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

UNAUDITED INTERIM RESULTS AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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

"For the six months to December 2019, FirstRand produced normalised earnings growth of 5% and a normalised ROE of 21.2%. This is a commendable performance given the speed of deterioration experienced in the domestic operating environment during this period, and testament to the strength of the portfolio and the quality of the strategies executed by FNB, RMB, and WesBank in South Africa and the broader region. Aldermore continues to perform well and contributed again to growth and returns.

As a large systemic financial services group FirstRand is not immune to the serious macroeconomic challenges facing South Africa, and the damaging impact of ever declining GDP growth is becoming evident in all of the group's customer segments in South Africa."

Alan Pullinger
CEO

FINANCIAL HIGHLIGHTS

	Six months ended 31 December			Year ended 30 June
R million	2019	2018	% change	2019
Earnings performance				
Basic and diluted normalised earnings per share (cents)	249.7	237.8	5	497.3
Normalised earnings	14 009	13 342	5	27 894
Headline earnings	13 987	13 344	5	27 887
Normalised net asset value per share (cents)	2 402.2	2 202.2	9	2 311.3
Ordinary dividend per share (cents)	146	139	5	291
Normalised ROE (%)	21.2	22.3		22.8
Basic and diluted headline earnings per share (cents)	249.4	237.9	5	497.2
Basic and diluted earnings per share (cents) - IFRS*	249.3	280.5	(11)	538.6
Net asset value per share (cents) - IFRS	2 402.4	2 202.8	9	2 311.8
Advances (net of credit impairment)	1 223 764	1 172 544	4	1 205 752
Deposits	1 438 588	1 338 621	7	1 393 104
Credit loss ratio (%)	0.95	0.86		0.88

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

OVERVIEW OF RESULTS

FirstRand's portfolio of businesses produced normalised earnings growth of 5% for the six months to 31 December 2019. The group continued to maintain its balance sheet strength and protect its return profile, producing a normalised ROE of 21.2%.

SOURCES OF NORMALISED EARNINGS

	Six months ended 31 December					Year ended 30 June	
R million	2019	% com-position	2018	% com-position	% change	2019	% com-position
FNB	9 167	65	8 742	65	5	17 745	64
- FNB South Africa	8 799		8 388			17 178	
- FNB rest of Africa	368		354			567	
RMB	3 456	24	3 274	25	6	6 975	25
WesBank	966	7	957	7	1	1 808	6
Aldermore*	797	6	1 037	8	(23)	1 658	6
- Aldermore excluding MotoNovo	917		1 037			1 722	
- MotoNovo (new book)	(120)		-			(64)	
FCC	89	1	(460)	(3)	(100+)	305	1
- MotoNovo	380		271			634	
- FCC (includes Group Treasury) and other**,#	(291)		(731)			(329)	
Other equity instrument holders	(466)	(3)	(208)	(2)	100+	(597)	(2)
Normalised earnings	14 009	100	13 342	100	5	27 894	100

* After the dividend on the contingent convertible securities of R32 million (June 2019: R163 million).

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

Includes FirstRand Limited (company).

FNB's domestic franchise produced a solid performance underpinned by non-interest revenue (NIR) growth, driven by ongoing customer gains and increased transactional volumes, and net interest income (NII) growth, particularly from deposit generation. However, some of these drivers have slowed relative to the previous six-month period to June 2019, in line with the weakening economic conditions.

RMB's diversified portfolio performance was resilient, with normalised earnings increasing 6% to R3.5 billion, notwithstanding that investing activities were down 46% period-on-period due to the non-repeat of private equity realisations. The client activities franchise delivered another strong performance.

WesBank's performance remained subdued in a market still characterised by competitive pricing pressures and low vehicle sales. The business continued to focus on cost management and protecting its origination franchise and return profile.

Aldermore produced a solid operational performance underpinned by growth in origination across all portfolios. Absolute period-on-period growth in earnings was, however, impacted by new origination strain in MotoNovo and a GBP4.4 million mark-to-market loss on loan portfolio hedging compared to a GBP6.4 million profit in the comparative period.

At a total group level, whilst NII growth has softened slightly, it remained resilient, increasing 8% period-on-period and, although advances growth slowed to 4%, growth in deposits increased 7%.

RMB achieved NII growth of 12%, benefiting from period-on-period average advances growth, specifically from cross-border activities, and higher levels of working capital utilisation. This growth is expected to moderate in the second half of the financial year.

FNB's NII growth moderated slightly to 9% period-on-period but still benefited from advances growth of 8%, and deposit growth of 10%, particularly from the premium and commercial segments. WesBank's NII reflected a tough operating environment, with advances increasing marginally (+0.5%).

Group NIR growth slowed to 5% period-on-period, mainly reflecting relatively lower fee and commission income growth, and the non-repeat of private equity realisations in the comparative six months to December 2018 (investment income was down 73% period-on-period).

FNB's fee and commission income grew 5%, mainly due to increased volumes across its digital and electronic channels, however, as expected, the rate of growth in volumes is slowing due to customers' constrained disposable incomes, competitive pressures and certain fee concessions.

The strong increase in insurance income of 14% offset these pressures to some degree, benefiting from premium growth of 20% in core life products and 77% in underwritten life policies, despite a slowdown in growth of credit life policies. This resulted in a 17% increase in the in-force annual premium equivalent (APE) period-on-period. WesBank's insurance income grew 11% reflecting an improved performance from MotoVantage.

The group's fair value income, mainly driven by RMB's markets business, again showed strong growth of 18%.

Cost growth remained above inflation, increasing 7%. This reflects a focus on efficiencies, particularly given current topline pressures, and was achieved against a backdrop of above-inflation staff wage increases and ongoing investment in:

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

The group's cost-to-income ratio decreased marginally from 52.3% to 52.1%.

The group's credit performance, which is marginally weaker than expected, should be seen in the following context:

- The macroeconomic environment deteriorated more rapidly than anticipated, particularly in late 2019 and the velocity of this deterioration could not be immediately captured by FNB's origination scorecards and collections processes. Business is actively addressing these issues, however these interventions are only likely to have an impact in the next financial year.
- Historical advances growth has, as expected, resulted in new business strain.

The impact of the above was not experienced equally across all segments and product lines. It was more pronounced in FNB's unsecured retail advances and, to a lesser degree, in commercial. Both of these portfolios are particularly sensitive to slowing nominal GDP growth and the impact of loadshedding.

Despite these issues, the overall credit impairment charge remains within the group's guided through-the-cycle (TTC) range at 105 bps (95 bps including Aldermore), resulting in an 18% increase in the charge.

IFRS 9 also continues to impact the credit charge in that provision levels are upfronted for new origination and, similarly, higher levels are maintained for arrears.

The maturing of the write-off period during the six months to December 2019 resulted in a negative impact on the impairment charge, where the lengthening of the write-off point in the six months to December 2018 provided a one-off relief.

IFRS 9 also has a significant impact on some balance sheet credit metrics (e.g. non-performing loans (NPLs) and coverage). Certain IFRS 9-specific changes, as indicated below, will start normalising in the current financial year.

IFRS 9 contributes a material increase in NPLs mainly due to:

- the lengthening of the write-off period from six to 12 months, particularly in retail unsecured;
- a more stringent definition for customer rehabilitation (technical cures); and
- 12 consecutive full instalment payments to cure.

These IFRS 9-related changes, particularly the lengthening of the write-off period, accounted for 27% of the growth in NPLs. The underlying credit performance is captured under the operational NPL definition.

As indicated previously, certain of the IFRS 9-related adjustments would start normalising in the current reporting period, e.g. curing. The maturing of the curing definition and reinstating cure for debt-review accounts, resulted in a migration of c. R700 million of unsecured NPLs to stage 2 during the reporting period, with no change to related coverage ratios.

Taking into account the above context, total NPLs have increased 17% or R6 447 million since December 2018, with operational NPLs increasing 15% (excluding Aldermore), as shown in the table below.

	R million	% change	Percentage point contribution to overall NPL increase
Operational NPLs	4 008	15	11
Aldermore	915	52	2
Restructured debt review	(633)	(16)	(2)
Definition of rehabilitation (technical cures)	397	10	1
Lengthening of write-off period	1 760	91	5
Total NPLs	6 447	17	17

The increase in operational NPLs (excluding Aldermore) reflects:

- ongoing strong book growth in certain retail unsecured portfolios, and residential mortgages, primarily in the premium segment;
- macro pressures in some sectors affecting WesBank corporate;
- migration of certain highly collateralised or guaranteed counters in the RMB corporate and investment banking (CIB) portfolio; and
- drought-related impacts in FNB commercial's agricultural portfolio.

This increase was driven by new business strain and the impact of the deteriorating macro environment.

A detailed explanation of the c. R910 million increase in the credit charge is unpacked below.

- FNB card impairments increased c. R270 million (+77%) on the back of 21% growth in advances. Operational NPLs in card increased materially (+84%), still reflecting the ongoing impact of the previously disclosed specific origination issues in the financial year to June 2019, whereby FNB saw strong book growth from new-to-bank and new-to-product origination strategies. This was further exacerbated by the worse than expected macro environment. These originated cohorts will continue to drive NPL formation over the medium term. The group expects ongoing elevated NPLs in card during the rest of the 2020 financial year.
- The FNB personal loans charge increased c. R300 million (+47%). Whilst book growth remained robust, up 21% period-on-period, it has moderated since June 2019 (+7%) on the back of risk cuts. Advances growth continues to be driven by the premium segment. The increase in operational NPLs tracked book growth, which together with the pressures in collections resulted in an elevated credit charge. This trend may continue into the second half of the year.
- The DirectAxis (DA) impairment charge reflected a modest increase of R34 million (+5%) benefiting from a focus on repeat business in lower-risk segments and risk cutbacks in previous periods.
- The residential mortgages credit loss ratio increased to 22 bps on the back of an increase of 12% in NPLs. This reflects the continued normalisation of the credit cycle and expected origination strain.
- WesBank's vehicle asset finance (VAF) charge increased 2%, reflecting reduced appetite in higher-risk origination, resulting in NPL growth of 3%.
- FNB commercial NPLs increased 47%, impacted by growth in the highly collateralised agricultural portfolios against which proactive provisions were raised in prior years, as well as an increase in core transactional NPLs given previous levels of book growth. The impairment charge increased to 111 bps, reflecting a change in mix of NPLs with a higher proportion of transactional NPLs during the current period. The current impairment charge remains within expectations.
- The RMB CIB portfolio reported a 15% increase in NPLs period-on-period, specifically impacted by the migration of certain highly collateralised and guaranteed distressed counters. The resilient performance of the overall portfolio benefited from proactive provisioning in prior years, resulting in a modest charge of 7 bps during the period. The portfolio is, however, reflecting higher levels of corporate stress in South Africa.
- The 3% improvement in the credit performance in FNB's rest of Africa portfolio benefited from proactive provisioning in the prior financial year and the adoption of IFRS 9. NPLs reduced 15%, reflecting specific write-offs and some recoveries. However, ongoing tough macros remain in some of the jurisdictions in which the group operates (primarily Namibia, Mozambique and Zambia).
- Aldermore's NPLs increased 51% (46% excluding MotoNovo) in pound terms, driven by the expected normalisation across its retail portfolios off historically low levels and ongoing book growth in buy-to-let and owner-occupied residential mortgages over the last two financial years. In addition, NPLs were impacted by the migration of certain high-value asset finance counters during the last 12 months. Aldermore's impairment charge, excluding the MotoNovo new book, was 22 bps (46 bps including MotoNovo new book), in line with expectations.

- MotoNovo's combined impairment charge showed an increase of 8% in pound terms. New origination has focused on lower-risk buckets and, as a result, the impairment charge remained flat period-on-period.

Overall balance sheet portfolio provisions increased 7%.

The group's performing book coverage ratio improved period-on-period, although reflecting a marginal decrease of one basis point since June 2019. At 130 bps, the performing book coverage remains comfortably above the current period impairment charge.

SEGMENTAL ANALYSIS OF NORMALISED EARNINGS

	Six months ended 31 December					Year ended 30 June	
R million	2019	% com-position	2018	% com-position	% change	2019	% com-position
Retail	6 978	50	6 693	50	4	13 431	48
- FNB*	5 754		5 602			11 325	
- WesBank	844		820			1 472	
- MotoNovo back book	380		271			634	
Commercial	3 535	25	3 277	24	8	6 756	24
- FNB	3 413		3 140			6 420	
- WesBank	122		137			336	
Corporate and investment banking	3 456	24	3 274	25	6	6 975	25
- RMB	3 456		3 274		6	6 975	
Aldermore**	797	6	1 037	8	(23)	1 658	6
- Aldermore Bank	917		1 037			1 722	
- MotoNovo Finance (new book)	(120)		-			(64)	
Other	(757)	(5)	(939)	(7)	(19)	(926)	(3)
- FCC (including Group Treasury) and consolidation adjustments	(291)		(731)			(329)	
- Other equity instruments	(466)		(208)			(597)	
Normalised earnings	14 009	100	13 342	100	5	27 894	100

* Includes FNB rest of Africa.

** After the dividend on the contingent convertible securities of R32 million (June 2019: R163 million).

DIVIDEND STRATEGY

Given the group's high return profile and strong capital generation, the board has maintained the dividend cover at 1.7x, which remains below its stated long-term cover range of 1.8x to 2.2x. The board will revisit the cover range:

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

PROSPECTS

Looking forward to the second half of the year, the group is of the view that the South African macroeconomic environment will continue to deteriorate, probably at a faster rate than in the first half. GDP is expected to contract further, firstly driven by the impact of the global COVID-19 outbreak which will result in lower exports and supply chain disruptions, and secondly by weaker wage growth which translates into weaker consumer spending. Potential job losses could further exacerbate this scenario, which is a real risk if corporates continue to right-size given GDP contraction, and SMEs feel the effect of ongoing energy disruption issues. The broader regional picture is likely to be similar to the second half, although the COVID-19 outbreak could impact certain jurisdictions.

The UK is expected to show incremental growth in GDP, together with a strong labour market and an improving trend in house prices. The risk of a hard Brexit could however change this picture.

FirstRand has already experienced a material slowdown in its domestic business since the beginning of 2020. Given the expected pressures on top line the group appreciates the need for ongoing cost efficiencies, balanced with continued investment in sustainable growth strategies. Aldermore is expected to contribute to both growth and returns.

The group will not achieve its stated target of real growth in earnings (defined as real GDP plus CPI) for the year to 30 June 2020 based on its current GDP forecast, although earnings are expected to reflect growth and the ROE will remain well within the current target range of 18 to 22%.

BOARD CHANGES

Changes to the directorate are outlined below.

		Effective date
Resignations		
JJ Durand	Alternate non-executive director	28 November 2019
Retirements		
NN Gwagwa	Independent non-executive director	28 November 2019
EG Matenge-Sebesho	Independent non-executive director	28 November 2019
Appointment		
Z Roscherr	Independent non-executive director	1 April 2020

CASH DIVIDEND DECLARATIONS

Ordinary shares

The directors declared a gross cash dividend totalling 146.00 cents per ordinary share out of income reserves for the six months ended 31 December 2019.

Dividends

ORDINARY SHARES

	Six months ended 31 December	
Cents per share	2019	2018
Interim (declared 9 March 2020)	146.0	139.0

The salient dates for the final ordinary dividend are as follows:

Last day to trade cum-dividend	Tuesday 31 March 2020
Shares commence trading ex-dividend	Wednesday 1 April 2020
Record date	Friday 3 April 2020
Payment date	Monday 6 April 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 1 April 2020, and Friday, 3 April 2020, both days inclusive.

For shareholders who are subject to dividend withholding tax (DWT), tax will be calculated at 20% (or such lower rate as is applicable if a double taxation agreement applies for foreign shareholders).

For South African shareholders who are subject to DWT, the net interim dividend after deducting 20% tax will be 116.800000 cents per share.

The issued share capital on the declaration date was 5 609 488 001 ordinary shares and 45 000 000 variable rate NCNR B preference shares.

FirstRand's income tax reference number is 9150/201/71/4.

B preference shares

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

DIVIDENDS DECLARED AND PAID

Cents per share	Preference dividends
Period:	
27 February 2018 - 27 August 2018	378.3
28 August 2018 - 25 February 2019	381.7
26 February 2019 - 26 August 2019	384.2
27 August 2019 - 24 February 2020	374.7

WR JARDINE	AP PULLINGER	C LOW
Chairman	CEO	Company secretary

OTHER INFORMATION

This announcement covers the unaudited condensed consolidated financial results of FirstRand Limited for the six months ended 31 December 2019 based on International Financial Reporting Standards. The primary results and accompanying commentary are presented on a normalised basis, as the group believes this most accurately reflects its economic performance. The normalised results have been derived from the IFRS financial results. A detailed description of the difference between normalised and IFRS results is provided on pages 146 and 147 of the Analysis of financial results booklet, which constitutes the group's full announcement. It is available at www.firstrand.co.za/investors/financial-results/. Commentary is based on normalised results, unless otherwise indicated.

IFRS 16 was adopted effective 1 July 2019 and the statement of financial position as at 1 July 2019 was restated. Other comparatives were not restated, as allowed by IFRS 16. The amendments to IAS 12 were adopted retrospectively and comparative information was restated. AT1 instruments were reclassified from financial liabilities to equity, with a corresponding reclassification from NII to dividends paid. Management fees were reclassified from insurance income to management fee income within NIR, and customer loyalty related expenses were reclassified from operating expenses to fee and commission expenses in NIR. Information relating to the impact of new and amended IFRS, the impact of restatements and changes in presentation are included in the Analysis of financial results (the full announcement).

The content of this announcement is not audited. The directors take responsibility for the preparation of this announcement.

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

Shareholders are advised that this announcement represents a summary of the information contained in the Analysis of financial results (the full announcement) and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on consideration of the announcement as a whole. Shareholders are encouraged to review the full Analysis of financial results, which is available for viewing on the group's website and on https://senspdf.jse.co.za/documents/2020/JSE/ISSE/FSR/FSR1219.pdf

The full Analysis of financial results is available for inspection and/or collection from FirstRand's registered office, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, and the offices of the sponsors, Rand Merchant Bank (a division of FirstRand Bank Limited), at 1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton. Inspection of the Analysis of financial results can be done there by investors and/or shareholders at no charge during normal business hours from 11 March 2020.

DIRECTORS

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

COMPANY SECRETARY AND REGISTERED OFFICE

C Low

4 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149, Benmore 2010
Tel: +27 11 282 1808
Fax: +27 11 282 8088
Website: www.firstrand.co.za

JSE SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
Tel: +27 11 282 8000

NAMIBIAN SPONSOR

Simonis Storm Securities (Pty) Ltd
4 Koch Street
Klein Windhoek
Namibia

TRANSFER SECRETARIES - SOUTH AFRICA

Computershare Investor Services (Pty) Ltd
1st Floor, Rosebank Towers
15 Biermann Avenue
Rosebank, Johannesburg, 2196
Private Bag X9000, Saxonwold, 2132
Tel: +27 11 370 5000
Fax: +27 11 688 5248

TRANSFER SECRETARIES - NAMIBIA

Transfer Secretaries (Pty) Ltd
4 Robert Mugabe Avenue, Windhoek
PO Box 2401, Windhoek, Namibia
Tel: +264 612 27647
Fax: +264 612 48531

AUDITORS

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Jukskei View
2090

Deloitte & Touche
Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead, Sandton
2052

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