FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa)
Registration number: 1966/010753/06
JSE ordinary share code: FSR; ISIN code: ZAE000066304
NSX ordinary share code: FST
LEI: 529900XYOP8CUZU7R671
(FirstRand or the group)

# UNAUDITED INTERIM RESULTS AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

"The shape of these results continues to demonstrate the positive outcomes of strategic calls made by the group.

Once again, the pleasing credit performance stands out, with the credit loss ratio well below the mid point of the group's through-the-cycle (TTC) 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.

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 return on equity (ROE) remains well placed in its stated range."

ALAN PULLINGER
CEO

## FINANCIAL HIGHLIGHTS

| R million | Six months ended 31 December 2023 | 2022 | % change |
|---|---|---|---|
| Basic and diluted normalised earnings per share (cents)* | 340.4 | 320.7 | 6 |
| Normalised earnings* | 19 097 | 17 988 | 6 |
| Headline earnings* | 19 135 | 18 032 | 6 |
| Normalised net asset value per share (cents)* | 3 387.4 | 2 978.5 | 14 |
| Ordinary dividend per share (cents) | 200 | 189 | 6 |
| Normalised ROE (%)* | 20.6 | 21.6 | |
| Basic and diluted headline earnings per share (cents)* | 341.4 | 321.7 | 6 |
| Basic and diluted earnings per share (cents) - IFRS* | 348.1 | 319.7 | 9 |
| Net asset value per share (cents) - IFRS* | 3 384.4 | 2 977.6 | 14 |
| Advances (net of credit impairment) | 1 601 558 | 1 447 667 | 11 |
| Deposits | 1 978 278 | 1 793 318 | 10 |
| Credit loss ratio (%) | 0.83 | 0.74 | |

* December 2022 figures were restated for the impact of IFRS 17. Refer to pages 213 to 222 of the online version of the results booklet for more detail.

## FINANCIAL PERFORMANCE

The 6% increase in the group's normalised earnings was driven by good topline growth, particularly net interest income (NII), which benefited from continued momentum in new business origination, ongoing excellent growth from the deposit franchise and the endowment benefit from the current rate cycle. The period-on-period growth in non-interest revenue (NIR) of 4% reflects the base created by a significant private equity realisation in the comparative period, fee reductions in the retail and commercial segments in the period under review, and a loss in the period under review (compared to a gain in the prior period) from the partial unwind of the UK operations' interest rate risk hedge. The underlying performances from the group's retail, commercial and corporate transactional franchises (measured by customer growth and volumes) remained strong.

The relative size and quality of its transactional franchise allows the group to achieve high levels of capital-light earnings growth, translating into superior returns for shareholders. At the same time, FirstRand continues to employ a judicious and tactical approach to lending, supporting its customer franchises whilst protecting the balance sheet and return profile. This remains a necessary balancing act given the operating environment, which is still characterised by high inflation and interest rates, combined with sluggish system growth and increased competition.

The overall credit performance continues to trend better than FirstRand's initial TTC expectations, and is a direct outcome of the group's origination approach. This has resulted in a credit charge for the period under review well below the mid point of the group's TTC range.

FirstRand delivered a normalised ROE of 20.6%, which is well placed in its target range of 18% to 22%. The 100 bps movement in the ROE compared to December 2022 (21.6%) was predominantly due to the 9 bps reduction in return on assets (ROA). This resulted from cyclically high retail credit impairments, the aforementioned partial unwind of the UK interest rate risk hedge due to the recent volatility in UK interest rates, and the high base from a private equity realisation in the prior period. Including the benefit from foreign currency movements in the capital deployed in the UK, ongoing capital generation also had a marginal impact.

The group produced R5.5 billion of economic profit or net income after cost of capital (NIACC), which is its key performance measure (December 2022: R6.1 billion). The reduction period-on-period was a result of a 40 bps increase in the cost of equity and the reduction in ROE. Total net asset value (NAV) increased 14%.

Given the high return profile, the group remained capital generative, with the Common Equity Tier 1 (CET1) ratio at 13.3% (December 2022: 13.2%). Taking into account this strong capital level, the board is comfortable to keep the dividend cover unchanged at 1.7 times. This translates into an interim dividend of 200 cents per share, an increase of 6%.

The following table provides an overview of the group's performance.

FIRSTRAND GROUP FINANCIAL HIGHLIGHTS

| | Six months ended 31 December | | | Year ended 30 June |
|---|---|---|---|---|
| R million | 2023 | 2022 | % change | 2023 |
| NII | 42 771 | 37 681 | 14 | 78 615 |
| NIR* | 26 577 | 25 534 | 4 | 52 393 |
| Operating expenses | (34 616) | (31 782) | 9 | (67 320) |
| Impairment charge | (6 404) | (5 008) | 28 | (10 949) |
| Normalised earnings | 19 097 | 17 988 | 6 | 36 634 |
| NIACC | 5 492 | 6 135 | (10) | 11 904 |
| ROE (%) | 20.6 | 21.6 | | 21.1 |
| Gross written insurance premium on group licences | 3 653 | 3 121 | 17 | 6 507 |
| Deposit franchise | 1 510 279 | 1 354 658 | 11 | 1 442 610 |
| Core lending advances | 1 562 752 | 1 410 711 | 11 | 1 511 037 |
| Credit loss ratio (%) - core lending advances | 0.83 | 0.74 | | 0.78 |
| Stage 3/NPLs as a % of core lending advances | 3.98 | 3.59 | | 3.80 |

* Includes share of profit of associates and joint ventures after tax.

FirstRand's performance continues to reflect the consistent and disciplined execution on strategies designed to maximise shareholder value, tightly managed through the group's financial resource management (FRM) process.

FirstRand's diversified portfolio has allowed the group to capitalise on profitable growth opportunities across its chosen markets, sectors and segments. The respective performances of the operating businesses are unpacked in the table below.

SOURCES OF NORMALISED EARNINGS

| | Six months ended 31 December | | | | | Year ended 30 June | |
|---|---|---|---|---|---|---|---|
| R million | 2023 | % composition | 2022 | % composition | % change | 2023 | % composition |
| FNB | 11 473 | 60 | 10 964 | 61 | 5 | 21 700 | 59 |
| WesBank | 988 | 5 | 924 | 5 | 7 | 1 850 | 5 |
| RMB | 4 475 | 23 | 4 659 | 26 | (4) | 9 116 | 25 |
| UK operations* | 1 648 | 9 | 1 607 | 9 | 3 | 3 345 | 9 |
| Centre*,**,# | 1 161 | 6 | 293 | 2 | >100 | 1 559 | 4 |
| Other equity instrument holders | (648) | (3) | (459) | (3) | 41 | (936) | (2) |
| Normalised earnings | 19 097 | 100 | 17 988 | 100 | 6 | 36 634 | 100 |

* In the UK operations management view shown in the table above, MotoNovo's front and back books were included in the December 2022 and June 2023 figures. As MotoNovo's back book has significantly run down and is immaterial to the group and the UK operations, the back book is reported in the Centre effective 1 July 2023, with the management reporting view of the UK operations now aligned to the segment report on pages 48 to 59 of the online version of the results booklet and the statutory view for Aldermore Group.

** Including Group Treasury - includes capital endowment, the impact of accounting mismatches, and interest rate, foreign currency and liquidity management.

\# Includes FirstRand Limited (company). Several variables shaped the Centre's performance, including the non-repeat of the R498 million provision relating to Ghana's sovereign debt restructure in the prior period, the net endowment benefit, and the impact of accounting mismatches.

REVENUE AND COST OVERVIEW

Overall group NII increased 14%, driven by core lending advances growth (+11%), continued deposit gathering (+11%) and the capital endowment benefit (+12%), which incorporates the outcomes from the asset-liability management (ALM) strategy, unpacked in more detail below.

FirstRand's focus on growing liability-related NII played out strongly across all deposit franchises and remains a key underpin to its superior return profile.

FNB and WesBank's approach to retail origination is informed by internal and external data analyses of affordability indicators which still suggest that low-to-medium-risk customers have the most capacity for credit. This has been even more evident in a higher-rate environment.

On a rolling-six-month view, absolute advances growth in most SA and UK retail portfolios reduced relative to June 2023. Given customer affordability pressures and reduced demand, the previous momentum in SA residential mortgages has slowed, however, there has been a pick-up in unsecured lending with origination anchored to low-to-medium-risk customer cohorts. As expected, there was continued good growth in corporate advances.

On a period-on-period basis, new business origination showed healthy increases, with advances up 7% and 11% at FNB retail and WesBank, respectively. The increases in advances from FNB commercial (+9%), RMB (core +14%) and FNB broader Africa (9%) are also an outcome of focused origination in 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 a 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.

Origination strategies, combined with the focus on growing the deposit franchise and appropriate provisioning, have resulted in a well-struck balance sheet. This is a direct outcome of the group's FRM strategy and demonstrates the group's growth vs returns thesis.

Period-on-period movements in advances and deposits are unpacked by operating business and segment in the following table.

| | Growth in advances % | Growth in deposits % |
|---|---|---|
| FNB | 8 | 12 |
| - Retail | 7 | 11 |
| - Commercial | 9 | 12 |
| - Broader Africa | 9 | 16 |
| WesBank | 11 | n/a |
| RMB* | 14 | 2 |
| UK operations** | (4) | 4 |

* Advances growth for RMB is based on core advances, which exclude assets under agreements to resell.
** In pound terms. Growth in deposits refers to customer savings deposits.

Total transactional NII increased 5%, driven by growth in transactional credit product volumes, retail and commercial customer deposits, and deposit endowment.

FirstRand's approach to managing the endowment profile (the ALM strategy) is designed to optimise TTC returns to shareholders and is a cornerstone of the group's FRM process.

Rather than take a passive position (i.e. overnight) with regard to the impact of the rate cycle on its endowment profile, the group actively manages the profile to protect and enhance earnings TTC, and earn the structural term premium for shareholders by investing along the yield curve over and above the repo rate.

This active ALM strategy is managed by Group Treasury in line with the following underlying principles:
- do not add to the natural risk profile in aggregate;
- consistently apply investment philosophy;
- be countercyclical to operating businesses;
- reduce the natural earnings volatility introduced by the interest rate cycle;
- optimise for capital allocation and risk-adjusted return; and
- take cognizance of accounting and regulatory requirements.

Whilst the absolute period-on-period rate of growth in the group's endowment NII for the current financial period will not reflect the full extent of the rise in interest rates, the converse was true in previous periods when rates were lower.

The outcomes of this approach for shareholders should be assessed on a TTC basis. The table below shows the cumulative additional endowment NII of R17 billion earned in excess of an overnight (repo) investment profile since the 2018 financial year, when the ALM strategies were introduced.

ALM STRATEGY NII OUTCOMES

| | Six months ended 31 December | | | Year ended 30 June | Cumulative additional endowment |
|---|---|---|---|---|---|
| R billion | 2023 | 2022 | % change | 2023 | NII* |
| Capital endowment | 0.3 | 0.7 | (57) | 0.9 | 10.1 |
| Deposit endowment | (1.0) | 0.6 | (>100) | 0.2 | 6.7 |
| Total | (0.7) | 1.3 | (>100) | 1.1 | 16.8 |

* Includes additional endowment NII from 1 July 2017 to 31 December 2023.

Financial years 2021 and 2022 delivered R12.3 billion of additional NII when interest rates were low. The group expects, on a TTC basis, that this cumulative outperformance will offset the lower trend in endowment NII growth in the current period, which is characterised by higher rates.

In the period under review, there was an effective opportunity cost of R0.7 billion, compared to the R1.3 billion benefit in the prior period. This R2 billion swing had a negative impact of c. 5% on the period-on-period NII growth rate.

Group net interest margin (NIM) improved 9 bps period-on-period to 4.47% (December 2022: 4.38%), but has remained flat since June 2023. Lending margins continue to come under pressure from the competitive environment, origination strategies and mix change (a higher proportion of residential mortgages and CIB advances). NIM benefited from the performance of the deposit franchise (and the net endowment benefit).

Total group NIR (+4%) reflects a number of one-off positive and negative movements, such as:
- the partial unwind of the UK operations' interest rate risk hedge, which resulted in a loss of £10.8 million in the period under review, compared to a profit of £6.7 million in the prior period;
- the non-repeat of the Ghana sovereign debt provision; and
- the non-repeat of the out-sized Studio 88 private equity realisation.

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. Despite the impact on fee and commission income in the current period, FNB believes this is the correct outcome for customers, and retail and commercial are already seeing an increase in volumes. All of the above actions resulted in a R477 million reduction in fee and commission income in the period under review.

FNB's insurance activities continued to contribute strongly, with increases in new business annual premium equivalent (APE) of 8% in life and 16% in short-term. Gross written premiums on group licences increased 17%.

Total WesBank NIR (+4%) benefited from a strong rebound from the Toyota Financial Services and Volkswagen Financial Services joint ventures.

RMB's total NIR growth (+9%) was achieved despite a mixed performance from its markets business and the base effect of the prior period realisation. Good growth in private equity annuity income (+15%) was further supported by two realisations, totalling R776 million - one in the investment banking business and one in private equity. In addition, knowledge-based fee income grew strongly (+25%) on the back of origination activities and advisory mandates.

Total group operating expenses were 9% higher, including a 9% increase in direct staff costs, driven by targeted and general salary increases, whilst headcount remained relatively flat.

At an operating business level, FNB grew costs below inflation (+5%), but this strong performance was offset by a significant increase in costs from RMB (+13%) due to elevated investment expenditure. Ongoing investment in Aldermore's platform, people and processes also contributed to cost growth of 11%.

The cost-to-income ratio decreased to 49.9% (December 2022: 50.3%). The ratio has benefited from the adoption of IFRS 17, due to directly attributable insurance costs no longer being reported in operating expenses, but offset directly against insurance revenue. This benefit at adoption on 1 July 2023 was 40 bps.

## CREDIT PERFORMANCE

The group's credit performance was better than expected, with the credit loss ratio well below the midpoint of the TTC range of 80 bps - 110 bps, despite the prevailing macroeconomic environment. The overall credit loss ratio (CLR) increased to 83 bps (June 2023: 78 bps; December 2022: 74 bps), with increases across all portfolios except broader Africa and the UK operations.

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. However, given these pressures, balance sheet provision levels against the in-force book remained appropriate as new origination adapts to macros dynamically. Overall performing coverage on core lending advances decreased slightly to 1.67% (June 2023: 1.72%; December 2022: 1.72%), reflecting book growth, mix change to a higher proportion of secured advances, and the reduction in modelled macroeconomic forward-looking information (FLI) given the improved outlook.

Non-performing loans (NPLs) increased to R62.2 billion (June 2023: R57.4 billion; December 2022: R50.7 billion), which represents 3.98% of core lending advances (June 2023: 3.80%; December 2022: 3.59%). This absolute increase was driven by increased flows into NPL off the back of advances growth and rising interest rates.

## ANALYSIS OF IMPAIRMENT CHARGE

| | Six months ended | | | | December 2023 vs December 2022 | June 2023 vs December 2022 | December 2022 vs June 2022 |
|---|---|---|---|---|---|---|---|
| R million | 31 December 2023 | 30 June 2023 | 31 December 2022 | 30 June 2022 | % change | % change | % change |
| Movement in balance sheet provisions | | | | | | | |
| Performing book provisions | (13) | 1 658 | 964 | (1 357) | (>100) | 72 | (>100) |
| NPL provision | 2 195 | 1 198 | (482) | (1 112) | (>100) | (>100) | (57) |
| - Provision movements | 2 195 | 1 198 | 339 | (1 112) | >100 | >100 | (>100) |
| - NPL release due to debt-to-equity restructure* | - | - | (821) | - | (100) | (100) | - |
| Credit provision increase/ (decrease) | 2 182 | 2 856 | 482 | (2 469) | >100 | >100 | (>100) |
| Gross write-off and other | 6 372 | 5 344 | 6 904 | 7 999 | (8) | (23) | (14) |
| - Bad debts written off** | 6 069 | 6 778 | 6 382 | 7 373 | (5) | 6 | (13) |
| - Debt-to-equity restructure* | - | - | 716 | - | (100) | (100) | - |
| - Exchange rate and other | 303 | (1 434) | (194) | 626 | (>100) | >100 | (>100) |
| Amounts recognised directly in income statement | | | | | | | |
| Modification loss | 356 | 317 | 353 | 267 | 1 | (10) | 32 |
| Interest suspended on stage 3 advances | (1 548) | (1 251) | (1 599) | (1 363) | (3) | (22) | 17 |
| Post write-off recoveries | (958) | (1 325) | (1 132) | (1 381) | (15) | 17 | (18) |
| Total impairment charge | 6 404 | 5 941 | 5 008 | 3 053 | 28 | 19 | 64 |
| Credit loss ratio (%) - core lending advances | 0.83 | 0.81 | 0.74 | 0.47 | | | |
| Credit loss ratio excluding UK operations (%) - core lending advances | 0.99 | 0.91 | 0.75 | 0.45 | | | |

* Refer to page 85 of the online version of the results booklet for more information on the debt-to-equity restructure.

** Write-off of gross balances, excluding prior period provisions held, which have been recognised in the income statement over various reporting periods.

The overall impairment charge increased 28% to R6 404 million (December 2022: R5 008 million). Key drivers include:
- performing provisions declining R13 million despite advances growth:
  - overall stage 1 provision balances decreased R444 million as the impact of improvements in the macro outlook during the period under review resulted in releases in modelled FLI provisions;
  - stage 2 provisions increased R431 million, reflecting advances growth and expected origination strain, resulting in an increase in arrears and significant increase in credit risk (SICR) levels;
- coverage ratios remained largely similar to those in June 2023, benefiting from a decrease in UK operations' provisions, particularly from the structured and specialised finance book, as event-driven provisions were no longer required;
- stage 3 provisions increased as NPLs continued to increase, albeit in line with expectations and driven largely by the personal loans, card, VAF and residential mortgages portfolios. Coverage remained similar to June 2023 levels;
- a 5% reduction in bad debts written off as the average age of the overall NPL population decreased due to new inflows, partially offset by a 15% reduction in post write-off recoveries;
- the UK portfolio's impairment charge decreased, reflecting the impact of a stabilising macroeconomic outlook, allowing for the partial release of management overlays raised in the previous year; and
- RMB's impairment charge showed a R595 million period-on-period increase.

The previous table shows changes in impairments on a rolling six-month view, based on movements in the balance sheet. Impairments increased 28% period-on-period with the greatest impact from the NPL-related component, given the inflow into stage 3. Performing provisions benefited from the reduction in modelled FLI due to improvements in the macro outlook. Write-offs decreased, but so did post write-off recoveries.

CHANGE IN NPLs

| | 31 December 2023 vs 31 December 2022 | | | 31 December 2023 vs 30 June 2023 | | |
|---|---|---|---|---|---|---|
| | R million | % change | Percentage point contribution to overall NPL increase | R million | % change | Percentage point contribution to overall NPL decrease |
| Operational NPLs* | 6 903 | 23 | 14 | 3 291 | 10 | 5 |
| Other paying NPLs** | 2 668 | 30 | 5 | 1 038 | 10 | 2 |
| NPLs (excluding UK operations) | 9 571 | 23 | 19 | 4 329 | 9 | 7 |
| UK operations | 1 960 | 23 | 4 | 479 | 5 | 1 |
| Change in total group NPLs | 11 531 | 23 | 23 | 4 808 | 8 | 8 |

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

Group NPL balances increased 23% period-on-period as a consequence of advances growth and the weak economic environment. This was in line with expectations.

SA retail NPLs increased 26% period-on-period to R36.9 billion (June 2023: R32.8 billion; December 2022: R29.3 billion) with increases across all portfolios, but most notably driven by residential mortgage NPLs (+R4.1 billion), personal loans NPLs (+R1.6 billion) and VAF NPLs (+R1.2 billion). Apart from origination strain related to book growth, these portfolios were significantly affected by inflationary and interest rate pressures. The absolute growth slowed during the period under review.

SA commercial NPLs remained similar to December 2022, driven by strain in the agric portfolio and benefiting from settlements and positive migrations.

The period-on-period increase of R1 billion in SA CIB portfolio NPLs was a result of the migration of certain high-value, highly secured exposures in both SA and in West Africa, due to the deterioration of economic and sovereign conditions. Since June 2023, NPLs have decreased due to the work-out and write-off of long-outstanding exposures.

The deterioration of macroeconomic conditions across the continent also had an impact on the broader Africa portfolio, with increasing levels of NPLs since December 2022, most notably in Namibia and Ghana. The NPL ratio decreased to 4.62% (December 2022: 4.83%; June 2023: 4.62%) given advances growth and further write-offs in Zambia. Post June 2023, the NPL ratio has remained flat as advances growth decelerated somewhat.

UK operations' NPLs increased 6% (in pound terms) period-on-period and 7% since June 2023, reflecting the impact of inflationary pressure and higher interest rates on credit performance. This, combined with the reduction in overall advances, resulted in an increase in the NPL ratio to 2.94% (June 2023: 2.72%; December 2022: 2.66%). The notice of sums in arrears (NOSIA) operational event continues to weigh on absolute NPL balances at MotoNovo. Remediation relating to the NOSIA event is tracking as expected.

NPL coverage decreased to 45.4% (December 2022: 49.0%) as a result of the reduction across all portfolios. Coverage remained similar to June 2023, benefiting from the UK operations, in particular the motor finance book.

FINANCIAL RESOURCE MANAGEMENT

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk appetite, is a critical enabler to ensure FirstRand achieves its stated growth and return targets and is driven by the group's overall risk appetite. Group Treasury is mandated to execute on FRM strategic initiatives.

Group Treasury also manages the interest rate and foreign exchange rate risk inherent in balance sheet activities within prudential and management limits, as well as the group's risk appetite. The aim is to protect and enhance earnings without adding to the natural risk profile.

Capital position

Capital ratios for the group and bank are summarised below.

CAPITAL ADEQUACY*

| % | Internal targets | Group 2023 | Group 2022 | Bank** 2023 | Bank** 2022 |
|---|---|---|---|---|---|
| | | As at 31 December | | | |
| CET1 | 11.0-12.0 | 13.3 | 13.2 | 12.9 | 12.6 |
| Tier 1 | >12.0 | 14.1 | 13.9 | 14.1 | 13.6 |
| Total | >14.75# | 15.9 | 16.0 | 16.1 | 16.1 |

* Including unappropriated profits.
** Including the bank's foreign branches.
\# Bank's target remained at >14.25%.

The UK countercyclical buffer (CCyB) requirement was lifted to 2% in July 2023 and has been incorporated in the group's internal targets. The Prudential Authority's (PA's) proposed directive requiring a positive cycle-neutral CCyB of 1% for South African banks (effective January 2026) will be incorporated in the group's internal targets when appropriate.

The group's CET1 ratio remained well above the upper end of its internal target range. The group continued to focus on the efficient use of financial resources and optimisation of risk-weighted assets (RWA). There is ongoing effort to optimise the overall level and mix of capital across the group and its regulated subsidiaries.

Key factors driving the CET1 outcome include:
- positive earnings generation partly offset by the payment of dividends;
- an increase in the foreign currency translation reserve due to the rand's depreciation against hard currencies;
- successful capital optimisation strategies; and
- an increase in RWA mainly from credit risk, driven by higher volumes and rand depreciation. Higher revenue generation increased operational risk RWA.

The bank has issued a combination of Additional Tier 1 (AT1) and Tier 2 instruments to ensure sustainable support for ongoing growth initiatives and redemption of existing capital instruments. The capital stack has been rebalanced with a tilt towards a higher proportion of AT1 instruments.

The Resolution Authority (RA) published the draft standard, Flac instrument requirements for designated institutions in December 2023, which sets out the qualifying criteria of Flac instruments and the level of required instruments to ensure sufficient loss absorption and recapitalisation capacity. The issuance of Flac instruments is expected to take place on a phased-in basis from the proposed implementation date of 1 January 2025. The estimated annual post-tax cost, ranging from R200 million to R300 million at the end state, will be incorporated into the group's ALM strategies and considered as part of the FRM process.

It remains the group's intention to continue to optimise its total loss-absorbing capacity by issuing a combination of capital and Flac instruments in the domestic and/or international markets.

The Corporation for Deposit Insurance (CoDI) was established as a legal entity in March 2023 and will be fully operational in April 2024. The group's impact assessments suggest an annual post-tax cost of R200 million to R230 million for a covered deposit balance of approximately R110 billion.

Capital allocation and returns

The group's methodology for allocating capital to operating businesses considers internal capital targets, regulatory capital (average RWA consumption, regulatory deductions and anticipated regulatory changes), economic capital and NAV. Excess capital above internal capital target levels is not allocated to business.

A summary of the capital allocated to the group's operating businesses is provided in the following table.

AVERAGE CAPITAL ALLOCATED

| R million | Six months ended 31 December 2023 | Six months ended 31 December 2022* | % change | Year ended 30 June 2023* |
|---|---|---|---|---|
| FNB** | 56 890 | 52 429 | 9 | 53 392 |
| WesBank** | 9 025 | 8 843 | 2 | 8 467 |
| RMB | 47 039 | 41 676 | 13 | 43 213 |
| UK operations# | 34 389 | 26 881 | 28 | 29 139 |
| Centre^ | 12 959 | 10 824 | 20 | 10 703 |
| Unallocated capital^^ | 25 432 | 25 707 | (1) | 28 633 |
| FirstRand group | 185 734 | 166 360 | 12 | 173 547 |

* Restated - refer to pages 213 to 222 of the online version of the results booklet for more detail.
** Included in the average capital allocated to WesBank is a reduced operational risk capital allocation following the integration into FNB. There was a corresponding increase in FNB's allocated operational risk capital.
\# Prior periods included the MotoNovo back book. UK operations' capital represents a quarterly average converted to rand using the period-end closing exchange rate.
^ Prior periods excluded MotoNovo back book.
^^ Includes excess capital.

ROEs for the group and its operating businesses are provided in the following table.

The superior returns generated by the group's portfolio have resulted in continued capital generation. With the proposed implementation of the final Basel reforms, which further incorporate standardised elements, the group is increasing its focus on the true economic risk introduced to its balance sheet. FirstRand's capital allocation considers both regulatory and economic capital views.

ROE

| | Six months ended 31 December | | Year ended 30 June |
|---|---|---|---|
| % | 2023 | 2022* | 2023* |
| FNB | 40.3 | 41.8 | 40.6 |
| WesBank | 21.9 | 20.9 | 21.8 |
| RMB | 19.0 | 22.4 | 21.1 |
| UK operations** | 9.6 | 11.9 | 11.6 |
| Centre (including Group Treasury) | 2.7 | (0.9) | 1.6 |
| FirstRand group | 20.6 | 21.6 | 21.1 |

* Restated - refer to pages 68 to 70 and 213 to 222 of the online version of the results booklet for more detail.
** Prior periods included MotoNovo back book. ROEs calculated in pound terms.

Liquidity position

Liquidity risk is a natural outcome of the business activities undertaken by the group. To manage the resultant risk and enable business to operate efficiently and sustainably, the group seeks to optimise its funding composition, subject to structural liquidity constraints and prudential requirements. The group continues to pursue a deposit-led funding strategy that provides diversification and stability with an inherent liquidity risk offset.

The prudential liquidity risk metrics, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are managed with adequate buffers above the regulatory minimums to enable the group to comfortably withstand the natural liquidity seasonality and cyclicality that is a consequence of its chosen funding mix. The liquidity buffers are determined using stress testing and scenario analysis of cash inflows and outflows and the liquid assets that comprise the buffers.

The group's high-quality liquid assets (HQLA) portfolio provides a liquidity buffer against unexpected liquidity stress events or market disruptions, and serves to facilitate the changing liquidity requirements of its operating businesses. The HQLA portfolio has been constructed taking the group's funding composition, growth and liquidity risk appetite, as well as prudential requirements, into consideration. The composition and quantum of available HQLA are determined behaviourally by considering both the funding liquidity-at- risk and the market liquidity depth of these instruments. The portfolio is continually assessed and actively managed to ensure optimal composition, return and size.

The group remains well funded, with adequate liquidity buffers to meet both prudential liquidity requirements and internal risk targets. The group closely monitors market developments, key risk metrics and early warning indicators as part of its ongoing funding and liquidity management and planning.

PRUDENTIAL LIQUIDITY RATIOS

| | Group* | | Bank* | |
|---|---|---|---|---|
| | As at 31 December | | | |
| % | 2023 | 2022 | 2023 | 2022 |
| LCR | | | | |
| Regulatory minimum | 100 | 100 | 100 | 100 |
| Actual | 119 | 121 | 123 | 124 |
| Average available HQLA (R billion)** | 432 | 392 | 372 | 349 |
| NSFR | | | | |
| Regulatory minimum | 100 | 100 | 100 | 100 |
| Actual | 122 | 120 | 118 | 117 |

* The group's LCR and NSFR include the bank's operations in South Africa, and all registered banks and foreign branches in the group. The bank's LCR and NSFR reflect South African operations only.
** A breakdown of the group's HQLA is provided in the liquid asset table on page 135 of the online version of the results booklet.

Foreign currency balance sheet

The group adopts a disciplined and measured approach to the management of its foreign currency investments in subsidiaries and their balance sheets. Approved risk frameworks guide the allocation of resources and the management of local and foreign currency risks. The group's framework for the management of external debt considers sources of sovereign risk and foreign currency funding capacity, as well as the macroeconomic vulnerabilities of South Africa. The group continues to employ self-imposed structural borrowing and liquidity risk limits which are significantly more conservative than the regulatory macroprudential limits.

The group's philosophy is that, over the longer term, foreign currency assets should be supported by appropriate foreign currency liabilities, primarily in the same jurisdiction. The group's key foreign currency operations are outlined below.
- The UK operations of Aldermore (including MotoNovo) are funded through a sustainable and efficient savings deposit funding base and capital markets, as appropriate.
- RMB Mauritius and the London branch are hard currency platforms for the group's broader Africa and other foreign currency exposures.
- FirstRand Securities in the UK provides the group's South Africa-based businesses with a highly capitalised and matched principal trading platform and offers access to international market liquidity in the securities and derivative markets in which it is most active.
- RMB Securities (USA) and the New York representative office (managed by RMB) are used to maintain the long-term viability of trading securities (in both primary and secondary markets) with institutional investors domiciled in the USA.

## UK REGULATORY UPDATE

In January 2024, the UK's Financial Conduct Authority (FCA) announced that it was undertaking a review of the historical use of discretionary commission arrangements and sales by the mainstream lenders in the UK motor finance market. The FCA has exercised its powers under section 166 of the Financial Services and Markets Act to appoint a skilled person to run the review process, and plans to set out next steps by the end of September 2024.

A team representing FirstRand, Aldermore and MotoNovo are currently cooperating fully with the FCA, and FirstRand shareholders may take note of the following:

- Most of the vehicle loans originated within the scope of the FCA review reside in FirstRand Bank's London branch in the form of the MotoNovo back book, which was not part of MotoNovo when Aldermore acquired the business from FirstRand in 2019.
- A smaller cohort of such loans resides in the MotoNovo front book as MotoNovo started to phase out discretionary commission models in 2020.
- It is important to note that not all loans originated through dealers in the review period used discretionary commission arrangements.
- Some claims have already been through the UK county courts. Where individual cases were tested in county court, there have been a significant number of positive outcomes for lenders as unfairness and/or customer detriment was not demonstrated. This has been the outcome for the majority of court cases.
- Given that the skilled person review has just commenced, and that the group continues to believe that MotoNovo's historical practices were compliant with the law and regulations in place, there remains considerable uncertainty and therefore no current requirement for a provision to be recognised. With the benefit of greater insight from its engagement with the skilled person, the FCA and the group's legal team, FirstRand is likely to be in a position by financial year end to update shareholders on any potential outcome.

## PROSPECTS

Looking ahead, global cyclical macroeconomic conditions should ease, particularly as central banks including the Fed and the Bank of England (BoE) look to cut rates in the second half of calendar year 2024. This should allow the South African Reserve Bank (SARB) some room to cut the domestic repo rate.

However, in the second six months of FirstRand's financial year to June 2024, the macroeconomic environment in the jurisdictions where the group operates are expected to remain largely unchanged, characterised by high interest rates and persistent elevated inflation, resulting in continued affordability pressures, particularly for households.

Ongoing investments by South African businesses in energy capacity remains an underpin to corporate and commercial credit extension, and provides some upside for production capacity, GDP growth, and business and consumer confidence.

Against the above backdrop, the group anticipates softer overall advances growth and, given the current high base, deposit growth is also expected to slow, mainly driven by the retail segment as households draw down on savings. Commercial deposit gathering is expected to remain resilient.

Although fee reductions continue in the retail and commercial customer segments, the growth trajectory in NIR will benefit from stronger growth in fee and commission income relative to the prior period, supported by ongoing customer growth and activity. The first two months of the second half are already performing better than the comparative period.

The credit loss ratio is expected to remain well below the mid point of the group's TTC range. Operating expenses growth will be lower than in the first half.

The group therefore expects to generate earnings similar to the first half.

The ROE is also expected to be similar to the first half, as the cyclical pressures will remain for the rest of the financial year, and within the group's stated range of 18% to 22%.

## DIVIDEND STRATEGY

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 is comfortable to pay a dividend at 1.7 times cover, representing a payout ratio of 58.8%.

## BOARD CHANGES

Changes to the directorate are outlined below.

| Name | Position | Effective date |
|---|---|---|
| Resignation | | |
| WR Jardine | Chairman and independent non-executive director | 30 November 2023 |
| RM Loubser | Independent non-executive director | 30 November 2023 |
| Appointment | | |
| JP Burger | Chairman and independent non-executive director | 1 December 2023 |

## CHANGE IN AUDITORS

Ernst & Young Incorporated (EY) was appointed as one of the joint auditors of the group for the financial year ending 30 June 2024.

## CASH DIVIDEND DECLARATION

The issued share capital on the dividend declaration date outlined below was 5 609 488 001 ordinary shares.

The directors declared a final gross cash ordinary dividend totalling 200.0 cents per ordinary share out of income reserves for the six months ended 31 December 2023.

Ordinary shares

| | Six months ended 31 December | |
|---|---|---|
| Cents per share | 2023 | 2022 |
| Interim (declared 28 February 2024) | 200.0 | 189.0 |

The salient dates for the interim ordinary dividend are outlined in the following table.

| | |
|---|---|
| Last day to trade cum-dividend | Monday, 25 March 2024 |
| Shares commence trading ex-dividend | Tuesday, 26 March 2024 |
| Record date | Thursday, 28 March 2024 |
| Payment date | Tuesday, 02 April 2024 |

Share certificates may not be dematerialised or rematerialised between Tuesday, 26 March 2024 and Thursday, 28 March 2024, both days inclusive.

For shareholders who are subject to dividend withholding tax (DWT), tax will be calculated at 20% (or such lower rate as is applicable if a double taxation agreement applies for foreign shareholders). FirstRand's income tax reference number is 9150/201/71/4.

For South African shareholders who are subject to DWT, the interim ordinary dividend net of 20% DWT at 40.0 cents per share will be 160.0 cents per share.

| | | | |
|---|---|---|---|
| JP Burger | C Low | AP Pullinger | H Kellan |
| Chairman | Company secertary | CEO | CFO |

OTHER INFORMATION

This announcement covers the unaudited condensed consolidated financial results of FirstRand Limited for the six months ended 31 December 2023 based on International Financial Reporting Standards (IFRS). The primary results and accompanying commentary are presented on a normalised basis, as the group believes this most accurately reflects its economic performance. The normalised results have been derived from the IFRS financial results. A detailed description of the difference between normalised and IFRS results is provided on pages 150 and 153 of the online version of the results booklet, which constitutes the group's full announcement. It is available at https://www.Firstrand.co.za/investors/integrated-reporting-hub/financial-reporting/. Commentary is based on normalised results, unless otherwise indicated.

The content of this announcement is not audited. The directors take responsibility for the preparation of this announcement.

Any forecast financial information contained herein has not been reviewed or reported on by the group's external auditors.

Shareholders are advised that this announcement represents a summary of the information contained in the results booklet (the full announcement) and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement. Shareholders are encouraged to review the full announcement, which is available for viewing on the group's website (https://www.Firstrand.co.za/investors/integrated-reporting-hub/financial-reporting/) and on https://senspdf.jse.co.za/documents/2024/JSE/ISSE/FSR/FSR1223.pdf

COMPANY INFORMATION

DIRECTORS

JP Burger (chairman), AP Pullinger (chief executive officer), HS Kellan (financial director), M Vilakazi (chief operating officer), GG Gelink, TC Isaacs, PD Naidoo, Z Roscherr, SP Sibisi, LL von Zeuner, T Winterboer

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29 February 2024