

FirstRand Bank Ltd.
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13 August 2020

Further trading statement by FirstRand Bank Limited's parent in respect of the year ended 30 June 2020

FirstRand Bank Limited (**FirstRand Bank** or **the bank**) is a wholly-owned subsidiary of FirstRand Limited (**FirstRand** and, together with its subsidiaries, **the group**), which is listed on the JSE Limited and the Namibian Stock Exchange. The bank represents approximately 75% of the group's balance sheet and earnings base. FirstRand Bank noteholders are therefore referred to the announcement released by FirstRand on the JSE Stock Exchange News Service (SENS) on 12 August 2020, in which it advised FirstRand shareholders that it has a reasonable degree of certainty in respect of the group's financial results for the year ended 30 June 2020 (the current period).

The group's attributable earnings per share, headline earnings per share, and normalised earnings per share for the current period are all expected to be between 35% and 45% lower than reported for the prior financial year ended 30 June 2019 (the comparative period).

As indicated in FirstRand's trading statement of 4 June 2020, the main driver of this decline in earnings is the materially higher than expected credit losses and credit impairment charge, driven by the forward-looking economic assumptions required under IFRS 9.

Although the group produced solid growth in earnings for the first half, and the second half includes only three months of the impact of COVID-19, given the IFRS 9 requirement to consider forward-looking information in the calculation of expected credit losses, the group will report a significant increase in credit provisioning levels for the year ended 30 June 2020.

Since the beginning of lockdown in March 2020, underlying customer income and affordability in FirstRand's retail, commercial and large corporate segments have deteriorated sharply, particularly in those sectors most affected by the lockdown restrictions. This is evident in lower levels of underlying transactional and credit turnover and in the amount of debt relief requested across all client segments. Given the continuation of the pandemic and the associated lockdown restrictions, these trends are expected to continue for some time.

Informed by these trends, FirstRand has revised its macroeconomic outlook for 2020/21, with material downward revisions to key economic variables impacting the group's activities, including a sharp contraction in GDP of -8%, a significant increase in unemployment and weakness in property markets.

The revisions have been incorporated into the group's credit provisions under IFRS 9, with all segments and portfolios experiencing notable incremental impacts from forward-looking adjustments. The total impact of these adjustments will result in credit loss ratios exceeding those experienced during the global financial crisis, in part reflecting the faster pace of impairment recognition under IFRS 9.

Whilst credit impairments represent the most significant driver of the decline in earnings, further pressures include the negative endowment impact as a result of interest rate cuts and margin pressure, subdued non-interest revenue growth due to lower absolute volumes during the lockdown period, and depressed new business origination. In addition, the group has conservatively provided for a sharp increase in retrenchment claims as well as elevated death claims in its insurance business, taking account of the latest epidemiological and economic outlooks.

The bank exceeds all prudential minimum regulatory requirements and maintains a strong balance sheet with buffers in excess of minimum regulatory requirements.

The forecast financial information on which the group's trading statement is based has not been reviewed and reported on by the group's external auditors. FirstRand and FirstRand Bank's results for the year ending 30 June 2020 will be released on Thursday, 10 September 2020.

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