REVIEW OF OPERATIONS

FNB

Jacques Celliers | CEO | FNB

Normalised earnings
⇩31%
R12.3 billion

FNB's results were materially affected by the COVID-19 pandemic and resultant lockdown

ROE
25.8%

Significant slowdown in key growth drivers

Deterioration in customer income and affordability levels

Significant debt relief requested across all segments

Low transactional activity and credit turnover in customer accounts

The balance sheet grew, particularly deposits

Deposits
RETAIL ⇧16%
COMMERCIAL ⇧19%

Advances
RETAIL ⇧4%
COMMERCIAL ⇧3%

SA customer numbers remained stable:
- Ongoing migration from consumer to premium segment
- Commercial customers increased 6%

Operating expenses well contained at ⇧4%

Despite ongoing investment in:

- Digitisation
- Platform
- Insurance and wealth management strategies

APP TRANSACTIONAL VOLUMES

⇧28%

eWallet transacting base

⇧39%

Interest rate cuts

Negative endowment impact and margin pressure

Subdued NIR growth

Lower absolute volumes during lockdown

FNB's DIGITAL STRATEGY and PLATFORM FULFILMENT enabled the successful provision of cash flow relief during lockdown

Impairment charge doubled year-on-year

- **Impact of IFRS 9 forward-looking information due to COVID-19**
- **Higher NPLs**
- **Increased stress in debt counselling portfolios**

INSURANCE

Higher actual and expected insurance claims

- Retrenchments
- Loss of income

New business insurance volumes impacted

- Slowdown in credit advances
- Reduced appetite

Growth in underwritten life insurance policies

⇧32%

- Fulfilment on digital channels

FNB represents FirstRand's activities in the retail and commercial segments in South Africa and the broader African continent.

FNB's strategy in its domestic market is underpinned by:

- a main-banked client strategy anchored to growing and retaining client relationships using core transactional accounts as a key lever;
- a digital platform providing market-leading digital interfaces to deliver contextual, cost-effective and innovative propositions to its customers on an assisted and unassisted basis;
- using its deep customer relationships and sophisticated data analytics to effectively cross-sell and up-sell a broad range of financial services products, including insurance and investments;
- utilising eBucks generosity to reward customers, driving platform adoption and cross-sell;
- applying disciplined origination strategies;
- providing innovative savings products to grow its retail deposit franchise;
- leveraging its mobile virtual network operator (MVNO) to augment customer value propositions, as well as to provide telecommunication services to its customers;
- creating right-sized physical points of presence that drive assisted customer engagements, whilst achieving cost efficiencies; and
- ultimately broadening its financial service offerings.

FNB's rest of Africa portfolio represents a mix of mature businesses with significant scale and market share (Namibia, Botswana and Eswatini), and smaller businesses in Mozambique, Zambia, Lesotho and Ghana.

Effective 5 May 2020, First National Bank Ghana acquired a 100% interest in GHL Bank plc in Ghana, for effectively R510 million.

The group regards Ghana as an attractive market with long-term potential. The acquisition of GHL provides First National Bank Ghana with the foundation for a broader retail strategy going forward.

GHL has more than ten years' experience in the Ghanaian mortgage industry with an estimated market share of >50% in the domestic mortgage market.

During the year under review, FNB decided to commence a process to exit Tanzania. The subsidiary's business model could not appropriately scale given the structure of the market.

FNB FINANCIAL HIGHLIGHTS

	Year ended 30 June		
R million	**2020**	2019	% change
Normalised earnings	**12 271**	17 745	(31)
Normalised profit before tax	**17 858**	25 528	(30)
– South Africa	**16 712**	23 847	(30)
– Rest of Africa	**1 146**	1 681	(32)
Total assets	**487 213**	476 634	2
Total liabilities	**475 096**	459 371	3
Stage 3/NPLs as a % of advances	**7.59**	5.89	
Credit loss ratio (%)	**3.08**	1.52	
ROE (%)	**25.8**	41.5	
ROA (%)	**2.51**	3.80	
Cost-to-income ratio (%)	**51.6**	50.6	
Advances margin (%)	**4.27**	4.34	

SEGMENT RESULTS

	Year ended 30 June		
R million	**2020**	2019	% change
Normalised PBT			
Retail	**9 389**	14 939	(37)
Commercial	**7 323**	8 908	(18)
Rest of Africa	**1 146**	1 681	(32)
Total FNB	**17 858**	25 528	(30)

KEY RATIOS FOR SOUTH AFRICA vs REST OF AFRICA

%	**FNB SA**	**Rest of Africa**
PBT growth	**(30)**	**(32)**
Cost increase	**4**	**5**
Advances growth	**3**	**1**
Deposit growth	**17**	**19**
Stage 3/NPLs as a % of advances	**7.60**	**7.51**
Credit loss ratio	**3.12**	**2.83**
Cost-to-income ratio	**49.6**	**65.8**
Operating jaws	**(2.3)**	**0.5**

FNB's results were materially affected by the COVID-19 pandemic and the resultant lockdowns in South Africa and in many of the rest of Africa jurisdictions where it operates. Total FNB normalised earnings declined 31% and the ROE reduced to 25.8%.

FNB experienced a significant slowdown in all its key growth drivers in the last quarter of the year. Since the beginning of lockdown in March 2020, underlying customer income and affordability in FNB's retail, SME and commercial segments deteriorated sharply, particularly in those sectors most affected by the lockdown restrictions. This is evident in lower levels of underlying transactional activity and credit turnover through customers' accounts and in the amount of debt relief requested across all segments during the last quarter.

FNB also experienced the negative endowment impact and related margin pressure from interest rate cuts, subdued NIR growth due to lower absolute volumes during the lockdown period, higher actual and expected insurance claims driven by retrenchments or loss of income, and depressed new business origination.

Growth in operating expenses was well contained at 4% despite the continued investment in digitisation, platform, insurance, and WIM strategies. Given the pressure on revenue, operating jaws were negative, and the cost-to-income ratio increased to 51.6% compared to 50.6% in the prior year.

For most of the year, growth in transactional volumes across most channels was trending in line with expectations and above inflation, on the back of customer growth and cross-sell in FNB's premium and commercial segments. During the last three months of the year, when lockdown was implemented with the resultant drop in activity levels, certain channel volumes declined markedly, however, app volumes remained resilient, with overall transactional volumes 28% higher than the prior year.

CHANNEL VOLUMES

Thousands of transactions	Year ended 30 June		% change
	2020	2019	
ATM/ADT	**224 141**	245 433	(9)
Internet banking	**176 280**	197 957	(11)
Banking app	**303 503**	237 873	28
Mobile (excluding prepaid)	**41 260**	42 050	(2)
Point-of-sale merchants	**587 152**	578 634	1
Card swipes	**837 769**	872 989	(4)

FNB's digital strategy and platform fulfilment meant the business was particularly successful in enabling the provision of cash flow relief propositions and in attracting liabilities even during April and May.

Robust deposit growth also reflects retail customer balances increasing both pre- and during lockdown. Advances growth year-on-year was muted, with a significant pullback from the consumer segment, given limited credit capacity in lower-income households. The following table 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	**16**	**39 451**	**4**	**10 664**
– Consumer*	**9**	**7 941**	**(26)**	**(10 775)**
– Premium*	**19**	**31 510**	**9**	**21 317**
– DirectAxis	**–**	**–**	**1**	**122**
Commercial	**19**	**45 224**	**3**	**2 785**
Rest of Africa	**19**	**7 824**	**1**	**768**
Total FNB	**17**	**92 499**	**3**	**14 217**

* *R8.9 billion of advances balances migrated from consumer to premium as part of a platform migration in residential mortgages.*

South African customer numbers remained stable year-on-year, as shown in the table below.

CUSTOMERS

Millions	Number of customers at 30 June		% change
	2020	2019	
Retail	**7.20**	7.23	–
– Consumer	**5.74**	5.88	(2)
– Premium	**1.46**	1.34	9
Commercial	**1.03**	0.97	6
Total SA customer base	**8.23**	8.20	–
eWallet transacting base*	**3.27**	2.35	39

* *Transacting base refers to a wallet that has received funds and been accessed at least twice in a six-month period.*

FNB's ongoing strategy of providing retail customers with the right service offering resulted in ongoing migration from the consumer segment to the premium segment. Consumer customer numbers were affected by a pullback in credit appetite, which resulted in further attrition in transactional accounts. Commercial continued to attract new customers.

ANALYSIS OF IMPAIRMENT CHARGE

R million	2020	2019	% change
Performing book provision	**4 120**	758	
NPL provision	**3 920**	4 154	
Credit provision increase	**8 040**	4 912	64
Modification	**779**	484	61
Write-off and other	**7 489**	3 398	>100
Post write-off recoveries	**(1 817)**	(2 030)	(10)
Total impairment charge	**14 491**	6 764	>100

FNB's credit impairment charge increased to R14.5 billion, with the credit loss ratio increasing to 308 bps (2019: 152 bps). This was driven primarily by the increased impact of IFRS 9 forward-looking information (FLI) adjustments, following the sharp downward revisions to the group's macroeconomic assumptions, as well as increased impairments to cater for the embedded credit strain of FNB's debt relief portfolios. These resulted in credit provisions increasing by R8.0 billion with performing coverage (stage 1 and 2) increasing to 2.80% (2019: 1.89%).

FNB's NPLs increased 33% year-on-year, driven primarily by:

- higher commercial NPLs due to the residual impact of South Africa's drought in the agricultural book, as well as increased transactional NPLs given previous client and book growth, and property-related advances;
- higher NPLs across both retail secured and unsecured advances, especially in the last quarter; and
- an increase in distressed restructures in debt counselling portfolios due to the impact of COVID-19 on these customers.

New business insurance volumes were impacted by the slowdown in credit advances, reduced appetite as a result of the COVID-19 economic impact and lockdown restrictions.

There was pleasing growth in underwritten life insurance policies, driven by growth from digital channels.

NEW BUSINESS APE

	Year ended 30 June		
R million	2020	2019	% change
Funeral	**662**	721	(8)
Core life	**232**	255	(9)
Underwritten	**383**	281	36
Commercial	**47**	27	74
Standalone products	**1 324**	1 284	3
Credit life	**546**	782	(30)
Total	**1 870**	2 066	(9)

OPERATING FOOTPRINT

	FNB SA			FNB rest of Africa		
	2020	2019	% change	2020	2019	% change
Representation points (branches, agencies)	**604**	612	(1%)	**161**	169	(5%)
ATMs	**3 746**	3 870	(3%)	**746**	774	(4%)
ADTs	**1 876**	1 874	0%	**230**	216	6%
Total ATMs and ADTs	**5 622**	5 744	(2%)	**976**	990	(1%)

RMB

James Formby | CEO | RMB

Normalised earnings

↓17%

to R5.8 billion

RMB's performance reflects the current macro environment but was bolstered by solid annuity income growth, disciplined balance sheet deployment and strong results from markets and structuring

ROE

16%

Investment banking and advisory

PBT ↓11%

- Prolonged business downswing
- Sovereign rating downgrades
- Steep decline in oil price
- COVID-19 impact

R1.3 billion credit impairments

Solid fee generation driven by structuring, arranging and capital market mandates

Corporate and transactional banking

PBT ↓8%

- Decline in domestic transactional volumes in lockdown
- Global foreign exchange business dampened due to decline in volumes

R0.6 billion COVID-19 credit impairments

- Increased utilisation of working capital facilities
- Higher average deposit balances
- Transactional volumes in rest of Africa grew

Markets and structuring

PBT ↑21%

- Foreign exchange bolstered by performance in Nigeria
- Domestic market recovery in the second half of the year
- Credit trading portfolio delivered good growth

STRONG PERFORMANCE

Investing

PBT ↓>100%

- Credit impairments raised on certain private equity advances/loans
- Write-downs on non-private investments

- Quality and diversification of portfolio reflected in unrealised value of R3.3 billion
- R1.8 billion additional investments made
- Investment in group's market infrastructure platform

Rest of Africa > **Key to RMB's growth strategy**

Pre-tax profits R2.1 bn ↑9%

Contributing **25%** to overall pre-tax profits

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 CIB value proposition to corporate and institutional clients. This diversified business portfolio, coupled with a disciplined approach to balancing risk, return and growth, is designed to deliver sustainable earnings, balance sheet resilience and market-leading returns.

RMB FINANCIAL HIGHLIGHTS

	Year ended 30 June		
R million	**2020**	2019	% change
Normalised earnings	**5 819**	6 975	(17)
Normalised profit before tax	**8 315**	9 859	(16)
– South Africa	**6 220**	7 943	(22)
– Rest of Africa*	**2 095**	1 916	9
Total assets	**632 755**	523 976	21
Total liabilities	**622 289**	512 341	21
Stage 3/NPLs as a % of advances	**0.87**	0.82	
Credit loss ratio (%)	**0.94**	0.12	
ROE (%)	**16.0**	21.0	
ROA (%)	**0.98**	1.40	
Cost-to-income ratio (%)	**42.5**	46.8	

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

RMB's performance reflects the current macro environment, with pre-tax profits decreasing 16% to R8.3 billion, significantly impacted by additional COVID-19 credit impairments amounting to R2.3 billion, as well as impairments raised against non-private equity exposures of R1 billion.

The business continues to be conservatively provisioned with the performing book (stage 1 and 2) coverage ratio increasing from 108 bps to 187 bps. The additional credit impairments raised in the current year resulted in the credit loss ratio increasing to 94 bps.

ANALYSIS OF IMPAIRMENT CHARGE

R million	**2020**	2019	% change
Performing book provisions	**2 893**	248	
NPL provision	**(236)**	(468)	
Credit provision increase	**2 657**	(220)	>100
Modification	**–**	–	
Write-off and other	**727**	640	18
Post write-off recoveries	**(30)**	(8)	>100
Total impairment charge	**3 354**	412	>100

RMB benefited from an excellent markets and structuring performance and solid annuity income growth underpinned by disciplined balance sheet deployment with core advances and deposits increasing 8% (4% in dollar constant currency terms) and 7%, respectively.

The cost reduction of 4% was due to lower variable costs linked to performance and fixed cost containment initiatives whilst maintaining investment in core platform modernisation. RMB continues to execute on its client-led strategy with more than R40 billion of support provided to clients.

The rest of Africa portfolio remains key to RMB's growth strategy. The portfolio produced pre-tax profits of R2.1 billion, up 9% on the prior year, contributing 25% of RMB's overall pre-tax profits. The performance was, however, impacted by COVID-19 credit impairments raised across the various jurisdictions where RMB operates.

BREAKDOWN OF PRE-TAX PROFITS BY ACTIVITY

	Year ended 30 June		
R million	**2020**	2019	% change
Investment banking and advisory	**4 593**	5 156	(11)
Corporate and transactional banking	**1 856**	2 008	(8)
Markets and structuring	**2 413**	2 001	21
Investing	**(296)**	1 161	(>100)
Investment management	**69**	53	30
Other	**(320)**	(520)	(38)
Total RMB	**8 315**	9 859	(16)

Investment banking and advisory's performance declined 11%, due to the prolonged business cycle downswing and sovereign rating downgrades. These constraints, the impact of COVID-19, as well as the steep decline in the oil price, resulted in R1.3 billion of additional credit impairments raised. Advisory activities remained muted given low levels of investor confidence. Prior year balance sheet growth resulted in a healthy increase in NII and the business benefited from solid fee generation driven by structuring, arranging and capital market mandates.

Corporate and transactional banking's performance declined 8%. The distress in the corporate lending sector necessitated additional COVID-19 credit impairments of R0.6 billion, whilst domestic transactional volumes were under pressure given the sustained lockdown, further impacting earnings. There was, however, some benefit from increased utilisation of working capital facilities and higher average deposit balances coupled with increased transactional volumes in the rest of Africa. In contrast, the global foreign exchange business was dampened by a decline in volumes.

Markets and structuring delivered a strong performance, up 21% year-on-year. Foreign exchange activities were bolstered by a robust performance in Nigeria which leveraged off the flows in the London-Africa corridor. Domestic flow activities have shown a recovery in the second half of the year following increased market activity on the back of COVID-19. The credit trading portfolio continued to deliver good growth.

Despite a modest uptick in realisation and annuity income, the investing activities performance was negatively impacted by c. R1 billion of credit impairments raised on certain private equity positions, as well as c. R1 billion of credit impairments and write-downs against debt and equity positions outside private equity. This was a result of the performance of certain investee companies specifically impacted by lockdown. The quality and diversification of the portfolio are reflected in its unrealised value of R3.3 billion (2019: R3.5 billion). The business remains in an investment cycle and additional investments of R1.8 billion were made by June 2020.

Other activities reflect the investment into the group's markets infrastructure platform.

SOLUTIONS NEED US ALL

RMB
A division of FirstRand Bank Limited
Traditional values. Innovative ideas.

At RMB we believe in the power of partnerships. By working closely with government, the business community, and society we have been involved in numerous initiatives to help make a meaningful contribution to society and address the immediate and future impact of COVID-19.

Partnering with our clients

COVID-19 relief offered on 21% of our total book with 16% take up

R11bn additional liquidity facilities/ new money granted COVID-19 related support

Over R3.5bn payment holidays granted

Loan covenants relaxed on R25bn of funding

RMB citizens in action

Supported clients through digital enablement

Over 150 RMB employees dedicated their time and skills to support SPIRE

RMB employees donated over R2.5m to SPIRE and the Solidarity Fund

Encouraged employee well-being through daily mindfulness sessions and targeted interventions

Supporting our communities

Over R250 000 donated to arts and music, supporting the creative economy

Donated full trading and clearing fees over two days to the Solidarity Fund

Banking, working capital solutions and services provided to the Solidarity Fund

Supported B4SA with resources to inform government consultation

R12.5m donated to the SPIRE fund

Managed the sourcing of essential items for 166 care homes across the country

Unlocking our networks

Over R650 million paid in early supplier payments

Designed and implemented a procure-to-pay system for the Solidarity Fund, enabling procurement of over R100m PPE purchases

Unlocked our client networks to catalyse meaningful contributions and impact through SPIRE

Developed and shared advanced epidemiological models focused on containing the spread of the disease and ensure optimal allocation of resources

RMBers assisted the the B4SA health work stream to build their procurement platform

We want to thank our valued clients and stakeholders for their partnership in our efforts to unite against COVID-19 and its impact on our economy and society.

At RMB we are proud of our diverse talent who continue to do good business for a better world.

*SPIRE – South Africa Pandemic Intervention Relief Effort

WesBank

Chris de Kock | CEO | WesBank

Normalised earnings

↓ 53%

R0.8 billion

WesBank's results were materially impacted by the COVID-19 pandemic and resultant lockdown

ROE

8%

ROA

0.6%

Pre-credit provision operating profit

⟷

R5.0 billion

Advances

↓ 2%

- Total shutdown of dealers in April resulted in a 98% reduction in new business for the month
- Started to recover in May and June

Percentage of new business originated in FNB and RMB customer base:

Retail VAF

51%

Corporate and commercial

78%

Debt relief measures

Retail VAF = three-month payment relief and term extension

Corporate = payment moratoriums

NPLs were declining pre-pandemic due to focus on disciplined origination

A 52% increase in bad debt provisions due to COVID-19 and IFRS 9 forward-looking information

Credit loss ratio increased 82 bps reflecting strain in retail, SME and corporate segments

% of origination	**Low risk**	**Medium risk**	**High risk**
2019	60	33	7
2020	70	25	5

Costs:
Business-as-usual costs
↓2%

WesBank represents the group's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa. WesBank's strategy is focused 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		
R million	**2020**	2019	% change
Normalised earnings	**843**	1 808	(53)
Normalised profit before tax	**1 226**	2 580	(52)
Total assets	**133 372**	138 254	(4)
Total liabilities	**131 323**	135 146	(3)
Stage 3/NPLs as a % of advances	**8.49**	5.72	
Credit loss ratio (%)	**2.28**	1.46	
ROE (%)	**8.0**	17.8	
ROA (%)	**0.60**	1.24	
Cost-to-income ratio (%)	**50.0**	47.4	
Net interest margin (%)	**3.45**	3.32	

BREAKDOWN OF PRE-TAX PROFITS BY SEGMENT

	Year ended 30 June		
R million	**2020**	2019	% change
Normalised PBT			
Retail VAF*	**979**	2 113	(54)
Corporate and commercial	**247**	467	(47)
Total WesBank	**1 226**	2 580	(52)

* *Includes MotoVantage.*

WesBank's normalised profit before tax decreased 52% to R1.2 billion. This performance reflects the impact of COVID-19 resulting in an increase of 52% in bad debt provisions from R1 985 million to R3 023 million. Pre-pandemic, WesBank's NPLs were declining due to its focus on disciplined origination in low-risk buckets.

The month of April saw a total shutdown of dealer floors as the government sought to contain the spread of COVID-19 through a hard lockdown. This resulted in a record 98% drop in production in retail VAF, although production recovered in May and June as lockdown restrictions were eased. The economic impact of the pandemic weighed on consumers, resulting in significant increases in arrears and ultimately NPLs.

In response to the economic impact of the COVID-19 lockdown, several debt relief measures were introduced over the last quarter of the financial year in both retail and corporate. Retail VAF debt relief was in the form of three-month payment relief and term extensions. For FNB-banked customers with more than one product, WesBank payment relief formed part of the retail emergency facility. Corporate clients were offered payment moratoriums.

ANALYSIS OF IMPAIRMENT CHARGE

R million	**2020**	2019	% change
Performing book provisions	**10**	2	
NPL provision	**1 663**	244	
Credit provision increase	**1 673**	246	>100
Modification	**(3)**	140	(>100)
Write-off and other	**1 695**	1 963	(14)
Post write-off recoveries	**(342)**	(364)	(6)
Total impairment charge	**3 023**	1 985	52

The increase in impairments was due to significant migrations in arrears recorded in both retail VAF and corporate spanning across exposures to private individuals, self-employed clients and SMEs. All this culminated in an overall increase of 82 bps (R1 038 million) and an increase in the credit loss ratio from 1.46% to 2.28%.

The average monthly income statement impairment charge for the three months from April to June materially increased to R518 million from R203 million recorded in the preceding three-month period, and R143 million for the six months to December 2019. Stage 3 arrears were affected on two fronts: firstly a significant number of accounts rolled into stage 3, whilst at the other end there were delays in write-offs and debt-review inflow due to court closures during lockdown. Significant deteriorations were also noted in normal arrears where clients adopted a wait-and-see attitude as the COVID-19 economic impact unfolded. This included customers who qualified for relief, applied and were approved but did not utilise the payment relief.

WesBank continues to control operational expenditure and invest in digital process improvements and its growing FML fleet.

Whilst the cost-to-income ratio has deteriorated due to topline pressure, overall cost growth was contained at 4%.

WesBank

Deeply invested in South Africa.

The past six months have had an unprecedented effect that needs no introduction.

As a leading stakeholder in the motoring industry, WesBank has taken that responsibility particularly during this time. From helping customers whose income was affected by the lockdown to supporting our partners in the automotive industry to being part of the fight against COVID-19, we have demonstrated our deep involvement in every sphere we touch.

We have assisted our customers with payment relief on a massive scale, helping tens of thousands of people to avoid falling into arrears. WesBank appealed to the Minister of Trade and Industry to allow the motor industry to reopen with the rest of level 4, with the result that the automotive sector was able to begin recovery sooner than expected. We have also used our resources to assist communities and small businesses in keeping afloat during this difficult time.

Helping our customers manage their payments

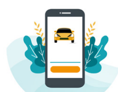
70K customers have been assisted with payment relief.

Relief provided to 19% of our advances exposure (R25 billion)
- **Retail customers:** R16.7 billion
- **Corporate & Commercial customers:** R8 billion

390 balloon payments (R39 million) extended during the COVID-19 window

Industry-specific solutions included Taxi relief amounting to R117 million *.

*As at 31 August 2020



Supporting the automotive industry

Championed the re-opening of the motor industry with level 4

77% of dealer floorplan exposures were granted relief

Newly implemented bespoke end-to-end system solution from OEM to the dealer floors

Customised finance solutions (96 month loans, balloon payment extensions, etc.)

Giving back to our communities

Early payments (totalling R251 million*) to suppliers to assist their cash flow

*As at 16 September 2020

Donated essential food and hygiene hampers to community-based centres in desperate need during the lockdown.

Provided support to medical structures and resources through FirstRand's SPIRE initiative

Focused SME management education providing tips to help small business owners meet the challenges brought by COVID-19

Championing gender diversity - proud winner of the Women on Boards category at the Gender Mainstreaming Awards 2020

Thank you to all our partners, suppliers and employees for your involvement in our efforts to support our customers and communities and help our industry to keep going.

Aldermore

Phillip Monks | CEO | Aldermore

Normalised earnings
↓65% (£)

The performance of the UK operations (including Aldermore and MotoNovo) was materially impacted by COVID-19, particularly the increase in impairments

ROE
3.9%

Resilient operational performance

Advances ↑4%
£14.3 billion

Driven by mortgages and VAF

NIM flat year-on-year: competitive pricing pressure

Lower COST OF FUNDING due to rate cuts

Customer growth
↑7%

Customer deposits
↑21%
£10.9 billion

Retail and commercial customers were supported through COVID-19 payment holidays particularly in April and May. Forbearance peaked at £3.5 billion (17% of total customers)

Majority of forbearance granted to the buy-to-let, mortgage, asset finance and vehicle finance portfolios

Credit loss ratio increased 75 bps to 124 bps reflecting higher provisions

Operating expenses increased: ongoing investments in platform and process enhancements

Aldermore is a UK specialist lender focusing on 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 and by phone.

UK OPERATIONS FINANCIAL HIGHLIGHTS

	Year ended 30 June		
£ million	**2020**	2019	% change
Normalised earnings	**44**	126	(65)
Normalised profit before tax	**74**	179	(59)
Total assets	**17 008**	15 570	9
Total liabilities	**15 941**	14 254	12
Stage 3/NPLs as a % of advances	**2.18**	1.38	
Credit loss ratio (%)	**1.24**	0.49	
ROE (%)	**3.9**	11.8	
ROA (%)	**0.26**	0.81	
Cost-to-income ratio (%)	**50.7**	49.8	

BREAKDOWN OF PROFIT CONTRIBUTION BY ACTIVITY

	Year ended 30 June		
£ million	**2020**	2019	% change
Normalised PBT			
Asset finance	**17.2**	50.4	(66)
Invoice finance	**15.7**	14.5	8
SME commercial mortgages	**30.6**	38.0	(19)
Buy-to-let mortgages	**107.6**	125.3	(14)
Residential mortgages	**39.7**	33.8	17
Central functions*	**(120.9)**	(129.0)	(6)
Aldermore operational PBT	**89.9**	133.0	(32)
Fair value hedge portfolio	**(8.1)**	3.8	(>100)
Aldermore PBT	**81.8**	136.8	(40)
MotoNovo PBT	**(8.1)**	42.5	(>100)
Total UK operations PBT	**73.7**	179.3	(59)

* *Adjusted for the fair value hedge portfolio loss of £8.1 million in June 2020 and £3.8 million profit in June 2019.*

The performance of the UK operations, which includes Aldermore and total MotoNovo, was materially impacted by COVID-19, particularly the increase in impairments.

ANALYSIS OF IMPAIRMENT CHARGE

£ million	**2020**	2019	% change
Performing book provisions	**85.4**	(2.8)	
NPL provision	**31.3**	9.4	
Credit provision increase	**116.7**	6.6	>100
Modification	**11.8**	–	–
Write-off and other	**50.7**	61.0	(17)
Post write-off recoveries	**(5.8)**	(3.2)	81
Total impairment charge	**173.4**	64.4	>100

Normalised earnings decreased 65% in pound terms and 62% in rand terms to R865 million. The operational performance remained resilient, demonstrated by the key metrics unpacked below (presented in pound terms).

- Advances growth of 4% to £14.3 billion was driven mainly by residential mortgages and VAF. NII was flat year-on-year, in part due to competitive pricing pressures.
- Customer deposits grew 21% to £10.9 billion, to support growth in VAF, as well as due to increased savings levels in the UK given the economic uncertainty.
- Cost of funding was lower due to rate cuts.
- Overall customer growth of 7% was driven mainly by liability gathering.

Aldermore's core customer segments, retail and commercial, were supported through COVID-19 payment holidays, particularly in the months of April and May when forbearance peaked at £3.5 billion, representing 17% of total customers. The majority of the forbearance was granted in the buy-to-let, mortgage, asset finance and vehicle finance portfolios.

The pound credit loss ratio increased 75 bps to 124 bps, reflecting higher pound provisions given the worsening macro environment informing forward-looking assumptions under IFRS 9 and increasing arrears and NPLs.

Operating expenses increased given the ongoing investments in platform and process enhancements. However, these factors were partially offset by the decline in variable pay.