material

risk factor disclosure

in terms of Paragraph 7.F.7 of the JSE Listings Requirements

for the year ended 30 June 2023

Risks relating to FirstRand Limited

This document covers risk factors relating to FirstRand Limited and its subsidiaries (the issuer or group). FirstRand Bank Limited (FRB or the bank) remains the group's main rated entity and from which debt is issued – refer to the bank's issuer disclosure document at https://www.firstrand.co.za/investors/debt-investor-centre/prospectuses-and-programme-memoranda/, for risk factors relating to the bank and South Africa, a description of FRB, the banking sector and exchange control sector in South Africa and notes issued by the bank.

1. The investments, business, profitability and results of operations of the issuer may be adversely affected by political, social and economic risks in South Africa, the United Kingdom (UK) and certain countries in sub-Saharan Africa, as well as global economic conditions

The issuer's operations are predominantly concentrated in South Africa, with the majority of its revenues derived from operations in South Africa. The issuer is, therefore, materially exposed to South African macroeconomic conditions and, as a result of their impact on the South African economy, global economic conditions. Any material deterioration in global or South African macroeconomic conditions could lead to a reduction in business activity, higher impairment charges and costs, increased funding costs, and reduced revenues and profitability.

Beyond the South African economy, the issuer also has operations in the UK, United States (US), India and several other countries in sub-Saharan Africa. A material deterioration in UK economic conditions or that of the other African countries in which it operates could also have a material negative impact on the issuer's performance.

1.1 Global economic conditions

The South African economy is exposed to the global economy through the current and capital accounts of the balance of payments. South Africa's exports are impacted by economic activity of some of the world's largest economies including China, the US, the UK and Europe. Commodity prices and the rand exchange rate have a material impact on South African exports. The South African economy is also reliant on foreign capital inflows.

If global economic growth or global financial conditions deteriorate materially, they are likely to have a negative impact on macroeconomic conditions in South Africa.

The global economy continues to face persistently high inflation and rising interest rates against the backdrop of high levels of global indebtedness. Geopolitical developments around the war in Ukraine also pose risks for global economic activity. Although South Africa's commodity export prices have received short-term cyclical support from the geopolitical disruption, if these factors translate into a fall in global production capacity, specifically in Europe and Asia, this will have a negative impact on South African economic activity through lower exports and higher import prices. This could also have negative consequences for capital flows towards South Africa. An even more severe geopolitical or financial market disruption could weigh on global risk appetite and capital flows to South Africa and would likely result in financial market pressure and rand weakness.

Looking beyond risks to the near-term economic cycle, permanent global trade impediments (including tariffs), social tensions, natural disasters and environmental damage represent risk factors that could permanently reduce global demand for South African goods and global risk appetite towards South Africa. In addition, a fall in precious metal and/or base metal prices could also result in a deterioration in the rand exchange rate, higher interest rates and higher bond yields.

1.2 South African economic conditions

Even before the Covid-19 pandemic and the war in Ukraine, the South African macroeconomic environment was characterised by low private sector investment growth, weak employment growth, high levels of public sector debt and downward pressure on domestic demand. In addition, domestic consumer and business confidence was low. Despite short-term cyclical support for economic activity, the issuer expects the longer-term structural pressures to remain in place.

Structural changes, including financial and business reforms at state-owned enterprises, an improvement in the quality of education, much higher fixed capital investment and labour market reforms remain critical to change the long-term trajectory of the country. The solvency and liquidity challenges at some state-owned enterprises remain a significant concern.

1.3 South African political conditions

The issuer currently anticipates strong political debates around the need to implement measures for ensuring fiscal sustainability in light of increasing socio-economic pressures in the country. These will include debates around the implementation of measures that will lift South Africa's potential growth rate. In addition, the issuer expects debates in respect of various sensitive issues such as land expropriation, the geopolitical alignment of various political parties and the mandate of the South African Reserve Bank (SARB). The impact of Covid-19 on unemployment and poverty has fuelled further debate on transfers (either through taxes or intertemporally through borrowing) to the vulnerable in South African society. Ongoing political developments may impact private sector investment, foreign investment and business confidence in South Africa.

The country's high unemployment rate and unequal wealth and income distribution may fuel socio-economic pressure and encourage government to change its current macroeconomic policies.

1.4 South African conditions specific to the banking sector

The South African banking sector remains well capitalised, funded, regulated and managed. The South African financial sector is widely regarded as one of the country's key pillars of economic strength. The banking sector is,

however, highly exposed to South African macroeconomic conditions, including the sovereign, and will be impacted by negative macroeconomic developments, geopolitical developments and deterioration in the government's fiscal position.

Although household and corporate affordability conditions benefited from a normalisation in economic activity and the combination of low interest rates in the immediate aftermath of the pandemic, looking ahead weak economic growth, higher inflation and high unemployment will keep household and corporate real income growth low by historical standards. A deterioration in the country's institutions, especially the independence of the SARB and policy conduct at the National Treasury, could have a negative impact on the banking sector if this were to transpire.

The issuer's financial performance has been and is likely to remain linked to the performance of the South African and global economy.

1.5 UK economic conditions

Economic activity in the UK is being negatively affected by inflation pressures and their impact on the cost of living. The issuer expects unemployment to increase and pressure on house prices. Higher unemployment and related risk to household disposable income could have negative consequences for the operating environment.

Other risks to the UK economy include that the UK services sectors may be unable to comply with the terms of the Brexit agreement. Failure could result in a slowdown in UK business and consumer confidence, and overall economic activity.

1.6 Economic conditions in broader Africa

Several other sub-Saharan countries in which the issuer operates, face macroeconomic risks that could have a negative impact on the issuer's operating environment. These include:

- **Zambia:** Volatility in copper prices and production, drought, inflation and slow progress on external commercial and official debt restructuring are risk factors that could slow down domestic reforms and the growth momentum. Price pressures across the economy are a risk to consumption growth. There is significant risk to sovereign debt sustainability and associated macroeconomic pressure if reform momentum slows.
- **Nigeria:** A lack of diversification in export and fiscal revenues remains a weakness for the country's outlook. Low oil production due to operational issues and volatile global oil prices pose risks to growth and government finances.
- **Ghana:** There remain risks to sovereign debt sustainability from domestic and external factors. Broad-based inflation, tighter monetary policy and currency pressures pose a risk to growth, alongside austerity measures to stabilise government finances, either domestically driven or prescribed under an International Monetary Fund (IMF) programme. The Ghanaian economy is exposed to fluctuations in oil, gold and cacao prices, as well as production volatility. A fall in the price of these commodities has negative consequences for the operating environment and outlook.
- **Namibia, Eswatini and Lesotho:** These economies are particularly exposed to the South African economy and the rand. A severe fall in South African growth and trade, and/or rand weakness will have adverse consequences for their outlooks. In addition, a dependency on Southern African Customs Union revenues increases the fiscal vulnerability of all three governments.
- **Botswana:** A significant fall in diamond prices and/or activity in the South African economy will have adverse consequences for the Botswana operating environment.
- **Mozambique:** High levels of inflation, fiscal pressures, policy uncertainty, commodity prices and global economic activity pose a risk to the Mozambican outlook. Insurgent activity in northern Mozambique is another risk factor in the operating environment, particularly in terms of delays to large liquefied natural gas projects coming online.

2. Risk management

The issuer is exposed to commercial and market risks in its ordinary course of business, the most significant of which are credit risk, liquidity risk, market risk in the trading book, operational risk, equity investment and insurance risk.

Credit risk is the risk of loss due to non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk, securitisation risk and climate risk (physical and transitional risks).

Counterparty credit risk is the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows, where there is bilateral risk of loss. Counterparty credit risk measures a counterparty's ability to satisfy its obligations under a contract that has positive economic value for the issuer at any point during the life of the contract. It differs from normal credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of the issuer or the counterparty.

The issuer distinguishes between traded market risk and non-traded market risk. Traded market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates. For non-traded market risk, the issuer distinguishes between interest rate risk in the banking book (IRRBB) and structural foreign exchange risk. IRRBB relates to the sensitivity of a bank's balance sheet and earnings to unexpected, adverse movements in interest rates. Structural foreign exchange risk is the risk of an adverse impact on a bank's financial position or earnings or other key ratios as a result of movements in foreign exchange rates impacting balance sheet exposures.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Equity investment risk is the risk of an adverse change or loss in the fair value of an investment in a company, fund or listed, unlisted or bespoke financial instrument.

Insurance risk arises from the inherent uncertainties of liabilities payable under an insurance contract. These uncertainties can result from the occurrence, amount or timing of the liabilities differing from expectations. Insurance risk can arise throughout the product cycle and is related to product design, pricing, underwriting and claims management.

Any failure to control these risks adequately or unexpected developments in the future economic environment could have an adverse effect on the financial condition and reputation of the issuer.

2.1 Credit risk

Credit risk arises primarily from advances and certain debt investment securities. Other sources of credit risk include reinsurance assets, cash and cash equivalents, accounts receivable, off-balance sheet exposures and derivative balances.

The issuer's lending and trading businesses are subject to inherent risks relating to the credit quality of its counterparties and the recoverability of loans and advances due from these counterparties. Changes in the credit quality of the issuer's lending and trading counterparties or changes arising from systemic risk in the financial sector could reduce the value of the issuer's assets, resulting in increased credit impairments.

Many factors affect the ability of the issuer's counterparties to repay their loans, including adverse changes in consumer confidence levels due to local, national or global factors, levels of consumer spending, bankruptcy rates and increased market volatility. These factors might be difficult to predict and are completely beyond the issuer's control. The issuer performs regular stress tests on its credit portfolios to identify the key factors impacting its credit risk profile to anticipate possible future outcomes and to implement necessary actions to reduce risk.

The issuer continues to apply origination strategies which are aligned to its broader financial resource management processes and macroeconomic outlook. Based on the issuer's credit risk appetite, as measured on return on equity, net income after cost of capital and earnings volatility, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement, as well as collection and recovery of delinquent accounts. Credit risk is managed through the implementation of comprehensive policies, processes, and controls to ensure a sound credit risk management environment with appropriate credit origination, administration, measurement, monitoring and reporting. Credit risk appetite measures are set in line with overall risk appetite. The aim is to deliver an earnings profile that will perform within acceptable levels of volatility determined by the issuer.

Global developments, manifesting in increased inflation and interest rate outlook as well as local developments (e.g. electricity supply constraints) impacting the growth outlook negatively are being monitored closely, and could warrant additional risk responses.

Persistent political and policy uncertainty, ongoing governance issues at state-owned enterprises and continued erosion of confidence in institutional strength and independence all continue to have a negative impact on confidence, which in turn constrains private sector investment, places pressure on employment and ultimately undermines gross domestic product growth. Such a macroeconomic environment will be characterised by low domestic demand growth (consumption, investment and government spending) and downward pressure on personal income. This could result in increased levels of impairment in the issuer's credit portfolio, which could have an adverse impact on the issuer's ability to grow its revenues and manage its credit impairments. This could negatively impact its financial condition.

2.2 Credit concentration risk

Credit concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument, type of security, country or region, or maturity. This concentration typically exists when several counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

As part of the issuer's credit risk appetite framework, concentration limits (both on a single name and portfolio risk segment basis) are set to maintain exposures that could contribute to high or volatile credit losses, within acceptable levels. Concentration limits are reviewed at least annually and monitored monthly. This is further supported by credit performance triggers across all material portfolios. Actual performance is then measured against these on a monthly basis (on both back book and new business).

The issuer's business is by nature predominantly focused on the South African market and the issuer, therefore, faces a geographic concentration risk. Operations in South Africa are subject to various risks which include political, social and economic risks. The existence of such factors may have a negative impact on South African economic conditions generally, and more specifically on the business and results of the issuer in ways that cannot be predicted.

Any adverse changes affecting the South African economy are likely to have an adverse impact on the issuer's ability to grow revenues as well as credit impairments and, therefore, on its financial condition.

2.3 Liquidity risk

Liquidity risk is defined as the risk that an entity cannot maintain or raise adequate cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous terms, although it may be sufficiently capitalised. Liquidity risk may arise where counterparties who provide the issuer with short-term funding, withdraw or decline to roll over that funding, or where normally liquid assets become illiquid as a result of a generalised disruption in asset markets. The nature of banking gives rise to continued liquidity risk exposure. The group recognises two types of liquidity risk:

- Funding liquidity risk – the risk that the group is unable to effectively meet current and future cash flow and collateral requirements without negatively affecting its normal course of business, financial position or reputation.
- Market liquidity risk – the risk that market disruptions or lack of market liquidity will inhibit the group's ability to trade in specific markets without affecting market prices significantly.

Structural characteristics impacting the funding and liquidity profile of South African banks

South Africa is characterised by a low discretionary savings rate and a higher degree of contractual savings captured by institutions such as pension funds, life insurers and asset managers. A portion of these contractual savings are transformed into institutional funding for banks, which is riskier from a liquidity perspective than funding raised through banks' deposit franchises. South African corporates and the public sector also make use of financial intermediaries that provide bulking and maturity transformation services for their cyclical cash surpluses. Liquidity risk is, therefore, structurally higher in South Africa than in most financial markets. The risk is, however, mitigated to some extent by the following market dynamics:

- concentration of customer current accounts with the large South African banks;
- the closed rand system, where rand transactions are cleared and settled through registered banks and clearing institutions domiciled in South Africa;
- the prudential exchange control framework; and
- South African banks' low dependence on foreign currency funding.

These factors contributed to South Africa's resilience during the 2007-2008 global financial crisis and the Covid-19 pandemic. The current environment is marked by renewed global and local macroeconomic risks which may lead to increased funding costs and/or changes in the composition of available funding pools. These may impact the cost and availability of funding.

The revised SARB monetary policy implementation framework

In June 2022, following extensive research and market consultation, the SARB announced a modernisation to its monetary policy implementation framework (MPIF).

The MPIF is the means by which the monetary policy stance is transmitted to financial markets and the price of money and credit. The SARB has moved from a shortage framework, which transmits the policy rate by virtue of the marginal rate of borrowing, to a surplus framework, which seeks to transmit the policy rate through offering a deposit rate for excess marginal deposits.

Following the initial implementation of the updated MPIF, which concluded in September 2022, the SARB introduced further revisions to the framework in February 2023. The revisions followed the anticipated drawdowns of National Treasury's sterilisation reserve deposits at the SARB. To accommodate the additional market liquidity and avoid market disruptions or any weakening of monetary policy transmission, the SARB increased the quotas for market participants.

The MPIF and the resultant additional market liquidity have afforded market participants greater payment capacity, improved liquidity availability and transmission, and enhanced financial market stability.

Foreign currency funding risks

The low level of discretionary savings in South Africa, and its high investment and social welfare requirements, increase the economy's reliance on and vulnerability to foreign capital inflows, driven by the country's fiscal and current accounts.

The issuer seeks to mitigate its exposure to its foreign currency funding by operating a prudent foreign currency management framework and operating within foreign currency borrowing limits that are more conservative than the macroprudential limits applied by the SARB. The issuer seeks to avoid exposing itself to undue liquidity risk and to maintain its liquidity profile within the risk appetite approved by the board and risk committees.

The issuer believes that its level of access to domestic and international interbank, capital and repo markets will enable it to meet its short-term and long-term liquidity needs. However, any maturity mismatches may have a materially adverse effect on its financial condition.

Funding and other risks relating to securitisations

Securitisation is the process whereby assets (such as illiquid loans and other receivables) are packaged, underwritten and sold in the form of asset-backed securities to investors. The issuer makes use of securitisations from time to time to complement its overall funding strategy.

While an important component of its overall funding strategy, the issuer limits the use of securitisation to ensure appropriate strategy diversification and agility. Furthermore, the issuer does not aim to execute securitisations specifically for credit or capital relief purposes. Lower-rated mezzanine and equity tranches are typically retained within the wider group, but they may be offered to investors depending on market appetite and pricing considerations. As structured, the group retains all risks and rewards associated with the underlying assets.

In addition, the use of securitisation as part of the issuer's funding strategy generates complementary risks such as:

- funding and liquidity risk in respect of any potential repurchase of the transferred assets (e.g. in circumstances where there is a breach of contractual representations and warranties relating to the underlying assets);
- operational risks related to the servicing of the transferred assets, administration of the securitisation vehicle and investor reporting relating thereto; and
- interest rate and other risks through derivatives transacted with the securitisation entities.

The issuer executes securitisation transactions to manage and mitigate rather than add to the funding and liquidity risk profile.

2.4 Operational risk

Operational risk is defined as the risk of loss resulting from third-party risk.

The principal operational risks currently facing the issuer are:

- **business resilience risk** due to susceptibility to external factors, e.g. floods, civil unrest and power supply constraints, as well as system downtime incidents;
- **cyber risk** (including information security) given growing sophistication of cyberattacks both locally and globally;
- **technology risk** due to the pace of technology change and increasing digitisation;
- **vendor risk** due to lack of direct control over external service providers, the potential impact of external events on the group's supply chain and reliance on critical service providers who may present single points of failure;
- **people risk** due to social and economic pressures on employees and the shortage of skilled staff, particularly in the information technology and data fields of expertise; and
- **execution, delivery and process management risk** (risk of process weaknesses and control deficiencies) with particular focus on payment risk due to the manual nature of certain payment processes, as well as ongoing regulatory and industry payment-related initiatives, and change risk due to the scale of change required to successfully execute on the group's platform strategy.

Business resilience risk: The issuer's business is subject to its ability to quickly adapt to disruptions while maintaining continuous business operations

The issuer has established an operational resilience management framework to govern business continuity (including disaster recovery) and to improve the capability of the business to effectively respond to disruptive events from internal failures or external events. This is achieved through business continuity strategies including the regular review of business continuity plans (including disaster recovery), scenario planning (including blackout planning), testing and due diligence on key outsourced vendors.

Any failure in the continuity of the issuer's operations and services could have a materially adverse effect on its business, financial condition and/or results of operations.

Cyber risk: Cybercrime could have a negative impact on the issuer's operations

The issuer's operations are dependent on its own IT systems and those of its third-party service providers. The issuer could be negatively impacted by cyberattacks on any of these. As the issuer continues to leverage digital and mobile platforms, the risk of cybercrime increases, especially as infiltrating technology is becoming increasingly sophisticated. Whilst there are ongoing enhancements to information and cyber-security controls, cyber risk remains a key risk focus area for the issuer due to the ever-changing external threat landscape and the growing complexity of attacks. Risk-based rollout of group cyber capabilities has prioritised the securing of key environments across the cyber-security programme focus areas. A defence-in-depth response to the priority threats is applied. This includes various operational practices and continuous monitoring activities across the following key focus themes: data protection, reliable access, attack surface reduction, and secure perimeter and network.

Technology risk: The issuer may suffer a failure of, interruption in or breach of its information technology (IT) systems

The issuer's information technology risk refers to the risk associated with the use of, ownership of, operation of, involvement in, influence over and adoption of IT. It consists of IT-related conditions that could potentially impact the business. The issuer's main IT risks include cyber-security, the failure or interruption of critical systems and third-party risk.

The issuer has a high dependency on its IT systems and operations infrastructure to conduct its business. The issuer regards these systems as critical to improving productivity and maintaining the issuer's competitiveness. Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment facilitation, custody and/or other important systems. If the issuer's information systems fail, it could be unable to serve some or all customers' needs on a timely basis, which could result in a loss of business. In addition, a temporary shutdown of the issuer's information systems could result in costs that are required for information retrieval and verification. The occurrence of any prolonged failures or interruptions in the issuer's IT systems and operations infrastructure could have a materially adverse effect on the issuer's business, financial condition and/or results of operations.

Payment risk: Amendments introduced via the regulatory environment will fundamentally change how the industry operates

International and local industry reforms expose the payment system and all participants to increased risk. Consequences of these changes will result in the removal of the current payments system management body and

its replacement by a new payments industry body which will carry a revised mandate and function. This will change the way in which the issuer contracts into domestic payment systems and manages operational risk inherent in interoperable payment systems. The issuer's ability to maintain system stability and security and straight-through processing is vital as the issuer is a systemically important participant in the national payment system. In-flight initiatives are top priority and delivery targets are closely monitored to ensure minimal negative impact on customers.

Vendor risk: The issuer is exposed to delivery risk from key vendors due to lack of direct oversight over these unrelated parties

The issuer's business operations are dependent on the products and services provided by key vendors. Accordingly, failure or interruption in the provision of such products and services may adversely affect the issuer's reputation as well as its ability to meet customer requirements and regulatory obligations.

The nature of the services provided by certain vendors requires the issuer to share personal information of its customers, which leads to a security risk where data is shared. Uncertainty over the cyber-security posture of the group's key vendors therefore remains an area of concern, however the use of cyber-security ratings from an external cyber-security rating agency provide some assurance in this regard.

The sensitivity of key vendors to global supply chain challenges and geopolitical risks, as well as the issuer's susceptibility to incidents impacting national infrastructure, expose it to additional second-order risks.

Given the large number of key vendors that form a critical part of service delivery of the issuer to customers, the monitoring of service level agreements remains a priority.

Change risk: The volume, nature and extent of strategic and regulatory projects introduce change risk

The effective management of change and implementation of a number of regulatory-driven change initiatives across all segments of the issuer is critical to enable strategic success. The issuer has applied a prioritisation strategy to ensure that resources are adequate to successfully deliver on these initiatives.

Execution, delivery and process management risk: The issuer remains susceptible to process and control breakdowns

In conducting its business, the issuer makes use of complex processes and IT systems that support these processes. Due to this complexity, as well as the manual nature of some of the processes, control activities and ongoing redesign to automate, there is an increased risk of failure in delivering of services. Failure could result in financial loss, detriment to clients/third parties, litigation, reputational harm and regulatory risk.

2.5 Equity investment risk

Equity investment risk in the issuer arises primarily from equity exposures from private equity and investment banking activities, e.g. exposures to equity risk arising from principal investments or structured lending. Other sources of equity investment risk include operational investments which are core to individual businesses' daily operations.

The issuer's asset management business also contributes to equity investment risk. This risk emanates from long-term and short-term seeding activities both locally and offshore. Short-term seeding of new traditional and alternative funds exposes the group to equity investment risk until the funds reach sufficient scale for sustainable external distribution. Short-term seeding periods typically range between one and three years. Long-term seeding is provided if there is alignment with the business strategy, the business case meets the group's internal return hurdle requirements, and the liquidity and structure of the funds imply that an exit will only be possible over a longer period. This maturity period typically ranges from five to eight years post investment in the fund.

Equity investment risk is managed through a rigorous evaluation and review process, from inception to exit of a transaction. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

2.6 Insurance risk

Insurance risk manifests when the decrement rates (e.g. mortality rates, morbidity rates, etc.) and associated cash flows are different from those assumed when pricing or reserving. These risks can further be broken down into parameter risk, random fluctuations and trend risk. As a result of these insurance risk exposures, the issuer is exposed to catastrophe risk stemming from the possibility of an extreme event such as the Covid-19 pandemic.

The issuer manages its insurance risk to fall within its stated risk appetite. This is translated to risk limits for various metrics that are monitored and managed. The assessment and management of risk focuses on a rigorous and proactive process to ensure sound product design and pricing, management of the in-force book, and reinsurance agreements to manage catastrophe risk.

2.7 Environmental and climate risk

Environmental risk is defined as the impact of the natural environment on the group's business, as well as the impact and dependencies of the group's business on the environment and on natural capital. A financial institution may be negatively impacted due to its failure to comply with the relevant environmental practices, laws, regulations, rules, related self-regulatory organisational standards and codes of conduct applicable to its activities.

Environmental risks can be grouped into two areas of impact for the issuer, namely direct environmental risk (own operations and climate resilience), and indirect environmental and climate risk (lending, financing and investment).

Climate risk, a subset of environmental risk, is defined as a risk resulting from climate change, which causes an increase in physical risks (stemming from increased incidences of natural disasters and extreme weather events), transition risks (resulting from changes in laws, regulations, customer preferences or manufacturing processes) and third-party liability risks (due to non-compliance with climate regulations). The impact of climate change is expected to prompt substantial structural adjustments to the global economy. Several sectors, such as fossil fuels, are expected to experience disruption from changes in investor or end-user preferences, or changes in regulations, whilst others, such as renewable energy and other green energy sources, and carbon capture and adaptation technologies, are likely to benefit. Such fundamental changes will inevitably impact the balance sheets and operations of banks, leading to both risks and opportunities. Regulators are beginning to act, and investors, clients and civil society are looking for actions, mitigation, adaptation and transparency on the issue.

Nature-related risk encompasses biodiversity loss and ecosystem degradation. Nature-related risk and climate risk are distinct but interdependent. Nature-related risks can lead to potential threats to a company linked to its and others' dependencies and impacts on nature. There has been a rapid decline in natural resources and processes (natural capital) which are critical for the planet's stability.

The main drivers for the decline in natural capital include:

- climate change;
- resource exploitation, e.g. deforestation and unsustainable agricultural practices;
- land and sea use change; and
- loss of biodiversity, i.e. variability among living organisms at genetic, species and ecosystem level due to:
  - pollution; and
  - invasive alien species.

As natural capital declines, nature's capacity to provide ecosystem services may be reduced temporarily or permanently, resulting in nature-related financial risks. A full analysis of natural capital impacts and dependencies may present opportunities, such as the potential financial benefits resulting from positive impacts on nature or the strengthening of nature on which an organisation depends.

Social risk relates to social impacts associated with activities of customers, investee companies or stakeholders resulting in financial, lending/financing, investment and equity interest exposure that may lead to the risk of legal or regulatory sanctions, material financial loss or reputational damage. The group may suffer in any of these aspects because of its clients' or stakeholders' failure to comply with applicable laws, voluntary agreements, regulations and/or supervisory requirements. Social risks include issues relating to product responsibility, inclusion, labour, occupational health and safety, community involvement, security, human resettlement, indigenous people's rights (particularly in relation to the application of the Equator Principles) and human rights. These risks could lead to criminal sanction, termination of operations and production losses, and subsequently pose a financial, reputational or credit risk to the issuer.

Environmental, social and climate risk is typically a cross-cutting risk issue and therefore cannot be managed in a single risk function. The issuer's environmental and climate risk management framework consists of an outline of programmes and initiatives which are designed to manage and mitigate the following areas and types of environment-related risk.

- Reputational: Damage to reputation from association with environmental and social impacts.
- Market and liquidity: Higher levels of market volatility, shifts in asset valuations, dislocations and shifts in market appetite with regards to the type of assets funded.
- Credit: Adverse impact on customers' ability to pay, impaired collateral values mainly driven by an increase in physical risks (e.g. drought or property damage) or transition risks (lower demand of product).
- Legal action, regulatory sanction or reputational damage may occur as a result of the issuer's approach to environmental and social risk.
- Policy risk due to the impact of new requirements, such as the impact of carbon taxes, prudential requirements or emissions reporting.
- Substitution of a client's existing products and services with lower-emission options or unsuccessful investment in new technologies.
- Disruptions to the issuer's operations, infrastructure, workforce, processes and supply chain may result from acute environmental events.

The issuer has established policies relating to restrictions on the financing of excluded and sensitive industries. These policies define the industries the issuer will not finance and in which it will not invest. They also provide restrictions pertaining to sensitive industries. The policies are available at https://www.firstrand.co.za/investors/esg-resource-hub/policies-and-practices/.

The issuer has established a climate change policy to guide the businesses' approach to climate change risk, including short-, medium- and long-term commitments to support clients' and society's climate resilience and a just transition to a low-carbon world. This policy is supported by sector-specific policies and limits that address industries that are more sensitive to transition risk, such as thermal coal, oil and gas. The issuer is focusing on adapting strategies across its operating jurisdictions to respond to emerging climate risks and opportunities.

The group has published its sustainable bond framework under which the issuer plans to issue bonds. The group's sustainable bond framework is available at https://www.firstrand.co.za/investors/esg-resource-hub/policies-and-practices/.

2.8 The issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures

The issuer has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, concentration, market and liquidity risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the issuer's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than historical measures indicate. Other risk management methods depend upon evaluation of information regarding the markets in which the issuer operates, its clients or other matters that are publicly available or otherwise accessible by the issuer. This information may not be accurate in all cases, complete, up to date or properly evaluated. Any failure arising out of the issuer's risk management techniques may have an adverse effect on the results of its operations and financial condition.

2.9 Competitive landscape

The issuer is subject to significant competition from other banks operating in South Africa, including competitors that may have greater financial or other resources. Many of these banks operating in the issuer's markets compete for substantially the same customers as the issuer. The issuer also faces competition from other non-bank entities that increasingly provide similar services to those offered by banks, e.g. asset managers, insurers, retailers, mobile phone operators, shadow banking players and fintech companies. Increased competition from bank and non-bank entities in the money and capital markets could impact the issuer's ability to attract funding.

To the extent that state-owned enterprises will be licensed as banks in future, competition in the South African banking landscape will increase further. Increasing competition could also require that the issuer increases its rates offered on deposits or lowers the rates it charges on loans, which could also have a materially adverse effect on the issuer, including on its profitability. Although the issuer's financial resource management approach requires it to price appropriately for financial resources, should competitive forces prevent it from doing so, it may withdraw from offering certain products. This may negatively affect its business results and prospects by, among other things, limiting its ability to generate revenue, increase its customer base and/or expand its operations.

If the issuer's customer service levels were to be perceived by the market to be materially below those of its competitor financial institutions, the issuer could lose existing and potential new business. If the issuer is not successful in retaining and strengthening customer relationships, the issuer may lose market share, incur losses on its activities or fail to attract new deposits or retain existing deposits, which could have a materially adverse effect on its operating results, available financial resources and financial condition and prospects.

2.10 Downgrade of the issuer's credit ratings or the credit rating of South Africa could have an adverse effect on the issuer's funding sources and costs thereof

FRB remains the rated entity within the group from which debt is primarily issued, and its credit ratings affect the cost and other terms upon which the issuer can obtain funding. Rating agencies regularly evaluate the issuer, and the ratings of its long-term debt are based on several factors, including capital adequacy levels, quality of earnings, business position, credit exposure, funding and liquidity risks, and the risk management framework, as well as the sovereign ratings and macroeconomic risk profiles for its country of incorporation and those of its operating jurisdictions. These parameters and their possible impact on the issuer's credit ratings are closely monitored and incorporated into its liquidity risk management and contingency planning considerations. In particular, as rating agencies impose a cap on the issuer/bank's rating at the level of the sovereign rating, a change to the sovereign rating will, therefore, impact the issuer's/bank's rating.

In addition, a downgrade or potential downgrade of the South African sovereign rating, or a change in rating agency methodologies relating to systemic support provided by the South African sovereign, could also negatively affect the perception by rating agencies of the ratings of the issuer/bank. Any downgrade of the credit ratings of the issuer/bank would likely increase its borrowing costs and could require the issuer/bank to post additional collateral or take other actions under some of its derivative contracts. This could limit the issuer's/bank's access to capital markets.

There can also be no assurance that the rating agencies will maintain the current ratings or the rating outlooks of the bank/issuer, or those of South Africa. Failure to maintain favourable ratings and outlooks could increase the issuer's cost of funding and adversely affect interest margins, which could have a materially adverse effect on the issuer. Ratings are not at any time a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating agency. Each rating should be evaluated independently of any other rating.

2.11 The issuer is subject to capital requirements that could affect its operations

The issuer and its regulated banking entities are subject to capital adequacy guidelines adopted by the Prudential Authority (PA). The issuer's subsidiaries in the UK and broader Africa are also subject to the relevant regulatory capital requirements in each jurisdiction. Entities are required to comply with both the PA and in-country regulations in their respective jurisdictions. Failure to comply with the minimum requirements in each jurisdiction could result in loss of banking licences and restrictions being placed on distributions, including dividends and other discretionary payments.

The PA's Regulations relating to Banks (as amended from time to time) are based on the Basel III framework and specify the minimum risk-based capital requirements. The minimum capital requirements for Common Equity Tier 1 (CET1), Tier 1 and total capital are 8.8%, 11.0% and 13.3%, respectively. These minimum requirements exclude the confidential bank-specific individual capital requirement but includes the group's domestic systemically important bank requirement and countercyclical buffer requirement. The Prudential Regulation Authority reinstated the UK countercyclical buffer requirement of 1% in December 2022, and further increased it to 2% in July 2023. This requirement primarily relates to the issuer's UK operations. The issuer sets it internal capital targets at all three levels (CET1, Tier 1 and total), considering the end-state minimum regulatory capital requirements and various other stakeholder requirements.

2.12 The issuer is subject to liquidity requirements that could affect its operations

Basel III prescribes two minimum liquidity standards for funding and liquidity:

- Liquidity coverage ratio (LCR), which aims to ensure that banks maintain an adequate level of high-quality liquid assets (HQLA) to meet liquidity needs over a 30-calendar-day period under a severe liquidity stress scenario.
- Net stable funding ratio (NSFR), which aims to promote medium- and long-term funding of banks' assets and activities.

The PA published Directive 11/2022 on 14 December 2022, addressing items of national discretion relating to the LCR. The primary update related to foreign currency liquid assets and their contribution to domestic currency LCR. The directive noted that until December 2023 banks are permitted to include foreign currency denominated level 1 HQLA (subject to an 8% haircut) for purposes of domestic currency LCR, limited to the top 10 most liquid currencies.

The NSFR is a structural balance sheet ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. In August 2016, the PA amended the NSFR framework whereby funding received from financial corporates, excluding banks, maturing within six months, receives an available stable funding factor (ASF) of 35%. These changes were anchored in the assessment of true liquidity risk and assisted the South African banking sector in meeting the NSFR requirements. The PA published Directive 1/2023 on 23 January 2023, addressing items of national discretion relating to the NSFR. To be fully compliant with the NSFR framework, the PA has decided to phase out the ASF 35% factor as follows:

- From 1 June 2023 to 31 December 2023: ASF 30%
- From 1 January 2024 to 31 December 2024: ASF 20%
- From 1 January 2025 to 31 December 2027: ASF 10%
- From 1 January 2028 onwards: ASF 0%

2.13 Changing regulatory environment

The issuer is subject to applicable laws, regulations and related frameworks, including administrative actions in South Africa and each respective jurisdiction in which it operates.

Changes in legal and regulatory requirements in South Africa and the various jurisdictions in which the issuer operates may materially affect the issuer's business, products and services being offered, the value of its assets and its financial condition. Although the issuer works closely with its regulators and continually monitors regulatory feedback and proposals, changes in applicable legal and regulatory requirements and related frameworks or other policies cannot be predicted and are beyond the control of the issuer.

The issuer has devoted significant resources to developing its compliance risk management governance arrangements which include, among others, policies and procedures particularly related to the laws listed below, as well as subordinated regulatory instruments issued in terms thereof. Nonetheless, its compliance risk management governance arrangements may not be fully effective in mitigating all compliance-related risk exposures, including compliance risks that are unidentified or unanticipated. It follows that failures arising out of the issuer's compliance risk management governance arrangements may have an adverse effect on its operations and financial condition.

Applicable laws and other requirements, as amended from time to time, include:

- Banks Act, 1990 (Banks Act) and the regulations relating to that Act (the Regulations relating to Banks).
- Collective Investment Schemes Control Act, 2002.
- Companies Act, 2008 (Companies Act).
- Competition Act, 1998 (Competition Act).
- Consumer Protection Act, 2008 (CPA).
- Currency and Exchanges Act, 1933 and the Exchange Control Regulations.
- Financial Advisory and Intermediary Services Act, 2002.
- Financial Intelligence Centre Act, 2001 (FIC Act).
- Financial Markets Act, 2012 (FMA).

- Financial Sector Laws Amendment Act, 2021 (FSLAA).
- Financial Sector Regulation Act, 2017 (FSRA).
- Financial Sector and Deposit Insurance Levies Act, 2022.
- Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Act, 2022.
- Home Loans and Mortgage Disclosure Act, 2000.
- Insurance Act, 2017 (Insurance Act).
- King Code of Governance Principles for South Africa, 2016 (King IV).
- National Credit Act, 2005 (NCA).
- National Payment System Act, 1998 (NPS Act).
- Prevention and Combating of Corrupt Activities Act, 2004.
- Protected Disclosures Act, 2000.
- Protection of Personal Information Act, 2013 (POPIA).
- Promotion of Access to Information Act, 2000.
- The United States Foreign Account Tax Compliance Act of 2010, read together with the agreement between the government of the Republic of South Africa and the government of the United States of America, the annexes thereto and related memorandum of understanding, seek to improve international tax compliance and implement the Foreign Account Tax Compliance Act.
- Legislation, listings requirements and rules related to listed instruments on various exchanges.
- Statutory codes of conduct, regulatory instruments (including prudential standards, conduct standards and joint standards) and other subordinate legislation issued by, among others, the Financial Sector Conduct Authority (FSCA) and the PA, including the Conduct Standard for Banks.
- Applicable laws, applicable regulations, regulatory instruments and related requirements of the foreign jurisdictions in which the issuer has operations.

The issuer is also subject to any applicable regulatory instruments issued in terms of or related to, among others, any of the above-mentioned laws. The above-mentioned list of applicable laws is not exhaustive but merely indicates that the operations of the issuer are highly regulated.

2.14 Reference rate reform and transition

LIBOR transition

The London Interbank Offered Rate (LIBOR) has been the reference interest rate underpinning trillions of dollars of loan and derivative contracts worldwide. The reform of these reference rates and their replacement with alternative risk-free rates (ARRs) has been a priority for global regulators. LIBOR cessation occurred on 31 December 2021 for pound, euro, yen and Swiss franc for all tenors, and for dollars for one-week and two-month tenors. Cessation for all other dollar LIBOR tenors occurred on 30 June 2023. One-, three- and six-month dollar LIBOR will continue to be published under an unrepresentative synthetic methodology until end September 2024, whereafter publication will cease permanently.

Given the difference in the manner in which the LIBOR rate and alternative risk-free rates are determined, adjustments were applied to LIBOR referencing contracts to ensure economic equivalence on transition to the new alternative risk-free rates. The following alternative risk-free rates replaced the respective LIBORs which the issuer is exposed to. These alternative risk-free rates differ by region, currency, tenor and basis.

- Dollar – Secured Overnight Financing Rate (overseen by the Federal Reserve Bank of New York – secured rate).
- Pound – Sterling Overnight Index Average (Bank of England – unsecured rate).
- Euro – Euro Short-term Rate (European Central Bank – unsecured rate).
- Yen – Tokyo Overnight Average Rate (Bank of Japan – unsecured rate).
- Swiss franc – Swiss Average Rate Overnight (Zurich-based SIX Swiss Exchange – secured rate).

The alternative risk-free rates are structured differently from LIBOR rates and impact the calculations of interest and other payments for transactions and products as follows:

- LIBOR is a forward-looking term rate, which means that the LIBOR rate for an interest period or calculation period is set at the start of that period with payment due at the end. This provides certainty of funding costs and expected cash flow. LIBOR also embeds a credit premium (it implies bank credit risk) and a liquidity premium (it includes a premium for longer-dated funds).
- The nominated alternative risk-free rates are mostly backward-looking overnight rates, and designed to be near risk free, with no additional premium.

The transition of existing LIBOR-based contracts to contracts referencing alternative risk-free rates involve the payment of a credit adjustment spread (CAS) and may impact the operation of certain financial covenants. There may also be cash flow and hedge accounting impacts if a mismatch arises on the transition between a loan and a related derivative.

The issuer established a steering committee consisting of key finance, tax, risk, IT, operational, treasury, legal, compliance and client-facing personnel, as well as external advisors which oversees the interbank offered rate reform transition process. The committee has put in place a transition project for affected contracts with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses.

South African reference rate reform

In line with the coordinated global response towards strengthening major interest rate benchmarks that are used as reference rates, the SARB published a *Consultation paper on selected interest rate benchmarks in South Africa* on 30 August 2018. It provides proposals on the reform of key interest rate benchmarks used in South Africa, as well as proposals on a suite of new benchmarks that could potentially be used as alternative reference interest rates. The SARB also set up an independent working group referred to as the Market Practitioners Group (MPG) comprising members of the SARB and the FSCA, and senior professionals from a variety of financial institutions reflecting different market interest groups active in the domestic derivative and money markets, to provide input into the design and operationalisation of the benchmark proposals.

Comments from the public in respect of the methodologies and policies contained in a technical specification paper (TSP) were published on 30 November 2021. The SARB embarked on a data collection process which has enabled the testing of the proposed benchmarks as well as the observation and refinement of those benchmarks. The South African Overnight Index Average is in observation until 31 October 2023, following which it will be available for use in the derivatives market to facilitate liquidity build. Backfilling of the rate is being undertaken to ensure data is available from 1 January 2016. The TSP will be revised as necessary, based on feedback received and observations made.

The reform of interest rate benchmarks, as well as the change to the SARB monetary policy implementation framework in September 2022, may cause such benchmarks to perform differently than in the past, to withdraw entirely, or have other consequences which cannot be predicted with certainty. Any such consequence could have a materially adverse effect on any notes/securities linked to or referencing such benchmarks.

It is not possible to predict with certainty whether, and to what extent, any other benchmark will continue to be supported going forward. This may cause such benchmarks to perform differently than they have done in the past and may have other consequences which cannot be predicted. The potential elimination of any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions of the notes/securities, or result in other consequences, in respect of any notes/securities referencing such benchmark.

The issuer established a steering committee consisting of key finance, tax, risk, IT, operational, treasury, legal, compliance and client-facing personnel which oversees the rate reform transition process. The committee is in the process of executing a transition project for affected contracts with the aim of minimising the potential disruption to business, and mitigating operational and conduct risks and possible financial losses when the affected benchmark cessation dates are announced by the SARB in conjunction with the MPG.

Investors should consult their own independent advisors and make their own assessments about the potential risks imposed by any benchmark reforms in making any investment decision with respect to any notes/securities linked to or referencing a benchmark.

Risks relating to South Africa

1. Risks relating to emerging markets

South Africa is an emerging market with significant socio-economic challenges. Investors in emerging markets such as South Africa should be aware that these markets carry risks which are different from those that apply to investing in more developed markets. These risks include economic and financial market volatility which may be exacerbated by global economic volatility, as well as, in some cases, significant geopolitical, legal and political risks.

Economic and financial market instability in South Africa has been caused by many different factors, including:

- high interest rates;
- high levels of inflation;
- exchange rate volatility;
- exchange controls;
- commodity price fluctuations;
- industrial action;
- a slowdown in the economic activity of its trading partners;
- wage and price controls;
- changes in economic and tax policies;
- the imposition of trade barriers;
- wide current account deficit;
- capital outflows;
- perceived or actual internal security issues; and
- general social, economic and business conditions.

Any of these factors, amongst others, as well as volatility in the markets for notes/securities, may adversely affect the value or liquidity of the notes/securities.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisors before making an investment in the notes/securities.

Investors should also note that developing markets such as South Africa are subject to rapid change, and that the information set out in this document may become outdated relatively quickly.

2. Exchange controls

Non-residents may freely invest in South Africa, provided that suitable documentary evidence is viewed, and the transaction adheres to certain accepted market principles such as settlement at fair and market-related prices. Similarly, the local sale or redemption proceeds of non-resident-owned assets in South Africa may be regarded as freely transferable abroad, provided prescribed market-related principles alluded to above are adhered to. In certain circumstances where matters may not meet prescribed requirements but there is merit in the transaction, relief may be sought from the SARB with assistance provided by authorised dealers.

The South African Minister of Finance is supportive of exchange controls in South Africa being gradually relaxed. The extent to which the South African government may further relax such exchange controls cannot be predicted with absolute certainty. However, recent relaxations in respect of capital restrictions on emigrants and the upliftment of previously prohibited structures known as loop structures are positive signs of ongoing intended relaxations.

A new draft capital flow management framework is being developed by the SARB in conjunction with the South African Minister of Finance and National Treasury. Authorised dealers and other interested parties have been granted the opportunity to provide comments in support of its development. This framework is intended to replace the existing currency and exchange manual for authorised dealers, and it is anticipated to be implemented in the near future.

3. Regulatory environment

The issuer is subject to formal regulation, directly or indirectly, as the case may be, in South Africa and in the foreign jurisdictions in which the issuer operates. Regulatory agencies have broad jurisdiction over many aspects of the issuer's business, which include capital adequacy, premium rates, marketing and selling practices, advertising, licensing, policy forms, terms of business and permitted investments.

Changes in government policy, legislation, regulatory requirements and interpretation applying to the sectors, markets and jurisdictions in which the issuer operates may adversely affect the issuer's product range, distribution channels, capital requirements, environmental and social obligations and, consequently, reported results and financing requirements. In this regard, any change in regulation to increase the requirements for capital adequacy or liquidity, or a change in accounting standards, could have a materially adverse impact on the issuer's business, results, financial condition or prospects. Other changes arising from legislation which may require changes to key procedures and the customer value chain may impact the organisation.

Having regard for the large volume and complexities of the legal and regulatory requirements which apply to the issuer's business operations, the issuer, despite having robust systems and processes in place to detect failures, may not be able to detect, in a timely manner, all instances of non-compliance and/or related matters which require improvement. This can also expose the issuer and its operations to regulatory sanctions and additional liability which may have a materially adverse effect on its business, financial condition and/or the results of operations.

From a South African perspective, the implementation of the Twin Peaks system of financial sector regulation in South Africa has resulted in numerous new and/or amended regulatory objectives and legal, regulatory and supervisory requirements. In addition, ongoing amendments to regulatory and supervisory requirements are also informed by the need to align to international best practice requirements. These are informed by, among others, jurisdictional member requirements of international

standard-setting bodies such as the Bank of International Settlements (BIS), including the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions and the International Association of Insurance Supervisors. Banks and banking groups in South Africa are governed by a comprehensive legislative framework, most significantly the FSRA, read with the Banks Act, which is comparable to similar legislation in BCBS member jurisdictions such as the UK, Australia and Canada.

3.1 Financial stability

The overarching objective of the implementation of Twin Peaks was to make the South African financial sector safer and to ensure that it remained effective insofar as it would serve the interests of all South Africans. In broad terms, important objectives in relation to Twin Peaks are financial stability, the safety and soundness of financial institutions, the fair treatment and protection of financial customers, responsible lending and the combating of money laundering and terrorist financing.

The key objective of the Twin Peaks system of financial regulation in South Africa is to ensure that there is effective cooperation and collaboration among the SARB, the PA, the FSCA, the National Credit Regulator (NCR), the Financial Intelligence Centre (FIC), the Competition Commission, the Financial Sector Transformation Council, the Information Regulator, and other authorities, local and abroad, as the case may be, which may result in additional complexities in relation to the issuer's ability to effectively manage its legal and regulatory obligations and related risks. The issuer will continue to work closely with its regulators, both locally and abroad, on matters pertaining to the above.

On 28 January 2022, the President assented the Financial Sector Laws Amendment Bill (FSLAB) and it is now an Act, i.e. the FSLAA.The FSLAA introduces critical elements relating to, among others, how to deal with failing banks and other systemically important financial institutions. Its ultimate objective is to ensure financial stability in South Africa. Aligned to the aforesaid, the creation of the new resolution regime in South Africa requires several amendments to various other acts, including the FSRA, the Insolvency Act, the South African Reserve Bank Act, the Banks Act, the Mutual Banks Act, the Competition Act, the FMA and the Insurance Act.

FSLAA provides for the establishment of a framework for the resolution of designated institutions (including banks and their holding companies) to ensure that the impact or potential impact of the failure of a designated institution on financial stability is managed appropriately. In addition, FSLAA also provides for the designation of the SARB as the Resolution Authority and for the establishment of a deposit insurance scheme, including the establishment of the corporation for deposit insurance and a deposit insurance fund. The FSLAA enables South Africa to meet certain post-2008 global financial crisis international standards, as endorsed by the G20 countries and outlined in the Financial Stability Board's document, *Key Attributes of Effective Resolution Regimes for Financial Institutions,* which sets out the international standard for resolution regimes to address challenges in relation to banks which are considered "too big to fail". The relevant regulatory authorities are continually engaging with industry on matters relating to the developing resolution framework.

On 24 March 2023, the Minister of Finance published a commencement schedule for the provisions of the FSLAA in a Government Gazette notice which sets out the implementation dates for some of the key elements of the resolution framework. One of the pivotal provisions effected by the schedule was the designation of the SARB as the Resolution Authority effective 1 June 2023, and providing it with the necessary powers to operationalise an effective resolution regime and issue resolution standards. The Corporation for Deposit Insurance (CoDI) was also established as a legal entity in March 2023, and will be fully operational in April 2024. The newly-established Resolution Authority and CoDI continue to publish discussion papers and standards focusing on the key aspects that will facilitate the implementation of the resolution framework in South Africa, as well as form the basis of the resulting secondary legislation and standards.

3.2 Prudential regulation

After the 2007-2008 global financial crisis, various international standard-setting bodies agreed to comprehensive measures and reforms to promote financial stability, and the safety and soundness of financial institutions. The BCBS also issued various new frameworks, standards and requirements for implementation by member jurisdictions which inform, among others, intended amendments and changes to existing South African prudential frameworks, standards and/or prescribed requirements.

Proposed implementation dates for the remaining Basel III reforms were published by the PA in July 2023, and include, *inter alia,* revised frameworks for credit risk, operational risk and market risk, with proposed implementation ranging from 1 July 2025 to 1 January 2028. It is anticipated that interest rate risk in the banking book disclosure requirements will be implemented on 1 January 2024. Reforms of the prudential treatment of banks crypto-asset exposures is expected to be implemented on 1 January 2026.

The FSRA introduced the prudential oversight of financial conglomerates in South Africa. The financial conglomerate supervision framework introduces a Tier 3 supervisory approach aimed at financial institutions designated as financial conglomerates. It is focused on the contagion risks that manifest in financial institutions involved in banking, insurance, market infrastructure and securities activities.

Prudential standards for financial conglomerates came into effect on 1 January 2022, covering intragroup transaction and exposures, auditor requirements for holding companies, governance, and risk management and risk concentration requirements. The draft capital standard is currently subject to voluntary field testing by designated financial conglomerates and other financial institutions. FirstRand Limited has not been designated as a financial conglomerate but voluntarily participates in the field testing of the draft capital standard and the reporting on the final standards noted above.

3.3 Market conduct regulations

The draft Conduct of Financial Institutions Bill (CoFI) is another overarching piece of intended legislation to amend and/or repeal certain existing financial sector laws. Once enacted and effective, CoFI will, to a large extent, substantially reduce current fragmentation in the South African market conduct regulatory framework, including the introduction of a new licensing regime. CoFI provides for the establishment of a consolidated, comprehensive and consistent regulatory framework for the conduct of financial institutions. It aims at streamlining the legal landscape for conduct regulation in the financial services sector, protecting and promoting the fair treatment of financial customers (including through the Treating Customers Fairly principles), promoting innovation and the development of and investment in innovative technologies, processes and practices, as well as trust and confidence in the financial sector, and assisting the SARB in maintaining financial stability. It is envisaged that CoFI will consolidate the market conduct regulation of financial institutions and will also regulate conduct in respect of credit and payment services. Pending the finalisation of the CoFI Bill, the FSCA is progressing its conduct regulatory framework through the harmonisation project, which seeks to utilise its mechanisms in existing laws to shift towards a more outcomes- and principles-based approach. This includes issuing regulatory instruments under the FSRA and repealing existing subordinate legislation, where applicable.

Market conduct regulators and/or central banks, as the case may be, in South Africa and in the jurisdictions in which the issuer operates, require the issuer to provide assurance that the fair treatment of customers is embedded within the culture of the issuer. It also requires that due procedures and controls exist to provide demonstrable evidence that the issuer is treating its financial customers fairly, throughout the product life cycle, from product design to after-sales service.

There are various regulatory developments with themes similar to those covered by the FSCA in some of the jurisdictions in which the issuer operates. In the UK, the Financial Conduct Authority (FCA) has published final guidelines on the new Consumer Duty in 2022. This directly impacts the issuer's UK business and represents a further increase in the focus on customer treatment to drive a higher level of consumer protection and duty of care for retail financial markets. The principle also applies to firms that manufacture products for or supply them to retail financial markets, even if there is no direct relationship with end customers. Firms were required to align to the outlined standards by July 2023, with businesses then required to embed the required processes and cultural changes to ensure ongoing compliance. The issuer's UK business implemented the requirements to meet the July 2023 milestone. The successful implementation will be tested by the FCA through a combination of data monitoring, information requests and for some firms, site visits. Non-compliance is expected to trigger regulatory action.

On 3 July 2020, the FSCA introduced the Conduct Standard for Banks. This regulatory framework enables the FSCA to critically and urgently supervise the market conduct of the banking sector in South Africa, in accordance with its mandate, as outlined in the FSRA. The standard became fully effective on 3 July 2021. Non-compliance with requirements imposed in terms of the conduct standard may result in enforcement actions being taken against the issuer, which may include, among others, fines and penalties.

3.4 Anti-money laundering regulations

The issuer is required to comply with applicable anti-money laundering (AML), combating of terrorism financing (CTF), and combating of proliferation financing (CPF), and anti-bribery and corruption (ABC) laws and other regulations in South Africa. These laws and regulations require the issuer, among other things, to implement a risk-based approach and adopt and enforce policies and procedures for customer due diligence, sanctions risk management, transaction monitoring and regulatory reporting. While the issuer has adopted policies and procedures aimed at detecting and preventing the use of its banking platforms for money laundering, terrorism financing and proliferation financing, such policies and procedures may not completely eliminate instances in which the issuer may be used by third parties to engage in money laundering or other illegal or improper activities. To the extent that the issuer may fail to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on the issuer. In addition, the issuer's business and reputation could suffer if customers use it for money laundering or illegal or improper purposes.

In February 2023 the Financial Action Task Force (FATF) placed South Africa on its grey list of jurisdictions subject to increased monitoring, due to concerns about its capacity to fight financial crime. It should be noted that the FATF review did not find any material deficiencies in the South African banking system. South Africa is expected to address the eight areas of strategic deficiencies identified by the FATF by no later than the end of January 2025. Government hopes to address them sooner, possibly in 2024.

The issuer has implemented a financial crime framework which includes AML, CTF and CPF policies in its risk management and compliance programme and takes measures to effect continual improvement in its processes to address its money laundering, terrorist financing and proliferation financing risks.

3.5 National Credit Act (as amended)

The NCA came into effect on 1 June 2007. In terms thereof interest rates, costs and fees which retail banks and other credit providers may charge are regulated. By way of example, maximum prescribed interest rates which may be levied in terms of credit agreements are set out in the regulations to the NCA. The NCA further stipulates a closed list of costs and fees which may be recovered under credit agreements, in addition to the capital amounts and interest charges. These relate to initiation fees, monthly service fees, default administration costs and collection costs. Fees for initiating credit agreements may not

exceed the maximum prescribed amount, whilst monthly service fees in relation to the administration of credit agreements are capped. Administration charges must be levied in accordance with the Magistrates' Courts Act, 1944, and collection costs are limited. The NCA also prescribes matters in relation to the registration of credit providers, which has the effect that credit agreements entered into by non-registered credit providers will be void *ab initio.* In addition, credit agreements which contain unlawful provisions in contravention of the NCA could potentially be rendered void *ab initio*.

The NCA has strict provisions in relation to the prohibition of selling and collecting outstanding debts which have prescribed. This means that credit providers cannot collect on loans where no legal actions were taken and no payments were received for a period of more than three years. This applies to all loans which were in existence since 13 March 2015 as well as to new loans granted thereafter. The said provisions may therefore impact on the ability of banks to collect existing non-performing and written-off loans which have prescribed. In addition, affordability assessment regulations, which came into effect on 13 March 2015, and credit providers' commitments to combating over-indebtedness, are important considerations for the NCR. These matters form part of considerations in relation to the conditions of registration of credit providers. The National Credit Amendment Act, 2019 was promulgated during August 2019. The effective date has not yet been proclaimed by the Minister of Trade and Industry. The amendment in the Act includes, among others, a debt intervention measure to assist consumers to whom insolvency measures are not accessible in practice. This process will involve the extinguishment of debt, where applicable. The NCR will implement a debt intervention process and refer matters to the National Consumer Tribunal to adjudicate on debt intervention applications. Debt counsellors will be required to investigate reckless credit agreements and report such to the NCR in respect of consumers who apply for debt review. The possibility of extinguishment of debt, though limited to certain income thresholds and unsecured debt, may result in negative consumer payment behaviour which can result in the adjustment of credit risk appetites by the credit industry.

3.6 Companies Act

The Companies Act provides for, among others, the incorporation, registration and management of companies, capitalisation of profit companies, shareholder provisions, accountability and transparency, corporate finance, directors' duties and board governance, mechanisms for efficient business rescue of financially distressed companies, fundamental transactions, takeovers and share purchases that could potentially have an impact on the rights and duties of the issuer and noteholders.

Amendments had been made to the Companies Act and Regulations, resultant from the General Laws Amendment Act 22 of 2022 (Anti-Money Laundering and Combating Terrorism Financing) which came into effect on 31 December 2022, with certain sections coming into effect on 1 April 2023. The amendments, among others, provide broader obligations on companies to keep record of persons with beneficial interests in their securities and their ultimate owners/controllers, and expansion of grounds for disqualification of persons from being directors.

A guidance note on beneficial owner filing requirements has also been published by the Companies and Intellectual Property Commission. The guidance note was issued to give effect to and provide guidance on the filing of beneficial owner information as required by the General Laws Amendment Act 22 of 2022. The threshold of 5% of ownership and/or control applies to all entities required to file beneficial ownership information.

The above amendments will soon be reflected in the Companies Act as an explanatory summary of the Companies First Amendment Bill, 2023 (First Amendment Bill) and Companies Second Amendment Bill, 2023 (Second Amendment Bill), which were published in August 2023, ahead of the bills' introduction in Parliament. The First Amendment Bill addresses, among others, greater disclosure of the ultimate owner of shares in a business as part of the broader efforts to combat corruption and money laundering. The Second Amendment Bill seeks to extend the time bar within which a director of a company may be declared delinquent or under probation.

The bills also introduce further proposed changes relating to the following:

- A requirement for the remuneration policy and implementation report to be approved through a binding vote of shareholders at an AGM, and the consequences of shareholders not approving these documents, which includes ineligibility of non-executive directors to serve on the remuneration committee for a period of three years after such non-approval, and presenting at the next AGM an explanation on the manner in which the shareholders' concerns have been taken into account.
- Disclosure of the full remuneration of both the highest paid employee and the lowest paid employee.
- Election of a Social and Ethics Committee at each AGM of a public company or state-owned company.

3.7 Consumer Protection Act

The CPA came into effect on 1 April 2011. The CPA gives consumers the right to demand quality service and requires full disclosure of the price of goods and services. The CPA also protects consumers against false, misleading and deceptive representations. The CPA fundamentally changed the way in which business is conducted in South Africa. It requires businesses to transform the way in which they interact with consumers and also demands that consumers are treated in a fair, reasonable and honest manner. Although credit agreements which are governed by the NCA do not fall within the ambit of the CPA, goods or services which were provided in terms of credit agreements are included in the ambit of the CPA. The CPA allows certain industries to be exempt from specific provisions of the CPA where there are existing consumer protection regimes in place in

respect of those industries. By way of example, banks are exempted from section 14 of the CPA, which deals with fixed-term contracts. In this regard, concerns were previously expressed by the banking sector that the said provision would adversely impact fixed-term deposits and thus bank customers' abilities to withdraw such deposits early. Amendments to the CPA are required to adequately and appropriately provide for matters relating to the manner in which business is conducted in a digital environment.

3.8 Protection of Personal Information Act

One of the key purposes of POPIA is to give effect to the section 14 constitutional right to privacy and ensure harmony with international standards on data privacy. POPIA was enacted during 2013 and all private and public bodies were required to ensure compliance with the provisions of POPIA by 1 July 2021. POPIA specifically regulates the processing of personal information, which is broadly defined as information relating to an identifiable, living, natural person, and where applicable, an identifiable, existing, juristic person. The term applied to these natural and juristic persons is "data subject". POPIA also provides for the establishment of an information regulator.

In terms of section 3(1) of POPIA, its provisions apply to the processing of personal information entered in a record by or for a responsible party, using automated or non-automated means, where the responsible party is either domiciled in South Africa or makes use of automated or non-automated means to process personal information within South Africa. The issuer is considered a responsible party (also acting in conjunction with other entities) when determining the purpose of and means for processing personal information of its customers, employees and suppliers.

POPIA establishes eight minimum conditions for the lawful processing of personal information. These conditions can be summarised as follows:

- **Accountability:** The responsible party must comply with all the conditions for lawful processing.
- **Processing limitation:** Processing must be justified on grounds recognised under POPIA (e.g. consent/ legitimate interests of the data subject, responsible party or the third party to whom the information is supplied).
- **Purpose specification:** Personal information must only be collected for a specific, explicitly defined lawful purpose related to a function or activity of the responsible party.
- **Further processing limitation:** Processing must be in accordance with or compatible with the purpose for which it was initially collected, subject to limited exceptions.
- **Information quality:** Steps must be taken to ensure that the personal information is complete, accurate, not misleading and updated, where necessary.
- **Openness:** Notification or disclosure requirements must be complied with when collecting personal information.
- **Security safeguards:** Appropriate, reasonable technical and organisational measures must be implemented and maintained to prevent loss of damage to, unauthorised destruction of or unlawful access to personal information.
- **Data subject participation:** Data subjects have the right to request details of the personal information that a responsible party holds about them and, in certain circumstances, can request access to such information. Data subjects can also request the correction or deletion of personal information which is inaccurate, irrelevant, excessive, out of date, incomplete, misleading or obtained unlawfully.

Further conditions are specified for the processing of information relating to children, special personal information, direct marketing, transborder information flows, automated processing of information, and other specified matters and privacy rights afforded to data subjects.

It is within each of these conditions that material risks can emerge if the responsible party does not adhere to the corresponding requirements and provisions. Such risks could attract sanctions for the responsible party, which include a fine, imprisonment, or both a fine and imprisonment, for a period of no longer than ten years, or alternatively, may lead to an administrative fine. Security compromises can also result in irreparable reputational damage. Currently the maximum fine that can be issued is R10 million.

3.9 National Payment System Act

The draft amendments to the NPS Act have been included under the CoFI Bill as consequential amendments to address certain urgent matters. The remaining NPS Act amendments will be effected through the Financial Services Laws General Amendment Bill (Omnibus Bill) at a later date. Amendments to the NPS Act are expected to expand the regulatory powers of the SARB, reduce the role of the Payment System Management Body, license non-bank participation in payments, and introduce activity-based regulation. The CoFI Bill also brings payment services within scope of the FSCA. It is also expected that the SARB's National Payment System (NPS) department will continue to work closely with the FIC on relevant requirements emanating from recommendations issued by the FATF.

The SARB issued terms-of-refence to the Payments Association of South African in 2022 to facilitate a design of a new payments industry body which will replace the Payments Association of South Africa (PASA) and will include as members all entities licensed to perform payments activities under the revised NPS Act. This design has been submitted to the SARB for its review. Certain functions currently performed by PASA will transfer to the SARB and to payment system operators, e.g. BankServ Africa. The Banking Association South Africa (BASA) has embarked on a programme to define and outline a payments modernisation journey for South Africa and the role of banks in that journey.

Banking sector in South Africa

Similar to other jurisdictions, prior written approval from the PA, on application, is required for both local entities and banking institutions from other countries to conduct the business of a bank in South Africa. In this regard, and according to the latest available information, which is subject to change, the South African banking sector comprises, among others, locally controlled banks, foreign controlled banks, branches of foreign banks and foreign bank representatives. Other deposit-taking institutions include mutual banks and co-operative banks.

The South African banking system is well developed and effectively regulated. According to information published by the PA in its 2022/2023 annual report, South Africa's banking sector is still dominated by the five largest banks which collectively held 89.5% of the total banking sector assets as at 31 March 2023. Local branches of international banks accounted for approximately 6.25% of the banking sector assets and other locally registered banks for approximately 4.25%. Although the South African banking sector remains well capitalised, funded, regulated and managed, it is highly exposed to South African macroeconomic conditions, and it will be impacted by negative macroeconomic developments.

1. South African Reserve Bank

The SARB is, as South Africa's central bank and macroprudential regulator, responsible for, among others, contributing towards the achievement and maintenance of a stable financial system, protecting and enhancing financial stability, and restoring and maintaining financial stability in relation to systemic events. The SARB has a long and proud history of serving, chairing and actively contributing to the work of international and regional bodies, organisations and standard-setting bodies. In this regard, the SARB is represented on prominent regional and international forums such as the G20, the IMF, the World Bank, BRICS, the Financial Stability Board, the BIS, the BCBS, the International Association of Insurance Supervisors, the Committee on Payments and Market Infrastructures, The International Organization of Securities Commissions, the FATF, the International Association of Deposit Insurers, the Committee of Central Bank Governors, the Southern African Development Community, the Association of African Central Banks and the Common Monetary Area.

2. Prudential Authority

The PA, which is a juristic person operating within the administration of the SARB, commenced its mandate on 1 April 2018. The SARB had, prior to the implementation of South Africa's Twin Peaks regulatory framework on 1 April 2018, performed its function as banking regulator through its bank supervision department. The PA is responsible for, among others, the licensing of banks and the prudential regulation and supervision of banks, banking groups (consolidated supervision), licensed insurers and financial conglomerates in South Africa. The PA is responsible for the prudential regulation and supervision of the issuer in accordance with applicable financial sector laws, on a solo and consolidated basis. The PA's duties and responsibilities include the promotion and enhancement of the safety and soundness of financial institutions in support of the SARB's mandate of achieving and maintaining financial stability.

The PA has extensive regulatory and supervisory powers which, among others, oblige banks to furnish certain prescribed financial and risk returns to it, to enable it to monitor compliance with the various prudential and other regulatory requirements imposed on banks in terms of the Banks Act, the Regulations Relating to Banks and other applicable regulatory instruments. The chief executive officer of the PA is a deputy governor of the SARB and a member of the SARB's Financial Stability Oversight Committee.

The PA participates in, and contributes to, various international forums and technical sub-working groups to keep abreast of and influence the latest developments pertaining to regulation and supervision within the financial sector. Supervisory colleges take place among regulators in different jurisdictions for financial institutions that are regulated by the PA.

The PA has adopted a collaborative and consultative approach to regulation and engages with regulators, industry bodies and stakeholders. The PA has memoranda of understanding with foreign supervisory bodies, other regulators in South Africa, such as the FSCA, the NCR, the FIC and the SARB, to facilitate cooperation and collaboration.

The PA is also responsible for the supervision of the compliance by specific institutions with AML/CTF legal and regulatory requirements.

In addition, the BCBS monitors the timely adoption of regulations by its members and assesses its member jurisdictions' consistency with the Basel framework through the committee's regulatory consistency assessment programme (RCAP). The RCAP is a comprehensive programme introduced by the BCBS in 2012 to assess its members' implementation of Basel 2, 2.5 and 3. The objective of the programme is to assist member jurisdictions to ensure full, timely and consistent implementation of the Basel framework. It furthermore assists to raise the resilience of the global banking system, maintain market confidence in regulatory ratios, and promote a level playing field. An RCAP assessment was conducted during September 2022, which focused on the net stable funding ratio and the large exposure framework.

3. National payment system department

The SARB's NPS department has responsibility for the national payment system, which it operates, regulates, supervises and oversees. It is also responsible for related policymaking. Since the NPS department regulates, among others, payment and settlement systems, the issuer's conduct in relation to payments and related services is also regulated, directly and indirectly, by the NPS department.

4. Financial Sector Conduct Authority

The FSCA is the other pillar of South Africa's Twin Peaks financial sector regulatory architecture (the first being the PA). The FSCA is the South African market conduct regulator of financial institutions which are licensed in terms of South African financial sector laws. These

include, among others, banks, insurers, managers of collective investment schemes and market infrastructures. The FSCA's mandate includes enhancing and supporting the efficiency and integrity of financial markets, assisting in maintaining financial stability, protecting financial customers by promoting their fair treatment by financial institutions, and promoting and providing financial education to financial customers to ensure that these customers are adequately informed, and that the financial system is more efficient. The FSCA expects all licensed financial institutions to act with integrity and to treat their customers fairly. Furthermore, the FSCA expects financial institutions to have a culture that is conducive to consumer protection and market integrity, supported by a conduct risk framework. On 3 July 2020, the FSCA introduced the Conduct Standard for Banks.

This regulatory framework enables the FSCA to critically and urgently supervise the market conduct of the banking sector in South Africa, in accordance with its mandate, as outlined in the FSRA. The standard became fully effective on 3 July 2021.

Various aspects of the issuer's market conduct are regulated by the FSCA and it works closely with, among others, the PA on various matters.

5. General

The issuer's relationships with its regulatory authorities are largely managed by a dedicated Group Compliance risk management function and FirstRand Limited's Public Policy and Regulatory Affairs Office. The issuer views its relationship with its regulators as being of the utmost importance. The issuer is a member of the BASA, which is effectively the mandated representative of the banking sector in South Africa, as it facilitates the enablement of a conducive banking environment through robust engagement with government and relevant stakeholders. The issuer is supportive of the Twin Peaks regulatory objectives and endorses, as an active participant in the new regulatory landscape, improvements in risk management, governance and market conduct practices. The same approach is also applied in respect of the issuer's cooperation with other regulatory authorities. Much effort and numerous resources are dedicated in a cost-efficient manner in order to reap maximum benefits from the implementation of best practice and the resultant enablement of its global business activities.

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