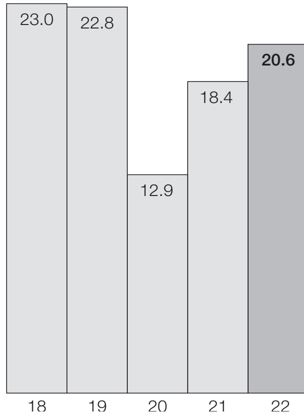
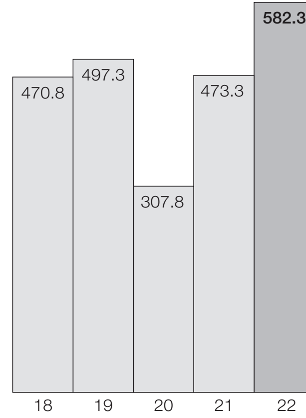
Key performance metrics

ROE
%



When the group analyses ROE, it also takes into account the relationship between ROA and gearing levels. The group's long-term ROE target range is 18% to 22% for normal economic cycles.

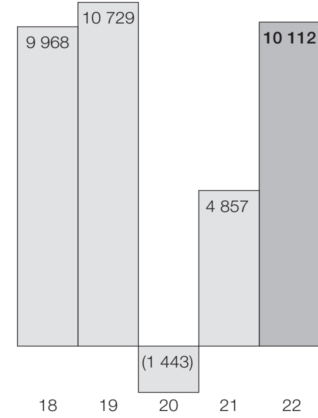
Diluted normalised EPS
cents



The group targets earnings growth of nominal GDP* growth plus >0% to 3% for normal economic cycles.

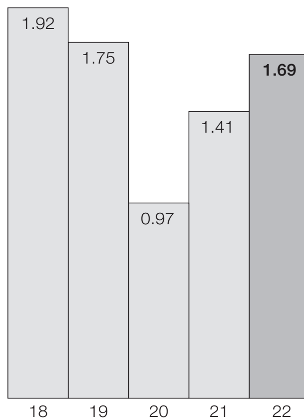
* *Defined as real GDP growth plus CPI.*

Net income after cost of capital
R million



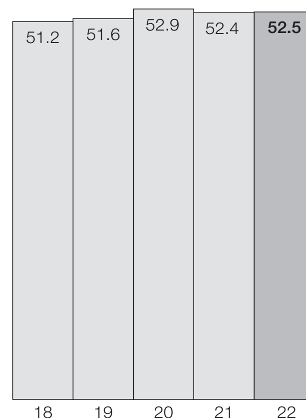
Net income after cost of capital is the group's internal benchmark for assessing performance.

ROA
%



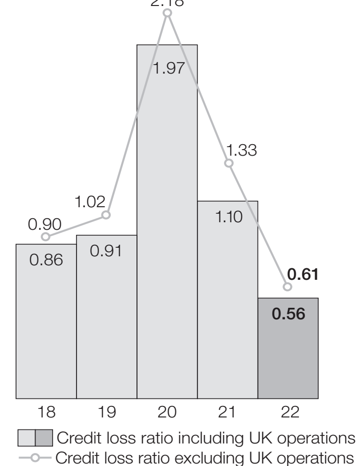
Maximising ROA is a key objective in creating shareholder returns.

Cost-to-income ratio
%



The group monitors efficiency through the cost-to-income measure. Whilst the group views the cost-to-income ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth is key to value creation.

Credit loss ratio
%



The group believes that pricing appropriately for credit risk is a key requirement for sustainable returns.

HARRY KELLAN
Chief Financial Officer

cfo's report

The 23% increase in the group's normalised earnings was driven by the materially lower cost of credit, which reflects origination strategies and the continued post-pandemic recovery across the jurisdictions in which the group operates. Topline growth was healthy, driven in particular by the rebound in non-interest revenue (NIR), and costs were well managed.

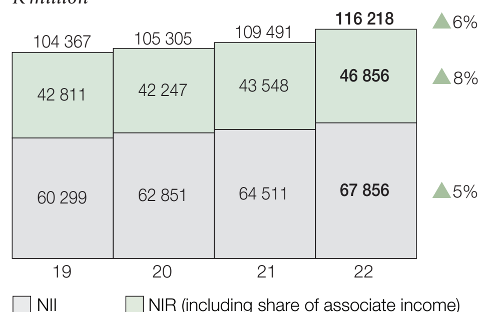
Pleasingly, at 20.6%, the normalised ROE remains well situated in the target range of 18% to 22%. The group produced R10.1 billion of economic profit (2021: R4.9 billion), or NIACC, which is its key performance measure.

FirstRand's performance reflects the quality of its operating businesses. Importantly, both the underlying composition of earnings growth and the superior return profile directly correlate to the consistent and disciplined execution on certain key strategies as outlined in the *CEO's report*.

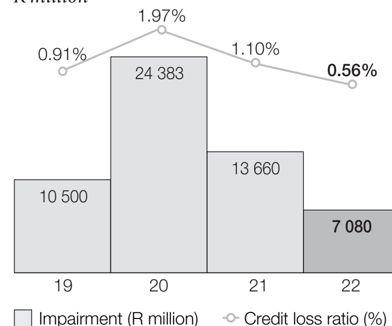
The following table and charts provide a high-level overview of the income statement, as well as topline and credit performance for the year under review.

R million	2022	2021	% change
Net interest income	67 856	64 511	5 ▲
Operational non-interest revenue	46 856	43 548	8 ▲
Share of associate income	1 506	1 432	5 ▲
Total revenue	116 218	109 491	6 ▲
Operating expenses	(61 024)	(57 342)	6 ▲
Indirect tax	(1 433)	(1 516)	(5) ▼
Pre-provision operating profit 2019: 49 188 ▲ 9%	53 761	50 633	6 ▲
Impairment charge	(7 080)	(13 660)	(48) ▼
Income tax expense	(12 127)	(8 849)	37 ▲
Profit after tax	34 554	28 124	23 ▲
Other equity and non-controlling interests	(1 891)	(1 573)	20 ▲
Normalised earnings	32 663	26 551	23 ▲

Topline
R million



Impairment charge
R million



Many of the strategic actions explained in the *CEO's report* also played out in the group's pre-provision operating profit growth of 6% year-on-year. Pre-provision operating profits now exceed the peak level reached in June 2019 by 9%.

Topline delivered same contribution to earnings growth as credit unwind

The adjacent table shows a high-level breakdown of movements in the income statement lines for the year under review. The reduction in the impairment charge was the largest component of the increase in earnings, however, the contribution from growth in topline (NII and NIR) was just as large in absolute value.

There was a significant year-on-year increase in the effective tax rate to 26.0% (2021: 23.9%). This was largely driven by a change in revenue mix due to lower private equity realisations, as well as a reduction in deferred tax assets from the 1% decline in the corporate tax rate.

	R million	Year-on-year % change
2021 normalised earnings	**26 551**	
Movement in:		
– NII	**3 345**	5 ▲
– Impairments	**6 580**	48 ▼
– NIR*	**3 382**	8 ▲
– Operating expenditure	**(3 682)**	6 ▲
– Tax** and other	**(3 513)**	29 ▲
2022 normalised earnings	**32 663**	23 ▲

* *Including income from associates and joint ventures.*
** *2022 effective tax rate: 26.0% (2021: 23.9%).*

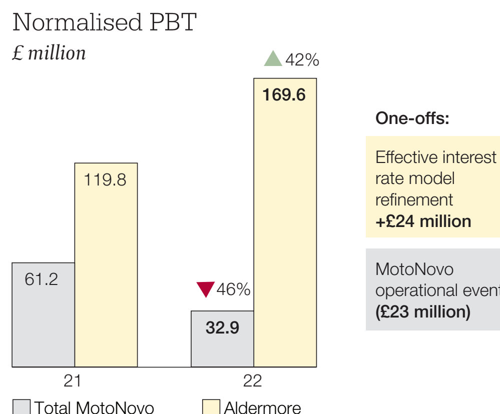
Pre-tax profits demonstrate operational performance of portfolio

The table below unpacks normalised profit before tax (PBT) growth across the portfolio, driven by strong topline, well managed costs, appropriately struck origination strategies and prudent credit management.

NORMALISED PBT

	Year ended 30 June		
R million	**2022**	2021	% change
FNB	**28 442**	23 194	23 ▲
RMB	**11 615**	9 942	17 ▲
WesBank	**2 270**	1 848	23 ▲
UK operations*	**4 081**	3 741	9 ▲
UK operations* (£ million)	**202.5**	181.0	12 ▲
Centre**	**3 726**	1 077	>100 ▲

* *Includes Aldermore and total MotoNovo (front and back books).*
** *Excludes FirstRand company and consolidation adjustments.*



The UK operations' results include two one-off events that offset each other as shown in the graph above. The UK operations' overall PBT trend is therefore an accurate reflection of the business's operational performance.

> Aldermore benefited from the refinement of the effective interest rate (EIR) models (£24 million) in its business finance portfolio.

> MotoNovo's performance was impacted by an operational event, first identified by the business during the Covid-19 pandemic period. The event relates to non-compliance with the UK Consumer Credit Act and extends back a number of years. Notices of sums in arrears (NOSIAs) were not issued, or incorrectly issued, to qualifying customers due to a system coding error. As a result, certain interest and fees amounting to £23 million are required to be refunded to customers. The group has appropriately provided for this one-off event, including the operational costs and the consequential impact to impairments.

NII growth was driven by Group Treasury's ALM strategies, continued growth in the deposit franchise and higher advances in the UK

Overall group NII increased 5% year-on-year, with some support from the return to growth in advances and continued strong deposit gathering. NII also benefited from increased capital balances.

ACTIVITY ANALYSIS OF NET INTEREST INCOME BEFORE IMPAIRMENT OF ADVANCES

R million	Year ended 30 June		
Net interest income	**2022**	2021*	% change
Lending	**23 772**	23 837	–
Transactional**	**17 450**	16 254	7
Investment deposits	**3 558**	3 614	(2)
Capital endowment	**5 751**	4 650	24
Group Treasury	**3 193**	2 584	24
FNB broader Africa	**3 969**	3 825	4
Centre and other#	**(696)**	(255)	>100
Total NII excluding UK operations	**56 997**	54 509	5
UK operations	**10 859**	10 002	9
– MotoNovo	**3 125**	3 430	(9)
– Aldermore	**7 734**	6 572	18
Total NII including UK operations	**67 856**	64 511	5

* *The 2021 numbers were restated in order to provide better attribution of NII by nature of activity.*

** *Includes NII related to credit cards, overdrafts and transactional deposit products, and deposit endowment.*

Other includes non-interest rate assets and these effectively represent negative endowment, e.g. fixed assets.

Lending NII remained flat due to a decline in margin, driven by a mix change in advances growth on the back of the origination strategies covered in the *CEO's report*.

Also, although FNB's retail franchise focused on originating lower-risk advances for a significant portion of the year, there was a measured return to appetite in the last quarter of the year under review. FNB commercial's year-on-year growth in advances was strong. RMB's corporate lending franchise delivered good growth in new business origination, also mainly in the second half of the year, but experienced ongoing competitive margin pressure. WesBank retail VAF advances contracted due to the focus on lower-risk origination in a highly competitive lending environment. Increased write-offs also had a negative impact on overall advances growth.

Transactional NII, up 7%, reflects customer growth and the benefit of endowment on the higher deposit base.

UK NII increased 9% (11% in sterling). The increase in advances in the UK was driven by MotoNovo and business finance. Growth from the latter improved significantly, due to increased support for small and medium-sized enterprise (SME) customers returning to investment following the pandemic, and a strategic pivot towards larger-sized deals. MotoNovo's growth was driven by continued high demand in the second-hand car market. Higher redemptions in an extremely competitive market resulted in a slight reduction in year-on-year growth in residential mortgages. This does, however, mark an improvement compared to the half-year position as mortgage growth returned in the fourth quarter of the financial year.

Group net interest margin (NIM) improved 5 bps to 4.40% (including Aldermore) (2021: 4.35%). The lift in NIM emanated from margin expansion in the UK operations.

Excluding UK operations, NIM remained stable at 480 bps (2021: 481 bps). This was the result of a funding benefit from the deposit franchise in SA and broader Africa as well as the positive impact of Group Treasury's ALM strategies and capital endowment. These were offset by the change in advances mix, particularly growth in lower-margin mortgages and corporate and investment banking (CIB) advances compared to muted growth in unsecured lending, and the origination tilt to medium and lower risk. The market remained highly competitive for good-quality, lower-risk customers.

The group's *Analysis of financial results for the year ended 30 June 2022* provides a detailed analysis of key margin drivers.

The strength of the deposit franchise supported lower funding costs

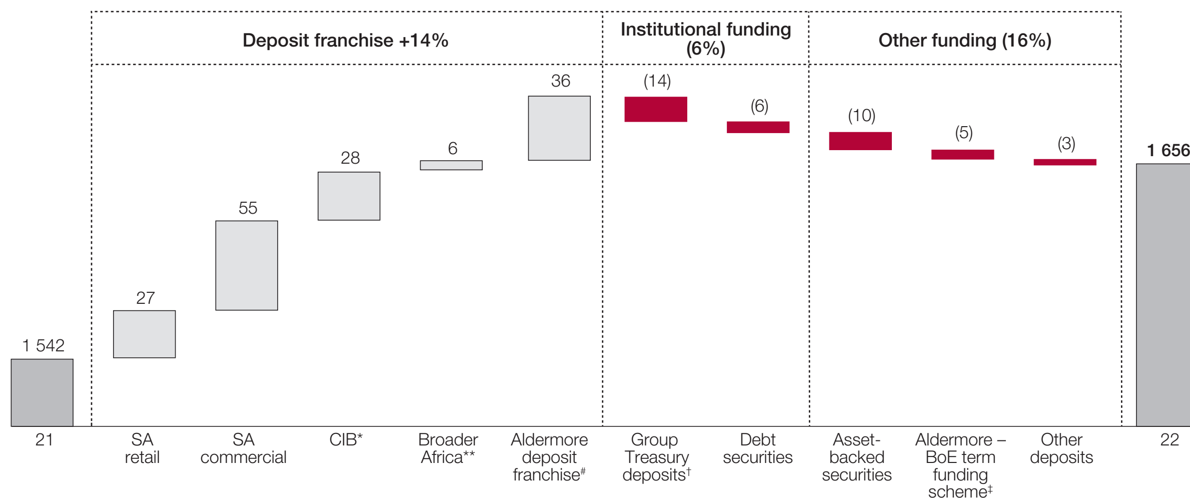
The group's overall growth in deposits of 14%, off an elevated base from the prior year, benefited from ongoing momentum in retail savings and investment products, and particularly good contributions from FNB commercial and the broader Africa portfolio. This was achieved despite individuals and businesses utilising discretionary balances post-lockdowns and reflects ongoing customer acquisition. FNB remained the top household deposit franchise in SA per the BA900 returns at 30 June 2022.

Advances growth was mostly funded through good growth across the retail, commercial and corporate deposit franchises, which resulted in a 6% reduction in institutional funding.

The MotoNovo book is now fully funded by Aldermore. Aldermore has funded almost £4 billion in MotoNovo advances since the integration of the two businesses in May 2019. Aldermore continued to pay down Bank of England (BoE) term funding over the year.

Funding growth by segment

R billion



* Includes South Africa and the London branch.

** Broader Africa deposits include CIB deposits related to the broader Africa subsidiaries.

\# The Aldermore deposit franchise, including corporate treasury deposits, increased 14% to £14 billion.

† Group Treasury deposits include the funding facility related to the South African Covid-19 government-guaranteed loan scheme.

‡ Aldermore's utilisation of the BoE term funding scheme reduced 19% to £1.1 billion.

Year-on-year trajectory of advances growth reflects approach to origination

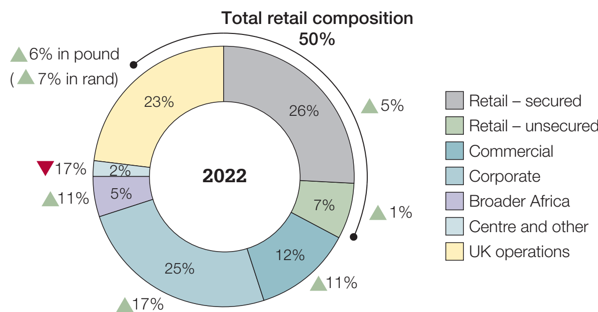
As covered earlier, retail origination focused on lower-risk customers and was also anchored to protecting the customer franchise from aggressive competitor activity, which in turn translated into a strong rebound in retail NIR.

In the commercial segment, the stronger advances growth was driven by the strategy to originate new business tactically in those sectors showing above-cycle growth and which are expected to perform well even in a high inflationary environment.

Growth in corporate advances picked up in the second half of the year, which saw much stronger new business production. Origination also leaned towards lower-volatility sectors and better-rated counterparties.

In the UK operations, advances growth was driven by MotoNovo and lending in business finance. The residential mortgages business experienced high volumes of redemptions linked to the maturity of a five-year fixed buy-to-let (BTL) portfolio, which, combined with a highly competitive market, resulted in advances slightly reducing year-on-year to £7.3 billion (2021: £7.4 billion). This, however, marks an improvement from the half-year position as growth returned in the fourth quarter of the financial year.

Core lending advances* breakdown



* *Core lending advances exclude assets under agreements to resell.*

Resilient credit performance, coverage remains prudent

The group's credit performance continues to improve, with a reduced credit loss ratio of 56 bps (2021: 110 bps) with all portfolios now at or below through-the-cycle levels. This underlying performance is in line with the group's origination strategies and was achieved despite ongoing uncertainties in the operating environment, most notably the impact of inflation and interest rate pressures that unfolded over the last quarter of the financial year. Given these uncertainties, balance sheet provision levels remained conservative against the in-force book as new origination adapts to macros dynamically. As such, management retained the stress scenario, albeit at a lower weighting of 8% (2021: 11%). Overall performing coverage on core lending advances decreased to 1.78% (2021: 2.02%), reflecting the year-on-year improvement in the macro environment, better staging of advances and measured origination.

Non-performing loans (NPLs) decreased 16% year-on-year with NPLs as a percentage of core lending advances down to 3.88% (2021: 5.02%), driven by write-offs, the curing of paying NPLs, slower inflows given conservative origination strategies, strong collections and advances growth.

As a result, the overall impairment charge reduced 48% to R7 080 million (2021: R13 660 million), reflecting the positive performance in most portfolios and the significant reduction in NPLs. The credit loss ratio was 61 bps (2021: 133 bps) excluding UK operations (56 bps for the total group (2021: 110 bps)).

The following table shows an improvement in the overall stage distribution of the book, reflecting both the tilt towards lower-risk, good-quality origination and advances growth in the second half.

STAGE DISTRIBUTION OF CORE LENDING ADVANCES

	Year ended 30 June		
R million	**2022**	2021	% change
Stage 1	**1 148**	1 036	11 ▲
Stage 2	**113**	111	1 ▲
Stage 3/NPLs	**51**	61	16 ▼
Core lending advances	**1 311**	1 208	9 ▲

Post-pandemic conservatism in origination played out in NPLs

The table below deals with the change in group NPL balances. It is pleasing to see that the reduction in operational NPLs has continued due to slower inflows and ongoing workouts and write-offs. Collection efforts remained strong.

CHANGE IN NPLs

	30 June 2022 vs 30 June 2021	
	R million	**% change**
Operational NPLs*	**(4 210)**	**(12)**
Covid-19 relief paying NPLs**	**(2 956)**	**(71)**
Other paying NPLs#	**(1 613)**	**(17)**
NPLs (excluding UK operations)	**(8 779)**	**(17)**
UK operations	**(1 040)**	**(12)**
Change in total group NPLs	**(9 819)**	**(16)**

* *Include core lending advances that received Covid-19 relief, other core lending advances and debt-review advances ≥90 days in arrears.*

** *Include Covid-19 relief loans <90 days in arrears and still subject to curing criteria.*

Include debt-review and other core lending advances <90 days in arrears and still subject to curing criteria.

Overall NPL coverage increased to 49.8%, mainly driven by a large portion of paying NPLs (with lower coverage) curing into performing and lower inflows. Additional provisions were also created to ensure adequate coverage for the uncertain environment. Decreases in the UK operations were driven by curing in the debt-relief book in retail and in business finance.

SA retail NPLs decreased 20% to R29.9 billion (2021: R37.3 billion). NPLs as a percentage of advances declined to 6.97% (2021: 9.05%) driven by the curing of paying NPLs, slower inflows, ongoing write-offs, strong collections and support from higher advances.

SA commercial NPLs declined 23% to R5.5 billion (2021: R7.2 billion) or 3.62% of advances (2021: 5.21%). The decline was due to workouts and write-offs, curing of a few counterparties and lower stage 3 inflows in various portfolios.

NPLs in the SA CIB portfolio, including high-quality liquid assets (HQLA), increased 14%, with a slight reduction in the NPL ratio to 1.26% (2021: 1.29%), given the growth in advances. NPL coverage increased to 60.2% (2021: 45.9%) due to the migration of a high-coverage, significant exposure to stage 3.

The broader Africa NPL ratio decreased to 4.93% (2021: 5.84%) driven by lower NPLs in Botswana and Zambia following high write-offs, a slowdown in new inflows and recoveries.

In the UK operations, NPLs reduced to 2.61% of advances (2021: 3.16%). This was mainly due to curing and settlement in the relief portfolio and the Aldermore commercial portfolio, supported by advances growth. MotoNovo NPLs continued to be affected by the previous ban on collateral repossessions in the UK, and the impact on collections due to the NOSIA operational event.

ANALYSIS OF IMPAIRMENT CHARGE

	Six months ended				June 2022 vs December 2021	December 2021 vs June 2021	June 2021 vs December 2020
	30 June	31 December	30 June	31 December			
R million	**2022**	2021	2021	2020	% change	% change	% change
Performing book provisions	**(1 357)**	627	(2 228)	663	(>100)	(>100)	(>100)
NPL provision*	**(1 112)**	(1 042)	(544)	3 347	7	92	(>100)
Credit provision (decrease)/ increase	**(2 469)**	(415)	(2 772)	4 010	>100	(85)	(>100)
Modification loss	**267**	412	348	294	(35)	18	18
Gross write-off and other**	**7 999**	7 035	9 647	7 929	14	(27)	22
Interest suspended on stage 3 advances	**(1 363)**	(1 630)	(1 707)	(1 662)	(18)	(5)	3
Post write-off recoveries	**(1 381)**	(1 375)	(1 270)	(1 157)	–	8	10
Total impairment charge	**3 053**	4 027	4 246	9 414	(24)	(5)	(55)
Credit loss ratio (%) – core lending advances#	**0.47**	0.65	0.70	1.50			
Credit loss ratio excluding UK operations (%) – core lending advances#	**0.45**	0.79	0.96	1.71			

* *Interest suspended on stage 3 core advances of R2 993 million (2021: R3 369 million) is included in the NPL provision.*

** *Write-off of gross balances excluding prior year provisions held. The gross amounts written off have been recognised in the income statement over various reporting periods.*

Prior periods have been restated for core lending advances, which exclude assets under agreements to resell.

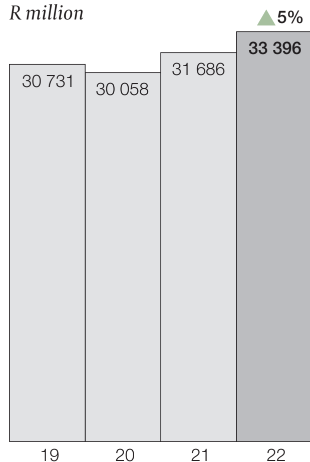
The table above demonstrates the move in impairments on a rolling six-month view, based on movements in the balance sheet. The R1.4 billion portfolio provision release reflects lower coverage as credit quality and macro assumptions improved year-on-year, despite advances growth and judgemental out-of-model provisions to cater for the uncertain operating environment. Refer to pages 198 to 204 of the online version of the *Analysis of financial results for the year ended 30 June 2022* for the updated forward-looking information (FLI) and scenario weightings. Despite largely maintaining coverage at a product level, the NPL provision releases reflect the relative improvement in performance discussed earlier.

Quality and diversity of NIR key to ROE

Total group operational NIR increased 8%. This was supported by 5% growth in fee and commission income, 15% growth in trading and fair value income, and a significant rebound of 29% in insurance income.

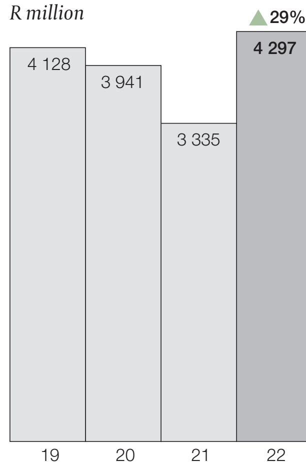
Fee and commission income

R million



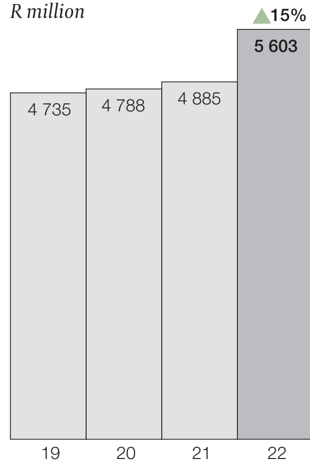
Insurance income

R million



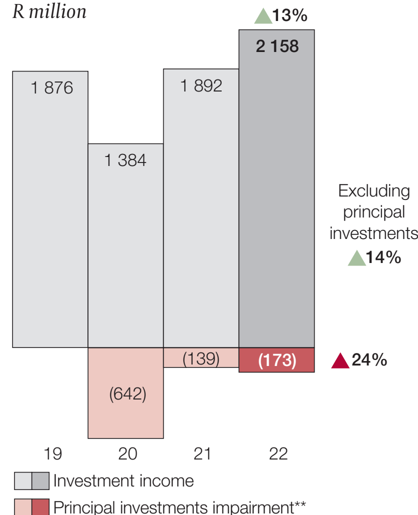
Trading and other fair value

R million



Investment income*

R million



* *Includes share of profit from associates and joint ventures.*

** *Restated to reflect the portion relating to investment income.*

Net fee and commission income was resilient, up 5%, driven by growth in customers and volumes, a particularly pleasing performance given that price increases were near zero and that there were significant reductions in certain fee categories in both retail and commercial segments in FNB.

Trading and other fair value income grew 15% off a high base. This reflected a solid performance from RMB's markets business, which was underpinned by strong client flows due to volatility in FX markets and increased commodity prices, combined with a robust performance from equities. The global foreign exchange business experienced increased client volumes on the back of the rally in commodities and higher levels of corporate FX structuring transactions.

Good insurance premium growth, and a reduction in claims and claims reserves contributed to a strong recovery in insurance income. This was partly offset by additional investment into the short-term insurance platform and costs associated with the rollout of non-life insurance products.

Investment income reflects strong growth in annuity income from RMB's private equity business, up 32%, as portfolio companies delivered improved operational performances. A moderation in impairments compared to prior year also contributed significantly. The quality of the portfolio is reflected in the 32% increase in unrealised value to R5.9 billion (2021: R4.4 billion) which reflects the improved performance of the investee companies.

Inflationary growth in operating expenses demonstrates focus on cost management

Operating expenses for the group were 6% higher, including a 5% increase in direct staff costs and higher variable remuneration given the improvement in performance.

Investment costs continue to be driven by:

> insurance and asset management growth strategies;

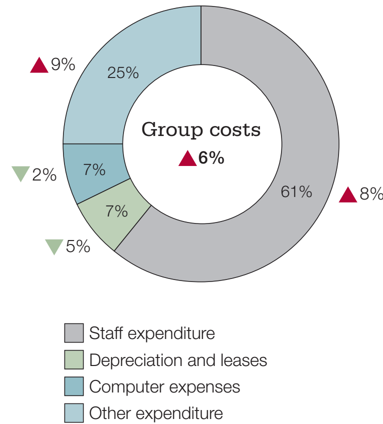
> the build-out and consolidation of the domestic enterprise platform;

> scaling the group's footprint and platform in broader Africa; and

> people, process and system investments in the UK business.

The cost-to-income ratio remained stable at 52.5% (2021: 52.4%).

Breakdown of operating expenses



The group continues to invest in technology and platform and the majority is expensed. IT cost growth of 3% benefited from accelerated write-offs in the prior year.

Staff expenditure accounts for 61% of the group's total cost base. Direct staff costs increased 5% driven by headcount growth and salary inflation. An 18% increase in variable remuneration and a 34% increase in share price-linked awards resulted in total staff costs increasing 8%.

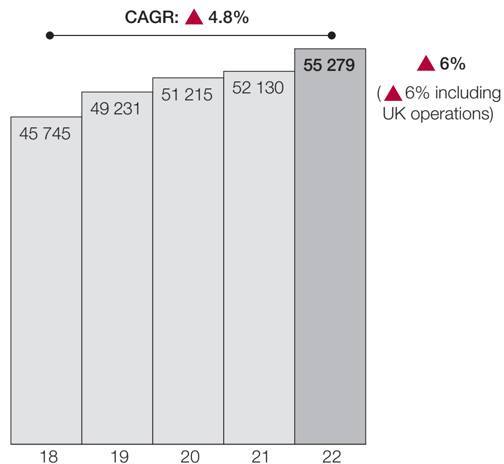
The focus on cost management and savings allows the business to continue with investments in future growth.

The following charts demonstrate that expenditure is aligned to strategy. Execution on the group's platform strategy is reflected in the IT cost trend. Excluding the UK operations' overall costs, there was a 4.8% compound annual growth rate (CAGR) in overall operating expenses since 2018. This was weighted towards IT spend, which increased 9.3% over the same period. Staff expenditure grew at a compound rate of 5.5%, reflecting salary increases and headcount growth.

With CAGRs of 5.5% in staff costs and 9.3% in IT costs since 2018, the group has extracted efficiencies in other areas to deliver an overall 4.8% CAGR in operating expenses.

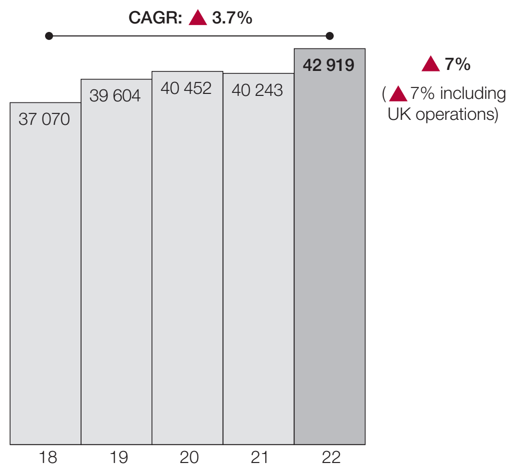
Operating expenses*

R million



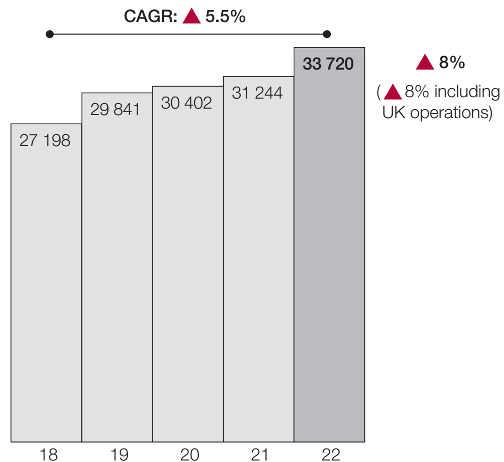
Operating expenses excluding IT costs*

R million



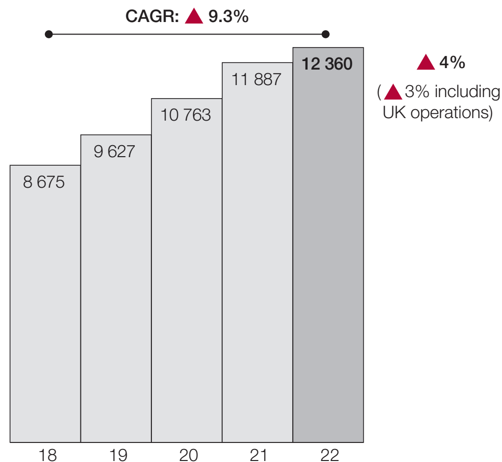
Staff costs*

R million



IT costs*

R million



* *Excluding UK operations.*

The group further strengthened the balance sheet

The structure of the balance sheet reflects the group's long-term strategy to increase resilience, diversify credit exposures across sectors and segments, increase asset marketability and optimise use of institutional funding.

FirstRand has continued to successfully enhance its risk-adjusted funding profile through optimised use of Group Treasury funding and growing its deposit franchise. The weighted average remaining term of domestic institutional funding was 39 months at June 2022 (2021: 41 months). The reduction reflects a marginal increase in money market issuances relative to the longer-dated Tier 2 capital refinancing and senior debt issuances.

The group remained strongly capitalised with a CET1 ratio of 13.9%, a Tier 1 ratio of 14.5% and a total capital adequacy ratio of 16.7%.

Gearing decreased to 12.2 times (2021: 13.0 times), driven by 9% growth in average total equity, while average total assets increased 3%.

Conclusion

FirstRand's dividend strategy is to provide its shareholders with an appropriate, sustainable payout over the long term. Given FirstRand's high return profile and ongoing capital generation, the board reduced the cover range to 1.6x to 2.0x (previously 1.8x to 2.2x) as the group has more than sufficient resources to deliver on its growth ambitions.

The dividend for the financial year was struck at 1.7x cover, which is a reversion to the pre-pandemic payout percentage. In addition, given the point-in-time capital surplus that exceeds expected demand, the board declared a special dividend of 125 cents per share.

FirstRand's normalised ROE will remain well positioned in the target range of 18% to 22% in the 2023 financial year. Growth in earnings is expected to revert to the group's long-term target of real GDP plus CPI plus >0% to 3%.

HARRY KELLAN ~ CFO