FirstRand

FIRSTRAND CONTINUES TO DELIVER GROWTH AND SUPERIOR RETURNS

Johannesburg, 12 September 2024 – FirstRand Limited today announced results for the year to 30 June 2024.

FirstRand delivered a strong operational performance, which was particularly evident in the second six months of the financial year. This performance allowed the group to absorb an accounting provision raised for the FCA's motor commission review underway in the UK motor finance sector.

Commenting on the results FirstRand CEO Mary Vilakazi commented:

"Despite a tough operating environment, a standout feature of these results is the operational outperformance delivered by FirstRand's portfolio in the second half of the year.

"This allowed the group to absorb a R3.0 billion accounting provision raised for the UK motor commission review, and still produce robust growth in normalised earnings of 4% and an ROE of 20.1%, which is well within its target range.

"Excluding this provision, normalised earnings grew 10% and the ROE of 21.3% moved to the top of the stated range. This is testament to the quality of the group's operating franchises, FNB, RMB, WesBank and Aldermore, and its disciplined approach to allocating financial resources to deliver superior shareholder value.

"Pleasingly the group's high ROE and ongoing capital generation provided the capacity to grow its dividend 8%, which is significantly higher than earnings growth."

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 year-on-year basis, still delivered healthy increases, with retail advances up 6% at both FNB and WesBank.

Advances growth from FNB's commercial segment (+12%), RMB (+11%) and FNB broader Africa (+7%), 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. FNB also grew advances to SME's 18% and is now the largest lender to SMEs in South Africa.

The muted growth of 1% in UK operations' advances (in pound terms) reflects the challenging inflationary and interest rate environment, despite resilient new business production from the property portfolio which grew faster than competitors.

Across the portfolio, deposits and transactional balances increased strongly, both of which have provided an underpin to the return profile. FNB remains the largest custodian of retail and commercial deposits in the country.

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 (+6%) 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 growth (+5%), and healthy growth in activity levels and transactional volumes across all channels.

The relatively muted growth in FNB's fee and commission income 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. This resulted in nearly R1 billion in fee reductions. The resultant 34% increase in real-time payment volumes that FNB has already experienced since the repricing action demonstrates this is the correct outcome for customers.

Some mitigation to this reduction resulted from FNB's insurance activities, which continued to contribute to NIR diversification and growth, with growth in pretax profits of 13%.

RMB's delivered excellent growth in NIR (+16%) this was mainly driven by good growth in private equity annuity income and further realisations. Knowledge-based fee income also grew strongly (+44%).

The group's credit performance continued to play out better than expected. The credit loss ratio at 81 bps is still below the midpoint of the through the cycle (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 tightly managed in particular at FNB where costs only increased 1% which is an excellent outcome. This was, however, offset by ongoing elevated investment spend at RMB as it continues to build out its digital offerings and geographic expansion.

Commenting on prospects Ms Vilakazi said that the group expects the macroeconomic environment in the jurisdictions where it operates to remain challenging in the year ahead.

"Whilst absolute advances growth from the South African franchises is expected to exceed the year under review, this growth will continue to be tilted too commercial and corporate. Retail advances growth will remain muted until households begin to feel the benefits of lower inflation and lower rates. The UK is expected to deliver advances growth slightly higher than the second half of the year under review. All of the above, will result in weaker NII growth.

However NIR growth is likely to be significantly stronger as fee and commission income will bounce back from fee reductions. There are some potential private equity realisation opportunities, and insurance income is expected to continue to contribute strongly.

The group's credit loss ratio will trend up but is expected to remain below the midpoint of its TTC range.

In SA the retail books will continue to experience strain until the lower rate cycle is felt by households."

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