FirstRand

FIRSTRAND CONTINUES TO DELIVER GROWTH AND SUPERIOR RETURNS

Johannesburg, 29 February 2024 – FirstRand Limited today announced results for the six months to 31 December 2023.

Normalised earnings increased 6% to R19.1 billion, driven by strong topline growth, particularly net interest income (NII), which was supported by growth in both advances and deposits. This performance, combined with ongoing capital generation during the period, allowed the group to declare an interim dividend of 200 cents per share, representing a generous payout of 59%.

Other group key highlights include:

- Economic profit of R5.5 billion
- Net asset value of R190 billion (up 14% period-on-period)
- Return of equity (ROE) at 20.6%
- The deposit franchise now totals R1.5 trillion (up 11% period-on-period)
- Advances now total R1.6 trillion (up 11% period-on-period)
- Cost-to-income ratio of 49.9% – down from 50.3% in the comparative period
- Credit loss ratio of 0.83%, which remains well below the mid point of the group's through-the-cycle (TTC) range.

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

> *"The shape of these results continues to demonstrate the positive outcomes of strategic calls made by the group.*
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> *"Once again, the pleasing credit performance stands out, with the credit loss ratio well below the midpoint of the group's through-the-cycle range. This is a commendable result given the prevailing inflation and interest rate cycle, and has enabled continued advances growth as the group services the needs of customers through judicious and tactical origination.*
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> *"The group saw further deposit franchise growth in the period, resulting from the focus on appropriate, competitive and convenient savings propositions for customers. Despite some cyclical pressures and base effects arising from the comparative period, the disciplined deployment of financial resources has ensured that the group's normalised ROE remains well placed in its stated range."*

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 FirstRand's portfolio has enabled the group to continue 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, and believes it is still capturing a higher share of quality risk business whilst satisfying the needs of customers.

Growth in certain retail advances portfolios has slowed given customer affordability pressures but, on a period-on-period basis, still delivered healthy increases, with retail advances up 7% at FNB and 11% at WesBank.

Advances growth from FNB's commercial segment (+10%), RMB (+14%) and FNB broader Africa (+9%), reflect a consistent origination strategy to focus on sectors showing above-cycle growth and which are expected to perform well even in an inflationary and high interest rate environment.

The 4% decline in UK operations' advances (in pound terms) reflects the challenging inflationary and interest rate environment, despite resilient new business production from specialist buy-to-let. In rand terms, UK operations' advances increased 11% period-on-period due to the weakening of the rand.

Across the portfolio, deposits and transactional balances increased strongly, both of which have provided an underpin to the return profile. The retail and commercial segments of FNB in particular registered excellent growth in deposits off an already high base.

Overall, the group's origination strategies, combined with its focus on growing deposits, have resulted in a well-struck balance sheet. This is a direct outcome of the group's financial resource management strategy and demonstrates the group's growth vs returns thesis.

Total group NIR (+4%) reflects a number of one-off positive and negative movements period-on-period. At a business unit level, FNB's total NIR increased 5%, driven by customer acquisition (+5%), and good growth in activity levels and transactional volumes across all channels.

The relatively muted growth in FNB's fee and commission income in the period under review was due to sub-inflation fee increases across both retail and commercial accounts. In addition, with the introduction of PayShap, FNB reviewed its pricing structures for low-value real-time payments and took the decision to reduce all related fees and absorb the entire impact of the repricing in one financial year (to 30 June 2024). The resultant 30% increase in real-time payment volumes that FNB has already experienced since the repricing action demonstrates this is the correct outcome for customers. In the period under review, the above actions resulted in a R477 million reduction in customer fees.

Some mitigation to this reduction resulted from FNB's insurance activities, which continued to contribute to NIR diversification and growth, with increases in new business annual premium equivalent (APE) of 8% in life and 16% in short-term.

RMB's total NIR growth (+9%) was achieved despite a mixed performance from its markets business and the non-repeat of a large private equity realisation in the previous period. There was, however, good growth in private equity annuity income (+15%) and knowledge-based fee income grew strongly (+25%).

The group's credit performance continued to play out better than expected, with the credit loss ratio well below the mid point of the TTC range of 80 bps – 110 bps.

This performance reflects the benefit of the group's approach to origination, particularly post the pandemic when new business was weighted towards the low- and medium-risk categories, and was achieved despite the current pressures from high inflation and interest rates.

Total group operating expenses were 9% higher and in line with expectations. FNB grew costs below inflation which was an excellent outcome. This was, however, offset by a significant increase in costs from RMB (+13%) due to elevated investment in platform and geographic expansion. The UK operations' ongoing investment in systems and people contributed to cost growth of 11%. Overall, the cost-to-income ratio decreased to 49.9%, given the strong topline growth in the period.

Commenting on second half prospects, Pullinger said that the group expects the macroeconomic environment in the jurisdictions where it operates to remain largely unchanged, characterised by high interest rates and persistent elevated inflation.

> *"Given this backdrop, the group anticipates softer overall advances growth and, given the current high base, deposit growth will slow as households draw down on savings, although commercial deposit gathering is expected to remain resilient.*
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> *"Although the impact of fee reductions will continue in the second half, NIR will benefit from stronger growth in fee and commission income, supported by ongoing customer growth and activity. The first two months of the second half are already performing better than the comparative period.*
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> *"The credit performance will be similar to the first half, but cost growth will trend lower."*

Pullinger concluded by indicating that the group expects to generate earnings in the second half similar to the first half.

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