

# FINANCIAL AND STRATEGIC UPDATE

for the year ended 30 June 2024

# Agenda



|  |   |
|--|---|
| Bank overview and financial performance<br>Financial resource management   | <b>Andries du Toit</b><br>FirstRand Chief Value Officer |
| Macroeconomic themes<br>Funding, liquidity and capital management<br>South African financial market developments | <b>Bhulesh Singh</b><br>FirstRand Group Treasurer       |



FirstRand Bank

# **BANK OVERVIEW AND FINANCIAL PERFORMANCE**

for the year ended 30 June 2024

# FirstRand Bank is a wholly owned subsidiary of FirstRand Limited



4



## FirstRand

Listed holding company (FirstRand Limited, JSE: FSR)

100%

DEBT ISSUER

**FirstRand Bank Limited (FRB)**

SA banking

### DIVISIONS



**FNB**

Retail and commercial



**RMB**

Corporate and institutional

**WesBank**

Vehicle asset finance

### BRANCHES

London and Guernsey\*

### GLOBAL ADMINISTRATIVE OFFICE

India

### REPRESENTATIVE OFFICES

New York, Kenya, Angola and Shanghai

Other wholly owned subsidiaries  
of FirstRand Limited

FirstRand EMA Holdings  
(Pty) Ltd (FREMA)

Broader Africa

FirstRand International  
Limited (Guernsey) (FRI)

UK banking and hard  
currency platform

FirstRand Investment  
Management Holdings Ltd

Investment management

FirstRand Insurance  
Holdings (Pty) Ltd

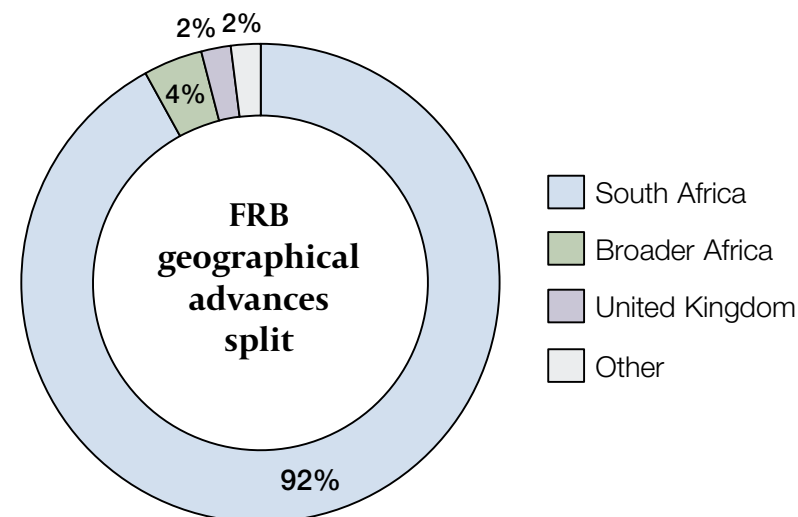
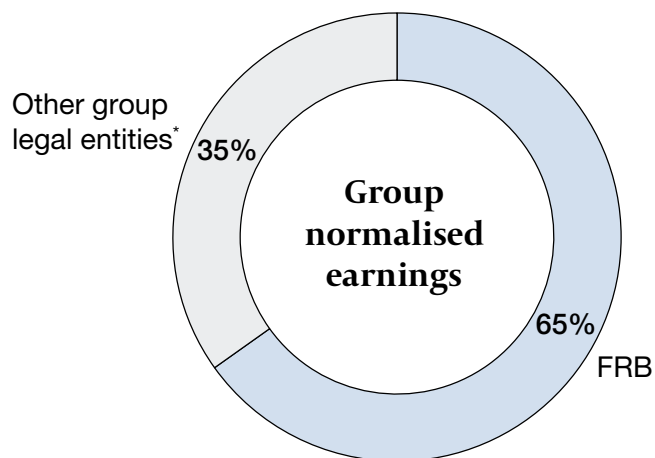
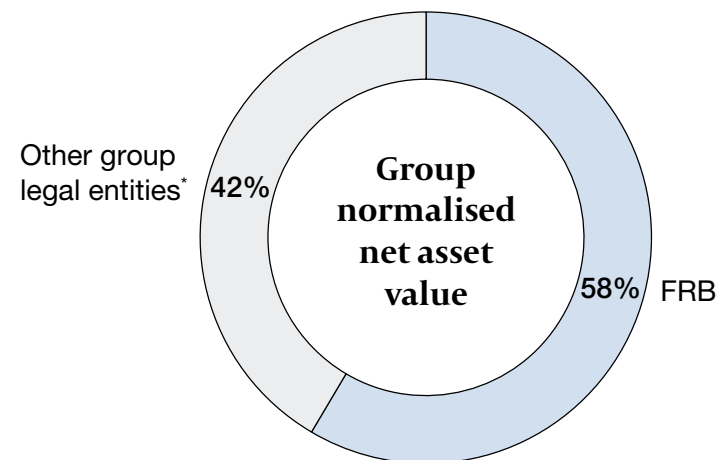
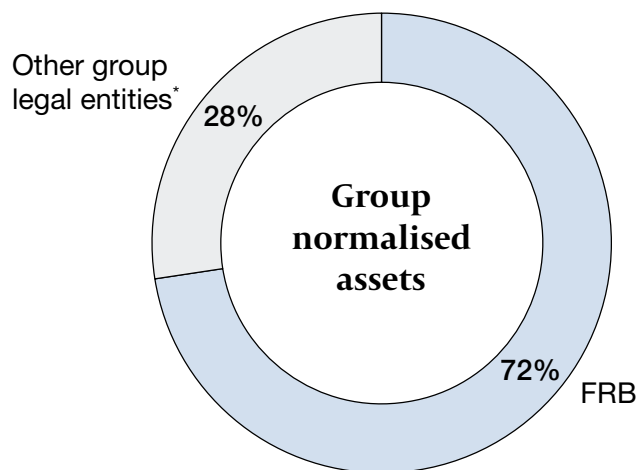
Insurance

FirstRand Investment  
Holdings (Pty) Ltd (FRIHL)

Other activities

\* Trading as FNB Channel Islands.

# FRB is a significant contributor to the group's financial position



\* Include FREMA, FRIHL, FirstRand Investment Management Holdings Ltd, FirstRand Insurance Holdings (Pty) Ltd and FRI, the holding company of Aldermore.

# SA banking business remains underpin to group's growth



## SOUTH AFRICA

Platform-enabled integrated financial services providing ecosystems that create long-term value for clients and shareholders

## BROADER AFRICA

Build competitive advantage and scale to deliver economic profit and dividends

## UK

London Branch supports RMB's broader Africa strategy

- Domestic banking operations are mature and systemically important
- Key growth imperatives are to grow franchises profitably and efficiently
- Discerning and tactical approach to lending – supporting customer franchises whilst protecting the balance sheet and return profile
- Disciplined allocation of financial resources

# The bank supports the group's broader Africa strategy



## **SOUTH AFRICA**

Platform-enabled integrated financial services providing ecosystems that create long-term value for clients and shareholders

## **BROADER AFRICA**

Build competitive advantage and scale to deliver economic profit and dividends

## **UK**

London Branch supports RMB's broader Africa strategy

- The bank's balance sheet is utilised in RMB's cross-border lending and trade finance activities into broader Africa
- Established hard currency platform in Mauritius for the group's broader Africa dollar exposures

# The bank supports the group's broader Africa strategy



## **SOUTH AFRICA**

Platform-enabled integrated financial services providing ecosystems that create long-term value for clients and shareholders

## **BROADER AFRICA**

Build competitive advantage and scale to deliver economic profit and dividends

## **UK**

London Branch supports RMB's broader Africa strategy

- FirstRand Bank London Branch – CIB strategy:
  - Supports broader Africa strategy by accessing sources of capital and liquidity in the DM to EM corridors
  - Cross-border funding and liquidity management
  - Structuring of investor risk solutions with an Africa focus



# Key performance metrics



Normalised earnings

**R24.7bn**

(2023: R24.8bn) ↔

Cost-to-income ratio

**55.2%**

(2023: 55.5%) ▼30 bps

Deposit franchise

**R1 076bn**

(2023: R990bn) ▲9%

CET1 ratio

**12.4%**

(2023: 12.6%) ▼20 bps

Return on equity

**22.6%**

(2023: 23.5%) ▼90 bps

Normalised net asset value

**R114.4bn**

(2023: R104.4bn) ▲10%

Credit loss ratio

**1.16%**

(2023: 0.87%) ▲29 bps

NPLs as a % of core  
lending advances

**4.58%**

(2023: 4.28%) ▲30 bps

Core lending advances

**R1 116bn**

(2023: R1 024bn) ▲9%



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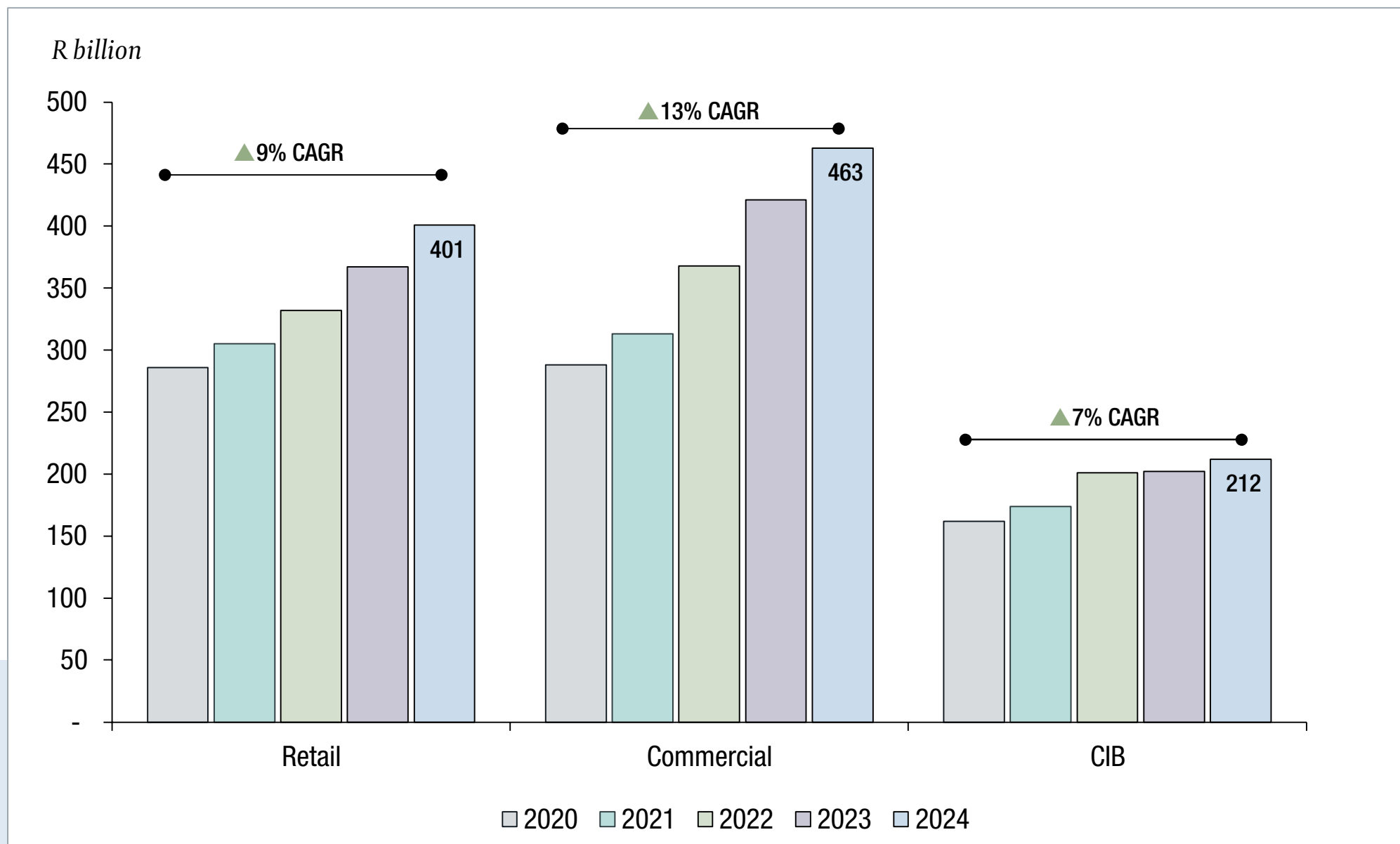
# FINANCIAL RESOURCE MANAGEMENT

# Strategic call: Post-pandemic credit thesis



- Recap:
  - Chose not to originate into post-pandemic rebound, waited for sustained recovery
  - Risk appetite normalised in December 2021, focused on lower-to-medium-risk
  - Objective: capture highest market share of good-quality credit
  - Protect customer franchise
- Thesis played out in line with overall expectations, with FRB's CLR at 116 bps within its updated TTC range of 100 – 130 bps, despite worse-than-expected macros
- Weaker retail experience reflects:
  - Unexpected level and tenor of interest rates
  - Systemic weakness in house prices, particularly in the year under review
  - Increase in debt review activity, which resulted in higher value of inflows
- Mitigated by credit experience in FNB commercial and WesBank

# Strategic call: To grow deposit franchise...

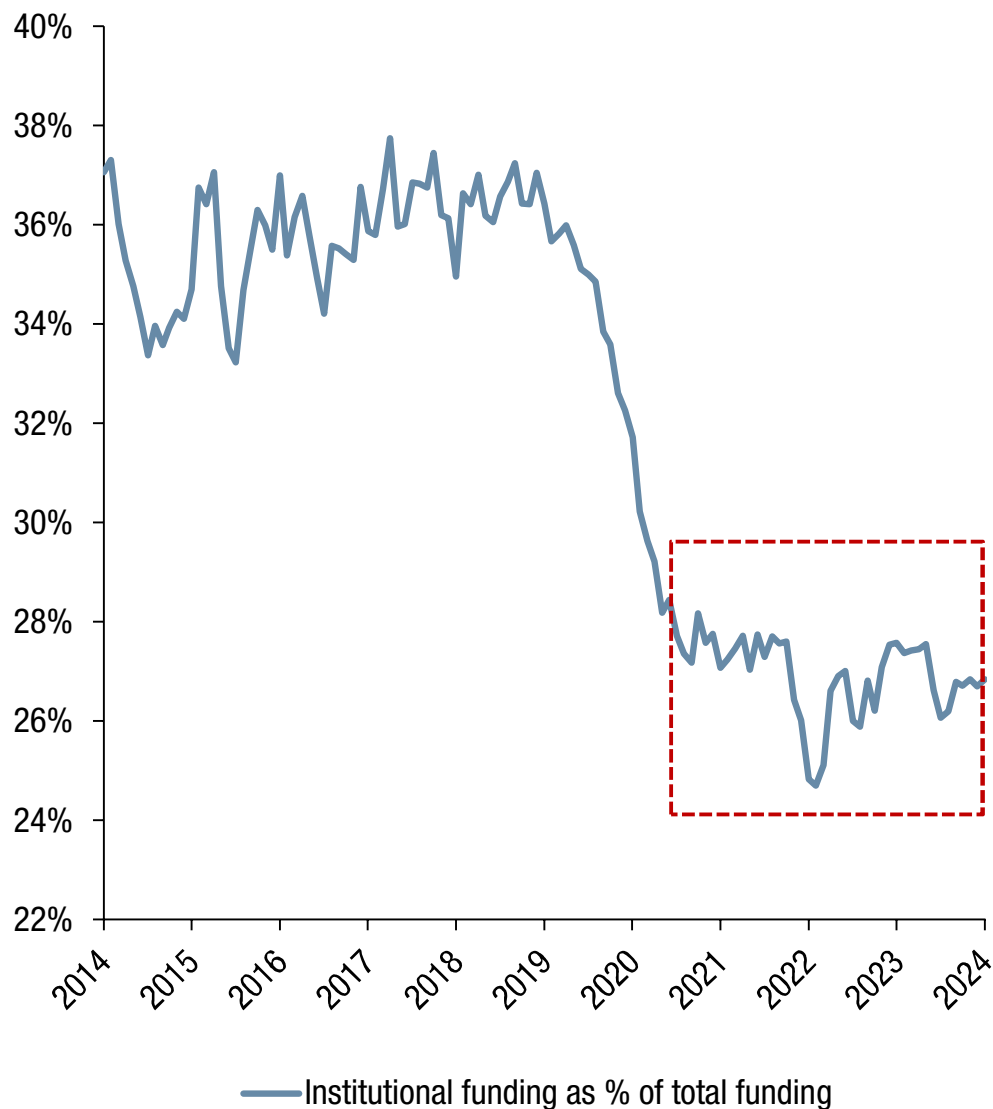


# ... which resulted in lower reliance on institutional funding composition compared to rest of SA banking sector

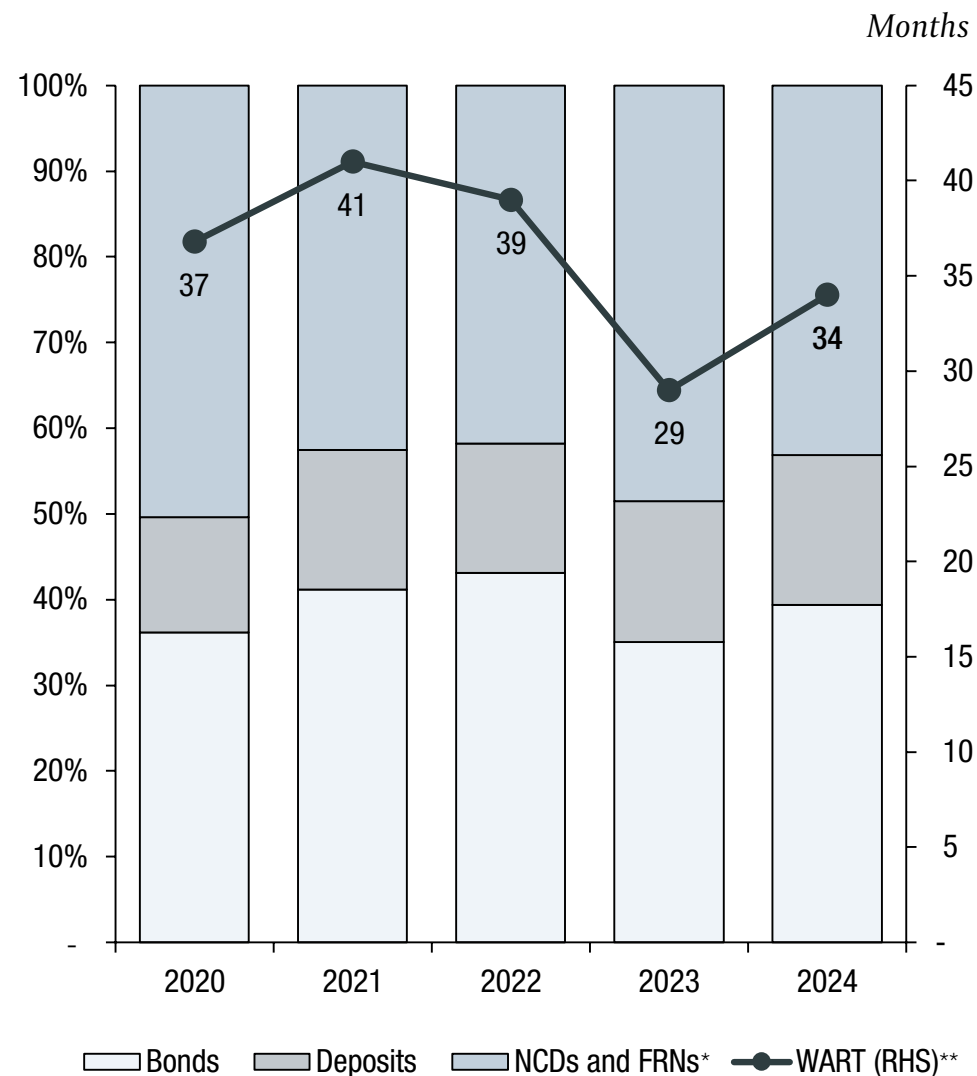


13

## Institutional funding as % of total funding



## Institutional funding mix and term profile



\* Negotiable certificates of deposit (NCDs) and floating-rate notes (FRNs).

\*\* Weighted average remaining term (WART) is for institutional funding in SA.

# FRB has maintained balance sheet strength



|                                    | ACTUAL                             | TREND   |
|------------------------------------|------------------------------------|---|
| Assets in marketable format        | <b>R474 billion</b>                | Marketable liquid assets grew marginally  |
| Liquid assets as % of total assets | <b>27.6%*</b>                      | Higher following increase in liquid assets  |
| LCR and NSFR                       | <b>LCR: 121%<br/>NSFR: 116%</b>    | The bank's liquidity position remains healthy, with prudential ratios well above regulatory minimums                        |
| Credit quality of assets           | <b>BB-/B+</b>                      | Stable  |
| Institutional funding term**       | <b>34 months</b>                   | Higher due to additional long-dated senior and capital issuance, and decrease in money market funding                       |
| Deposit franchise**                | <b>73% of core deposit funding</b> | Funding strategy favours client deposits, creating an improved liquidity risk profile coupled with deeper client engagement |
| Risk density#                      | <b>53.3%</b>                       | Higher given balance sheet mix  |
| CET1 ratio†                        | <b>12.4%</b>                       | Above internal target range   |
| Standalone bank credit rating      | <b>Highest in SA</b>               | Maintained  |
| Return on equity                   | <b>22.6%</b>                       | Improved  |

\* Reflects internal economic view.

\*\* For South African operations only.

# Total risk-weighted assets divided by total assets.

† Including foreign branches and unappropriated profits.



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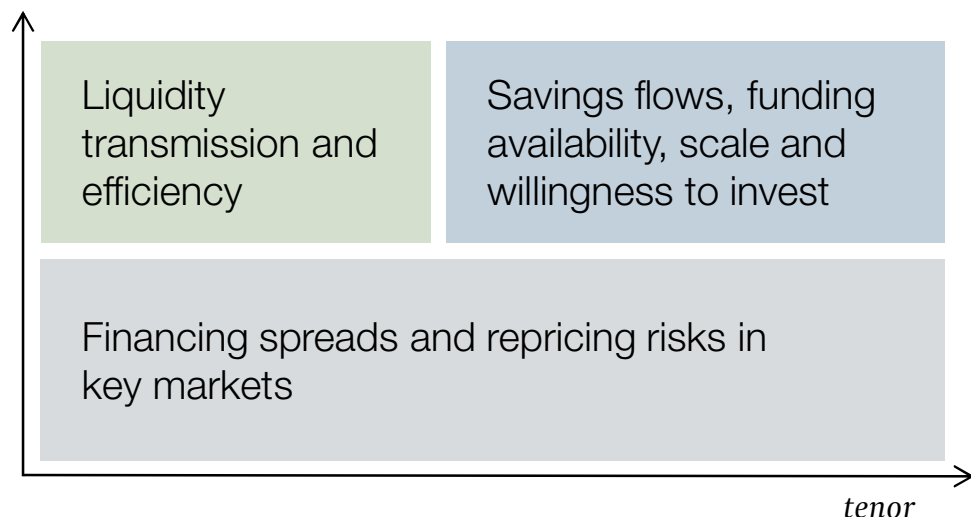
# FUNDING, LIQUIDITY AND CAPITAL

# Liquidity conditions

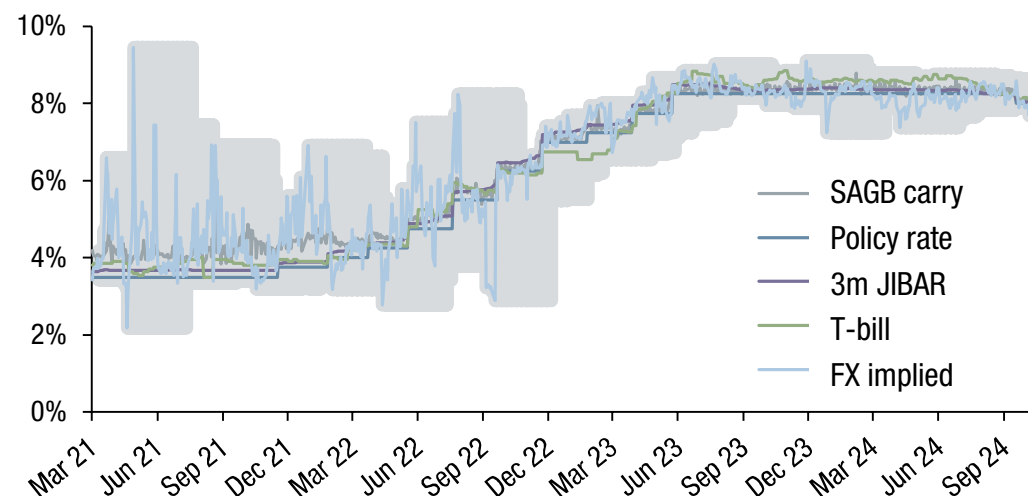


16

## Stylised view of liquidity transmission

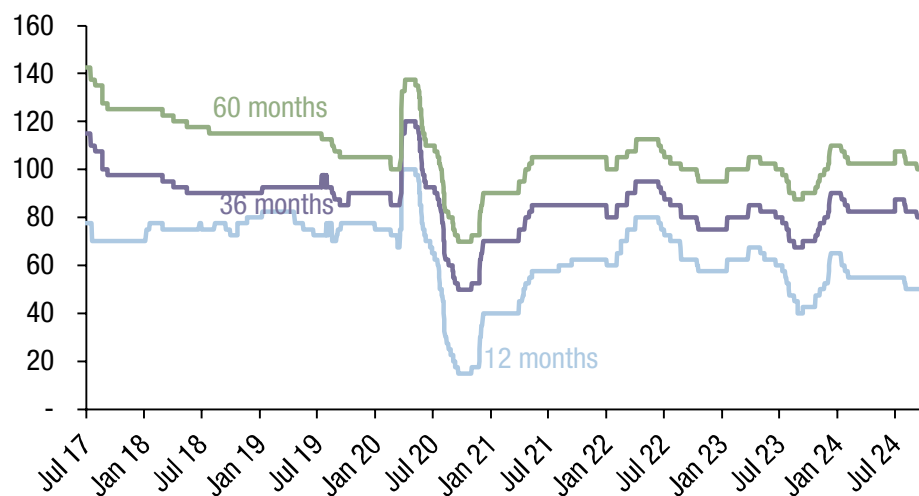


## Short-term rates



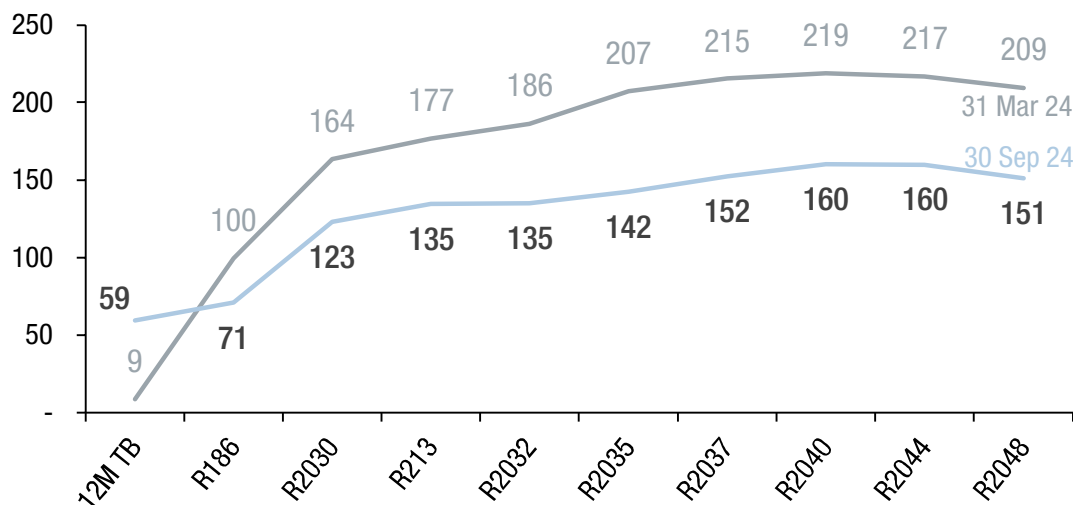
## FRB floating rate note spreads

Offer basis points



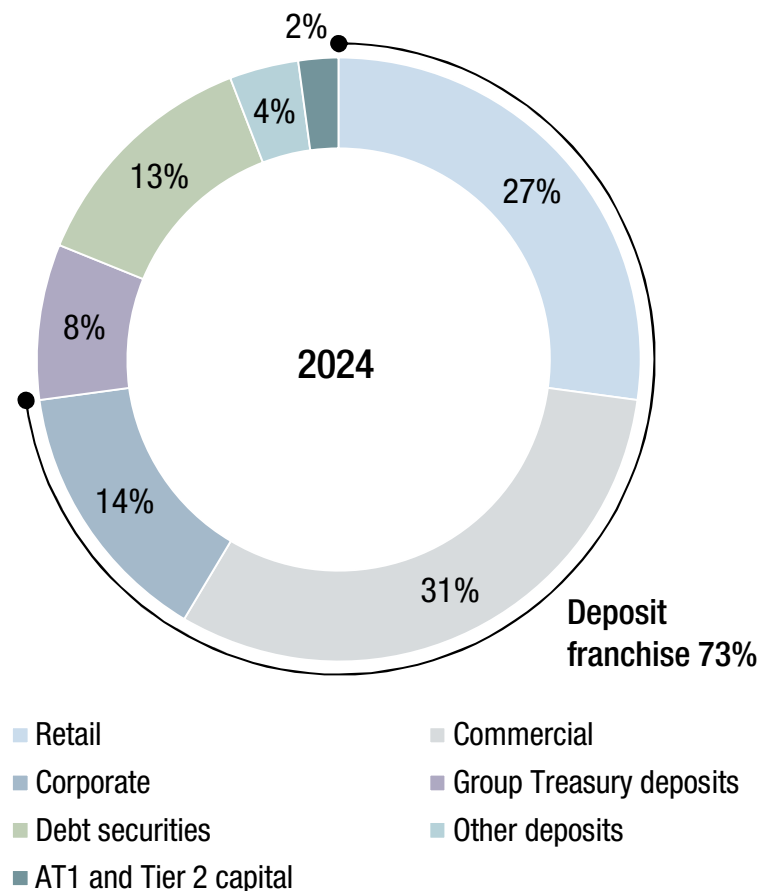
## SA bond asset swap spreads

Basis points



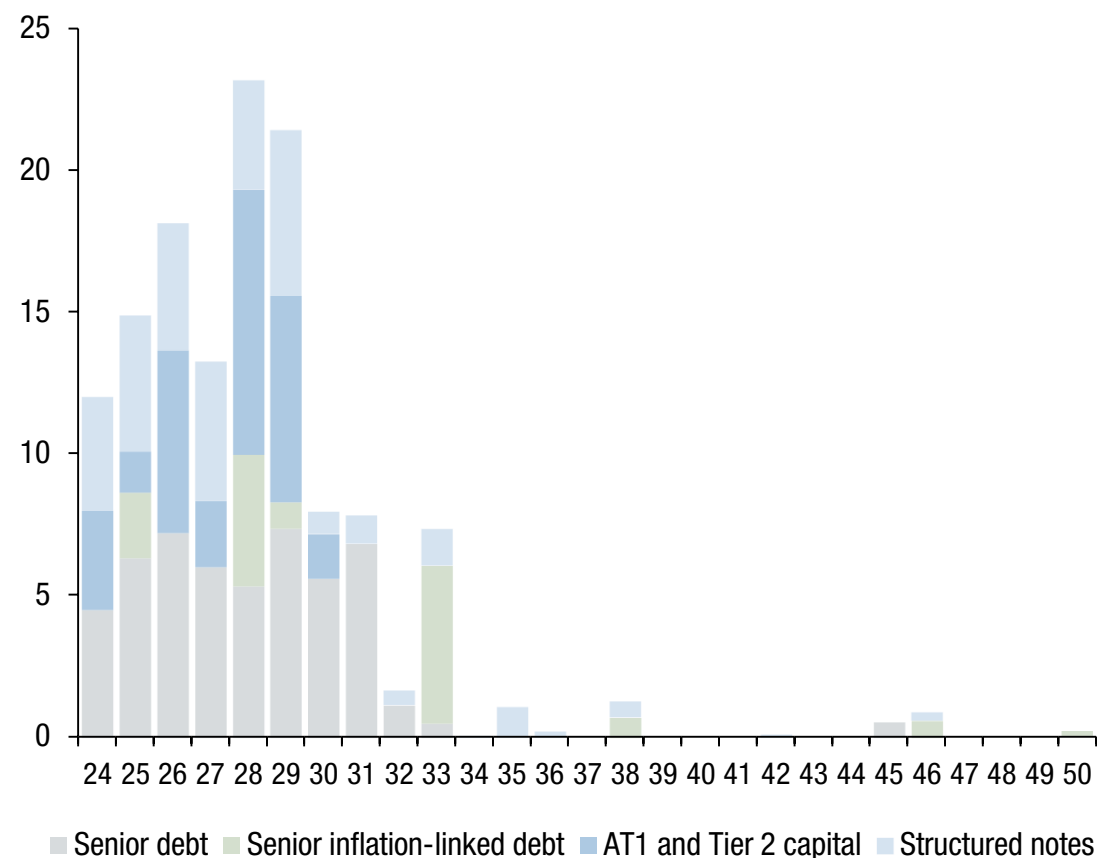


## FRB funding composition



## FRB maturity profile

*R billion*



- Diversified funding profile anchored in customer value propositions provides strong deposit franchise
- Managed debt profile limits refinancing risk
- Focus on thematic issuance (green, social, sustainable)

# FRB comfortably exceeds LCR and NSFR minimum requirements

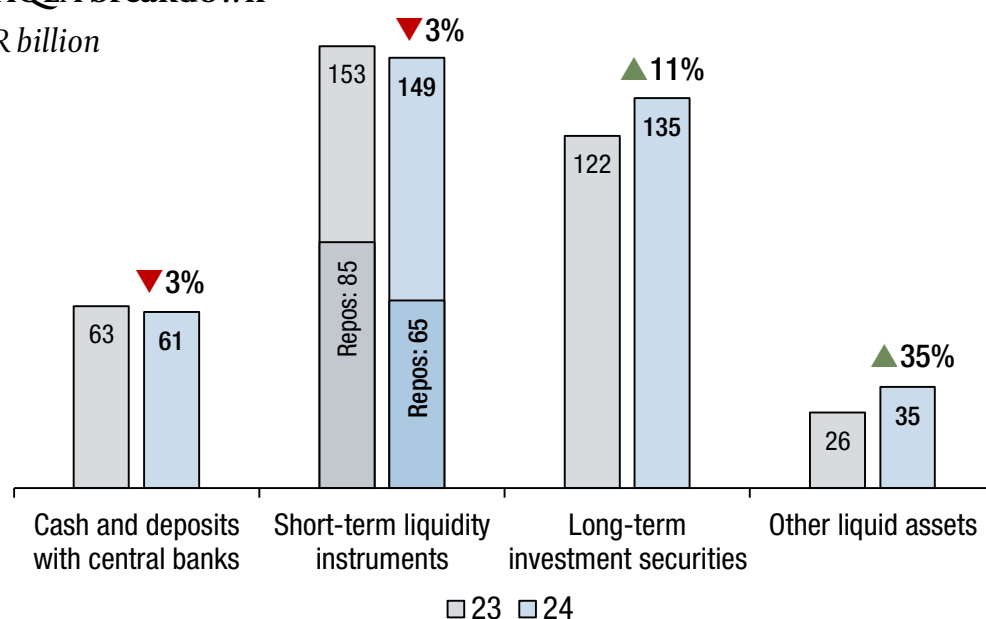


| %                                  | 2024 | 2023 |
|------------------------------------|------|------|
| <b>LCR</b>                         |      |      |
| Regulatory minimum                 | 100  | 100  |
| Actual                             | 121  | 129  |
| Average available HQLA (R billion) | 380  | 364  |
| <b>NSFR</b>                        |      |      |
| Regulatory minimum                 | 100  | 100  |
| Actual                             | 116  | 120  |

\* LCR and NSFR reflect South African operations only.

## HQLA breakdown

R billion



- The bank manages excess liquidity through deployment into cash, central bank deposits, treasury bills and government bonds
- The group utilises an IMF-based framework to assess and monitor sovereign risk by jurisdiction
- This framework informs the composition and duration of liquid asset holdings, varying between central bank deposits, treasury bills and bonds
- Central bank deposits form a larger proportion of the stack following the monetary policy implementation framework (MPIF) and introduction of deposit quotas at the policy rate
- Drawdowns of the gold and foreign exchange contingency reserve account (GFECRA) balances by National Treasury increased system liquidity, accommodated by larger quotas

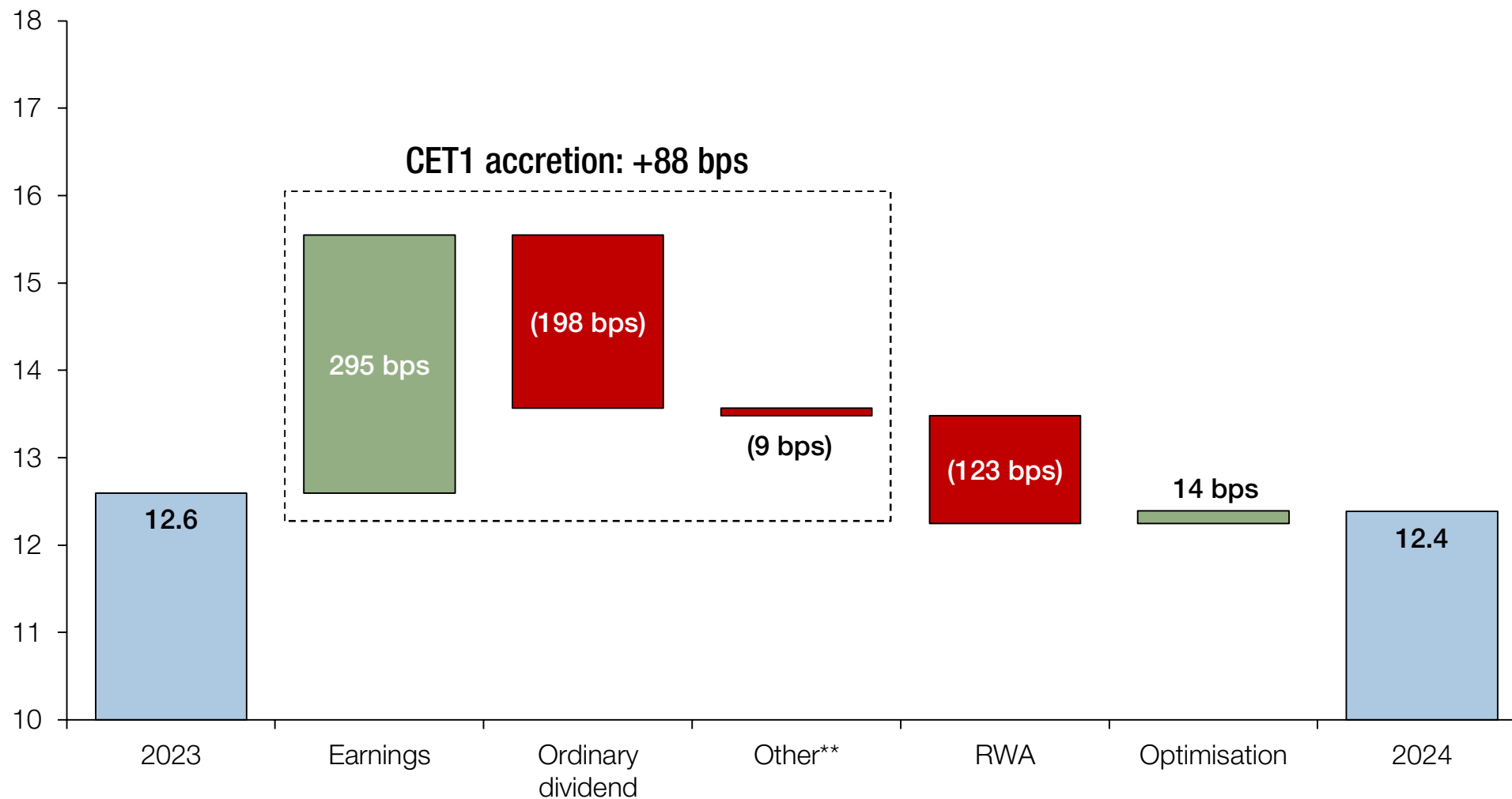
# Capital position remains solid



19

CET1 ratio\*

%



\* Includes unappropriated profits.

\*\* Includes FCTR, other reserves and regulatory deductions.



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# MACROECONOMIC THEMES

# Transmission of global and domestic macro themes into business



21

Global fracturing and reduced capital inflows

Structurally higher interest rates and inflation across the globe

Financial repression and sovereign debt sustainability risks across the globe

Risks in the execution of economic growth reforms

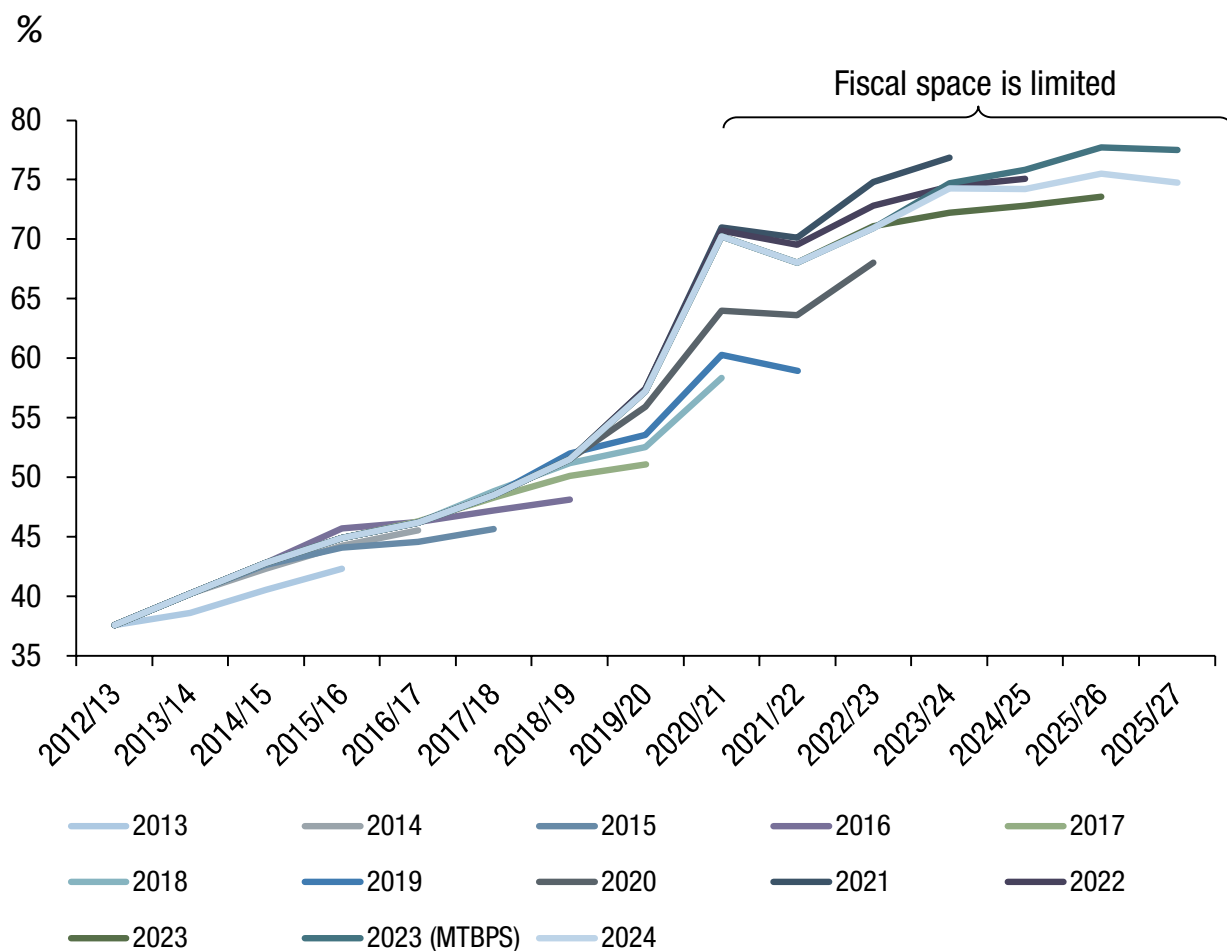
Increased demand for infrastructure-related funding

- Increase in sovereign risk premium and lower capital flows
- Widening bond spreads and increasing COE
- Increasingly difficult to access hard currency from traditional sources and more expensive
- Reduced demand for credit for consumptive purposes, changing demand for funding
- Changing savings allocation may direct institutional funding away from banks, leading to higher funding costs
- Developing investment strategies to manage through environment to protect balance sheet and preserve value
- Work on growth vectors, understanding value chains and emerging participants
- Infrastructure funding costs likely to rise as demand outpaces supply – funding requirement is immense, requiring alternative funding models

# Sovereign risk analysis considers different paths, likelihood and signals – improving trajectory



## Government debt to GDP forecasts and actual outcomes



- Government addressing limited fiscal space through combination of:
  - Spending restraint
  - Structural growth reforms
  - Drawdown of GFECRA balances
- Structurally weak GDP growth constraining the tax base
- Spending on consumptive activities is high
- Inefficiency of spending a concern
- Reforms to lift economic growth in **the most efficient manner** to deal with sovereign debt constraints
- Efficiency of infrastructure development important

*Debt sustainability needs to be actively managed with good policy paths*

# Structural reform progress is supporting a modest but steady lift in economic growth

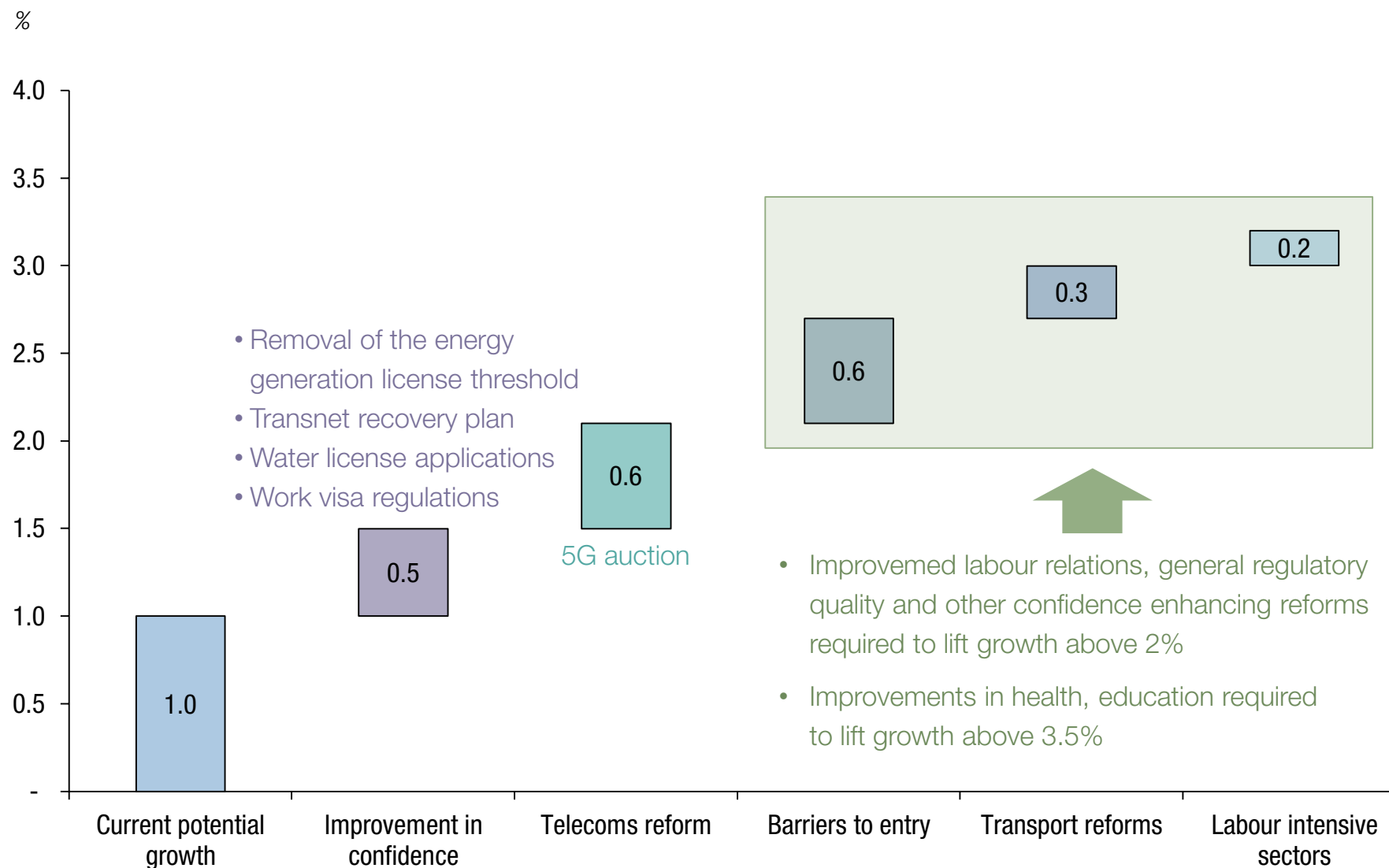


- Removal of the energy generation license threshold in Dec 22 paving the way for a new **energy market**
  - **130+** confirmed projects (**or 22 500 MW with a value of R390 billion**) excluding rooftop solar
- Auction of broadband spectrum allowed for the rollout of 5G networks
- Transnet recovery plan has seen an improvement of approximately 10 million tonnes on the rail network
  - Interventions at key port terminals resulted in a 73% reduction in vessels at anchorage since Nov 23
  - Security incidents on the northern corridor have reduced by over 60%
- 72% of water use license applications have been processed within a new 90-day target (from a baseline of >300 days), and the backlog of licence applications has largely been cleared
- Revised immigration regulations for making it easier to apply for a work visa were published in May 24
- SA has made progress in addressing the FATF's concerns and could be removed from the grey list by 2025

# Contribution of structural changes to potential real GDP growth



24







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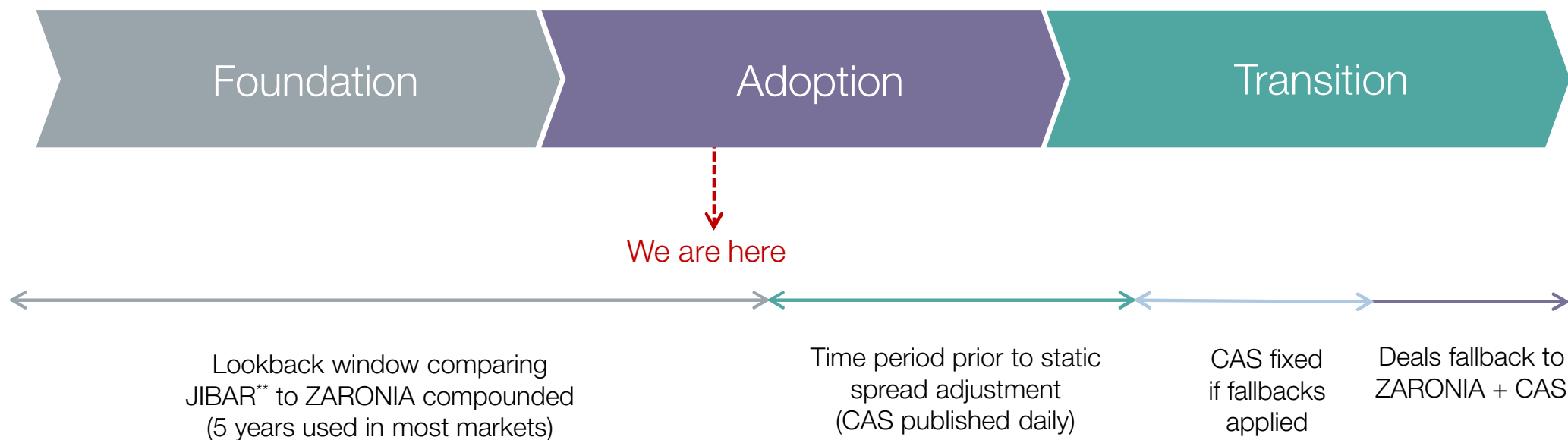
# **SOUTH AFRICAN FINANCIAL MARKET DEVELOPMENTS**

## Recent achievements

- London Clearing House (LCH) live with ZARONIA\* swap clearing (Jul 24)
- LCH test trades conducted (Sep 24)
- 'Dear CEO' letters have been circulated (Sep 24)
- Credit adjustment spread (CAS) methodology circulated for comment (Oct 24)

## Expected next steps

- Market Practitioners Group (MPG) fallback recommendation
- ZARONIA first derivatives
- ISDA fallback methodology formalisation
- Bond and money market readiness (expected May 25)



\* South African Overnight Index Average (ZARONIA).

\*\* Johannesburg Interbank Average Rate (JIBAR).

Source: <https://www.resbank.co.za/en/home/publications/publication-detail-pages/Financial-Markets/Committees/MPG/MPG-Related-pages/2024/update-on-the-jibar-transition-plan>.

## Final Basel reforms – proposed 1 July 2025:

- Revised approaches for credit risk
  - Standardised and internal-ratings based approaches, and credit valuation adjustment
- Revised approaches for operational and market risk
- Revised exposure definition for the leverage ratio

### Output floor:

|                 |       |
|-----------------|-------|
| 1 July 2025:    | 60%   |
| 1 January 2026: | 65%   |
| 1 January 2027: | 70%   |
| 1 January 2028: | 72.5% |

## Proposed cycle neutral countercyclical buffer for South Africa – proposed 1 January 2026

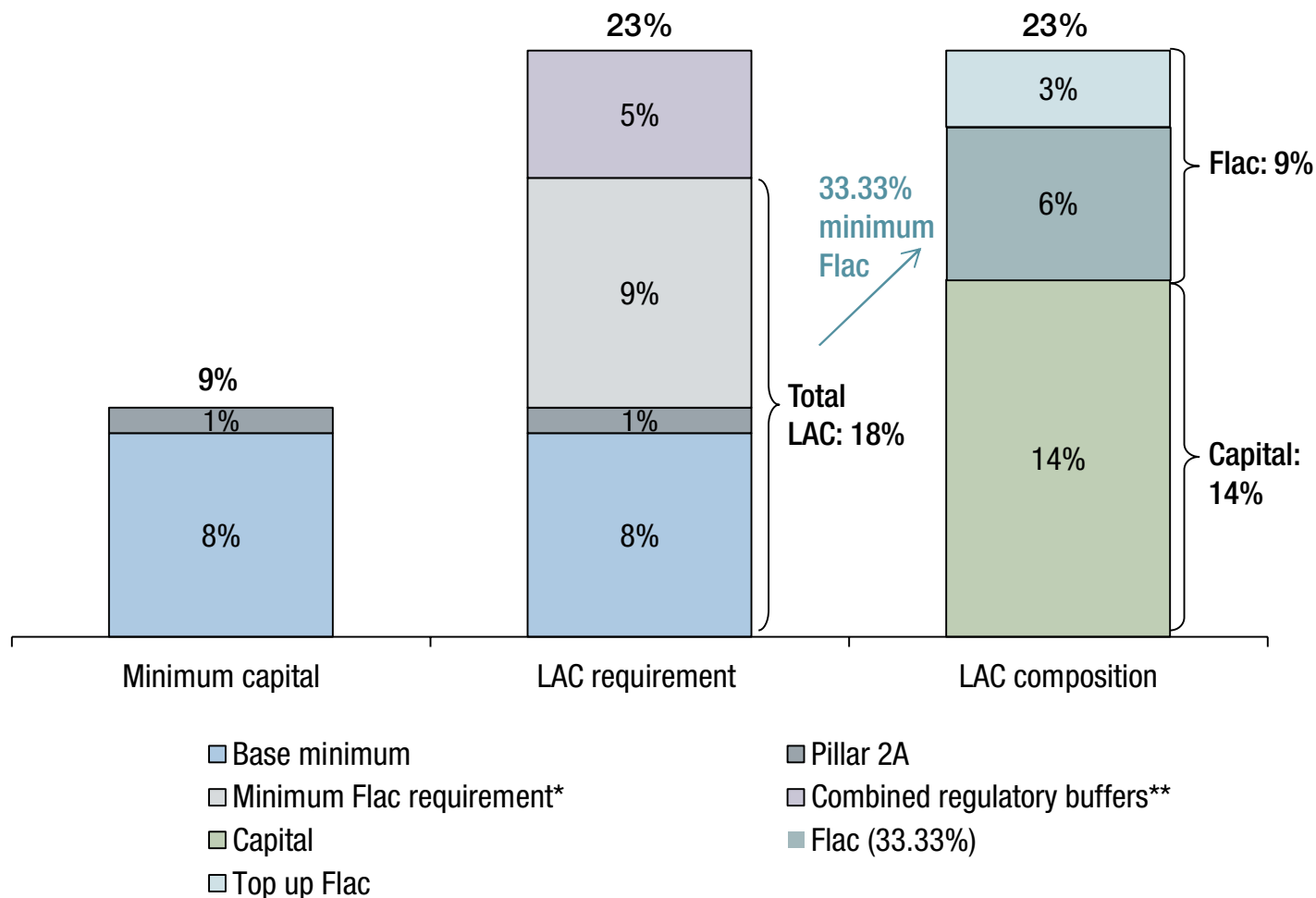
### Resolution framework:

- Depositor insurance – effective 1 April 2024
- Flac
  - Proposed implementation 1 January 2025 with a 4-year transition
  - New instrument class, ranking ahead of Tier 2 and behind unsecured
  - Applicable to domestic systemically important financial institutions with open resolution plans

# Total loss absorbing stack – capital and Flac to be managed holistically



For illustrative purposes, excludes bank-specific requirements and management buffer



- Flac requirement anchored to RWA
- Management buffer and Pillar 2B impacts institution-specific minimum Flac requirement (IMFR)
- Flac will impact overall capital planning
- Capital and Flac stack to be balanced optimally
- Intention to replace senior with Flac instruments

\* Includes the bMFR of 9%.

\*\* Assumes DSIB (1.5%), capital conservation buffer (2.5%) and proposed SA CCyB (1%).

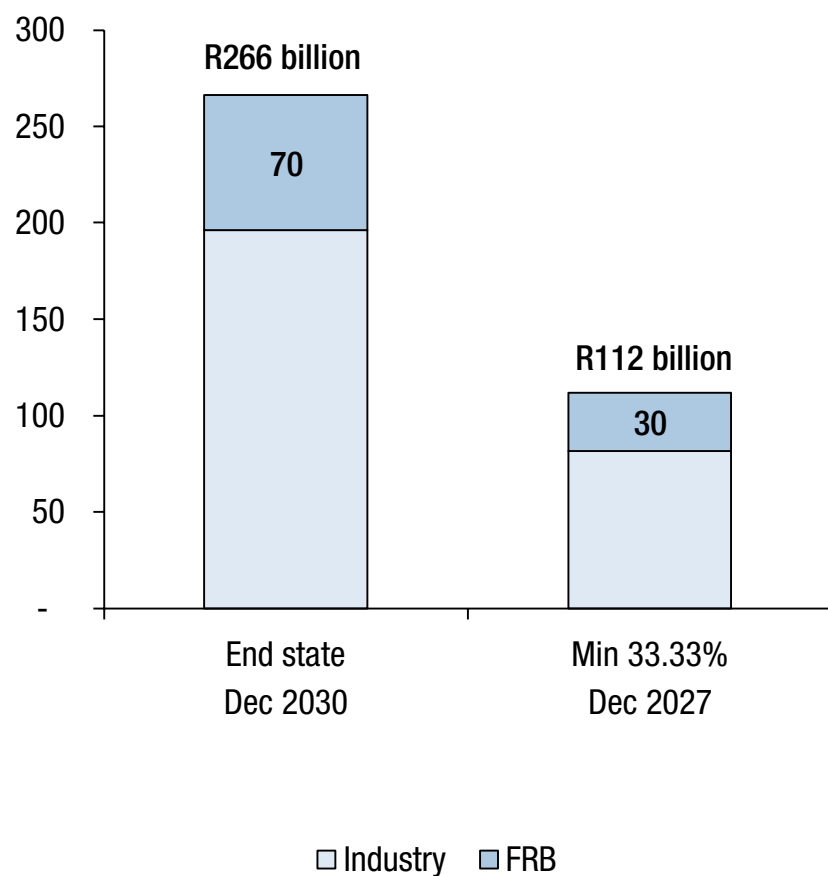
# Flac across the industry – reliance on resolution plans critical



29

## Estimated Flac issuance

R billion



- Flac issuance required for designated institutions subject to open resolution
- Issuance programme amendments to cater for Flac from issuance entity (holding company)
- Resolvability assessments required – resolution plans critical
- Moody's credit rating upgrades following revised bank methodology update and loss given failure analysis

# Exiting the FATF grey list will be a key marker for institutional and governance reform progress



## Final 6 items due by January 2025

- Proactively identify and take action against unlicensed cross-border money or value transfer services (MVTs)
- Demonstrate that all AML/CFT supervisors apply and monitor implementation of follow-up remedial actions and that effective, proportionate and dissuasive sanctions are being applied
- Apply remedial actions and/or dissuasive and proportionate sanctions for violations of the transparency obligations applicable to legal persons
- Demonstrate a sustained increase in investigations and prosecutions of serious and complex money laundering (ML), in particular involving professional ML networks/enablers and third-party ML in line with its risk profile
- Demonstrate a sustained increase in the effective identification, investigation and prosecution of the full range of terrorist financing (TF) activities, consistent with its TF risk profile
- Ensure that authorities have timely access to accurate and up-to-date beneficial ownership information and to apply sanctions if legal entities breach these obligations (carried over from September 2024)

*If these targets are met, the FATF will schedule an onsite visit in April/May 2025 to confirm compliance and potentially recommend removal from the grey list in June 2025*

### Sources:

- "FATF Grey Listing": South Africa's Progress in Addressing its Action Plan as at June 2024. South African National Treasury, June 2024.
- South Africa's Sprint to Exit FATF Grey List in 2025. Fitch Solutions..

- South Africa continues to make progress on key initiatives
  - Market functioning
  - Economic reforms
  - Growth reforms
  - Progress on fiscal discipline
  - Significant progress on FATF requirements
- Basel reforms pending finalisation and incorporated in planning
- Developing a holdco debt program as part of planning for Flac



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# ANNEXURES



|            | <b>SOUTH AFRICA<br/>SOVEREIGN RATINGS</b> | <b>FIRSTRAND BANK LIMITED<br/>CREDIT RATINGS*</b> |                                     |                                       |
|------------|---|---|-------------------------------------|---------------------------------------|
|            | <b>FOREIGN CURRENCY</b>                   | <b>LOCAL AND FOREIGN CURRENCY</b>                 |                                     |                                       |
|            | <i>Long term/<br/>outlook</i>             | <i>Long term/<br/>outlook</i>                     | <i>Long-term<br/>national scale</i> | <i>Standalone<br/>credit rating**</i> |
| S&P Global | BB-/Stable                                | BB-/Stable  | zaAA                                | bbb-                                  |
| Moody's    | Ba2/Stable                                | Baa3/Stable                                       | Aaa.za                              | ba2                                   |

\* Relates to the issuer credit rating for S&P, and bank deposits ratings for Moody's

\*\* S&P Global's standalone credit profile and Moody's baseline credit assessment.

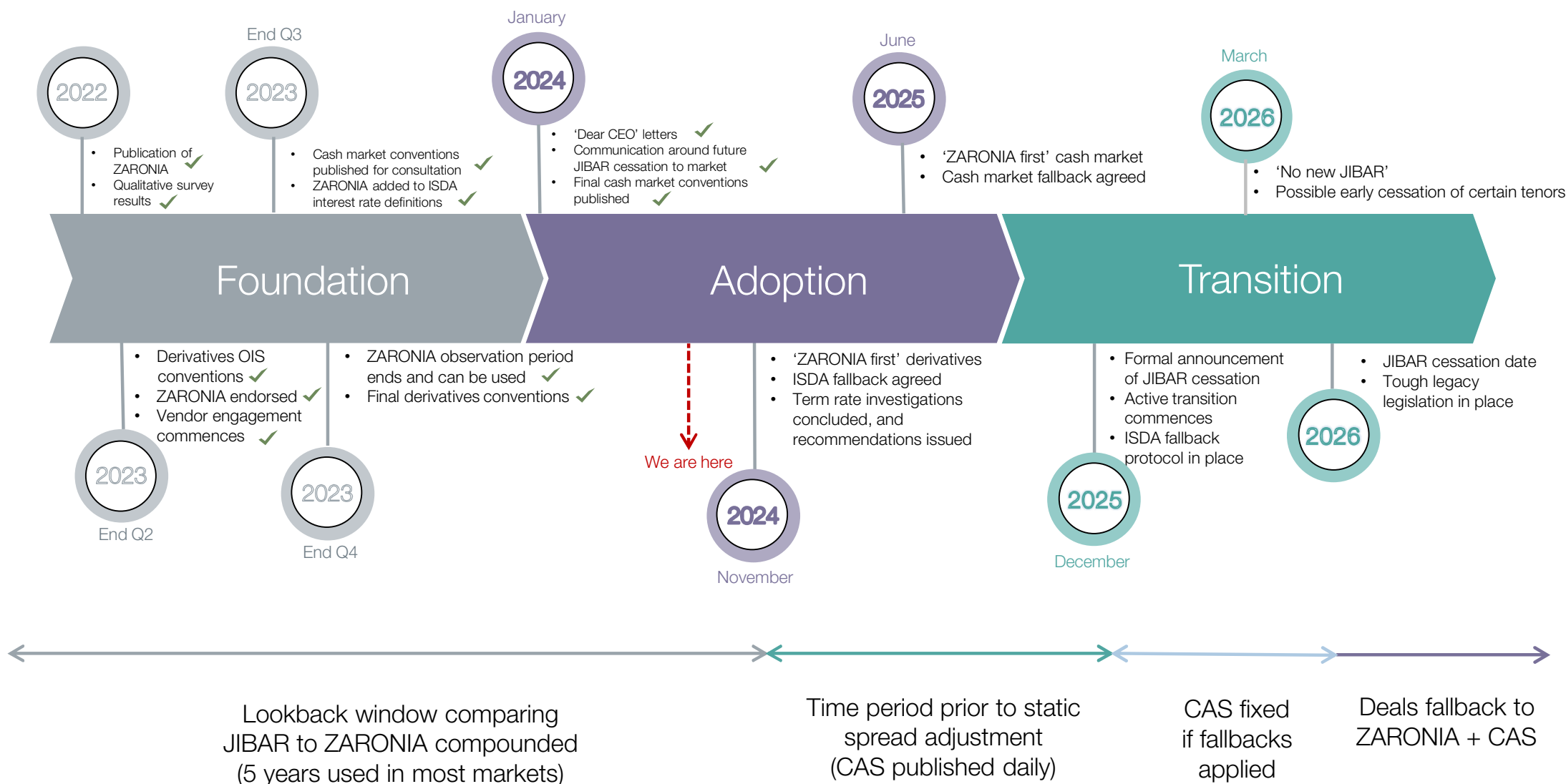
Credit ratings at 29 October 2024.

*Sovereign rating is a ceiling to standalone  
credit rating and credit profile*

# SARB market practitioners' group (MPG) timeline (published 6 May 2024)



34



# Summary of recommended ZARONIA conventions



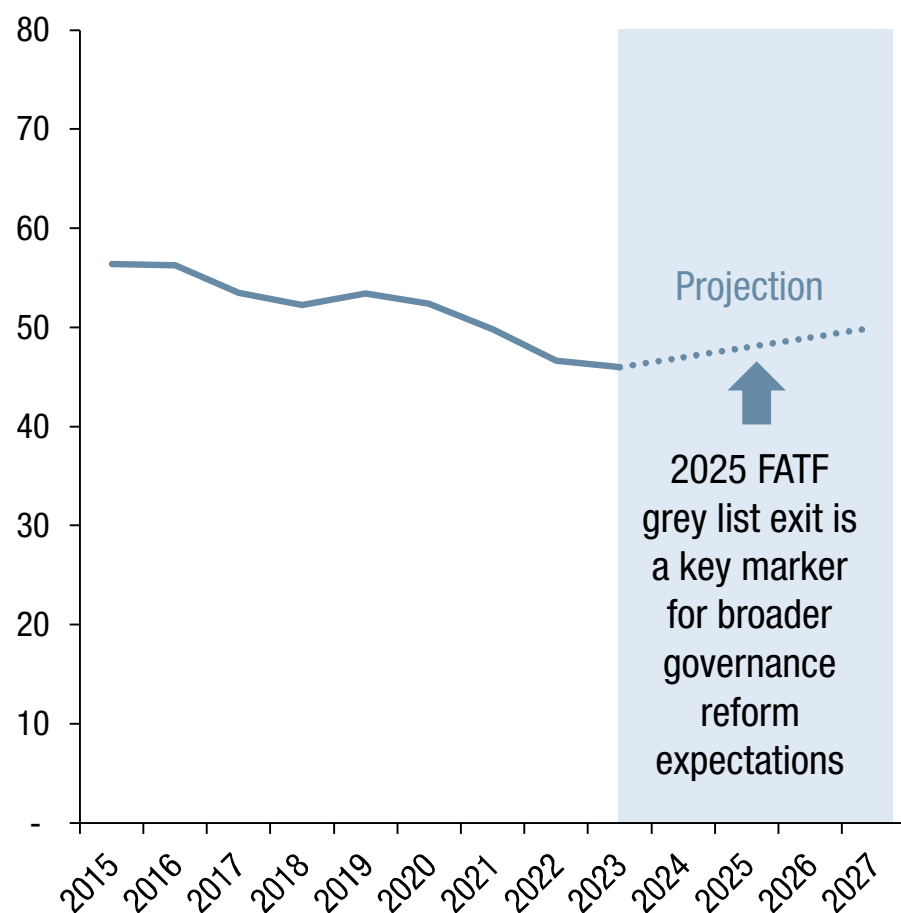
| Convention                          | Derivatives market                  | Bond market                         | Money market                        | Loan market                         | Market alignment |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|------------------|
| Calculation method                  | Daily overnight compounded          | Daily overnight compounded          | Daily overnight compounded          | Daily overnight compounded          | ✓                |
| Lookback                            | 0 business days                     | 5 business days                     | 1 business days                     | 5 business days                     | ✗                |
| Observation method                  | N/A                                 | Without observation shift           | Without observation shift           | Without observation shift           | ✓                |
| Expression and rounding of the rate | Simple act/365 rounded to 6dp       | Simple act/365 rounded to 6dp       | Simple act/365 rounded to 6dp       | Simple act/365 rounded to 6dp       | ✓                |
| Margin/spread                       | Simple added to the compounded rate | Simple added to the compounded rate | Simple added to the compounded rate | Simple added to the compounded rate | ✓                |
| Interest rounding                   | 2 decimal points                    | 2 decimal points                    | 2 decimal points                    | 2 decimal points                    | ✓                |
| Settlement lag                      | 2 business days                     | N/A                                 | N/A                                 | N/A                                 | ✗                |

# Exiting the FATF grey list will be a key marker for institutional and governance reform progress

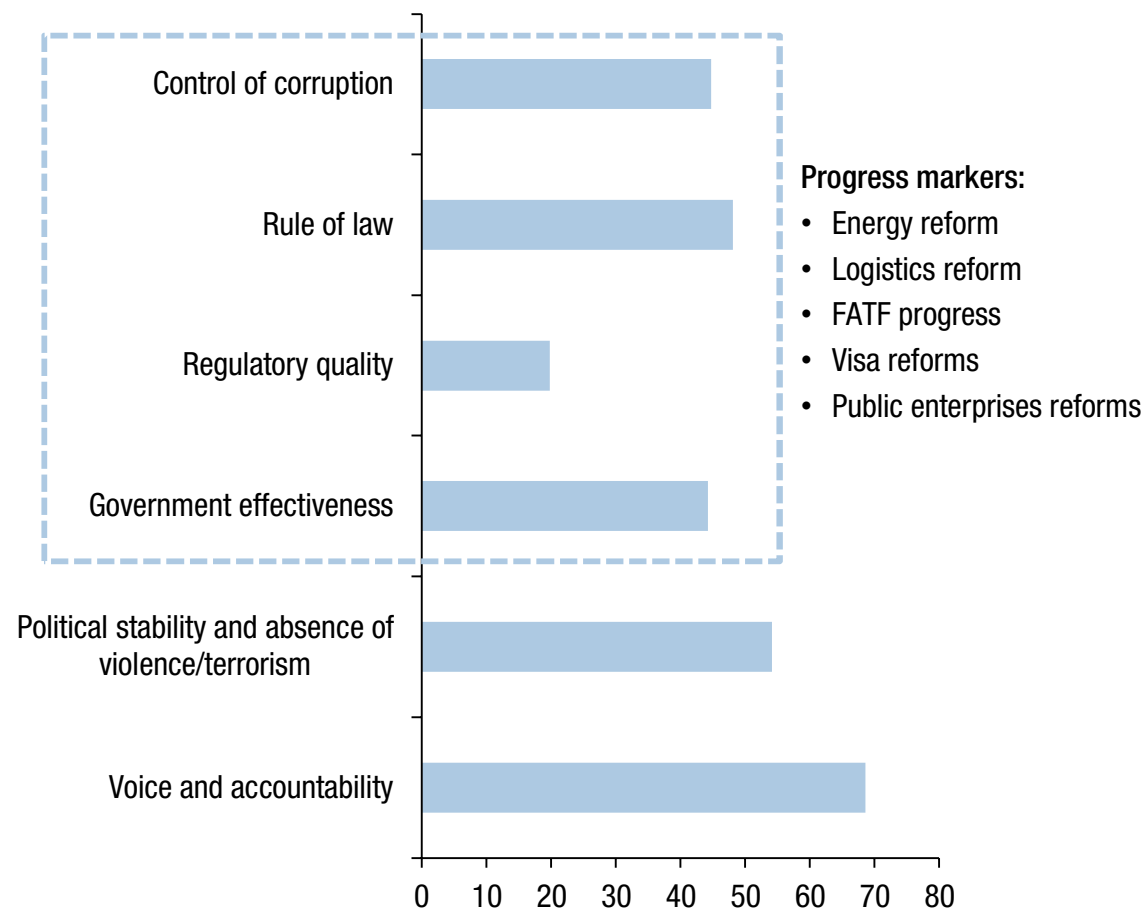


36

South Africa's World Bank worldwide governance indicator (percentile)



SA worldwide governance index components (percentile)



# GROUP OVERVIEW AND STRATEGY

# FirstRand's portfolio






38



**FirstRand**

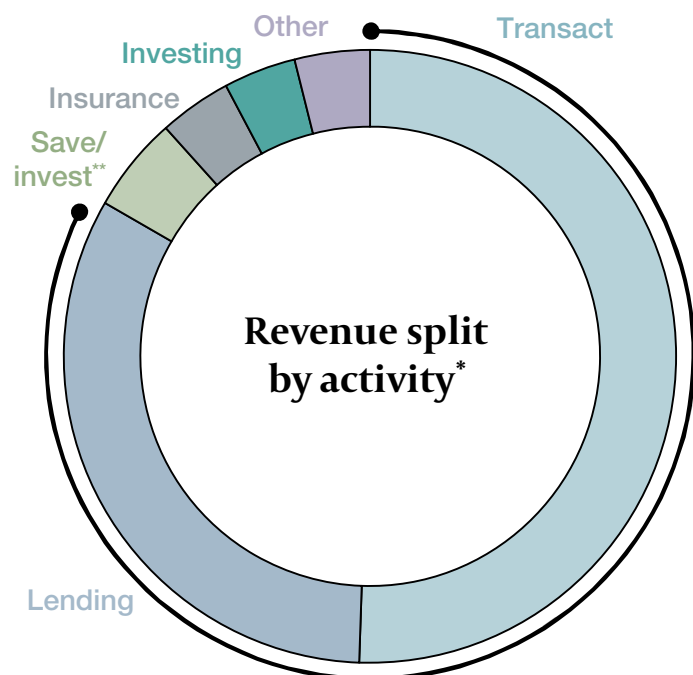
Listed holding company  
(FirstRand Limited, JSE: FSR)

|   |  |
|---|--|
|    | Retail and commercial banking, insurance and investments |
|    | Corporate and investment banking                         |
|    | Vehicle asset finance and fleet management               |
|    | UK specialist lender and savings bank                    |
|  | Asset management   |
|  | Group-wide functions                                     |

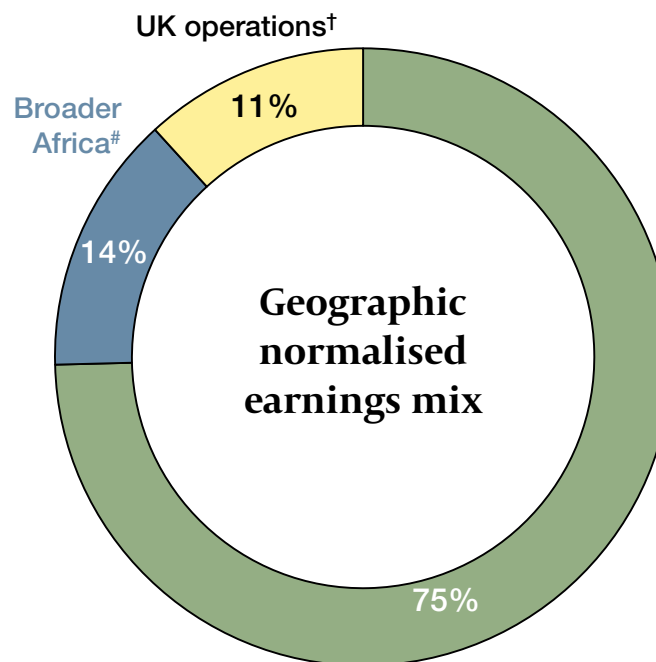
# Portfolio mix at 30 June 2024 – activity, geography and business



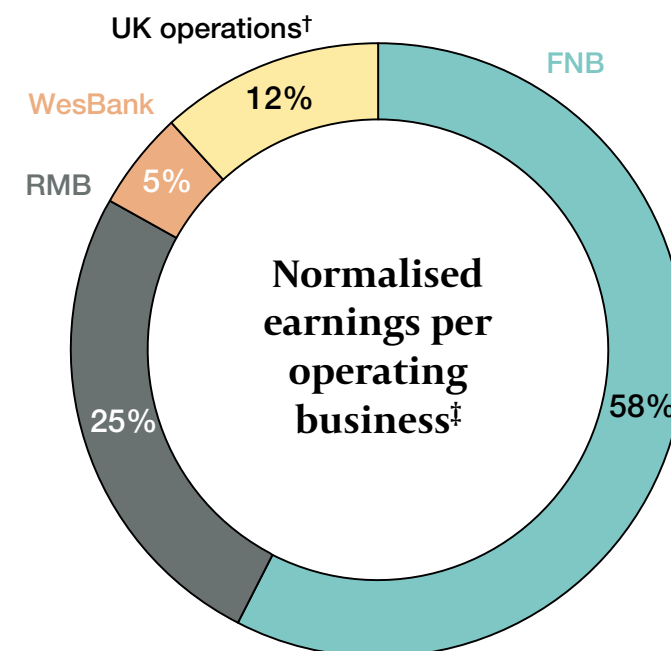
39



Transact and lend = 83%



South Africa and other



\* Based on gross revenue excluding consolidation adjustments, excluding Aldermore Group.

\*\* Includes deposit taking and investment management.

# Strategy view.

† Aldermore and total MotoNovo (i.e. front and back book).

‡ Excluding the Centre, FirstRand Limited company, consolidation adjustments and dividends on other equity instruments.

Charts above exclude the impact of the UK motor commission matter.

*FirstRand commits to building a future of SHARED PROSPERITY through enriching the lives of its customers, employees and the societies it serves. This is the foundation to a sustainable future and will preserve the group's enduring promise to create long-term value and superior returns for its shareholders.*

## DIVERSIFIED PORTFOLIO WITH UNIQUE STRATEGIES:

### **SOUTH AFRICA**

Platform-enabled integrated financial services providing ecosystems that create long-term value for clients and shareholders

### **BROADER AFRICA**

Build competitive advantage and scale to deliver economic profit and dividends

### **UK**

Modernise, digitise and scale to a more valuable UK business that delivers economic profit and dividends

**Enabled by digital platforms**

**Disciplined management of financial resources (capital, funding, liquidity and risk capacity) to deliver on financial commitments**

**Committed, accountable and empowered people key to delivering continued outperformance**



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