MATERIAL RISK FACTOR DISCLOSURE

as required in terms of paragraph 7.F.7 of the JSE Limited Listings Requirements
for the year ended 30 June 2024

Risks relating to FirstRand Limited

This document covers risk factors relating to FirstRand Limited (the issuer or group) and its subsidiaries. FirstRand Bank Limited (FRB or the bank) remains the group's main rated entity and the entity 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 activities and profitability 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, contributing the majority of its revenues. The issuer is highly exposed to South African macroeconomic conditions and, consequently, to global economic conditions that affect the South African economy. Any material deterioration in global or South African macroeconomic conditions could lead to a reduction in business activity, higher impairment charges, increased funding costs, and reduced revenues and profitability.

Beyond the South African economy, the issuer also has operations in other jurisdictions, including the UK, sub-Saharan Africa and representative offices in India and the United States (US). A material deterioration in UK economic conditions or those 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 the 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, it is likely to have a negative impact on macroeconomic conditions in South Africa.

While the global economy is still dealing with post-pandemic inflation shocks and elevated interest rates, the longer-term consequences of geopolitical fragmentation for the macroeconomy remain uncertain. In addition to concerns around permanent damage to production capacity, there are also concerns about persistently high global inflation and high interest rates against a backdrop of high levels of global indebtedness. 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. A severe geopolitical or financial market disruption could weigh on global risk appetite and capital flows to South Africa, and will 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.

A sharp increase in oil prices, and/or a fall in precious metal and/or base metal prices could also result in a deterioration in the rand exchange rate, higher domestic interest rates and higher bond yields.

1.2 SOUTH AFRICAN ECONOMIC CONDITIONS

Since the 2008 global financial crisis the South African macroeconomic environment has been characterised by low private sector investment growth, weak employment growth, rising levels of public sector debt and downward pressure on domestic demand. In addition, domestic consumer and business confidence have remained low over this period. The issuer expects these longer-term structural pressures to reduce slightly but remain important constraining factors.

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 changing 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 that there will be strong political debates around the need to implement measures to ensure fiscal sustainability given socio-economic pressures in the country. These will include debates on 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). 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 and 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.

Household and corporate affordability conditions benefited from a normalisation in economic activity combined with low interest rates in the immediate aftermath of the Covid-19 pandemic. Subsequently however weak economic growth, higher inflation and high unemployment are now placing pressure on household and corporate income growth, which remain low by historical standards. A deterioration in the country's institutions, especially the independence of the SARB, and policy conduct of the National Treasury could have a negative impact on the banking sector.

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

1.5 UK ECONOMIC CONDITIONS

Economic activity in the UK has been negatively affected by inflation pressures, impacting on the cost of living. The issuer expects unemployment to increase. Higher unemployment and related risk to household disposable income could have negative consequences for the operating environment.

Other risks to the UK economy include:

- Ongoing adjustments to a post Brexit operating environment could result in declines in UK business and consumer confidence, a weaker pound and a slowdown in overall economic activity; and
- Challenges associated with balancing societal demands for social support to households whilst managing fiscal resources responsibly could result in political and policy volatility that could negatively impact sentiment and economic activity.

1.6 ECONOMIC CONDITIONS IN BROADER AFRICA

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

Botswana: A significant fall in diamond prices and/or activity in the South African economy will have adverse consequences for the Botswana operating environment.

Ghana: There are significant 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 programme from 2023 onwards. The Ghanaian economy is exposed to fluctuations in oil, gold and cacao prices and production volatility. A fall in the price of these commodities has negative consequences for the operating environment and outlook.

Mozambique: Policy uncertainty, inflation and commodity price volatility 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.

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.

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, volatile global oil prices and the challenges associated with the government's ambitious reform agenda pose risks to growth and government finances, alongside significant policy uncertainty on the exchange rate and foreign currency convertibility.

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.

2. Risk management

Similar to other issuers in South Africa and elsewhere, the issuer is exposed to a myriad of external and internal risks in its ordinary course of business. The most significant of these risks include credit risk, liquidity risk, market risk, operational risk and equity investment risk.

2.1 CREDIT RISK

Credit risk is the risk of loss due to the 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 considerations extend to pre-settlement, country, industry, concentration, securitisation and climate (physical and transitional) risks. 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 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 and 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 by 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. Credit risk is managed through the implementation of comprehensive policies, processes and controls. This ensures consistent high-quality execution across the credit value chain, including credit risk appetite, underwriting, risk-based pricing, portfolio monitoring and reporting, impairing for expected

credit losses, capital assessment, stress testing, collections and recoveries. 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 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 impairments 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, and could therefore negatively impact its financial position.

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, maturity or climate risk (physical and transitional risks).

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 set and reviewed at least annually and monitored monthly. In addition, credit performance triggers (e.g. on new business vintages or early default rates) are set and monitored. Actual performance is then measured against these on a monthly basis.

The issuer's business faces a geographic concentration risk as most of the issuer's exposures are in South Africa. The issuer is also focused on its operations in the UK and broader Africa, which allows for diversification in concentration risk. Concentration levels and maximum exposure guidelines are continually reviewed to manage concentration risk. Operations in South Africa are subject to various risks which include economic, geopolitical, regulatory, societal and environmental risks, which could affect an investment in the notes. 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 position.

2.3 LIQUIDITY RISK

Liquidity risk is defined as the risk that an entity cannot maintain or raise adequate cash resources to meet in full 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 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 issuer recognises two types of liquidity risk:

- Funding liquidity risk – the risk that the issuer is unable to effectively meet current and future cash flow and collateral obligations 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 issuer's ability to trade in specific markets without significantly affecting market prices.

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 non-bank financial institutions such as pension funds, life insurers and asset managers. A portion of these contractual savings is invested with banks in the form of institutional funding instruments, which is riskier from a liquidity perspective than funding provided by customer deposit balances. 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 by the following market dynamics:

- concentration of customer current accounts in 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 issuer is one of the major country's clearing and settlement banks;
- 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 remains marked by 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 of its monetary policy implementation framework (MPIF). The MPIF transmits the monetary policy stance 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 has introduced further revisions to the framework. The most recent update to the framework has been made to accommodate the proposed settlement of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Based on the 2024 balance, settlement of the GFECRA account will result in a liquidity injection of approximately R150 billion over a three-year period. The MPIF framework will be used to manage and sterilise the excess funds that will be used by National Treasury, with the additional liquidity accommodated through a further increase in the bank's SARB quotas.

In general, 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 material adverse effect on its financial condition.

For operations in other jurisdictions, funding is primarily denominated in the local currency of each jurisdiction. Where foreign currency funding risk arises, it is managed by the in-country treasury team within appropriate limits.

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. Retained securitisation notes may be used to access central bank facilities and/or enable improved balance sheet marketability.

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 may be offered to investors depending on market appetite and pricing considerations. Where mezzanine and junior tranches are retained, the group effectively 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 (for example, 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. The issuer balances the use of securitisation against costs incurred to ensure funding efficiency.

2.4 OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes, for example, internal and external fraud risk, people risk, information technology risk, information risk, legal risk, business resilience risk, process risk, cyber risk and 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 the growing sophistication of cyberattacks both locally and globally;
- **technology risk** due to the pace of technological change and increasing digitisation;
- **payment risk** due to the operational impact of industry modernisations;
- **vendor risk** due to lack of direct control over external service providers, the potential impact of external events on the issuer's supply chain and reliance on critical service providers who may pose as single points of failure;
- **change risk** due to the number of active change initiatives across the group as the platform journey matures; 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 adapt swiftly to disruptions while maintaining continuous business operations.

The issuer has established a business 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 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 material 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 management, attack surface reduction, and secure perimeter and network controls.

Technology risk: The issuer may suffer a failure of, interruption in or breach of its 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 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. 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 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 issuer's key vendors therefore remain 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 adequate resources are deployed 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 or 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 and are managed as such.

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 typically ranges between one and three years. Long-term seeding is provided if there is alignment with the business strategy, if the business case meets the group's internal return hurdle requirements, and if 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 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, SOCIAL AND CLIMATE RISK

Environmental risk is defined as the dependencies and impacts of the issuer's business on the environment and natural capital. A financial institution may be negatively impacted because of 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 action, 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;
- 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 issuer may suffer in any of these aspects because of its clients' or stakeholders' failure to comply with all 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 financial, reputational or credit risk to the issuer.

Environmental, social and climate risk is typically a cross-cutting risk and therefore cannot be managed in a single risk function. The issuer's environmental, social 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 negative environmental and social impacts.
- Market and liquidity: Higher levels of market volatility, shift in asset valuations, dislocations and shifts in market appetite with regard 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).
- Litigation: 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 and 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 which the issuer will not finance and in which it will not invest. They also provide restrictions for 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 business 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 sustainability bond framework under which the issuer plans to issue bonds. It 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 continues to refine and mature its risk management approaches, particularly in relation to principal risk types such as credit, market and liquidity risks. The internal and external environment is continually monitored to identify emerging risk trends. The effects of these risks are assessed, and where applicable, management responses are instituted to mitigate any adverse impact to the issuer. 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 on its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than historical trends. The issuer's 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. The banks operating in the issuer's markets compete for substantially the same customers as the issuer. 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 non-bank entities in the money and capital markets could impact the issuer's ability to attract funding.

In the event that a state owned entity is licensed as a bank in the 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 material 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 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 material adverse effect on its operating results, available financial resources, and financial condition and prospects.

2.10 DOWNGRADE OF THE GROUP OR ITS SUBSIDIARIES' CREDIT RATINGS OR THE CREDIT RATING OF SOUTH AFRICA COULD HAVE AN ADVERSE EFFECT ON THE GROUP'S FUNDING SOURCES AND COST 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 group can obtain funding. Rating agencies regularly evaluate the relevant debt issuing entities, and long-term debt ratings 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 the macroeconomic risk profiles for the relevant country of incorporation and those of the entities' operating jurisdictions. These parameters and their possible impact on the relevant entities' 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 issuing entity's rating at the level of the sovereign rating, a change to the sovereign rating will, therefore, impact the issuing entity's rating.

In addition, a downgrade or potential downgrade of the South African sovereign rating could also negatively affect the perception by rating agencies. Any downgrade of the credit ratings of the issuing entity would likely increase its borrowing costs and could require the issuing entity to post additional collateral or take other actions under some of its derivative contracts. This could limit the issuing entity'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 issuing entity, or those of South Africa. Failure to maintain favourable ratings and outlooks could increase the issuing entity's cost of funding and adversely affect interest margins, which could impact financial performance. Ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time 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 group's minimum capital requirements for Common Equity Tier 1 (CET1), Tier 1 and total capital as 9.0%, 11.2% and 13.5%, respectively. These minimum requirements exclude the confidential bank-specific individual capital requirement but include the group's domestic systemically important bank add-on and countercyclical buffer requirement.

The issuer aligns its capital targets to minimum regulatory capital requirements and also considers various other stakeholder requirements. The PA has released a proposed directive requiring South African banks to hold a positive cycle-neutral countercyclical buffer of 1% with a proposed implementation date of 1 January 2026. This will be incorporated in the issuer's targets once finalised.

In addition, the Prudential Regulation Authority (PRA) increased the UK countercyclical buffer requirement to 2% in July 2023. This requirement primarily impacts the issuer's UK operations.

2.12 THE ISSUER IS SUBJECT TO PRUDENTIAL LIQUIDITY REQUIREMENTS THAT COULD AFFECT ITS OPERATIONS

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

- The liquidity coverage ratio (LCR) aims to ensure that banks maintain an adequate level of high-quality liquid assets (HQLA) to meet liquidity outflows needs over a 30-calendar day period under a severe liquidity stress scenario.

- The net stable funding ratio (NSFR) 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 31 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. From 1 January 2024, foreign currency denominated level 1 HQLA in excess of foreign currency denominated net cash outflows no longer contributes to offsetting ZAR net cash outflows.

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 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 available stable funding (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 developments 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.

In its international operations, specifically the UK, the FCA announced a review of historic commission practices in the UK motor finance centered on discretionary commission arrangements between lenders and brokers between 2007 and 2021. The FCA is using its section 166 powers to undertake a skilled person review into historic discretionary commission arrangements.

The issuer has allocated significant resources to developing its compliance risk management governance arrangements, which include, among others, policies and procedures particularly related to the laws listed below, and 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.
- Financial Sector Laws Amendment Act, 2021 (FSLAA).
- Financial Sector Regulation Act, 2017 (FSRA).
- 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 (PAIA).
- United States Foreign Account Tax Compliance Act, 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 seeking to improve international tax compliance and adherence to the Foreign Account Tax Compliance Act, the annexes thereto and the related memorandum of understanding.

- 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

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 body, the Market Practitioners Group (MPG), comprising members of the SARB, 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 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 (ZARONIA) was in observation until 31 October 2023. On 3 November 2023, the SARB announced that the ZARONIA observation period had come to an end and that the rate was endorsed for use in financial contracts.

From a ZARONIA implementation perspective the following key milestones have been achieved:

- The International Swaps and Derivatives Association (ISDA) included definitions for ZARONIA in August 2023.
- The recommended market conventions for linear derivatives were published in September 2023.
- In January 2024, the recommended conventions were published for the cash market, including bonds, money market instruments and loans.
- In May 2024, the Loan Markets Association published an exposure draft detailing the rate switch language for the South African market. The updated rate provisions can be used in new as well as renegotiated contracts going forward.
- In May 2024, the SARB published a transition timeline, which although subject to change, is indicative of the path forward for the market.
- The London Clearing House (LCH) went live with ZARONIA clearing on 1 July 2024. Derivatives testing with LCH is under way.

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, or result in other consequences, in respect of any notes 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 advisers and make their own assessment about the potential risks imposed by any benchmark reforms in making any investment decision with respect to any notes 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 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
- challenging social, economic and business conditions.

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

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 advisers 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 issuer disclosure document may become outdated relatively quickly.

2. Exchange controls

Dealings in notes and the performance by the issuer of its obligations under notes may be subject to Exchange Control Regulations (defined below).

Non-residents may freely invest in South Africa, provided that suitable documentary evidence is viewed, and the transaction adheres to certain acceptable 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 the 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 under development 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 exchanges 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, business and market conduct, 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, financial performance and financing requirements. In this regard, any change in regulation to increase the requirements for capital adequacy or liquidity, or a change in IFRS® Accounting Standards, could have a materially adverse impact on the issuer's business, financial position or prospects. Other changes arising from legislation which may require changes to key procedures and the customer value chain may impact the issuer.

Having regard for the large volume and complexities of 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 may require improvement. This can also expose the issuer and its operations to regulatory sanctions and additional liability which may have a material adverse effect on its business, financial condition and/or the results of its 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, the International Association of Insurance Supervisors, and the Financial Action Task Force (FATF). Banks and banking groups in South Africa are governed by a comprehensive legislative framework, most significantly in terms of 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 customers, responsible lending and the combating of money laundering and terrorist financing.

A 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 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.

The FSLAA introduced critical elements relating to, among others, how to deal with failing banks and other systemically important financial institutions. An important objective is to support 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 Financial Markets Act and the Insurance Act.

The 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 a 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 intended 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 set 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 (RA) 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 was also established as a legal entity in March 2023, and became fully operational in April 2024, with member banks making the first of their respective deposit insurance scheme funding obligations in April 2024.

The RA published a draft standard, *Flac instrument* requirements for designated institutions, in December 2023, which sets out the qualifying criteria of Flac instruments and the level of required instruments to ensure sufficient loss absorption and recapitalisation capacity. The RA is progressing on the path to finalise the guidelines and requirements for Flac instruments, with final standards expected potentially before the end of 2024, given that the proposed implementation date is 1 January 2025 with a six-year phase-in period.

Furthermore, the RA initiated the resolution planning process during the second half of 2023, by requesting the systemically important financial institution (SIFI) banks to complete different batches of resolution planning information templates. The RA has indicated that these templates will evolve while it continues to engage with banks and develop the resolution planning process. In time these will form part of future resolution standards that the SIFI banks will need to comply with.

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, amendments and changes to South African prudential frameworks, standards and/or prescribed requirements.

Proposed implementation dates for the remaining Basel III reforms were published by the PA during July 2023, and included, *inter alia*, revised frameworks for credit risk, operational risk and market risk, with proposed implementation dates ranging from 1 July 2025 to 1 January 2028. Interest rate risk in the banking book disclosure requirements became effective on 1 January 2024. Reforms in relation to the prudential treatment of banks' crypto-asset exposures are expected to be implemented on 1 January 2026.

The FSRA introduced prudential oversight of designated financial conglomerates in South Africa. The financial conglomerate supervision framework introduced a Tier 3 supervisory approach aimed at financial institutions forming part of designated financial conglomerates, focusing on, among others, contagion risks relating to financial institutions involved in banking, insurance, market infrastructures and securities activities.

Prudential standards for financial conglomerates came into effect on 1 January 2022, covering intragroup transactions 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 in 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 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 mechanisms in existing laws to shift towards a more outcomes- and principles-based approach. This includes issuing regulatory instruments under the FSRA and repealing 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. They also require 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) published the 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 by looking to drive a higher level of consumer protection and duty of care for retail financial markets. The principle will also apply 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 successful implementation is being tested by the FCA by a combination of data monitoring, information requests and for some firms, site visits. Non-compliance is likely to be met with 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. The FSCA has been assessing successful implementation through information requests, periodic engagements, desktop reviews and on-site inspections. Non-compliance with requirements imposed in terms of the conduct standards 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 may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability with material adverse effects.

The issuer is required to comply with applicable anti-money laundering (AML), combatting of terrorism financing (CTF), combatting of proliferation financing (CPF), anti-bribery and corruption laws and other regulations in South Africa. These laws and regulations require the issuer, among other things, to implement a risk-based approach through the conducting of business and client risk assessments and to adopt and enforce policies and procedures for customer due diligence, sanctions risk management, transaction monitoring and regulatory reporting, in order to address identified risks. 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 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 aiming to address the eight areas of strategic deficiencies identified by the FATF as soon as possible, but is cognizant of the fact that this may only be achieved by June 2025.

The issuer has implemented a financial crime framework which includes business and client risk assessments and 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 risks 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. Default administration charges must be levied in accordance with the Magistrates' Courts Act, 1944. 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 could be declared unlawful. Certain prohibited contractual provisions in credit agreements could be declared unlawful under the NCA.

The NCA has strict provisions in relation to the prohibition of selling and collecting outstanding debts which have prescribed. This means that a credit provider may not sell or collect on credit agreements where the debt has been extinguished by prescription. The determination as to whether debt has prescribed is set out in the Prescription Act, as per criteria set out therein. The said provisions may therefore impact on the ability of banks to collect existing non-performing and written-off loans which have prescribed. A credit provider is obliged to conduct an affordability assessment when concluding a credit agreement. The affordability assessment regulations must comply with the Act, the Regulations and the Policy to Combat Over-indebtedness. 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 that meet specific eligibility criteria and to whom other debt relief measures are not accessible. This process in certain circumstances may involve the extinguishment of debt. 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.

3.7 CONSUMER PROTECTION ACT

The CPA came into effect on 1 April 2011. The CPA gives consumers the right to demand quality goods and 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.

3.8 PROTECTION OF PERSONAL INFORMATION ACT 4 OF 2013

One of the key purposes of POPIA is to give effect to section 14 of the Constitution of the Republic of South Africa, 1996, which deals with the right to privacy and to ensure harmony with international standards on data privacy. POPIA was enacted in 2013 and became fully enforceable on 1 July 2021. POPIA applies to the processing of personal information entered into 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 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 (also known as data subjects), and includes collecting, storing, using and deleting personal data.

POPIA establishes principles and conditions for lawful processing, provides data subjects with certain rights pertaining to their personal information, and sets out obligations for organisations processing personal information to ensure its protection and security.

POPIA also provides for the establishment of a supervising authority referred to as the Information Regulator.

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 and is responsible for the personal information it processes, even if a third party processes the personal information on behalf of the responsible party. The condition emphasises the need for a proactive approach to safeguarding personal data and upholding data privacy rights of data subjects.
- **Processing limitation:** Personal information must be processed lawfully and in a manner that is adequate, relevant and not excessive. 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, the conclusion or performance of a contract, or compliance with a legal obligation).
- **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. Document retention is also regulated under this condition which includes the deletion or destruction of personal information when there is no lawful justification to retain it.
- **Further processing limitation:** Processing must be in accordance with or compatible with the purpose for which the personal information was initially collected, subject to limited exceptions.
- **Information quality:** Steps must be taken by a responsible party to ensure that the personal information in its possession is complete, accurate, not misleading and updated where necessary.
- **Openness:** Various disclosures must be made to data subjects, including the entity which is collecting their personal information, the purpose for the collection of personal information and the entities it is shared with.
- **Security safeguards:** Appropriate, reasonable technical and organisational measures must be implemented and maintained to prevent loss of, damage to, or 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, request access to such information. Data subjects may 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's personal information, 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 may 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 may also result in irreparable reputational damage, amongst other risks. Currently the maximum fine for an offence that can be issued is R10 million or 4% of an organisation's annual turnover, whichever is higher.

The issuer has various policies, systems and processes in place to manage privacy risk.

3.9 PROMOTION OF ACCESS TO INFORMATION ACT 2 OF 2000

PAIA gives individuals the right to access information held by a public or private body. This right applies to information that is not protected under certain exemptions. It promotes transparency and accountability by allowing individuals to request information from government institutions and private organisations. The Act is enforced by the Information Regulator that is responsible for the enforcement of POPIA. Additionally, the courts have the authority to enforce PAIA and adjudicate disputes related to access to information.

3.10 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, evolve 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 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 reference to the Payments Association of South African (PASA) in 2022 to facilitate the design of a new payments industry body which will replace PASA and will include as members all entities licensed to perform payment 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 payment modernisation journey for South Africa and the role of banks in that journey.

Banking sector in South Africa

Similar to other jurisdictions, written approval is required from the PA before an application is made 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 representative offices. 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 2023/2024 annual report, South Africa's banking sector is still dominated by the five largest banks which collectively held 89.69% of the total banking sector assets, as at 31 March 2024. Local branches of international banks accounted for approximately 5.95% of the banking sector assets and other locally registered banks for approximately 4.36%. The South African banking sector remains well capitalised, funded, regulated and managed.

1. SARB

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 successful track record of serving on, chairing and actively contributing to the work of international and regional bodies, organisations and standard-setting bodies, and is represented on prominent regional and international forums.

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 also responsible for the prudential regulation and supervision of the issuer in accordance with applicable financial sector laws, on both a solo and a 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 it with certain prescribed financial and risk returns, 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.

The PA has adopted a collaborative and consultative approach to regulation and engages with regulators, industry bodies and stakeholders. Supervisory colleges take place among regulators in different jurisdictions for financial institutions that are regulated by the PA.

The PA has memoranda of understanding with foreign supervisory bodies and 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 compliance by specific institutions with AML/CTF legal and regulatory requirements.

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 policy-making. 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, financial services providers, 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 and financial inclusion by financial institutions, promoting and providing financial education to financial customers to ensure that they are adequately informed, and improving the efficiency of the financial system. 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. 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. On 3 July 2020, the FSCA introduced the Conduct Standard for Banks. 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 and NCR 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 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 regulatory landscape, improvements in, among others, risk management, governance and market conduct practices. The same approach is also applied in respect of the issuer's cooperation with other regulatory authorities.

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