HARRY KELLAN :: *CFO*

"The group's key measure of shareholder value creation, NIACC, increased to R10.7 billion."

cfo's report

INTRODUCTION

FirstRand delivered a resilient financial performance for the year to 30 June 2019, improving normalised earnings and maintaining a return on equity above the group's stated long-term target range.

The group's key measure of shareholder value creation, NIACC, also increased to R10.7 billion. This was achieved even as economic conditions continued to deteriorate.

The 6% growth in normalised earnings was underpinned by quality topline growth, and the group's ROE at 22.8% remained above the stated long-term target range of 18% to 22%.

Total revenue increased 7% (excluding Aldermore), driven by the group's strong client franchise, which accounts for 97% of all income. The group maintained a healthy balance between net interest income (NII) and non-interest revenue (NIR).

Strong growth in advances and deposits, and the inclusion of Aldermore for the full year, drove the solid increase in NII, whilst on the NIR side, fee and commission income, fair value income and insurance income drove growth.

The credit performance reflects the introduction of IFRS 9, with key impacts relating to extending the write-off period for retail unsecured NPLs from six months to 12 months, and more conservative curing rules for all retail portfolios, whereby 12 consecutive payments must occur before the account is rehabilitated.

The group therefore differentiates between the IFRS 9 impact and the underlying performance of the book, which it defines as operational NPLs.

NPLs are unpacked on this basis in the table below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	3 316	14	9
Aldermore	598	35	2
Restructured debt review (D7)	(191)	(5)	(1)
Definition of rehabilitation (technical cures)	519	14	2
Lengthening of write-off period	3 593	–	11
Total NPLs	7 835	23	23

The group's credit loss ratio of 99 bps (88 bps including Aldermore) deteriorated, but remains below the group's through-the-cycle (TTC) range of 100 to 110 bps. The group remains prudently provided, with portfolio impairments as a percentage of the performing book at 150 bps (excluding Aldermore), exceeding the annual credit charge.

The group continues to invest in strategies for growth, and systems and platforms to extract further efficiencies. As a consequence, the cost-to-income ratio increased to 51.8% from 51.2% previously.

FirstRand's Common Equity Tier 1 (CET1) ratio is well in excess of internal targets, driven by internal cash generation and profits from the one-off Discovery card transaction. This, combined with the sustainability of the group's return profile, allowed the board to maintain the dividend cover at 1.7 times, which is below the long-term cover range of 1.8 to 2.2 times. The board will revisit the cover range:

- should capital demand increase to support sustainable balance sheet growth; and/or
- macro risks worsen against the group's current core view.

WORSENING MACROECONOMIC ENVIRONMENT

The macroeconomic environment in many of the jurisdictions in which the group operates remained challenging in the year to June 2019. Global growth began to slow and downside risks emerged, which, combined with low developed market inflation generally and US inflation specifically, led the US Federal Reserve to signal monetary policy easing to support the economy. These conditions in turn prompted other developed market central banks to halt their planned monetary policy tightening cycles and signal monetary policy easing to cushion their economies into the growth slowdown. Whilst the adjustment of monetary policy expectations provided some support to emerging market assets, this was, to some extent, offset by the increased risks to the global growth outlook.

In South Africa, the government continued to make some progress with implementing governance and institutional reforms, although this did not translate into an improvement in economic conditions. The real economy remained weak on account of high government indebtedness, ongoing inefficiencies in the large SOEs and a lack of government capacity, combined with low private sector confidence and investment. Electricity supply interruptions and the global slowdown placed additional pressure on real GDP growth, which remained below 1%. These conditions in turn placed significant and sustained pressure on both household and corporate income.

In the rest of the sub-Saharan Africa region, macroeconomic conditions remained relatively stable with a few important exceptions, namely Namibia, eSwatini and Zambia, where the operating environments were particularly challenging. Botswana steadily implemented its structural economic reform programme, with the government having sufficient fiscal capacity to gradually lift investment in key sectors. The Nigerian economy continued to recover from its recession.

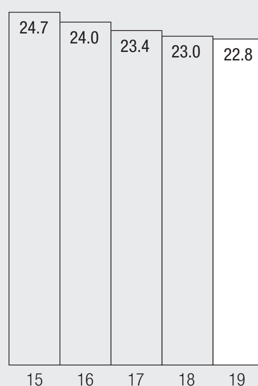
In the UK, the macroeconomic narrative was dominated by the protracted Brexit uncertainty. Although this has weighed somewhat on UK economic activity, the unemployment rate remained low and wages stable. This allowed consumer demand and house prices to hold up reasonably well.

The rest of this report looks at the key income statement and balance sheet drivers of this performance.

KEY PERFORMANCE METRICS

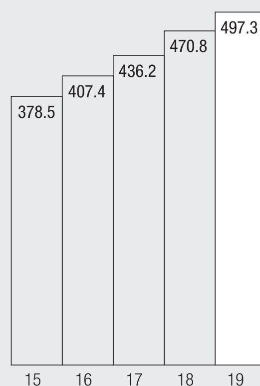
Despite the challenging backdrop, FirstRand maintained its track record of delivering sustainable growth in earnings and superior returns to shareholders, as shown below.

ROE
%



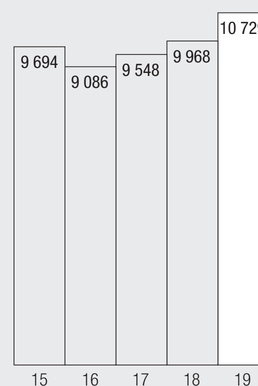
When the group analyses ROE, it also takes into account the relationship between ROA and gearing levels. The group's long-term ROE target range is 18% to 22% for normal economic cycles.

DILUTED NORMALISED EPS
cents



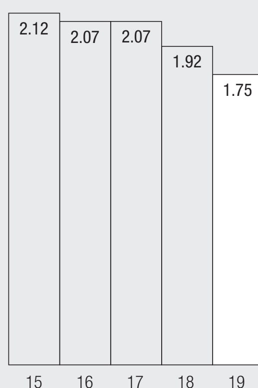
The group targets earnings growth of nominal GDP growth (defined as real GDP growth plus CPI) plus >0% to 3%.

NIACC
R million



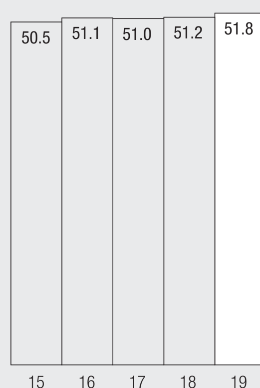
NIACC is the group's internal benchmark for assessing performance. The group continues to achieve returns above its cost of equity, resulting in NIACC growth despite higher levels of capital.

ROA
%



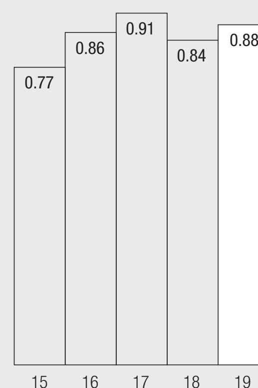
Maximising ROA is a key objective in creating shareholder returns. Although the group's ROA reduced with the acquisition of Aldermore, it remains structurally higher due to portfolio mix and strategic choices.

COST-TO-INCOME RATIO
%



The group monitors efficiency through the cost-to-income measure. Whilst the group views the cost-to-income ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth are key to value creation.

CREDIT LOSS RATIO
%



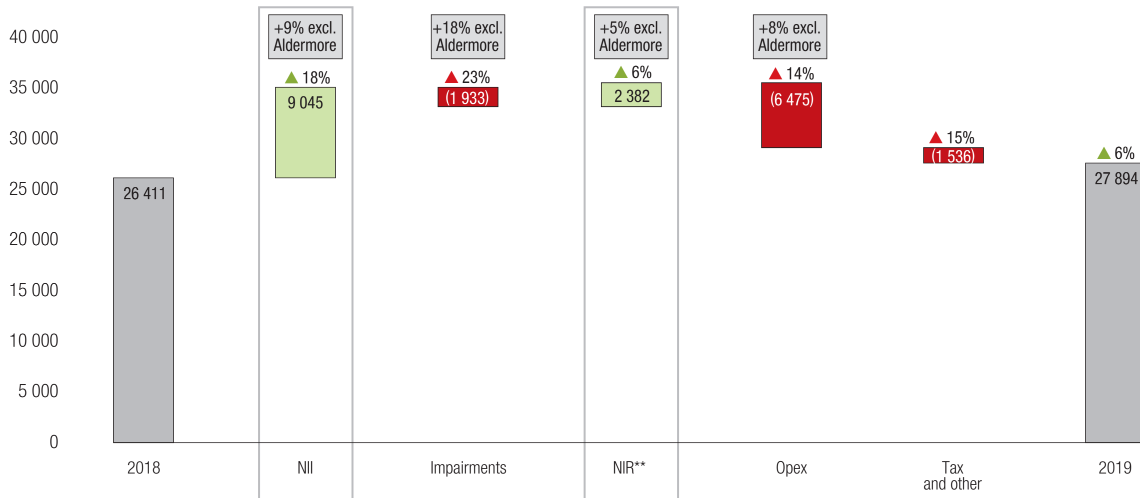
The group believes that pricing appropriately for credit risk is a key requirement for sustainable returns and targets a through-the-cycle charge range (excluding Aldermore) of 100 to 110 bps.

QUALITY TOPLINE GROWTH WAS MAINTAINED

The chart below shows a high-level breakdown of the income statement movements for the year under review. Despite the tough macroeconomic backdrop, the group produced quality topline growth of 7%. Aldermore only had a three-month contribution in the prior year, therefore the income statement movements excluding Aldermore are also shown in the chart below.

NORMALISED EARNINGS*

R million

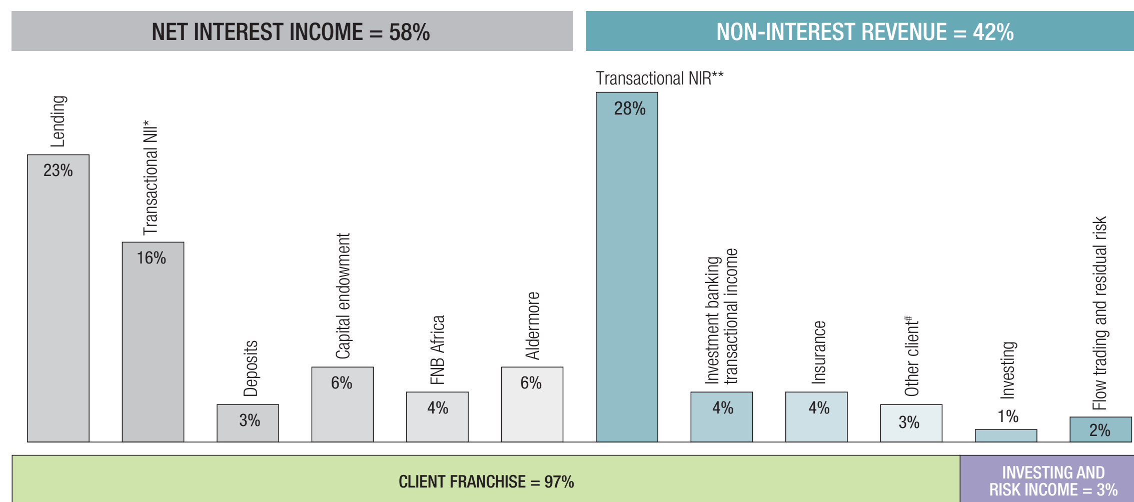


* *Including Aldermore.*

** *Including income from associates and joint ventures.*

REVENUE GROWTH MAINTAINED

The group has maintained a good balance between NII and NIR as shown in the following chart.



* *Includes transactional accounts and related deposit endowment, overdrafts and credit card.*

** *From retail, commercial and corporate banking.*

\# *Includes all associates other than those relating to Private Equity.*

All revenue drivers are showing good gains, with the valuable transact and lending activities still driving the overall 7% (excluding Aldermore) growth in revenue. Insurance activities are also gaining traction.

A further breakdown of NII is provided in the following table.

R million	2019	2018*	% change
Lending	**24 160**	21 774	11
Transactional**	**16 818**	14 975	12
Deposits	**3 340**	3 034	10
Capital endowment	**6 425**	5 895	9
Group Treasury	**(1 095)**	311	(>100)
FNB rest of Africa	**4 002**	3 728	7
Other NII in operating businesses	**819**	313	>100
Total NII excluding Aldermore	**54 469**	50 030	9
Aldermore#	**5 830**	1 224	>100
Total NII including Aldermore	**60 299**	51 254	18

* *2018 numbers were restated in order to provide better attribution of NII by nature of activity.*

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

\# *The prior year relates to three months' NII for Aldermore.*

Growth in lending NII, excluding Aldermore, was a credible 11%, supported by strong advances growth of 9%.

Transactional NII relating to overdrafts, credit cards and transactional deposits grew strongly at 12% and reflects RMB and FNB's attractive transactional offerings.

Robust growth in deposits, the capital endowment and FNB's rest of Africa businesses also delivered healthy contributions to the group's overall NII growth.

Group Treasury was negatively impacted by interest forgone on the deployment of capital for the Aldermore acquisition, as well as the effects of holding higher levels of high-quality liquid assets (HQLA).

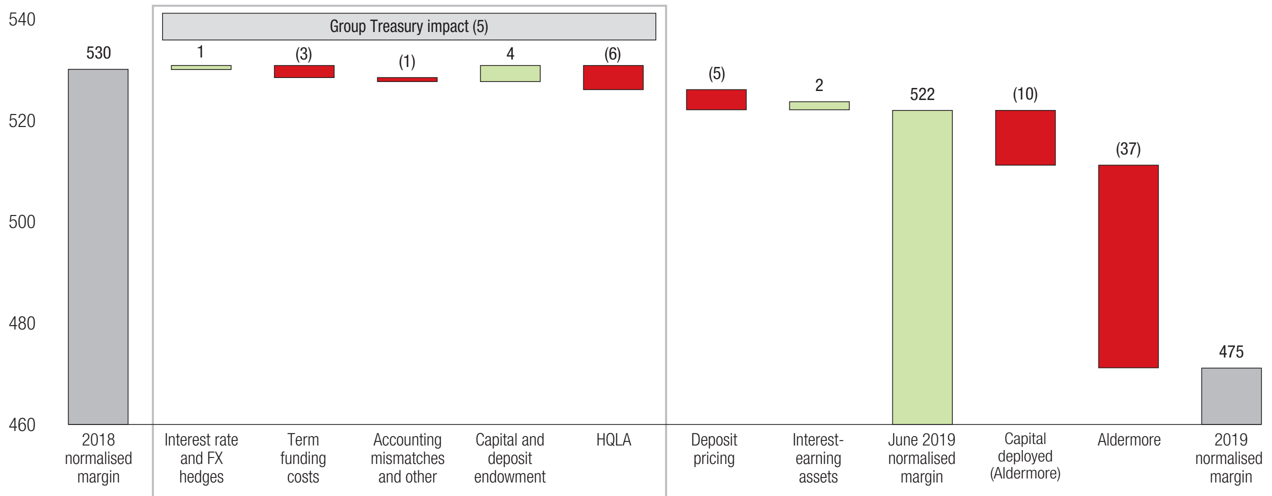
MARGINS DRIFTED DOWN

As expected, the margin has trended down due to deposit pricing pressure and the HQLA build-up, although there was some support from changes in the balance sheet advances mix and the capital and deposit endowment.

As indicated in the prior year, the inclusion of Aldermore results in a structural shift in the group's net interest margin, given the large proportion of lower-margin secured advances on its balance sheet. Its deposit market is also quite rate-sensitive. The chart below summarises the drivers of the group's net interest margin year-on-year.

MARGIN

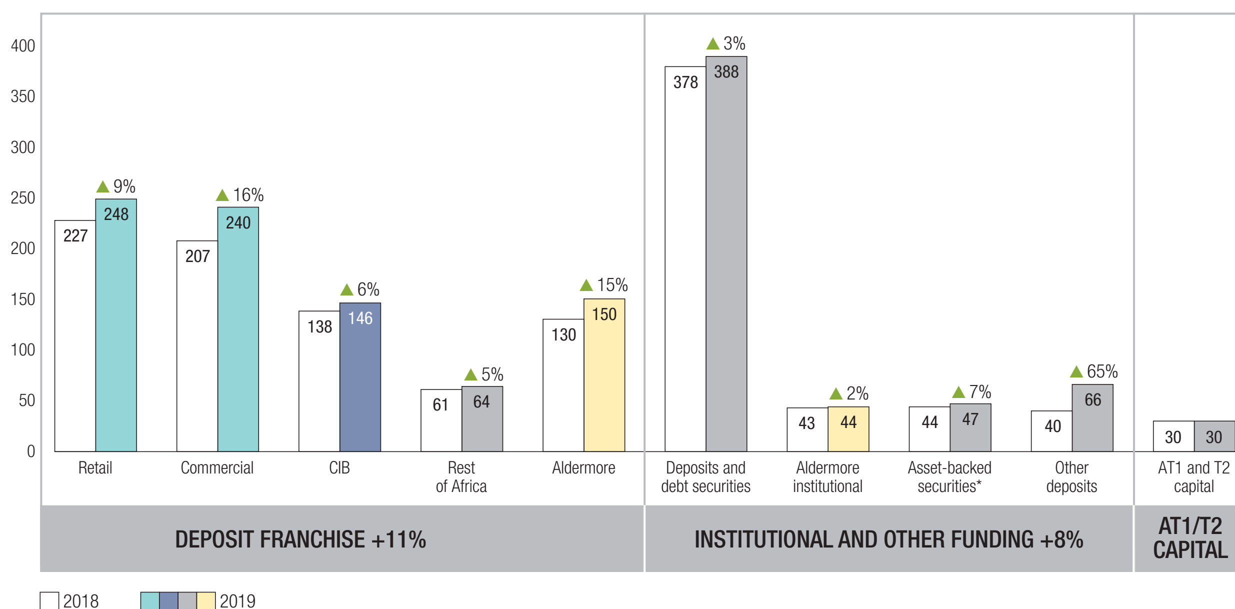
Basis points



SOLID PERFORMANCE FROM THE DEPOSIT FRANCHISE

LIABILITIES

R billion



* *Asset-backed securities include Aldermore's securitisations.*

Note: Percentage growth is based on actual rather than rounded numbers shown in the bar graphs.

Deposit growth maintained a strong trajectory across all segments, which is a good outcome given the competition for deposits in the market. The group's deposit franchise delivered overall growth of 11% for the financial year.

The group also issued debt securities in the market, given appetite from investors, and is focused on lengthening the weighted average term of institutional funding, which increased to 36 months compared to 34 months the previous year.

TARGETED ORIGINATION STRATEGIES DROVE RETAIL ADVANCES GROWTH

Overall retail advances grew 5% (excluding Aldermore). This continues to reflect the group's targeted origination approach across products and client segments.

FNB's focus has been to lend to main-banked clients, creating a strong reinforcement to the transactional relationship. Growth of 6% in mortgages was marginally above nominal house price inflation. Growth in both FNB's premium and consumer segments was driven by unsecured lending origination. In consumer, this was on the back of writing to credit appetite after risk cuts in previous periods, and was mainly focused on personal loans. Consumer card growth was down year-on-year.

The strong growth in premium personal loans and credit card was driven by:

- upward migration of customers from consumer to premium;
- leveraging digital platforms for pre-scored origination based on customer behaviour; and
- cross-sell to the premium customer base acquired in the prior year.

FNB personal loans continues to focus on the displacement of other providers of credit in its main-banked client base.

DirectAxis grew advances 7%, reflecting some pull-back on origination and increased competition in the market.

The tough environment, which was characterised by low consumer confidence, declining vehicle sales, a lengthening replacement cycle and certain risk cutbacks resulted in muted advances growth at WesBank. In the face of increasing competition, WesBank focused on protecting its origination franchise and return profile through disciplined risk appetite.

The slowdown in MotoNovo's advances growth was the result of lower new business origination (down 4% in pound terms) due to competitors benefiting from relatively lower funding costs and a softening of demand for new and used cars in the UK. Following the integration with Aldermore, MotoNovo origination is funded by Aldermore, which provides a 50 basis point improvement in MotoNovo's cost of funds.

Aldermore's retail advances benefited from strong origination in buy-to-let (up 14% in pound terms) due to a focus on specialist customers, and residential mortgages which grew 18% in pound terms on the back of new product launches. Despite increasing competition, Aldermore's market share has stayed stable.

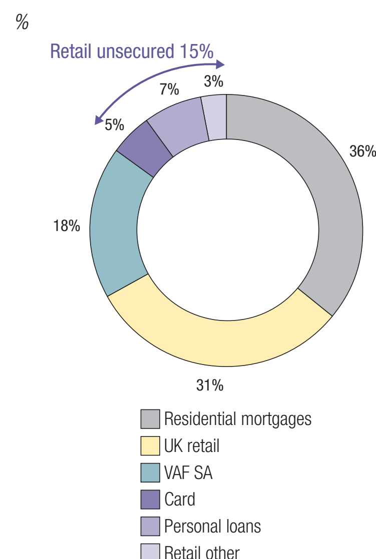
R million	**30 June 2019 IFRS 9**	1 July 2018 IFRS 9	% change
Residential mortgages	**217 164**	205 630	6
WesBank VAF (SA)	**106 142**	104 884	1
MotoNovo VAF (UK)*	**54 561**	60 347	(10)
FNB card	**28 115**	22 805	23
Discovery card	**4 328**	4 350	(1)
Personal loans	**39 947**	33 222	20
– FNB	**23 357**	17 200	36
– DirectAxis loans	**16 012**	14 985	7
– MotoNovo (UK)	**578**	1 037	(44)
Retail other	**17 908**	15 904	13
Retail advances excluding Aldermore	**468 165**	447 142	5
Aldermore – retail**	**129 072**	107 734	20
Retail VAF securitisation notes	**27 854**	23 674	18
Rest of Africa advances	**55 100**	53 765	2

* *Total MotoNovo VAF = £3.4 billion (+3% in pound terms, +1% in rand terms from 1 July 2018: R60.3 billion). MotoNovo back book = £3.03 billion (-9% from 1 July 2018: £3.32 billion).*

** *Aldermore retail advances = £7.18 billion (+21% from July 2018). Aldermore (excl. MotoNovo VAF) = £6.81 billion (+15% from 1 July 2018: £5.93 billion).*

RETAIL ADVANCES BREAKDOWN

%



CORPORATE AND COMMERCIAL ADVANCES GROWTH REFLECTS STRONG CLIENT FRANCHISE

Corporate and commercial advances, which increased 10% (excluding Aldermore), benefited from the growth in the repo book in support of the group's HQLA build-up. RMB investment banking core advances growth reflected disciplined lending, with the cross-border and corporate banking books exhibiting resilient growth.

FNB commercial advances continued to benefit from targeted customer acquisition, strong cross-sell momentum and focused asset growth, particularly in agric and commercial property finance.

The decline in WesBank's corporate and commercial advances reflects the difficult macroeconomic environment, characterised by low business confidence and stress in certain sectors.

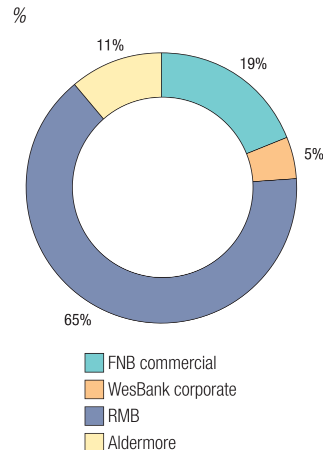
R million	30 June 2019 IFRS 9	1 July 2018 IFRS 9	% change
CIB core advances – South Africa	**259 510**	246 916	5
– Investment banking	**198 998**	190 107	5
– HQLA corporate advances	**17 155**	18 634	(8)
– Corporate banking	**43 357**	38 175	14
CIB core advances – rest of Africa*	**52 660**	43 818	20
CIB total core advances**	**312 170**	290 734	7
FNB commercial	**105 131**	94 558	11
WesBank corporate	**27 945**	32 164	(13)
RMB repurchase agreements	**41 117**	23 233	77
Corporate and commercial advances	**486 363**	440 689	10
Aldermore corporate advances	**62 418**	56 142	11

* *Include cross-border and in-country advances.*

** *Exclude RMB repurchase agreements.*

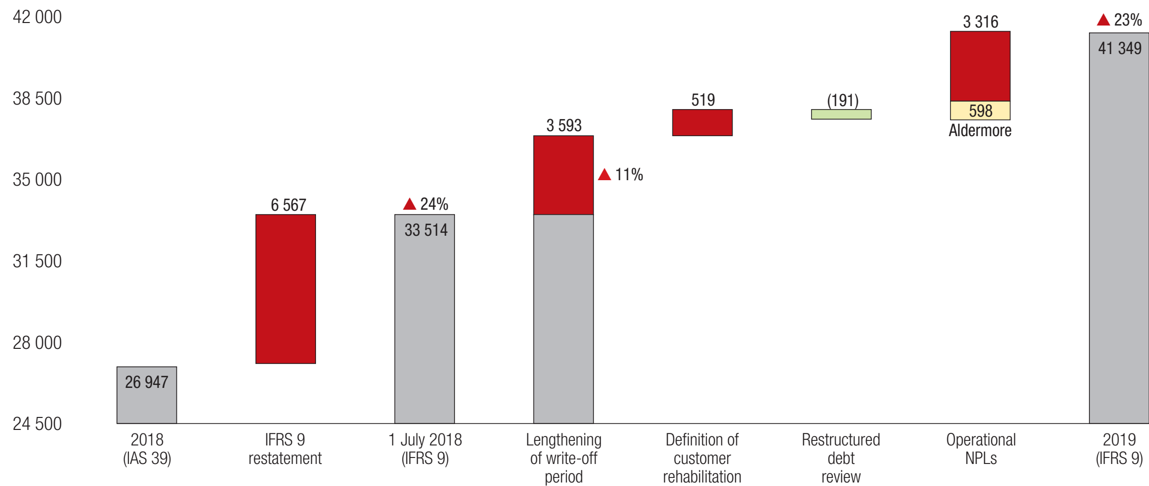
CORPORATE AND COMMERCIAL ADVANCES** BREAKDOWN

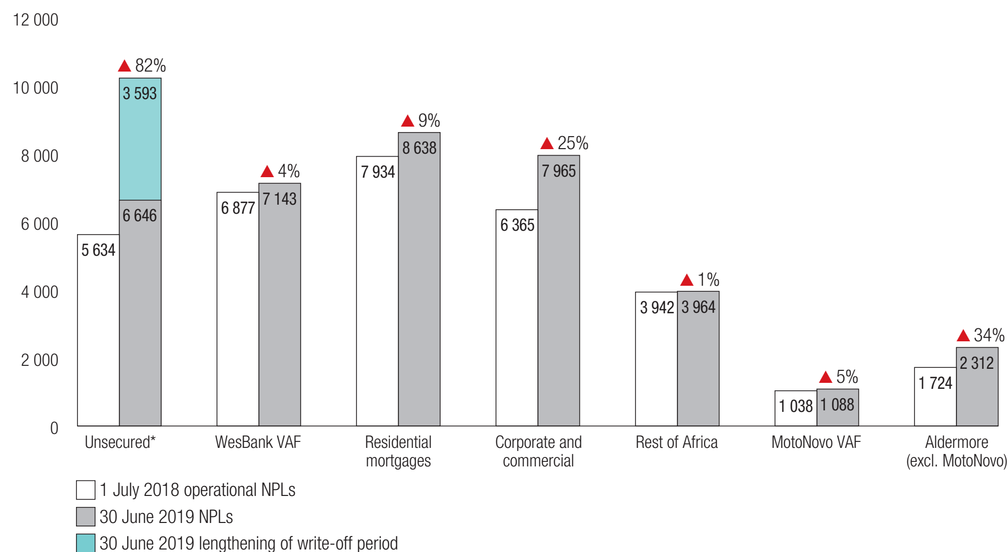
%



CREDIT PERFORMANCE WITHIN EXPECTATIONS

As the following chart shows, NPLs increased 23%, with the bulk of the growth attributable to the lengthening of the write-off period explained earlier. Growth in operational NPLs was in line with expectations.





* *Unsecured includes NPLs relating to MotoNovo personal loans (amounts immaterial).*

Unsecured NPLs (excluding the impact of the change in write-offs) increased 18%, which is in line with expectations given historical and current book growth. The credit impairment charge is still below TTC levels.

Retail VAF NPLs increased marginally because of delays in customer curing.

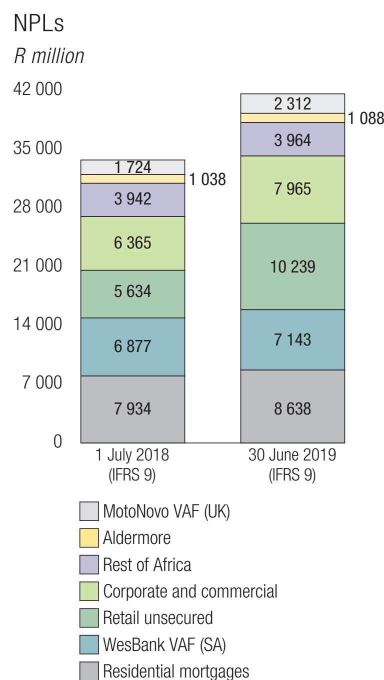
Residential mortgages NPLs increased in line with expectations and book growth, as well as delays in curing.

FNB commercial NPLs were driven by the agric book, which was expected given the impact of the drought in prior periods. This was proactively provided against in prior years, and consequently did not significantly impact the impairment charge.

Growth in RMB corporate NPLs is linked to specific counterparties, offset by the write-off of a specific client-exposure, which was largely provided for previously.

Rest of Africa has continued to weather economic pressures, including elevated inflation and interest rates, currency devaluation, scarce liquidity and modest economic growth. This resulted in an increase in NPLs, specifically from Namibia, Botswana and Zambia.

The increase in Aldermore NPLs was largely driven by a few specific counterparties in its asset finance portfolio, however, the overall credit performance still remains below original business case expectations.



Specific coverage ratios %	**30 June 2019 IFRS 9**	1 July 2018 IFRS 9
Retail – secured	**26.7**	27.5
Residential mortgages	**19.3**	21.6
VAF	**34.5**	33.3
– WesBank (SA)	**33.8**	32.0
– MotoNovo (UK)	**39.0**	41.9
Retail – unsecured	**76.6**	76.0
Card*	**77.6**	85.9
Personal loans**	**75.8**	71.4
Retail – other	**77.5**	80.2
Corporate and commercial	**41.4**	51.6
Rest of Africa	**59.3**	55.5
Specific impairments excluding Aldermore	**46.3**	44.4
Aldermore	**18.8**	13.5
Specific impairments including Aldermore	**44.7**	42.8

* *Including Discovery card.*

** *Including FNB and WesBank loans, and MotoNovo personal loans.*

The group believes that it has prudently provided for NPLs with specific coverage increasing due to the change in mix towards unsecured product NPLs.

The coverage is based on IFRS 9 and these models have been further refined from the 1 July 2018 adoption.

In residential mortgages, inflows into NPLs together with the increase in paying technical cure NPLs decreased coverage marginally. Overall unsecured coverage remained roughly the same, with the decrease in credit card coverage largely related to overlays being maintained at the same level despite increases in credit card NPLs.

Corporate and commercial coverage was lower due to the lengthening in write-off periods mentioned earlier. New NPLs were also better collateralised, requiring lower coverage.

Portfolio provisions have largely been maintained in line with book growth. This resulted in an increase in the absolute amount of provisions. The marginal decline of two basis points in portfolio impairments occurred as a result of changes in mix, as shown in the table below.

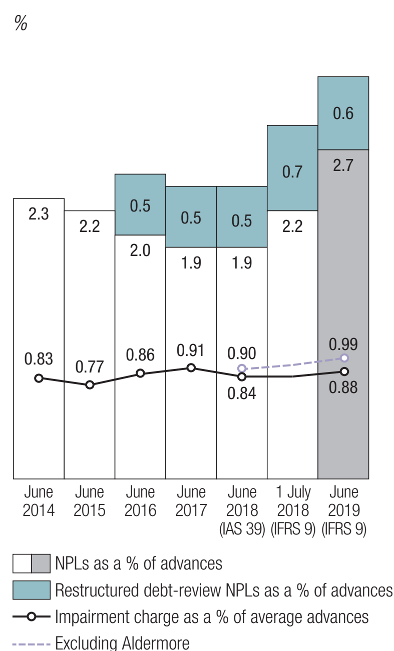
	30 June 2019 IFRS 9		1 July 2018 IFRS 9	
	Including Aldermore	**Excluding Aldermore**	Including Aldermore	**Excluding Aldermore**
Portfolio impairments as % of performing book	1.31	**1.50**	1.33	**1.51**
Stage 1 (%)	0.71	**0.80**	0.68	**0.77**
Stage 2 (%)	8.98	**11.35**	8.95	**9.95**
Portfolio impairments (R million)	15 667	**15 135**	14 735	**14 330**
Stage 1 (R million)	7 916	**7 544**	6 988	**6 715**
Stage 2 (R million)	7 751	**7 591**	7 747	**7 615**
Credit loss ratio (%)	0.88	**0.99**	0.84*	**0.90***

* *IAS 39 credit loss ratio.*

The group's impairment charge (excluding Aldermore) increased 18%, which was largely in line with expectations given the growth rate in advances with increased stage 1 provisions under IFRS 9.

NPL AND IMPAIRMENT HISTORY

%



Credit loss ratio %	30 June 2019 IFRS 9	30 June 2018 IAS 39
Retail – secured	**0.78**	0.81
Residential mortgages	**0.11**	0.07
VAF	**1.64**	1.73
– WesBank (SA)	**1.80**	1.88
– MotoNovo (UK)	**1.35**	1.46
Retail – unsecured	**5.97**	5.38
Card*	**3.45**	2.63
Personal loans	**7.27**	6.53
– FNB	**6.39**	5.03
– DirectAxis loans	**8.94**	8.20
– MotoNovo (UK)	**(2.85)**	6.41
Retail – other	**7.60**	7.62
Total retail	**1.72**	1.57
Corporate and commercial	**0.27**	0.23
Rest of Africa	**1.41**	1.71
FCC (incl. Group Treasury)	**0.17**	(0.02)
Total excluding Aldermore	**0.99**	0.90
Aldermore	**0.24**	0.12
Total including Aldermore	**0.88**	0.84

* *Includes Discovery card.*

The overall credit loss ratio of 99 bps (excluding Aldermore) is in line with expectations. With the inclusion of Aldermore the charge was 88 bps, given that the Aldermore advances portfolio is weighted toward secured advances. The Aldermore charge, at 24 bps, is still below expectation.

The residential mortgage charge came in at 11 bps, reflecting a normalisation of the credit cycle, and remains below TTC levels.

WesBank's retail VAF credit loss ratio showed a marginal improvement at 1.80% (2018: 1.88%), reflecting risk cuts in new origination. However, it remains at elevated levels given consumer stress and protracted collection timelines as customers opt for a repossession process via court order.

The FNB personal loans charge increased more than R500 million, or 63%, and was driven by strong book growth and operational NPLs tracking this book growth. The credit loss ratio of 6.39% remains well below TTC levels.

FNB card impairments increased more than R330 million, or 56%, as advances grew 23%. Operational NPLs in card increased materially (94%), mainly due to specific origination issues. As part of its focus on acquiring new customers and cross-selling credit cards into its base, FNB saw strong book growth from new-to-bank and new-to-product origination strategies. As vintages showed strain, FNB implemented significant risk cutbacks, however, these cuts were delayed in certain cohorts. The group expects ongoing elevated NPLs in these cohorts in the 2020 financial year. However, the credit loss ratio of 3.68% remains well below TTC levels.

Corporate and commercial's charge benefited from prior year proactive provisions, and therefore experienced a marginal increase to 27 bps. FNB commercial NPLs increased 36%, driven by growth in the higher collateralised agricultural portfolios against which proactive provisions were raised in prior years. The impairment charge increased to 75 bps, which has trended to the bottom of the TTC range. The RMB corporate and investment banking (CIB) portfolio reported a 7% increase in NPLs since 1 July 2018, reflecting the migration of certain counters in distressed industries. The overall portfolio reflected the higher levels of corporate stress in SA, resulting in an uptick in the credit charge in the current financial year to 12 bps.

SOLID GROWTH IN NIR, DESPITE PRIVATE EQUITY REBASING

NIR *R million*	2019	2018	% change
Total fee and commission income, insurance, markets and other	**39 834**	36 612	9
Fee and commission income	**30 971**	28 529	9
Insurance income	**4 128**	3 918	5
Markets, client and other fair value income	**4 735**	4 165	14
Other	**2 598**	2 441	6
Total investment income	**1 876**	2 873	(35)
Investment income	**619**	1 959	(68)
Equity-accounted earnings	**1 257**	914	38
Total non-interest revenue	**44 308**	41 926	6

Driven by pricing review, client and volume growth

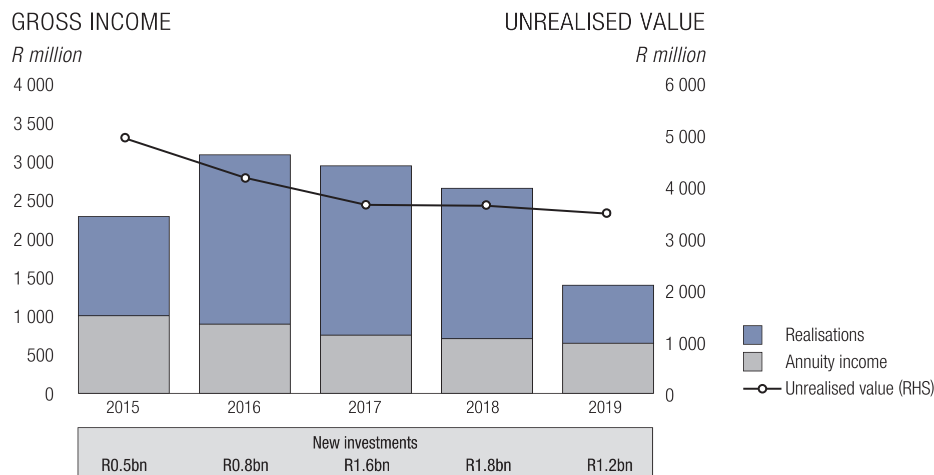
Reflects lower private equity realisations

NIR grew 6%, led by fee and commission income growth of 9% driven by strong electronic transaction volumes and ongoing customer acquisition.

Insurance income also increased 5% as new business APE grew 34%, resulting in 11% growth in the in-force life insurance book.

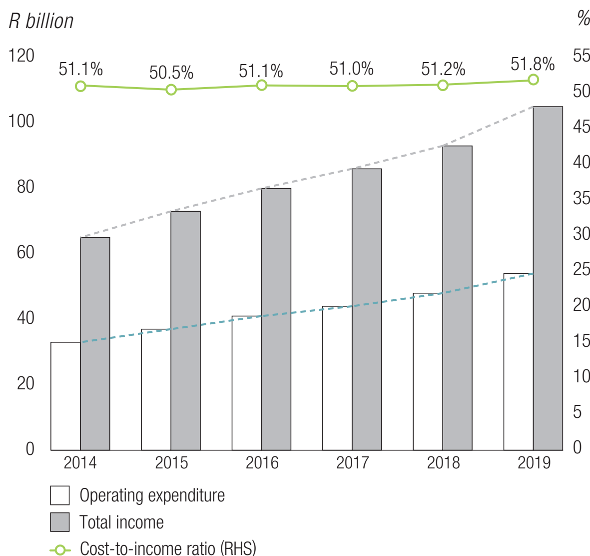
Fee and commission, and insurance income comprise 82% of operational NIR.

Pre-tax profits from private equity realisations declined R1.5 billion year-on-year, with annuity income marginally down due to prior period realisations and the subdued economic environment. RMB's private equity businesses are now in an investment cycle, with R4.6 billion invested over the past three years. The unrealised value of the private equity portfolio is R3.5 billion, compared to R3.7 billion in 2018.



OPERATING EXPENSES ROSE ON CONTINUING INVESTMENT FOR GROWTH

Excluding Aldermore, costs grew 8%, which continues to trend above inflation due to continuing investments in new initiatives, technology and platforms, as well as the amortisation of intangible assets recognised on the acquisition of Aldermore. The cost-to-income ratio deteriorated to 51.8%.



CONSISTENT FINANCIAL RESOURCE MANAGEMENT STRATEGIES REFLECTED IN STRENGTH OF BALANCE SHEET

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

When assessing the underlying risk in the balance sheet, the group's asset profile is dominated by a balanced advances portfolio, which constitutes 76% of total assets. The composition of the gross advances portfolio consists of SA retail secured (26%), SA retail unsecured (7%), SA corporate and commercial (37%), UK retail and commercial secured (22%), and rest of Africa and other (8%). At 30 June 2019, total NPLs amounted to R41 349 million (3.33% as a percentage of advances) with a credit loss ratio of 88 bps.

Cash and cash equivalents, and liquid assets represent 6% and 12%, respectively, of total assets. Only a small portion of assets relate to the investment and markets businesses. Market risk arising from trading activities has remained low and the group's equity investments relate primarily to RMB's private equity activities.

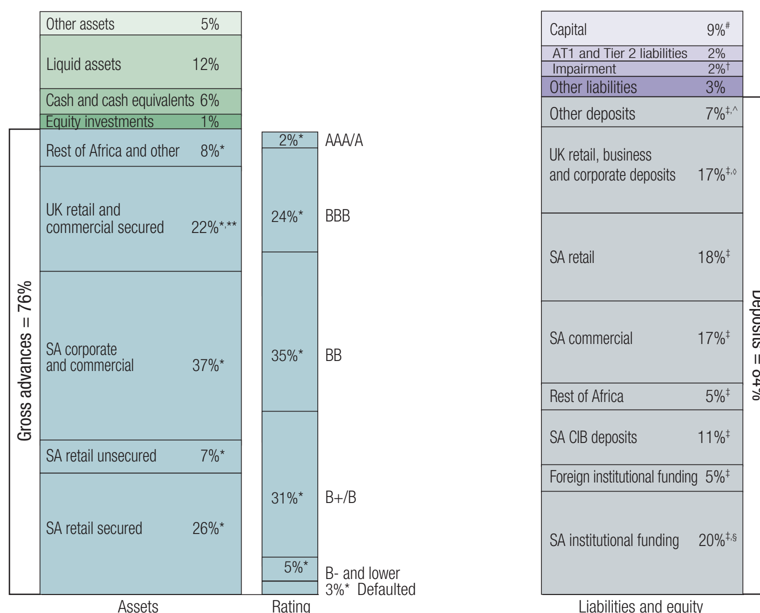
FirstRand's funding profile continues to reflect the structural funding constraints associated with the South African financial sector. The group has, however, continued to enhance its risk-adjusted funding profile whilst targeting a lower proportion of institutional funding relative to peers. The weighted average remaining term of the group's institutional funding was 36 months at 30 June 2019 (2018: 34 months).

The group's capital ratios exceeded stated targets with a CET1 ratio of 12.1%, Tier 1 ratio of 12.9% and total capital adequacy ratio of 15.2%.

Gearing increased to 13.0 times, up from 12.0 times in 2018, which was primarily driven by the acquisition of Aldermore and the implementation of IFRS 9.

ECONOMIC VIEW OF THE BALANCE SHEET

%



* *As a proportion of gross advances.*

** *Based on advances originated in MotoNovo, Aldermore and London Branch.*

\# *Includes ordinary equity, non-controlling interests and NCNR preference shares.*

† *Includes impairment (IFRS 9 provisions) of advances and investment securities.*

‡ *As a proportion of deposits.*

^ *Consists of liabilities relating to conduits and securitisations.*

◊ *Deposits raised in Aldermore and Guernsey branch.*

§ *Includes CIB institutional funding.*

Note: *Non-recourse assets have been netted off against deposits.*
Derivative, securities lending and short trading position assets and liabilities have been netted off.

Strong liquidity position maintained

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

The liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as at 30 June 2019 are summarised in the following table.

	Group*		Bank*	
%	**2019**	2018	**2019**	2018
LCR				
Regulatory minimum	**100**	90	**100**	90
Actual**	**122**	115	**133**	118
Average available HQLA (R billion)	**249**	203	**226**	182
NSFR				
Regulatory minimum	**100**	100	**100**	100
Actual**	**118**	112	**117**	111

* *The consolidated LCR and NSFR for the group includes the bank's operations in South Africa, and all registered banks and foreign branches within the group. The bank's LCR and NSFR reflect its operations in South Africa only.*

** *Exceeds regulatory minimum requirements with appropriate buffers.*

Capital position strengthened

Capital ratios as at 30 June 2019 are summarised below.

		Group		Bank*	
		As at 30 June			
%	Internal targets	**2019 IFRS 9**	2018 IAS 39	2019 IFRS 9	2018 IAS 39
Capital**					
CET1	10.0 – 11.0	**12.1**	11.5	13.4	12.7
Tier 1	>12.0	**12.9**	12.1	14.0	12.8
Total	>14.0	**15.2**	14.7	16.8	16.8

* *Includes foreign branches.*

** *Includes unappropriated profits and the Day 1 transitional impact of IFRS 9.*

The group's CET1 ratio strengthened significantly over the past year, driven primarily by the increase in the bank's CET1 position (up 70 bps from 30 June 2018). The year-on-year movement in the group's CET1 position relates to the following:

- ongoing net internal capital generation and lower RWA growth;
- the one-off Discovery card transaction;
- inclusion of minority capital previously excluded; and
- successful financial resource management optimisation strategies.

This was partly offset by the Day 1 transitional impact of IFRS 9 (around 12.5 bps decrease) on 1 July 2018.

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

The group continues to actively manage its capital composition by issuing Additional Tier 1 (AT1) and Tier 2 instruments to align with the group's internal targets. To this end, the bank issued the following instruments in the domestic market during the year under review:

- AT1 of R5.0 billion; and
- Tier 2 of R2.6 billion.

It remains the group's intention to continue optimising its regulatory capital stack by issuing AT1 and Tier 2 capital instruments in the domestic and/or international markets. This will ensure sustainable support for ongoing growth initiatives and redemption of existing capital instruments.

CONCLUSION

FirstRand delivered a resilient performance underpinned by quality topline growth. The group met its stated long-term earnings growth target and maintained ROE above the upper end of its target range of 18% to 22%.

HARRY KELLAN
CFO