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review of operations

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Jacques Celliers *CEO* :: FNB

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**.

A **strong performance** driven by a consistent strategy

Normalised earnings
↑ 11% to R17.6 billion

ROE 41.9%

DEPOSITS ↑ 12%

- Customer growth
- Cross-sell
- Product innovation
- Gathering cash investment balances

RETAIL ↑ 9%

FNB **remains the leader** in household deposits

COMMERCIAL ↑ 16%

STRONG GROWTH

ADVANCES ↑ 9%

- Ongoing customer acquisition
- Cross-selling to core transactional customer base

RETAIL ↑ 9%

- Good growth from targeted origination strategies across segments and products
- Leveraging digital platforms for pre-scored origination

COMMERCIAL ↑ 11%

- Customer acquisition
- Strong cross-sell
- Focused asset growth in key sectors

DIGITAL

72% of customer financial transactions performed on digital channels

FNB APP

Customers using app
3.1 million

Monthly logins
45.5 million

eWallet

Send volumes
↑ 19%
to **46 million transactions**

Total value transmitted
R26 billion

Launch of fully mobile account
140 000
active clients

nav»

Launch of **nav» wellness** and **nav» money**

nav» home origination
R6.8 billion

FNB maintains leadership position in **South Africa Customer Satisfaction Index** with overall score of
79.4

FNB awarded **Most Valuable Banking Brand** in Africa
2018 – 2019

Brand Finance Banking 500 report

TRANSACTIONAL

↑ 13% NIR
Growth in volumes across all segments

PREMIUM NIR growth
↑ 24%

- Card transactions
- Lending NIR
- Digital volumes

Number of customers
↑ 17%

INSURANCE

FNB Life already ranked **2nd in market** by number of policies and **1st in digital distribution**

Revenue
↑ 7%

volume growth

- Funeral ↑ 8%
- \+ Credit life ↑ 10%

New business APE
↑ 34%

- Core life ↑ 99%
- Funeral ↑ 12%
- Underwritten 33%

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's pre-tax profits increased 11% to R25.3 billion, driven by another strong performance from its South African business, which grew pre-tax profits 10%. The turnaround in FNB's rest of Africa businesses continued, with normalised PBT improving 30%. FNB produced an ROE of 41.9% and an improved cost-to-income ratio in its South African business of 48.6%.

FNB FINANCIAL HIGHLIGHTS

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Normalised earnings	**17 637**	15 865	11	
Normalised profit before tax	**25 348**	22 814	11	
– South Africa	**23 847**	21 669	10	
– Rest of Africa*	**1 501**	1 145	31	
Total assets	**476 634**	447 946	6	442 646
Total liabilities	**459 552**	426 472	8	426 484
Stage 3/NPLs as a % of advances	**5.89**	3.80		4.85
Credit loss ratio (%)	**1.52**	1.36		
ROE (%)	**41.9**	38.8		
ROA (%)	**3.79**	3.64		
Cost-to-income ratio (%)	**50.9**	52.0		
Advances margin (%)	**4.27**	4.19		

* *Includes WesBank's rest of Africa operations and FNB's activities in India, which were discontinued in 2017. Excluding India, the rest of Africa normalised PBT grew 30%.*

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 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.

SEGMENT RESULTS

R million	**2019 IFRS 9**	2018 IAS 39	% change
Normalised PBT			
Retail	**14 911**	13 767	8
Commercial	**8 936**	7 902	13
FNB rest of Africa	**1 501**	1 145	31
Total FNB	**25 348**	22 814	11

FNB's rest of Africa portfolio represents a mix of mature businesses with significant scale and market share (Namibia, Botswana and eSwatini), combined with recently established (subscale) and start-up businesses, such as Mozambique, Zambia and Ghana. Whilst the portfolio's performance continues to improve on the back of better topline growth and reducing impairments, profitability was impacted by tough macros and ongoing investment in the organic build-out strategies.

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

%	FNB SA	Rest of Africa
PBT growth	10	31
Cost increase	9	5
Advances growth	10	2
Deposit growth	13	8
Stage 3/NPLs as a % of advances	5.71	7.19
Credit loss ratio	1.51	1.61
Cost-to-income ratio	48.6	67.9
Operating jaws	2.2	1.5

FNB's total NII increased 10%, driven by strong volume growth in both advances (+9%) and deposits (+12%). FNB's focus on customer acquisition and cross-sell into its core transactional customer base continues to be the main driver of advances growth in the premium and commercial segments.

The ongoing strong growth in deposits in both retail and commercial was due to historic customer growth, cross-sell, product innovation and specific strategies to gather cash investment balances.

The table below unpacks the growth in advances and deposits on a segment basis.

SEGMENT ANALYSIS OF ADVANCES AND DEPOSIT GROWTH

	Deposit growth		Advances growth*	
Segments	%	R billion	%	R billion
Retail	9	21.5	9	26.0
– Consumer	3	2.4	6	2.3
– Premium	10	19.1	10	22.7
– DirectAxis	–	–	7	1.0
Commercial	16	32.8	11	10.6
FNB rest of Africa	8	3.3	2	1.3
Total FNB	12	57.6	9	37.9

* *Growth in advances reflect the change from 1 July 2018 (IFRS 9) to 30 June 2019 (IFRS 9).*

The mix of FNB's advances growth reflects its targeted, segment-specific origination strategies. The focus has been to lend to main-banked clients, creating a strong reinforcement to the transactional relationship. Mortgages (+6%) grew marginally above nominal house price inflation. Growth in both the 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. 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; and
- leveraging digital platforms for pre-scored origination based on customer behaviour.

Personal loans continues to focus on the displacement of other providers of credit in FNB's main-banked client base.

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

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

The tables below unpack advances at a product level per segment.

R million	As at 30 June 2019 IFRS 9	As at 1 July 2018 IFRS 9	% change
Consumer advances			
Residential mortgages	**25 947**	24 677	5
Card	**4 638**	4 712	(2)
Personal loans	**8 275**	7 047	17
Retail other	**2 714**	2 801	(3)
Premium advances			
Residential mortgages	**191 217**	180 953	6
Card	**23 477**	18 093	30
Personal loans	**15 082**	10 153	49
Retail other	**15 194**	13 103	16
DA advances	**16 012**	14 985	7
Commercial advances	**105 131**	94 558	11

The strength and quality of FNB's transactional franchise is demonstrated in the ongoing growth in volumes. Total customer growth was 1% year-on-year, with particularly strong new customer acquisition continuing in premium and commercial. There was some attrition of transactional accounts in the consumer segment due to conservative credit risk appetite and ongoing upward migration to premium.

CUSTOMERS

Customer segment	**Growth in customer numbers %**
Consumer	**(4)**
Premium	**17**
Commercial	**11**

NIR was driven by growth in transactional volumes across all segments. Premium saw particularly strong growth in card transactional volumes, lending NIR and digital volumes.

CHANNEL VOLUMES

Thousands of transactions	**2019**	2018	% change
ATM/ADT	**245 433**	243 023	1
Internet banking	**197 957**	205 200	(4)
Banking app	**237 873**	164 018	45
Mobile (excluding prepaid)	**42 050**	43 716	(4)
Point-of-sale merchants	**578 634**	496 673	17
Card swipes	**872 989**	785 405	11

Cost growth continues to trend above inflation at 8%, but is in line with expectations, given the level of ongoing investment in platform technology, insurance, wealth and investment management (WIM) and rest of Africa growth strategies, and above-inflation wage settlements. Despite these pressures, FNB achieved positive jaws and the overall cost-to-income ratio improved to 50.9%.

FNB recorded an increase of 32% in NPLs since 1 July 2018, in part reflecting the impact of the adoption of IFRS 9 (extension of write-off periods for unsecured advances and more stringent rehabilitation rules). Operational NPLs increased 13% since 1 July 2018.

The increase in operational NPLs in personal loans was below book growth and vintages continue to trend within expectations and below TTC levels.

The commercial portfolio's NPLs were driven mainly by drought in the agric book. Rest of Africa's NPLs trended up marginally, reflecting active credit management strategies.

Insurance revenue increased 7%, benefiting from good volume growth of 8% and 10% in funeral and credit life policies, respectively. New business APE increased 34% and growth was achieved across all portfolios.

NEW BUSINESS APE

R million	**2019**	2018	% change
Credit life	**782**	558	40
Funeral products	**721**	645	12
Core life products	**255**	128	99
Underwritten	**281**	211	33
Commercial	**27**	–	–
Total new business APE	**2 066**	1 542	34

This resulted in the life insurance in-force policy book growing 11% and in-force APE growing 26% compared to the prior year. Claims paid over the year increased 39%, in line with the growth in the in-force book, impacted by higher sums assured and changes in lapse rules that were implemented in October 2017. The change in lapse rules was implemented to provide customers with an improved insurance experience in line with FNB's vision to better protect them.

Revenues in WIM were up 8% for the year, benefiting 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 LISP platform. Platform developments activated during the period included online wills, robo-advice and the investment tab in online banking.

WIM ASSETS

R million	2019 IFRS 9	2018 IAS 39	% change
FNB Horizon series AUM	**3 370**	3 588	(6)
Assets under advice	**67 859**	66 812	2
Assets under administration	**17 879**	16 408*	9
Trust assets under administration	**38 327**	37 906	1
Assets under management	**51 064**	46 775	9
Assets under execution	**59 237**	70 693	(16)

* *Restated due to a portion of the business moving to Ashburton Investments.*

Operational highlights

- FNB has retained the position of leading provider of household deposits.
- FNB has a cross-sell ratio of 2.86 across its 8.1 million customers in South Africa.
- The number of customers using the FNB app increased from 2.5 million to 3.1 million, with volumes increasing 45%. Monthly app logins also reached 45.5 million.
- Digital platforms were also successfully leveraged for incremental credit origination.
- In addition, the various nav» offerings on the app continued to grow, improving the value proposition and creating further convenience for customers:
  - nav» Wellness was launched;
  - nav» Home origination has grown faster than other channels;
  - nav» Car has 380 000 customers with 283 000 vehicles loaded on the platform; and
  - 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 353 000 customers registered.
- The consistent strategy to migrate service activity from physical to digital channels has resulted in 72% 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 11% to 4.1 million. The short-term insurance business commenced writing business on its own licence during the year.
- FNB continued to improve accessibility to banking infrastructure, with eWallet send volumes growing 19% to 46 million transactions. Total value transmitted was over R25 billion for the year with regular recipients continuing to grow. During the year eWallet eXtra was launched, providing for send, receive and payment capabilities. It has accumulated 140 000 active clients.

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

CUSTOMER FRANCHISE AND OPERATING FOOTPRINT

	FNB SA			FNB rest of Africa		
	2019	2018	% change	**2019**	2018	% change
Representation points (branches, agencies)	**612**	628	(3)	**169**	173	(2)
ATMs	**3 870**	4 033	(4)	**774**	833	(7)
ADTs	**1 874**	1 888	(1)	**216**	202	7
Total ATMs and ADTs	**5 744**	5 921	(3)	**990**	1 035	(4)

Awards

2018 – 2019 Brand Finance® Banking 500 Report
Most Valuable Banking Brand in Africa

2019
BrandZ® Most Valuable Brands
Healthiest Brand
in South Africa

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

2016, 2018 and 2019
Columinate SITEisfaction® Survey
Best Internet Banking
Best Digital Bank

2013 – 2018
Sunday Times Top Brands
#1 Business Bank

2017 – 2019
Global Finance World's Best Foreign Exchange Providers
Best Foreign Exchange Provider
in South Africa

2016
Banker Africa Awards
Best Islamic Banking
in Southern Africa

2017 – 2018
Global Islamic Finance Awards
World's Best Islamic Banking
(window model)

2012 – 2019
Sunday Times Generation Next
Coolest Bank in South Africa

James Formby *CEO* :: RMB

RMB

RMB represents the group's activities in the **corporate and investment banking segments in South Africa**, the broader African continent and India. The diversified portfolio delivers on a disciplined approach that balances risk, return and growth.

Normalised earnings ↓ 4%

ROE 21.7%

Client franchises grew PBT ↑ 12% year-on-year

A **resilient performance** given the expected rebasing of private equity realisations in the current year.

Pleasing growth in a tough environment

Investment banking and advisory

PBT ↑ 8%

- Solid lending and higher margin income
- Appropriate levels of credit provisioning maintained

A solid performance

Corporate and transactional banking

PBT ↑ 12%

- Leveraging platforms to grow product offerings
- Higher transactional volumes and average deposits
- Increased demand for working capital solutions

Strong performance, albeit off a subdued base

Markets and structuring

PBT ↑ 24%

Benefited from positive market sentiment in 4th quarter

Increased FX flows, both domestically and in the rest of Africa

A solid performance, given high base in the prior year

Investing

PBT ↓ 54%

Equity accounted earnings impacted by prior period realisations and weak macros

Portfolio quality and diversification reflected in unrealised value of

R3.5 billion

Additional investment of

R2.1 billion approved

Rest of Africa

Portfolio key to RMB's growth strategy

Pre-tax profit

R2.1 billion

↑ 20%

Contributed

21%

to overall pre-tax profits

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, a competitive transactional banking platform and a strong private equity track record to ensure delivery of an integrated corporate and investment banking 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			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Normalised earnings	**7 086**	7 353	(4)	
Normalised profit before tax	**10 065**	10 387	(3)	
– South Africa	**7 943**	8 613	(8)	
– Rest of Africa*	**2 122**	1 774	20	
Total assets	**523 976**	471 713	11	471 775
Total liabilities	**512 341**	461 145	11	461 489
Stage 3/NPLs as a % of advances	**0.82**	0.80		0.86
Credit loss ratio (%)	**0.12**	0.08		
ROE (%)	**21.7**	25.3		
ROA (%)	**1.40**	1.61		
Cost-to-income ratio (%)	**46.4**	44.1		

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

RMB's diversified portfolio performance was resilient, with pre-tax profits declining 3% to R10.1 billion, given the expected rebasing of the private equity business in the current year. Notwithstanding this base effect, the client franchise delivered a robust performance with normalised PBT increasing 12%. This was underpinned by a strong markets and structuring contribution, notably from flow trading activities, and healthy annuity income-driven growth due to balance sheet deployment. Whilst the ROE also declined because of the base effect of private equity and higher capital levels supporting the strong advances growth, at 21.7% it still reflects the quality of RMB's earnings and strong operational leverage. RMB's cost growth of 9% primarily consists of an increase in headcount for RMB's rest of Africa growth strategies as well as ongoing platform and investment spend.

The rest of Africa portfolio remains key to RMB's growth strategy. The portfolio produced pre-tax profits of R2.1 billion, up 20% on the prior year, and contributed 21% of RMB's overall pre-tax profits. This performance was supported by investment banking, corporate and transactional banking and flow trading activities. RMB continues to execute on its client-led strategy on the continent by leveraging platforms, expertise and diversified product offerings.

BREAKDOWN OF PRE-TAX PROFITS BY ACTIVITY*

R million	2019 IFRS 9	2018 IAS 39	% change
Investment banking and advisory	**5 164**	4 762	8
Corporate and transactional banking	**2 205**	1 977	12
Markets and structuring	**2 002**	1 616	24
Investing	**1 161**	2 516	(54)
Investment management	**53**	57	(7)
Other	**(520)**	(541)	(4)
Total RMB	**10 065**	10 387	(3)

* *To improve peer group comparability, core activities now include the associated endowment earned on capital invested net of group cost allocations. Comparatives have been restated accordingly.*

Investment banking and advisory grew profits 8%, which was pleasing in an environment characterised by a constrained economic cycle, subdued corporate credit demand and low investor confidence. The business continued to deliver solid lending income, underpinned by prior year advances growth and higher margin income. Global and domestic corporate finance activity levelled off, resulting in lower fee income generation across advisory and capital market mandates. Earnings growth from the rest of Africa strategy was driven by strong cross-border advances growth. The business continues to maintain appropriate levels of credit provisioning given the prevailing weak credit cycle.

Corporate and transactional banking delivered solid results from both SA and the rest of Africa, up 12% year-on-year. This performance was underpinned by the continued focus on leveraging platforms to grow product offerings locally and in the rest of Africa. Domestic results were bolstered by higher transactional volumes and average deposit balances, and good demand for working capital solutions, delivering robust growth of 8%. The upward trajectory in the rest of Africa is attributable to increased client volumes and margins in the global foreign exchange business, solid average advances growth and an increase in average deposits. The business continues to invest in platform initiatives, both domestically and in the rest of Africa.

Markets and structuring delivered a strong performance, up 24% off a 2018 base characterised by an operational loss and low credit trading revenues. Income growth in the first half of the year was benign, impacted by the tough macros, resulting in lower flow activity. The business was, however, well positioned to capture the increased market-making activity and structuring opportunities offered by positive market sentiment in the fourth quarter. The rest of Africa also delivered a strong performance in the current year, with a particularly good performance from RMB Nigeria on the back of increased FX flows.

The 54% decline in earnings from investing activities was due to the expected lower realisation income. Prior period realisations coupled with weak macroeconomic conditions have also impacted equity-accounted earnings from the portfolio. The business remains in an investment cycle and additional investments of R2.1 billion were approved, with R1.2 billion paid away by June 2019. The quality and diversification of the portfolio is reflected in its unrealised value of R3.5 billion (June 2018: R3.7 billion).

Other activities reflect the continued derisking of the legacy portfolio, and investment in 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:

The Banker Investment Banking Awards 2019

- Most Innovative Investment Bank in Africa (fourth year running)

Financial Mail Top Analyst Awards 2019

- RMB Morgan Stanley: Equity Dealing, Equity Sales, Corporate Access and Operations & Administration
- RMB Global Markets Awards: Execution – Fixed Interest Securities
- Winning Analysts: Retail, Platinum, Paper, Food Producers, Strategy, International Economic Analysis, Commodities, Innovative Research and Credit Analysis

GTR Leaders in Trade Awards 2019

- Best Trade Finance Bank in Southern Africa (second year running)

GTR Best Deals 2019

- FirstRand Supply Chain Finance

Global Custodian 2019

- Agent Banks in Emerging Markets Survey – market, category and global outperformer

African Banker Awards 2019

- Equity Deal of the Year (Vivo Energy IPO)

The Banker Deals of the Year 2019

- FIG Financing (African Export-Import Bank $500m Eurobond)
- Green Finance (Growthpoint R1.1bn Inaugural Green Bond)
- High Yield & Leveraged Finance (CIVH Funding to acquire Vumatel)
- M&A (Vodacom Group R16.4bn BEE Transaction)

Global Finance Awards 2019

- Africa's Best Bank for New Financial Technology
- Best FX Provider in South Africa (third year running)
- Best Trade Finance Provider in Botswana
- Best Bank for Supply Chain Finance in Africa (second year running)

DealMakers Awards 2018

- Best BEE Investment Adviser by Deal Value

JSE Spire Awards 2018

- House awards
  - Best Fixed Income and Forex House
  - Best Forex House
  - Best Interest Rate Derivative House
  - Best Bond House
- Team awards
  - Inflation Linked Bonds
  - Debt Origination
  - Structuring – Fixed Income/Inflation/Credit/Forex
  - Repo
  - Dealing – Equities
  - Sales – Interest Rate Derivatives
  - Market Making – Interest Rate Derivatives
  - Market Making – Listed Interest Rate Derivatives
  - Market Making – On-Screen Listed Forex Derivatives

The Banker Transaction Banking Awards 2018

- Most Innovative Transaction Bank from Africa

OTHER AWARDS
Gender Mainstreaming Awards 2019

- Women Empowerment in the Workplace – JSE-listed companies

Great Place to Work – Nigeria 2019

- Small-sized Organisation category winner

Chris de Kock *CEO* :: WesBank

WesBank

Following the structural changes outlined earlier, WesBank now represents the group's activities in **instalment credit, fleet management and related services in the retail, commercial and corporate segments** of South Africa. The restructuring allows WesBank to focus on protecting and growing its unique and long-standing model of partnering with leading motor manufacturers, suppliers and dealer groups. This gives WesBank a market-leading point-of-sale presence.

A challenging year of tough macroeconomic conditions. WesBank focused on **protecting returns** and origination franchise.

Normalised earnings

2% to R1.8 billion

ROE 18.5%

ROA 1.26%

Cost to income 47.4%

New partnerships with KTM, Harley Davidson, Triumph and Renault

WesBank certified as a top employer by Top Employers Institute

Sector-specific challenges

RETAIL

PBT ↓ 5%

Increase in NPLs:
- Elevated consumer stress
- Protracted collection time

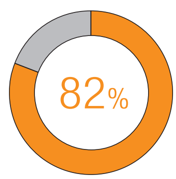
Advances increased ↑ 1% year-on-year due to risk cuts and ROE preservation

Margins pressured by shift from fixed rate to floating rate in new business origination

Subdued new vehicle sales

Lengthening replacement cycle

Affordability pressures



Contribution to total WesBank profits

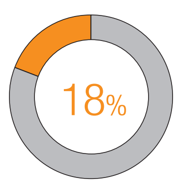
CORPORATE & COMMERCIAL

↑ 14%

Increased impairments in certain sectors under stress

Risk cuts constrained origination

FML book showed **strong growth** ↑ 18% in fleet units



Contribution to total WesBank profits

WESBANK

Following the structural changes outlined earlier, WesBank now represents the group's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa. The restructuring allows WesBank to focus on protecting and growing its unique and long-standing model of partnering with leading motor manufacturers, suppliers and dealer groups. This gives WesBank a market-leading point-of-sale presence.

WESBANK FINANCIAL HIGHLIGHTS

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39	% change	2018 IFRS 9
Normalised earnings	**1 808**	1 854	(2)	
Normalised profit before tax	**2 580**	2 643	(2)	
Total assets	**138 254**	142 104	(3)	140 734
Total liabilities	**135 146**	139 643	(3)	139 713
Stage 3/NPLs as a % of advances	**5.72**	5.15		5.31
Credit loss ratio (%)	**1.46**	1.47		
ROE (%)	**18.5**	17.4		
ROA (%)	**1.26**	1.28		
Cost-to-income ratio (%)	**47.4**	46.6		
Net interest margin (%)	**3.32**	3.31		

On a like-for-like basis, with DA and MotoNovo excluded, normalised profit before tax decreased 2% to R2.6 billion and the business delivered an ROE of 18.5% and an ROA of 1.26%. Both the retail and corporate VAF businesses faced a tough macroeconomic environment characterised by:

- low consumer and business confidence resulting in a lengthening of the vehicle replacement cycle;
- declining vehicle sales; and
- affordability challenges.

In the face of increasing competition, the business focused on protecting its origination franchise and return profile through disciplined risk appetite and operational efficiencies.

WesBank's operating model and relationships strengthened with new partnerships established with KTM, Harley Davidson, Triumph and Vespa. Its partnership with Renault was renewed recently.

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

BREAKDOWN OF PRE-TAX PROFITS BY ACTIVITY

R million	**2019 IFRS 9**	2018 IAS 39	% change
Normalised PBT			
Retail VAF*	**2 113**	2 235	(5)
Corporate and commercial	**467**	408	14
Total WesBank	**2 580**	2 643	(2)

* *Includes MotoVantage.*

WesBank's credit loss ratio showed a marginal improvement at 1.46% (2018: 1.47%), reflecting risk cuts in new origination. The corporate VAF business experienced further deterioration in credit quality emanating from ongoing stress in the transport and construction sectors. Retail VAF NPLs also increased due to elevated consumer stress and protracted collection timelines as customers opt for a repossession process via court order. In addition, as previously disclosed, higher-than-expected NPLs in the self-employed and small business segments resulting from operational issues with some scorecards, including third-party data quality, continued to play out in the year. Behavioural terms continue to extend due to consumer pressure.

The risk cuts in both portfolios resulted in advances declining 2% year-on-year. Margin pressure continued, partly due to increased competitive activity and the focus on originating lower-risk business, which is generally written at lower margins, and a significant shift in new business origination mix from fixed- to floating-rate business.

Total WesBank NIR (excluding associate income) – mainly insurance and fleet revenues – also declined marginally as insurance revenues tracked book growth. Rental revenues increased 10% due to growth in the full maintenance leasing (FML) book.

WesBank continues to control operational expenditure, and invest in digital process improvements and its growing FML fleet. Fleet depreciation increased R62 million.

Whilst the cost-to-income ratio has deteriorated due to topline pressure, overall cost growth tracked well below inflation at 1%.

Phillip Monks *CEO* :: Aldermore

Aldermore

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,vehicle owners and savers.

Customers and intermediary partners are served online, by phone and face to face through a network of nine regional offices.

300 000 customers (excluding MotoNovo)

£8.3 billion customer deposits

£12.5 billion assets

A **solid operational performance**

Strong loan growth
↑ 18% to £10.6 billion

New customers
↑ 11%
(44% incl MotoNovo)

Customer deposits
↑ 15% to £8.3 billion

Net interest income
£318 million

CET1 ratio strengthened to
14.9%

Aldermore market share remains stable

Aldermore operates **in large and attractive lending segments**

ADVANCES GROWTH ACROSS ALL PRODUCTS

Asset finance
↑ 10%
Lease and hire purchase finance to fund SME capital investment

Invoice finance
↑ 51%
Working capital for SMEs

SME commercial mortgages
↑ 6%
Mortgages from residential property development through to purchase and refinancing

Buy-to-let
↑ 14%
A complete buy-to-let proposition catering for both individual and corporate landlords

Residential mortgages
↑ 18%
Residential mortgages through intermediaries and direct to customers

SAVINGS – a range of award-winning savings products

2019 AWARDS

WINNER
Best Business Savings Provider
MoneyComms Award 2019

WINNER
Best Service from a Buy-to-Let Lender
Business Moneyfacts Award 2019

WINNER
Best Development Finance Provider
Business Moneyfacts Award 2019

WINNER (MotoNovo)
Best Car Finance Provider
Consumer Credit Award 2019

ALDERMORE GROUP

Aldermore is a UK specialist lender with a strategy of offering straightforward lending and deposit solutions to underserved customer segments, including small and medium-sized enterprises (SMEs), homeowners, landlords and savers.

During May 2019, a new entity, MotoNovo Finance Limited, was established under the Aldermore Group. FirstRand injected capital to support the first 15 months of trading into the Aldermore Group.

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. With no branch network, Aldermore serves customers and intermediary partners online, by phone and face to face through a network of nine regional offices.

ALDERMORE FINANCIAL HIGHLIGHTS

	Year ended 30 June			As at 1 July
R million	**2019 IFRS 9**	2018 IAS 39*	% change	2018 IFRS 9
Normalised earnings	**1 658**	276	>100	
Normalised profit before tax	**2 389**	549	>100	
Total assets	**225 323**	189 867	19	189 734
Total liabilities	**205 626**	176 089	17	176 100
Stage 3/NPLs as a % of advances	**1.21**	0.38		1.05
Credit loss ratio (%)	**0.24**	0.12		
ROE (%)** (Aldermore Bank)	**13.1**	12.1		
ROA (%)** (Aldermore Bank)	**0.84**	0.80		
Cost-to-income ratio (%)	**52.1**	52.5		
Advances margin (%)	**3.28**	3.15#		

	Year ended 30 June			As at 1 July
£ million	**2019 IFRS 9**	2018 IAS 39*	% change	2018 IFRS 9
Normalised earnings	**90**	16	>100	
Normalised profit before tax	**130**	32	>100	
Total assets	**12 530**	10 444	20	10 436
Total liabilities	**11 435**	9 686	18	9 686
Stage 3/NPLs as a % of advances	**1.21**	0.38		1.05
Credit loss ratio (%)	**0.24**	0.12		
ROE (%)** (Aldermore Bank)	**12.9**	12.9		
ROA (%)** (Aldermore Bank)	**0.83**	0.84		
Cost-to-income ratio (%)	**52.1**	52.5		
Advances margin (%)	**3.24**	3.18#		

* *Reflects three months' contribution from 1 April 2018.*

** *Given the up-front capital injections and start-up losses of MotoNovo, the ROE references Aldermore Bank. At June 2018 the earnings attributable to contingent convertible securities of R115 million (£6.8 million) is reflected on the segment report in the analysis of financial results booklet. R105 million (£6.5 million) of this amount related to the period prior to the acquisition date and was thus adjusted for in the 2018 annualised ROE and ROA calculations for Aldermore Bank.*

\# *This margin is based on the three months from 1 April 2018 to 30 June 2018.*

Aldermore Group delivered a solid operational performance.

- Strong loan growth of 18% to £10.6 billion was driven by business finance (+12%) and retail finance (+14%) with c.£370 million contributed by MotoNovo.
- Customer deposits grew 15% to £8.3 billion.
- Net interest income increased to £318 million.
- New customers grew 11% (44% including MotoNovo).
- The CET1 ratio strengthened to 14.9%.

Aldermore's credit loss ratio increased to 21 bps (24 bps including MotoNovo), which was lower than anticipated given that 25% of the increase was driven by a small number of specific individual provisions raised in asset finance. The remaining NPL increase tracked book growth and is well below expectations and TTC.

NII increased, reflecting the base impact of including Aldermore for 12 months, and ongoing book growth. The cost-to-income ratio reflects continued investment and the inclusion of the MotoNovo operational cost base, including staff, property and other costs since May. Margin and the cost-to-income ratio are still tracking ahead of FirstRand's original expectations when it acquired Aldermore.

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY

£ million	**2019 IFRS 9**	2018* IAS 39	% change
Normalised PBT			
Asset finance	**50**	13	>100
Invoice finance	**15**	3	>100
SME commercial mortgages	**38**	9	>100
Buy-to-let mortgages	**125**	25	>100
Residential mortgages	**34**	9	>100
MotoNovo (new book)	**(7)**	–	–
Central functions	**(125)**	(27)	>100
Total Aldermore	**130**	32	>100

* *Reflects three months' contribution from 1 April 2018.*

The growth in business finance was primarily driven by asset finance (+10%) and invoice finance (+51%), with a healthy contribution from SME commercial mortgages (+6%) as Aldermore continued to focus on larger-sized deals. Whilst competition is increasing, Aldermore's specialist underwriting skills allow it to work closely with its customers to provide tailored funding solutions.

Retail finance benefited from strong origination in buy-to-let (+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 and the business continues to develop simpler automated solutions for customers and brokers.

Standalone operational performance of MotoNovo

The normalised PBT of the standalone MotoNovo business (the back book in FCC/GTSY for the full year and the new book originated in the Aldermore Group since May 2019) declined 29% in pound terms to £42 million year-on-year. This performance reflects:

- lower net interest margins due to increased competitive pressures and the continued elevated cost of funding the book from the South African balance sheet, particularly during the first half of the financial year;
- lower new business origination (-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;
- a reduction of >50% in non-interest revenue, driven by:
  - a change in the current financial year to a fee-free model for the findandfundmycar.com platform; and
  - a 74% reduction in insurance revenues written following the implementation of the General Data Protection Regulations (GDPR) rules in the UK in May 2018;
- ongoing investment in findandfundmycar.com;
- significant costs associated with the integration with Aldermore; and
- the impairment of certain intangible assets.

Pleasingly, the MotoNovo VAF impairment charge reduced 4% in pound terms, reflecting the benefit of scorecard tightening, new business origination focused on lower-risk segments and improved operational efficiencies in the collections function.