FirstRand

FIRSTRAND CONTINUES TO DELIVER GROWTH AND SUPERIOR RETURNS

Group's return on equity for the six months to December 2022 firmly back at the top of its target range

Johannesburg, 2 March 2023 – FirstRand Limited, the integrated financial services group, today announced results for the six months ended 31 December 2022.

Normalised earnings increased 15% to R18 billion, driven by a solid underlying operational performance characterised by continued momentum in new business origination in all of the large lending portfolios, excellent growth in deposits and a particularly strong showing by the group's transactional franchise (measured by customer growth and volumes).

This strong earnings print, supported by capital optimisation, resulted in a normalised return on equity (ROE) of 21.8%, which is at the top end of the target range of 18% to 22%. In addition, the group produced R6.2 billion of economic profit, FirstRand's key measure for shareholder value creation, which is now above pre-pandemic levels. Despite the record dividend payout for the year ended June 2022, the group saw net asset value (NAV) growth. The credit performance was better than anticipated, with almost all portfolios posting decreasing non-performing loans.

Commenting on the results FirstRand CEO, Alan Pullinger, said:

> *"FirstRand continues to deliver attractive growth and superior returns to shareholders. Particularly pleasing is the ROE of 21.8%, now firmly positioned at the top end of the group's stated range of 18% to 22%.*
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> *"These results reflect the strong operational performances from our customer-facing businesses, FNB, WesBank, RMB and Aldermore, and demonstrate the size and quality of FirstRand's transactional and deposit franchises, continued momentum in lending, and a better credit outcome than expected."*

FirstRand's performance, in particular the composition and quality of its earnings and high return profile, continues to directly correlate to the consistent and disciplined execution on strategies designed to maximise shareholder value. In addition, the strength of the customer-facing businesses in the FirstRand portfolio has allowed the group to capitalise on profitable growth opportunities across all markets, sectors and segments despite the challenging macroeconomic environment.

FirstRand remained discerning in pursuing advances growth, given competitive actions in the market and the higher interest rates, however, it's pleasing to note that the advances growth that started in the second half of the year to June 2022 continued. At the same time, the deposit franchise and transactional balances increased strongly, both of which have provided an underpin to the superior return profile.

Retail lending in secured products, such as residential mortgages and vehicle and asset finance, continues to be focused on low- to medium-risk customers. This mix of advances growth has resulted in some margin compression, but the group believes it continues to capture a higher share of low- and medium-risk business whilst satisfying the needs of customers.

In the commercial segment, lending focused on those sectors showing above-cycle growth, and which are expected to perform well even in a high inflationary and interest rate environment.

Growth in corporate advances was strong, with new business also leaning towards lower-volatility sectors and better-rated counterparties.

The retail, commercial and large corporate deposit franchises all registered excellent growth in deposits and this performance, combined with the advances growth, resulted in overall group net interest income (NII) increasing 13%.

Total group non-interest revenue (NIR) increased 11%, supported by 10% growth in fee and commission income, 5% growth in trading income and a 31% increase in insurance income. Investment income benefited from a large private equity realisation although this was partially offset by a R496 million impairment provision relating to the Ghana sovereign default, representing 57% of the group's Ghanaian bond exposures.

With regard to the performances of the group's customer facing businesses:

- FNB delivered normalised profit before tax (PBT) growth of 16%, and its ROE improved to 42.9%.
- WesBank's normalised PBT was up 4% and its ROE improved to 21.0%
- RMB delivered 25% growth in normalised PBT, and its ROE improved to 22.4%.
- Aldermore and MotoNovo in the UK delivered 11% growth in normalised PBT and an ROE of 12% (in sterling).

The group's portfolio of businesses in broader Africa grew normalised PBT 12%, a good performance underpinned by growth in customers, advances and deposits.

Commenting on prospects, Pullinger commented:

> *"Looking forward there are significant risks in the wider system.*
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> *"The FAFT greylisting is unfortunate but not unexpected and we believe it is manageable. The main headwinds are increased compliance and transaction costs, and perhaps lower capital flows to the country.*
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> *"National Treasury, the FSCA and SARB put in a concerted effort to avoid this outcome, but some of the necessary deliverables were not within their control. As a sector we will continue to work hard in partnership with them to get off the grey list as soon as possible.*
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> *"The geopolitical risk facing our country and the banking sector is much more worrying. In particular, our government's open support for Russia, which is increasingly being called out by our major trading partners. This could have extremely negative consequences for the country which benefits far more from trade with and investment from the USA, UK and Europe than from Russia.*
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> *"In addition, the South African banking sector, and this includes our central bank, crucially relies on access to the US dollar, global clearing and settlement, which is a privilege and can be revoked at any time. For all of these reasons, FirstRand does not share government's enthusiasm for Russia.*
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> *"Notwithstanding these risks to the country, we remain confident of our strategies. Our customer propositions are well received, our financial resources are solid and our balance sheet is well struck. Whilst the macroeconomic environments where we operate remain challenging, FirstRand will continue to deliver growth and superior returns to our shareholders, with the group's ROE expected to remain comfortably within the target range of 18% to 22%."*

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