong point-of-sale presence and innovative channel origination strategies.

WESBANK FINANCIAL HIGHLIGHTS

	Year ended 30 June		
R million	**2018**	2017	% change
Normalised earnings	**3 626**	3 996	(9)
Normalised profit before tax	**5 130**	5 612	(9)
Total assets	**228 433**	214 222	7
Total liabilities	**221 953**	207 809	7
NPLs (%)	**4.41**	3.80	
Credit loss ratio (%)	**1.93**	1.68	
ROE (%)	**17.4**	20.0	
ROA (%)	**1.61**	1.87	
Cost-to-income ratio (%)	**42.2**	40.2	
Net interest margin (%)	**4.95**	4.93	

WesBank's total pre-tax profits declined 9%, and the business delivered an ROE of 17.4% and an ROA of 1.6%. The domestic personal loans and corporate lending businesses showed strong operational performances. MotoNovo's profits decreased 15% in pound terms. The local VAF business had a challenging year, and in the face of increasing competition, has focused on protecting its origination franchise and return profile through disciplined pricing. Its operating model and relationships strengthened with new partnerships secured with Isuzu, Mahindra, Haval and Opel.

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

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY

	Year ended 30 June		
R million	**2018**	2017	% change
Normalised PBT			
VAF	**3 662**	4 192	(13)
– Retail SA*	**2 235**	2 658	(16)
– MotoNovo**	**1 019**	1 190	(14)
– Corporate and commercial	**408**	344	19
Personal loans	**1 473**	1 352	9
Rest of Africa	**(5)**	68	(>100)
Total WesBank	**5 130**	5 612	(9)

* *Includes MotoVantage.*

** *Normalised PBT for MotoNovo down 15% to £59 million.*

The performance of the SA VAF business was impacted by increased impairment levels, up from 1.54% in the prior year to 1.88%. The credit performance reflects some specific issues in the vehicle finance sector, such as increasing later stage arrears and NPL levels. Overall NPLs continued to be impacted by lengthening recovery timelines and more customers opting for court orders for repossessions.

As explained at the half year, higher than expected NPLs in the self-employed and small business segments resulted from operational issues with some scorecards, including third-party data quality, and this issue continued to play out in the second half.

SA VAF was further impacted by margin pressure, partly due to increased competitive activity and WesBank's current focus on originating lower-risk business, which is generally written at lower margins.

WesBank's personal loans business performed well on the back of strong advances growth of 10% year-on-year. Growth was achieved through optimisation of direct marketing channels and streamlining approval processes. Margins have stabilised post the NCAA rate caps and targeted risk cuts, and the impairment ratio has increased to 8.20% (2017: 7.91%), in line with expectations. NPLs in the personal loans portfolio have increased due to a lengthening in write-off period in anticipation of the adoption of IFRS 9. Similar impairment increases and higher provisions also impacted associate earnings.

The local corporate business posted a strong operational performance, albeit off a low base and despite a general slowdown in the sectors served. Volumes have grown strongly in the SME and business segment due to greater collaboration with FNB commercial. Impairments reduced 28% year-on-year on the back of a 5% improvement in NPLs.

MotoNovo's performance was impacted primarily by increased investment spend, margin pressure and rising credit impairments.

The lending margin pressure resulted from competitors benefiting from lower cost of funding. In addition, MotoNovo incurred costs related to building the online platform (findandfundmycar.com) and experienced some strain in the personal loans book due to its previous strategy of diversification.

FirstRand believes that some of these pressures will be alleviated when MotoNovo is integrated into Aldermore as it will no longer be disadvantaged from a cost of funds perspective and will not require further investment in diversification strategies given the mix of the Aldermore portfolio.

The MotoNovo credit performance is in line with expectations, particularly following a number of years of strong book growth. The business has taken specific actions regarding origination; these actions included targeted risk cuts and termination of certain origination relationships, which were resulting in higher risk new business. These actions also resulted in MotoNovo's new business production contracting 4% in pound terms (7% in rand terms). Increased NPLs and ongoing prudent provisioning resulted in an increase in the pound impairment ratio of 1.56% for the year under review (2017: 1.46%).

Total WesBank NIR growth continues to largely track growth in new units, which declined year-on-year and reflects subdued insurance revenues. Other NIR decreased as a result of the sale of RentWorks in November 2017, and the prior year also included a once-off credit of R68 million relating to the release of certain reserves. Excluding the effect of this, NIR increased 6% year-on-year.

WesBank continues to control operational expenditure and improve efficiencies. Its cost-to-income ratio has, however, increased mainly due to increased investment.

The strength of WesBank's customer franchises in both South Africa and the UK is reflected in industry awards.

WesBank

WesBank was awarded Top Employer Status at the 2018 Top Employers Awards

MotoNovo

MotoNovo was awarded Finance Provider of the year and Product Innovation of the year for findandfundmycar at the UK Dealer Power Awards

MotoNovo has been ranked within the Top 15 "Best Mid-Sized Companies to Work for in the UK" for the past three years

Phillip Monks ***CEO*** | Aldermore

At 30 June 2018, Aldermore had 238 000 customers with assets of £10.4 billion and £7.8 billion of customer deposits. Aldermore focuses on specialist lending across five areas: asset finance, invoice finance, SME commercial mortgages, residential mortgages and buy-to-let. It is funded primarily by deposits from UK savers.

The strategic rationale for the group's acquisition of Aldermore is outlined in the CEO's report. The acquisition became effective on 1 April 2018 and the group's performance for the year to June 2018 includes three months' profit contribution from Aldermore.

ALDERMORE FINANCIAL HIGHLIGHTS

	Three months ended 30 June	
	2018 R million	2018 £ million
Normalised earnings*	**276**	16
Normalised profit before tax	**549**	32
Total assets	**189 867**	10 446
Total liabilities	**176 089**	9 688
NPLs (%)	**0.38**	0.38
Credit loss ratio (%)	**0.12**	0.13
ROE (%)	**12.1**	12.9
ROA (%)	**0.80**	0.84
Cost-to-income ratio (%)	**52.5**	52.5
Advances margin (%)	**3.15**	3.15

* *After the dividend on the contingent convertible securities (AT1) of R115 million.*

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY

	Three months ended 30 June	
	2018 R million	2018 £ million
Normalised PBT		
Asset finance	**220**	13
Invoice finance	**54**	3
SME commercial mortgages	**160**	9
Buy-to-let mortgages	**433**	25
Residential mortgages	**154**	9
Central functions	**(472)**	(27)
Total Aldermore	**549**	32

Aldermore operates in large and attractive lending segments deliberately selected to provide it with the opportunity to deliver continued growth and strong risk-adjusted returns.

ASSET FINANCE

Lease and hire purchase finance to fund SME capital investment in machinery, plant and equipment, and soft assets such as IT equipment.

INVOICE FINANCE

Working capital for SMEs by lending against outstanding invoices in the form of factoring and invoice discounting.

SME COMMERCIAL MORTGAGES

Mortgages from residential property development through to purchase and refinancing. In Property Development, we provide flexible funding solutions for experienced housebuilders working on residential and mixed-use developments.

Aldermore is a **UK specialist lender and savings bank**, which has grown significantly on the back of a clear strategy to offer simple financial products and solutions to meet the needs of underserved small and medium-sized enterprises (SMEs), as well as homeowners, professional landlords and savers.

BUY-TO-LET

A complete buy-to-let proposition catering for both individual and corporate landlords, simple to complex properties and from a single property to a large portfolio.

RESIDENTIAL MORTGAGES

Residential mortgages through intermediaries and direct to customers.

SAVINGS

A range of award-winning savings products.

CUSTOMER FRANCHISE AND OPERATING FOOTPRINT

With no branch network, Aldermore serves customers and intermediary partners online, by phone and face-to-face through a network of nine regional offices located around the UK. Aldermore's commitment to exceptional service, total transparency and its vision to deliver "banking as it should be" has resulted in a genuinely differentiated customer proposition.

Aldermore has received numerous industry awards since it was founded, several of which have been awarded for a number of years running.

In particular Aldermore has been repeatedly recognised for innovative lending and savings products for small and medium-sized enterprises (SMEs), homeowners and savers.

2018 awards

WINNER – BEST SAVING PRODUCT – ALDERMORE FIXED RATE ACCOUNTS

Online Personal Wealth Awards 2018

Aldermore has won this award for three years running for its Fixed Rate Savings Accounts, voted for by the readers of the MoneyAm publication.

WINNER – BEST SERVICE FROM A DEVELOPMENT FINANCE PROVIDER

Business Moneyfacts Award 2018

This award recognises the quality service provided by Aldermore's property teams, voted for by its brokers.