
ALAN PULLINGER :: CEO



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CEO'S report

INTRODUCTION

For the year to 30 June 2019, FirstRand delivered real growth in earnings, maintained its return profile above the upper end of the group's long-term target range of 18% to 22%, and increased dividends in line with earnings, continuing its track record of shareholder value creation.

This was a resilient performance given the constrained macroeconomic backdrop and the high earnings base created in the previous year by significant private equity realisations. A detailed explanation of the group's financial performance is provided in the CFO's report, and detailed financial and operating reviews of the underlying businesses can be found on pages 54 to 76.

This report provides commentary on the operating environment, updates to the group's strategic framework and operating model and progress on execution of the specific growth strategies FirstRand is pursuing across the three geographic regions within which it operates (South Africa, rest of Africa and UK).

OPERATING ENVIRONMENT

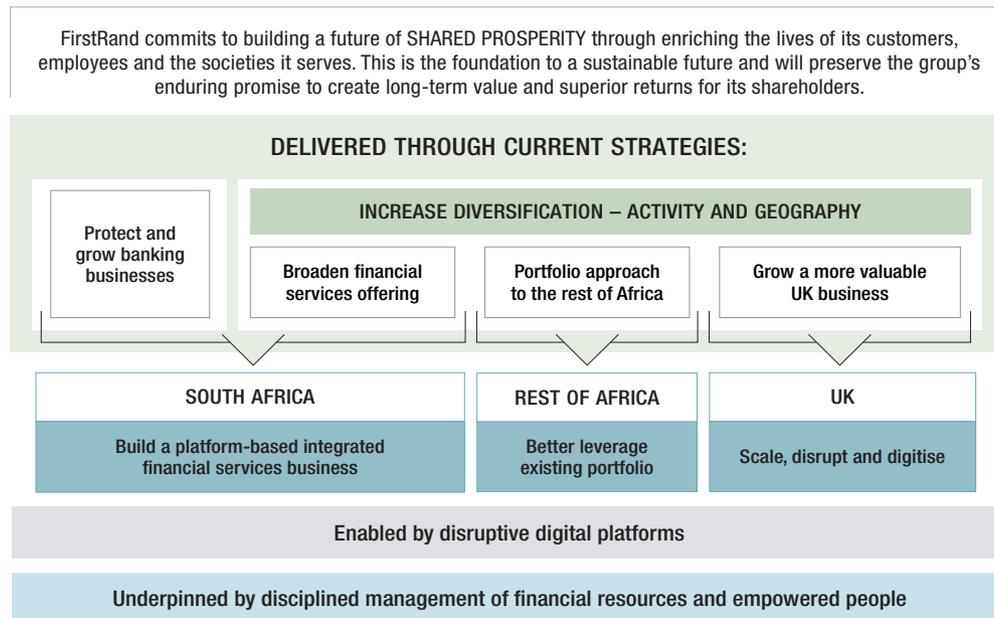
The prevailing operating environment remained challenging, with material macro risks including:

- persistently low GDP growth in South Africa;
- fiscal challenges coupled with rising government indebtedness;
- political and policy uncertainty;
- increasing cost and scarcity of financial resources;
- ongoing introduction of new regulations and legislation (particularly in banking activities), which will impact profitability over the medium to long term;
- intensifying competition; and
- continued regulatory and macro risks in the rest of Africa.

STRATEGIC FRAMEWORK

The group remains focused on delivering real earnings growth and premium returns to its shareholders. As a systemic business in South Africa, the group is also cognizant that its growth strategies need to create both economic and social value for a broader set of stakeholders, including clients, employees and society at large. It has therefore reshaped its purpose statement to include a broader set of promises to those stakeholders.

As demonstrated in the schematic below, FirstRand's strategy accommodates growth opportunities across the entire financial services universe from a product, market, segment and geographic perspective. Its ambition is to deliver a fully integrated financial services value proposition across its regional portfolio, built on a customer-centric focus and underpinned by leading digital platforms and capabilities. In the UK, the group aims to build further franchise value through scaling, digitisation and disruption.



Group earnings remain significantly tilted towards South Africa and are mainly generated by FirstRand's large lending and transactional franchises, 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, and the group remains focused on protecting this large and profitable revenue stream.

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 group's customers in South Africa is gaining traction. This approach, which is underpinned by the disciplined allocation of financial resources and enabled by efficient digital platforms, allows FirstRand to better optimise the franchise value of its domestic portfolio.

FURTHER PROGRESS IN BUILDING A PLATFORM-BASED INTEGRATED FINANCIAL SERVICES BUSINESS IN SOUTH AFRICA

The group has continued to protect and grow its domestic banking businesses, as outlined in the operating reviews of FNB, RMB and WesBank.

Through the effective utilisation of the origination capabilities, operating platforms and distribution networks of its banking operations, FirstRand is busy transforming into a financial services business with a fully integrated, platform-based, customer-centric approach in South Africa.

The group is incrementally capturing a larger share of profits from providing savings, insurance and investment products to its customers, and the growth opportunity is significant given the annual flows to other providers from FNB's customer base alone. Some examples of traction are outlined below.

FirstRand is busy transforming into a financial services business with a fully integrated, platform-based, customer-centric approach in South Africa.

The growth in the group's deposit franchise has continued to outperform money supply growth over several years, driven by strong growth in FNB's retail and commercial segments. This was the result of product innovation in investment products, client acquisition, and cross-sell and up-sell into its customer base. FNB is now the number one household deposit franchise in South Africa.

The wealth and investment management (WIM) business which moved from Ashburton Investments last year is now successfully leveraging FNB's client ecosystem, platform execution and distribution channels. WIM is focused on creating investment solutions to meet customers' needs, and revenues benefited from improved contributions from the fiduciary business and FNB share investing areas. FNB Horizon series funds showed improved performance,

however, despite this, there were net outflows for the year as customers opted for lower-risk asset classes. Assets under advice benefited from an uptick in customer numbers and sales on the listed investments services provider (LISP) platform. Platform developments activated during the period included online wills, robo-advice and the investment tab in online banking. The group remains confident that its WIM activities will continue to scale in the years ahead.

FNB Life, which was launched four years ago, is already a meaningful player in the SA insurance market. On the basis of an independent survey, the Swiss Re Individual Risk Market New Business Volume Survey 2018, FNB Life was voted:

- number 1 in life in terms of digital distribution;
- number 2 in life by number of policies;
- number 3 in life by annual premium equivalent (APE); and
- number 4 in life by sum assured.

The product range also continues to scale as shown in the graphic below.

FNB LIFE PRODUCT SET													
Retail	Commercial												
<table border="0"> <thead> <tr> <th style="text-align: left;">Non-underwritten</th> <th style="text-align: left;">Underwritten</th> </tr> </thead> <tbody> <tr> <td>→ Credit life</td> <td>→ Individual life cover</td> </tr> <tr> <td>→ Funeral</td> <td>→ Critical illness</td> </tr> <tr> <td>→ Health cash product</td> <td>→ Disability</td> </tr> <tr> <td>→ Accidental death cover</td> <td>→ Income protection</td> </tr> <tr> <td>→ Pay protect</td> <td></td> </tr> </tbody> </table>	Non-underwritten	Underwritten	→ Credit life	→ Individual life cover	→ Funeral	→ Critical illness	→ Health cash product	→ Disability	→ Accidental death cover	→ Income protection	→ Pay protect		<ul style="list-style-type: none"> → Key-person insurance cover → Business credit protect → Employer funeral plan → Group schemes
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FNB Life had another strong year with new business annual premium equivalent (APE) up 34% and growth in the in-force APE of 26% compared to the prior year. In the retail segment, credit life and funeral continued to grow strongly, and it was particularly pleasing to see the acceleration of in-force APE relating to other non-underwritten (core life) products (up 94%) and underwritten products predominantly to premium segment customers (up 84%). Sales of insurance products to commercial segment customers have commenced and early signs are promising. FNB Life's overall number of policies increased 11% to >4.1 million, the value of new business (VNB) increased 21% and gross embedded value (EV) grew 45%.

The group also activated its short-term insurance business, FNB Insure, following the granting of its short-term insurance licence last year.

MotoVantage, the value-added products and services (VAPS) business, remains the largest contributor to WesBank's insurance activities. MotoVantage's gross written premium and policies increased 1% in an environment characterised by declining vehicle sales. The majority of VAPS sales continue to occur at point of sale.

The asset management activities of the group are represented by Ashburton Investments (Ashburton), which was launched in 2013 as part of FirstRand's strategy to access broader financial services profit pools.

Ashburton's strategy is to disrupt in alternative investments as regulatory changes have allowed clients to invest in private market and alternative assets. RMB's track record in origination and structuring presents Ashburton with the opportunity to offer investors participation in private equity, renewable energy and credit investments (including investment grade, non-investment grade and mezzanine credit). Ashburton's portfolio also consists of a traditional range of equity, fixed income and multi-asset funds. Its long-standing international offshore multi-asset range has recently been strengthened through an investment partnership with Fidelity International. This range is well positioned for South African investors looking to diversify into international markets.

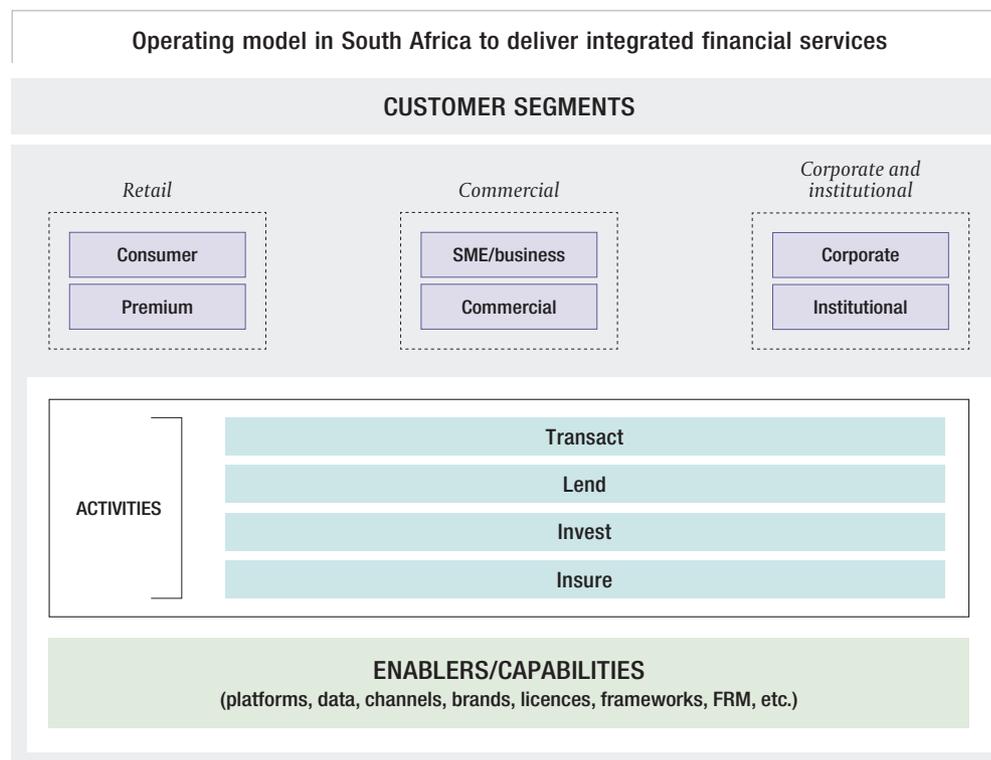
Ashburton’s assets under management (AUM) increased marginally to R103 billion, with good flows into the fixed-income range due to the market cycle and the strong performance in this range. This was offset by outflows in the offshore multi-asset range as well as structured products and these products are in the process of being restructured to further align to client needs in current markets.

The private markets business continued to deliver inflows on the back of winning new mandates. Despite a tough year for local financial markets, investment performance remained resilient, with the majority of funds delivering solid performances relative to peer groups.

The group has a long track record of incrementally building new businesses, where it believes over the longer term shareholder value can be unlocked. It will take time and patience to scale Ashburton, however, the group considers asset management an important component of its diversification strategy as it accesses additional financial profit pools.

OPERATING MODEL

In 2018, the group changed its internal operating model in order to better execute on its integrated financial services objectives. The group believes that real customer centricity is necessary to effectively deliver integrated offerings. In South Africa, where the group was previously structured around business silos, it is now structured around customer segments – i.e. putting the customer at the centre of business. In the year under review, this model continued to evolve and an updated depiction is shown below.



The segments are responsible for customer value propositions across the lend, transact, invest and insure universe, as they are mandated to understand customer context/needs. Externally these customer propositions continue to be delivered through the market-facing businesses, namely FNB, RMB, WesBank, Ashburton Investments, DirectAxis and MotoVantage.

The group continues to build out its platform strategy with the overall objective to create a single, customer-centric, integrated financial services platform ecosystem, supporting all operating businesses, segments and jurisdictions. In FNB's retail segment, efficient fulfilment on digital platforms drove cross-sell into credit card, personal loans and overdrafts in the year under review, whilst platform adoption continued to increase in FNB commercial, reflected in strong growth in active online and app customers and monthly logins.

BUILDING OUT THE REST OF AFRICA PORTFOLIO

The group's strategy outside of South Africa 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.

The group follows a portfolio approach to its nine subsidiaries in the rest of Africa, as outlined in the schematic below.

STRATEGIC GOAL	GROWING FINANCIAL SERVICES BUSINESSES	GROWING UNIVERSAL BANKS	GROWING A SPECIALIST BANK
Activity view	Lend ✓ Transact ✓ Insure ✓ Invest ✓	Lend ✓ Transact ✓	Lend ✓ Transact ✓
Region	Namibia Botswana eSwatini	Mozambique Ghana Tanzania Lesotho Zambia	Nigeria
Client focus	All customer segments and product offerings	Focused on CCIB and the related retail ecosystem	All customer segments and product offerings

In the growing financial services businesses category (Botswana, Namibia and eSwatini), the focus is on:

- protecting and growing the banking businesses;
 - digitisation and cost control; and
 - customer acquisition and cross-sell;
- broadening financial services offerings (insurance and asset management); and
- optimising returns.

In the growing universal banks portfolio (Ghana, Lesotho, Mozambique, Tanzania and Zambia), the focus areas are:

- repositioning growth strategies to align with commercial, corporate and investment banking (CCIB), which is the immediate opportunity;
- building lending, transactional and deposit client franchises;
- corporate banking and global markets offerings; and
- retail strategies leveraging the CCIB ecosystem.

In Ghana, the group injected GH¢280 million (approximately R850 million) additional capital to meet the increased minimum regulatory requirements during the year under review. The group is investigating strategies to scale this business appropriately.

In Nigeria, the group is growing a specialist bank, operating with an investment banking licence. Nigeria is a profitable CIB business focused on building a sustainable client franchise, consistently tracking ahead of business case and able to fund its own growth.

GROWING A MORE VALUABLE UK BUSINESS

In the UK, the integration of MotoNovo with Aldermore was completed in May 2019, and the business is now focused on scaling its existing offerings and unlocking synergies between MotoNovo and Aldermore.

The expanded Aldermore group now focuses on specialist lending in six areas: asset finance, invoice finance, SME commercial mortgages (including property development), residential mortgages, buy-to-let mortgages and vehicle finance. It is funded primarily by deposits from UK savers.

FirstRand believes it now has a more diversified UK business, with an established and scalable local funding platform, which represents a more sustainable and less volatile business model. The group's financial resource management methodology has also been introduced with the objective to optimise capital and funding deployment for growth in economic profits and sustainable returns.

RELAUNCH OF THE FIRSTRAND PHILOSOPHY

The group has seen a great deal of strategic and structural change over the past two years. The evolution of the operating model from a siloed structure to a segment structure, and the delivery of a platform business and integrated financial services, have required a significant shift in behaviour, particularly towards greater collaboration. This in turn has required high levels of trust and maturity, particularly as individuals have given up profit pools, teams and, in some cases, entire business units.

As a result of all this change, the group has been very focused on retaining talent and reinforcing values and culture. As part of this process, the group relaunched the FirstRand philosophy.

The principles of the philosophy were created by the group's founders, entrepreneurs who understood the value of treating their employees like owners so that every employee, regardless of their position, is fully empowered to make a real contribution to the group's success. This was the underpin to the group's owner-manager culture, which required commitment and accountability and has been the cornerstone to FirstRand's sustained outperformance.

The FirstRand philosophy guides how the group's people need to behave to deliver the best results for customers, society, shareholders and each other. The new iteration is captured in a set of promises.





be
deeply invested.

Care for the business as if it were your own.

Take initiative and be a leader in your own right. Put your time, passion and energy into serving our customers' needs, knowing that you are empowered, entrusted and accountable.



value our
differences.

Continue to build an **environment that values differences**, an environment where everyone's views and contributions can be heard and seen. Stay focused on the talent and ability of those around you, and not only their similarity to you. Be **inclusive, gracious, decent and humble**. Listen, reflect and only then respond.



build **trust,**
not territory.

Create a culture of sharing.

Work together and build trust into all your relationships. We are team players who act for the long-term interests of the group, not self-interest or the short term. Everyone is encouraged to contribute outside their area of expertise, so we can **unlock our collective wisdom** and achieve the very best results.



have **COURAGE.**

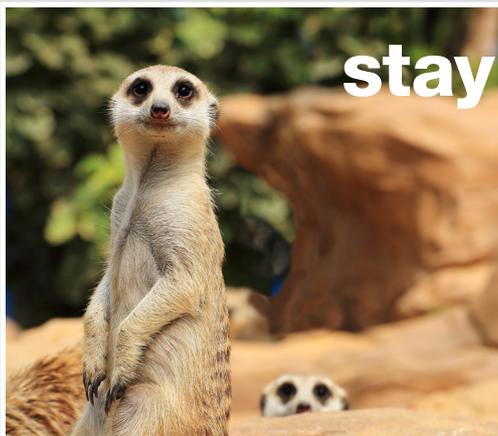
Nothing limits our imagination like fear.

We've built a **culture of bravery** by speaking our minds and encouraging others to do the same. We enable bravery with a tolerance for failure, resilience, the courage to speak up and express and share opinions, and a spirit that is adventurous and ambitious.



Question behaviours that are inconsistent with our beliefs.

Fight for **ethical conduct** and **transparency**, both inside and outside FirstRand. Champion honourable behaviour and excellent service and treat your customers, colleagues and partners fairly, to build value for our communities and shareholders.



stay **curious.**

Think differently.

Believe in insight, creativity and its power to unlock value. Encourage curiosity, avoid intellectual laziness and make an effort to question the status quo, even when it is uncomfortable.

OUTLOOK REMAINS CHALLENGING, HOWEVER, THE GROUP IS WELL POSITIONED

As the chairman has articulated in his report to shareholders this year, the South African macroeconomic environment faces some deep-rooted, systemic issues. The group, however, continues to strive for outperformance and the momentum in the business, driven by the current strategies as outlined above, should drive long-term growth and sustainable returns.

With regard to the rest of Africa, there are signs that economic activity is improving in some of the other sub-Saharan countries in which FirstRand operates, and the portfolio's performance is expected to incrementally improve.

With respect to the UK, Brexit uncertainties continues. Aldermore and MotoNovo are small operations in a very large market with deep financial services profit pools, which provides optionality and the ability to respond and adapt as market conditions change.



ALAN PULLINGER
CEO