ceo's *report*

"The COVID-19 pandemic is a once in a generation event and has had a profound impact on the world. In South Africa it resulted in the deepest GDP contraction since the Second World War. The lockdown devastated the economy and it will be a long hard road back to recovery."

Alan Pullinger | CEO

FirstRand delivered normalised earnings of R17.3 billion for the year ended 30 June 2020. Its ROE of 12.9% was below the group's cost of equity for the first time since the global financial crisis, reflecting the depth of the COVID-19 crisis. A detailed explanation of the group's financial performance is provided in the *CFO's report*, and detailed financial and operating reviews of the underlying businesses can be found on pages 55 to 71.

This report provides commentary on the operating environment, an overview of the impact of the COVID-19 pandemic on the group as well as FirstRand's response to the crisis. It further provides an update on the group's strategic framework and progress on the execution of various growth strategies in South Africa, the rest of Africa and the UK.

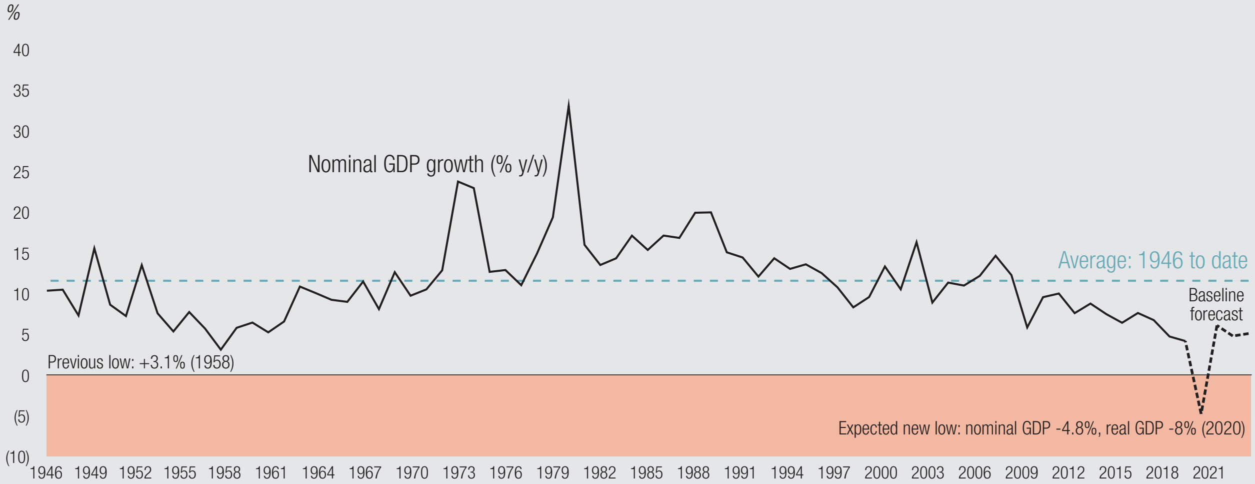
OPERATING ENVIRONMENT

The operating environment for the second half of FirstRand's financial year to 30 June 2020 is now considered to be the worst global economic crisis since the Second World War. The COVID-19 pandemic and associated economic crisis resulted in three simultaneous and profound shocks: to global trade; to global confidence, causing financial conditions to tighten significantly and abruptly; and to economic activity following the lockdown policies adopted by most of the world's major economies. This translated into a once in a generation economic stress event.

This scenario prompted coordinated efforts by central banks and governments to lower policy rates and simultaneously provide fiscal stimulus packages to cushion the impact of the shock to the real economy. Despite these actions, global financial conditions are expected to remain challenging and any form of recovery will be contingent on proof that the spread of the virus in developed economies has peaked, allowing containment measures to be relaxed, and that the various governments' fiscal support to consumers and small businesses has been successful to some degree.

The following chart shows that South Africa's nominal GDP growth is set to register its first annual contraction on record. It is important to note that the trend in nominal GDP growth has been declining for more than a decade, reflecting South Africa's falling potential GDP growth. This fall has been well communicated by various institutions (including the government) and is unlikely to turn around unless decisive reforms are implemented.

YEAR-ON-YEAR GROWTH



Sources: SARB, FirstRand.

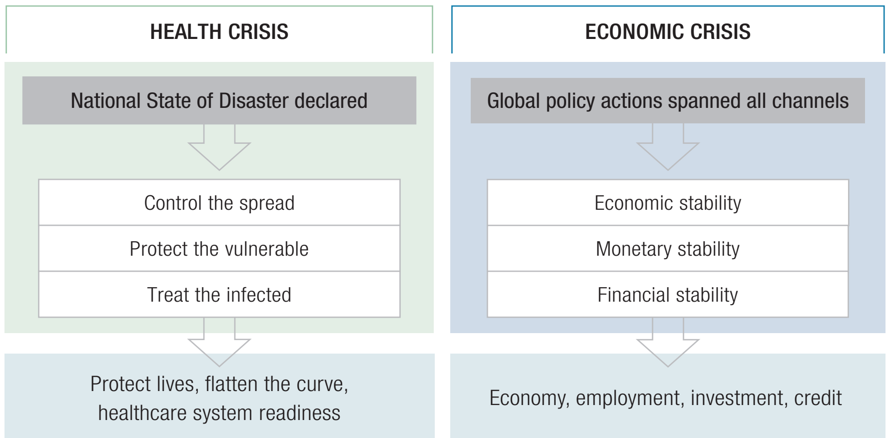
South Africa's already extremely weak domestic position was further worsened by the COVID-19 crisis and resultant lockdown, with limited fiscal space to support the economy. The South African Reserve Bank (SARB) provided monetary policy support, implementing 275 bps of rate cuts since the start of the crisis, however, the real-economy impact of COVID-19 remains deep given the loss of economic activity, tax revenue, and household and corporate income. Following years of declining macroeconomic conditions, the additional strain brought about by the pandemic has increased the need to urgently implement measures to stabilise the government's debt position and its debt service cost.

The rest of Africa portfolio also came under pressure as many of the Southern African Customs Union (SACU) economies rely heavily on activity in South Africa. Without exception, the real economies in these countries are extremely weak and face increased fiscal risk.

The UK entered the crisis with historically low levels of unemployment and fairly resilient household consumption activity. This, combined with the fiscal and monetary policy stimulus that is being applied, has provided some support to the real economy. However, despite these supportive factors, the UK suffered one of the deepest economic contractions globally in the second quarter of 2020.

RESPONDING TO THE COVID-19 PANDEMIC

In response to the pandemic, the South African government declared a National State of Disaster with associated stages of lockdown in order to protect lives. The SARB and National Treasury simultaneously acted to ensure financial stability, as reflected in the schematic below.



There has been a significant response to date from the central bank around monetary and financial stability, and the PA responded quickly with relief measures on liquidity, risk capacity and capital for the banking sector, as set out in the following chart. The measures undertaken by South African authorities followed a similar response seen in many other countries, but need to be seen in the context of the limited fiscal space available to government. The measures implemented are unpacked in the next graphic.

ECONOMIC STABILITY	MONETARY STABILITY	FINANCIAL STABILITY
Government fiscal and economic support measures, reprioritisation and guarantees = R500 billion: • Social grants and special COVID-19 grant • UIF • Tax deferrals • Municipal support • Health and frontline services • R200 billion loan guarantee scheme and special financing terms	• 275 bps in interest rate cuts to date • Enhanced liquidity operations • Continued use of FX swaps for liquidity management and FX provision	• SARB took action to support liquidity transmission and support market functioning • Initiated working group to consider reforms required for collateral management and operations • Recommendations to review liquidity risk in shadow banking institutions

PRUDENTIAL AUTHORITY

Actions to assist banks with risk capacity to ensure they continue to support real economy

Liquidity

- LCR minimum requirement reduced to 80% from 100%

Risk capacity

- Actions to limit procyclicality of IFRS 9 treatment of restructured credit exposures

Capital

- Reduced Pillar 2A requirement from 1% to 0%
- Restrictions on dividends on ordinary shares and compensation to executive officers/ material risk takers
- Allows banks to enter capital conservation buffer

Both the South African government and central bank's decisive actions were instrumental in protecting lives and ensuring financial stability, however, as mentioned above, the country's precarious fiscal position limits government's ability to deal with the magnitude of the economic consequences of the pandemic.

FirstRand and its operating businesses provided significant help to three key stakeholder groups in response to the pandemic, as outlined below.

The group's actions to support these stakeholder groups are described in more detail below.

Helping customers

COVID-19 created unprecedented economic stress, which has had a profound and far-reaching impact on the economy. One of the implications of this stress was the need to provide payment relief solutions for customers. For the South African businesses, some of these solutions are outlined below:

- Retail customers in good standing were offered emergency funds designed to bridge short-term liquidity needs and provide cash flow relief. The loans were priced at the prime interest rate with zero fees and a flexible repayment period starting three months after relief was taken up. No early settlement penalties are levied. This customer-centric approach covers all FNB products and those WesBank customers who bank with FNB. Payment holidays were also offered.
- FNB provided relief to commercial customers, primarily in the form of payment holidays, and additional relief was offered to small and medium-sized enterprises (SMEs) through the government-guaranteed loan scheme.
- For corporate customers, relief was advanced on a case-by-case basis. Corporate relief was provided in the form of additional liquidity facilities, payment holidays and covenant waivers.

Eligibility for relief followed a risk-based approach and was assessed at an overall customer level. For retail customers industry guidance set by the Banking Association of South Africa (BASA) was followed. Corporate and commercial portfolios were assessed against the respective sector's sensitivity to the impact of COVID-19.

As South Africa's leading digital bank, FNB was able to fulfil origination, account service and liability gathering digitally throughout the lockdown. FNB also assisted customers by waiving SASwitch fees, rental relief on speedpoints and other devices, and data charges.

In the UK, Aldermore's focus was on providing forbearance for existing clients.

Support for employees

At the onset of the pandemic, the group instituted a number of key forums to manage the needs of employees. These forums met frequently and covered the following issues:

- assess ongoing operational resilience for group employees operating on premises and remotely;
- track the case incidence of COVID-19 within the employee base;
- provide a single point for regular communication updates on the COVID-19 outbreak, medical trends and responses; and
- ensure the provision of appropriate medical and wellness support to employees.

Employees were provided with the necessary equipment, VPN access, hardware support and data solutions to enable the majority of the workforce to work effectively from home. Microsoft Teams was deployed across the group in three days and is now the primary tool of trade.

Appropriate protective measures were implemented to ensure a safe working environment. At on-site premises, temperature/ symptom screening was conducted and a COVID-19 applet was created on the FNB banking app, with track-and-trace capability. This enabled employees to record temperatures and complete symptom screening, and vulnerable employees could make the necessary medical declarations.

The group also provided PPE and installed screens as appropriate, implemented safe zoning and floor spacing to enforce social distancing, and conducted ventilation monitoring, visitor pre-screening and sanitising of all premises. Medical teams were allocated to manage positive cases in the group's employee base.

From a wellbeing perspective, the group ran several interventions, focusing on mental health in particular.

"The group anchored business to certain financial resource management principles, adherence to which will ensure FirstRand returns to its historical trajectory of growth, quality earnings and delivery of superior returns to shareholders."

Tackling broader social challenges

Immediately following lockdown, FirstRand created SPIRE, a public benefit fund created to assist government and other social partners in responding to the healthcare challenges of COVID-19 in South Africa and key markets in the rest of Africa. SPIRE facilitated a number of interventions particularly focused on healthcare solutions and feeding schemes for vulnerable communities.

SPIRE leveraged the FirstRand group's platforms, systems, client relationships and outreach ability to the top 1 000 SA corporates and more than 50 000 SMEs. Through the rapid mobilisation of these resources, SPIRE was able to create solutions to social challenges at scale. SPIRE has also engaged extensively with the Solidarity Fund, Business for South Africa (B4SA), various local and international foundations, and governmental departments and agencies.

SPIRE has delivered a number of projects to date:

- Protection for frontline workers (PPE, test kits, and safe and convenient accommodation).
- Expanded ICU capacity by 100 beds across four public sector hospitals.
- Supplied high-flow oxygen equipment to regional hospitals.
- Manufactured more than 300 000 cloth masks to date through the Maskathon initiative.
- Distributed food parcels.
- Supported donor-dependent old age homes (>150 vulnerable care homes).

Similar programmes were established in Namibia through the Health Optimisation in Pandemic Emergency Fund (HOPE) and in Ghana through the Accelerated Support for Pandemic Intervention and Relief Effort (ASPIRE). There were also various pandemic-related initiatives undertaken by the group's subsidiaries in Botswana, Nigeria, Zambia, Mozambique and the UK.

Crisis response framework to protect shareholder value

At the onset of lockdown, FirstRand implemented specific actions to strengthen and protect the balance sheet to enable the group to effectively weather the prevailing environment and emerge in a position to fully capitalise on the recovery.

Given the scale of the economic crisis, which FirstRand expects to influence the operating environment for the next 18 to 24 months, the group anchored business to certain financial resource management (FRM) principles, adherence to which will ensure FirstRand returns to its historical trajectory of growth, quality earnings and delivery of superior returns to shareholders.

These FRM principles include:

- Carefully price for financial resources.
- Appropriately provide against lending portfolios.
- Apply strict cost management.
- Further strengthen and appropriately tilt the balance sheet to the macro outlook.
- Accrete capital and net asset value (NAV) – deployment of capital to reflect the increased cost of equity.
- Emerge from COVID-19 with limited vulnerabilities, with capital for growth.

STRATEGIC FRAMEWORK

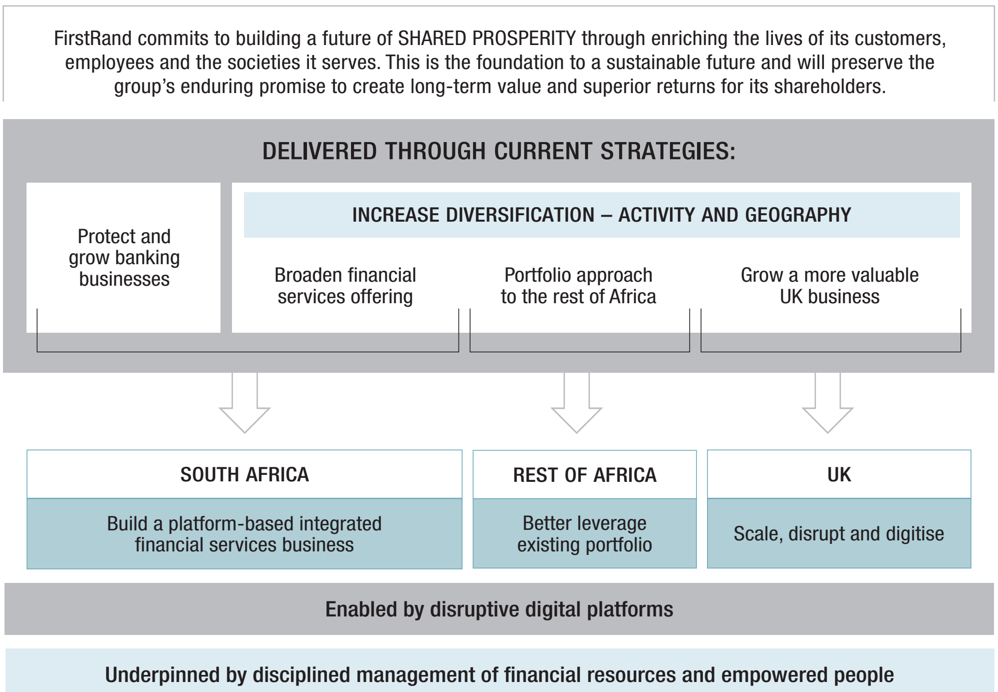
Despite the challenges presented by the COVID-19 crisis, the group continued to execute on its stated growth strategies.

Group earnings remain significantly tilted towards South Africa and are mainly generated by FirstRand's large lending and transactional franchises, which have resulted in deep and loyal customer bases. Increased competition is targeting these traditional banking profit pools, particularly the transactional activities, and the group remains focused on protecting this large and profitable revenue stream. At the same time, FirstRand is working hard to find other sources of ROE-enhancing revenues and is investing in building meaningful insurance, and wealth and investment management businesses.

Ultimately the group's strategy in its domestic market is to deliver integrated financial services to its customers. Successful execution is underpinned by a long-standing culture of entrepreneurial thinking and innovation, combined with disciplined allocation and pricing of financial resources. This approach has resulted in a long track record of delivering superior economic profits, returns and dividends to shareholders.

The group's strategy outside of South Africa includes growing its presence and offerings in certain key markets in the rest of Africa, where it believes it can build competitive advantage and scale over time. In the UK, the group aims to build further franchise value through scaling, digitisation and disruption.

The group's strategic framework is outlined in the schematic below.



PROGRESS ON STRATEGY

The group continues to protect and grow its domestic banking businesses, as outlined in the operating reviews of FNB, RMB and WesBank.

Through the effective utilisation of the origination capabilities, operating platforms and distribution networks of its banking operations, FirstRand is busy transforming into a financial services business with a fully integrated, platform-based, customer-centric approach in South Africa.

The group continues to increase revenues from providing savings, insurance and investment products to its customers. FNB is starting to make inroads in capturing insurance and investment flows from its customer base.

Some examples of traction, particularly in the build-out of a platform-based integrated financial services business, are outlined below.

Progress on the group's platform journey

The group continues to build out its platform capabilities. The overall objective is to have all group platforms working together to create a single customer-centric, integrated financial services platform ecosystem, supporting all operating businesses, segments and jurisdictions. The digitisation journey continues across businesses, enabling deep customer insights and lower processing costs.

The advantages of digital on-platform sales, service and fulfilment include:

- higher take-up of offers;
- lower cost of origination (the cost of digital origination for FNB loans, for example, is 95% cheaper than through branches);
- further entrenchment of customer relationships;
- multiple customer data points informing more contextual solutions offered to customers; and
- an improvement in proactive fraud detection of compromised customers.

FNB has approximately 10 000 data points on a typical retail customer that support the contextual solutions offered to customers. Approximately 1.7 billion customer interactions are streamed to the group's data and analytics platform in real time, enabling FNB to generate and pass ~300 million opportunities across all products to customers, translating into ~600 000 take-ups per month.

Most unsecured credit sales are fully automated on platform and 22% of mortgage payouts are originated through nav>>Home. The nav>>Car garage has close to 0.5 million cars registered.

Although the group has had a strong focus on driving platform adoption, branches still remain the largest sales channel. The group therefore believes it has the appropriate mix of physical and digital interfaces to deliver a holistic customer proposition.

On an inflation-adjusted basis, branch costs have continued to decline as investment in platform grows. The group is cognizant of the need to deliver efficiencies associated with its platform strategy and believes it is on track to deliver these in the medium term.

Insurance

The group's broader integrated financial services offerings provided additional protection for its customers. For example, FNB's credit life insurance product provided much-needed relief to those customers who were retrenched or suffered loss of income due to the lockdown.

FNB Life now covers 6.3 million lives and is the third largest insurer in FNB's customer base by debit order value. This represents excellent progress in growing the group's share of FNB customers' insurance flows. Digital sales more than doubled compared to the prior year, offsetting the reduction in sales from physical channels.

The group continues to execute on its short-term insurance strategy to provide household and motor insurance products to group customers over the next two years, via FNB Insure and MotoVantage. Investment continues in platform and product development for short-term insurance solutions.

Value of new business (VNB) reduced 77% to R217 million (2019: R964 million) and embedded value (EV) declined 3% to R4.7 billion (2019: R4.8 billion). The reductions in VNB and EV reflect the impact of COVID-19 on sales, lapses and claims ratios.

Investment management

Despite the difficult operating environment, FirstRand continues to make good progress in building out investment management. The group recently consolidated these activities under a single structure to coordinate management capabilities across FNB, Ashburton Investments and RMB. The aim is to deliver investment solutions aligned to client needs across all segments off a scalable and efficient platform.

The investment team has successfully managed client assets through one of the most significant market crises on record. Investment performance in core local and offshore offerings has been pleasing, both against benchmarks and major peers.

FNB's wealth and investments (WIM) business utilises Ashburton Investments' fixed income and index funds as building blocks for its portfolios. All five Horizon funds have delivered strong performances with three funds in the first quartile and the other two in the second quartile against peers. Four of the five funds posted double-digit returns over this period.

Good performance was also seen in Ashburton's offshore portfolios, with the Global Leaders Equity and the Global Equity Income portfolios continuing to outperform peers, as well as the MSCI ACWI index, over most relevant periods.

The investment in platform distribution is assisting progress in client penetration, with good digital distribution of wills, online share trading and Horizon unit trusts resulting in 13% growth in the account base to 483 211 accounts, and pleasing growth on the linked investment service provider (LISP) platform. Although assets under execution decreased, trade values increased from R20 billion to R33 billion year-on-year, resulting in increased brokerage income.

Enhanced channel enablement of investment solutions in the commercial, corporate and institutional client base contributed to the Ashburton Money Market Fund growing from R3 billion at the start of the financial year to R8.6 billion at the close of the year.

Total assets under management (AUM) was flat year-on-year, a pleasing performance given the difficult markets, and was mainly attributable to good growth in fixed income and the private clients business. Alternatives decreased due to the disposal and closure of the Westport funds.

Rest of Africa

The group's strategy outside of South Africa includes growing its presence and offerings in certain key markets in the rest of Africa, where it believes it can organically build competitive advantage and scale over time.

The group continues its portfolio approach to the rest of Africa and the businesses are grouped into the following categories:

- mature businesses with significant scale and market share, which are focused on growing their financial services offerings (Namibia, Botswana and Eswatini);
- smaller businesses in Mozambique, Ghana, Lesotho and Zambia where the focus is on growing universal banks; and
- a specialist investment banking operation in Nigeria.

During the year under review, FNB decided to commence a process to exit Tanzania as this subsidiary's business model could not appropriately scale given the structure of the market.

Effective 5 May 2020, First National Bank Ghana acquired a 100% interest in GHL Bank plc in Ghana, for effectively R510 million. The acquisition has been finalised and the integration of the business is well under way.

The group regards Ghana as an attractive market with long-term potential and the acquisition of GHL provides a foundation for a broader retail strategy going forward. GHL has more than ten years' experience in the Ghanaian mortgage industry with an estimated market share of >50% in the domestic mortgage market.

Growing a more valuable UK business

Management teams are correctly challenged to demonstrate that capital deployed for strategic acquisitions add shareholder value. The group has owned Aldermore since 1 April 2018.

Aldermore has been earnings- and return-enhancing to the group's results. The following table sets out an analysis of the return on the investment made and compares the results to a scenario where no acquisition had been made and the capital was retained in the South African group. It shows that this investment has been value accretive in both rand and pound terms.

	£ million	R million (rand equivalent)
Investment at acquisition (March 2018)	**1 098**	**18 311**
Aldermore excluding MotoNovo: 3-month earnings	16	
June 2018 adjusted NAV @ spot rate (£1 = R18.18)	**1 114**	**20 253**
Aldermore excluding MotoNovo: annual earnings 2019	95	
June 2019 Adjusted NAV @ spot rate (£1= R17.98)	**1 209**	**21 738**
Aldermore excluding MotoNovo: annual earnings 2020	52	
June 2020 adjusted NAV @ spot rate (£1 = R21.43)	**1 261**	**27 023**
Aldermore excluding MotoNovo return on investment over 27 months	**14.8%**	**47.6%**
Compound annual growth rate (CAGR)	**6.3%**	**18.9%**

FirstRand excess capital could have been invested at 3-month JIBAR: 7.11% (2018), 7.06% (2019) and 6.51% (2020)

Significant strategic benefits emanating from the Aldermore acquisition have been realised, such as relieving the hard currency funding pressure on FirstRand Bank, ensuring a more competitive and sustainable funding solution for MotoNovo, and the asset diversification beyond vehicle finance introduced by Aldermore. The acquisition of Aldermore has yielded an annualised return of 6.3% in pound terms to date.

The group remains excited about the growth prospects offered in the specialist UK banking market and continues to believe that its UK strategy in search of attractive risk-adjusted earnings growth and diversification is sound.

An update on the group's UK operations is provided on pages 70 and 71.

INCREASED FOCUS ON CLIMATE CHANGE RISKS AND OPPORTUNITIES

As the chairman outlined in his report, FirstRand has delivered on the commitments, relating to climate change disclosure, made to shareholders in last year's AGM notice.

FirstRand believes that climate change is one of the defining issues of this century, with significant attention given to climate change mitigation and adaptation at governmental, business and societal level. It has the potential to disrupt business models and markets across all sectors and impact the livelihoods and wellbeing of individuals across the world. This is why the group has adopted the following global climate agreements and principles.

- Support for the South African government on its Paris Agreement commitment, with guidance from the Integrated Resource Plan, National Treasury's technical paper on sustainable finance, and the national climate change adaptation strategy with due consideration of a just transition.
- Signatory to the Equator Principles and committed to enhanced due diligence of transaction-related climate risks through the environmental and social risk assessment (ESRA) process.
- Signatory to the Financial Stability Board's TCFD and committed to enhancing its reporting to fully comply with these recommendations over time. This process will be a measured journey reflecting the evolving nature of climate strategy, risk management and reporting standards.
- Committed to working in partnership with relevant government institutions in the jurisdictions in which the group operates to enable sustainable financial solutions that promote positive climate outcomes, taking account of regional context and sustainable development needs.

The group believes there is also a clear commercial imperative for better climate-risk management, the development of sustainable financing and funding solutions, and the integration of climate impacts into capital allocation, origination strategies, portfolio diversification and reporting. FirstRand is therefore focused on formulating growth strategies, building appropriate capabilities and integrating climate change considerations into existing business plans and processes. This will ensure FirstRand can actively participate in financing of the green economy, pursuing the significant opportunities for innovation, new technologies and markets to help society adapt.

Areas of immediate focus are unpacked below:

- Supporting clients in managing their climate risks (physical or transition risks) by providing them with climate-appropriate financial solutions for adaptation or balance sheet protection, including financing/investment/transactional services, advisory/analytics and data services, capital raising and savings/investments/capital markets products. The solutions will focus on climate risk in carbon-intensive sectors, including energy and transportation, and on climate resilience in the most climate-vulnerable sectors, such as agriculture and property.
- Managing the group's lending portfolios, with the objective to reduce adverse climate outcomes by formally assessing transactions for transition, physical and liability risks, and to more deliberately target positive climate outcomes by financing a greater proportion of climate-friendly assets.

- Aligning the group's financial resource management practices to enable positive and mitigate negative climate outcomes. This includes:
  - the development and incorporation of a sustainable debt issuance framework into the overall funding strategy;
  - partnering with development finance institutions (DFIs) where appropriate;
  - targeting prudent environmental, social and governance (ESG) rating levels for the group; and
  - transmitting the price of financial resources, taking account of positive outcomes and negative externalities.
- Prudent risk management of climate risk on the balance sheet through the development and publishing of appropriate risk management policies and guidelines. The group will continue to build on its capacity and capability to identify, quantify (e.g. through appropriate transaction ESG ratings), price, manage and forecast through appropriate scenario analysis and stress testing (of asset values and long-term cash flow impacts) of climate risk in its portfolios including physical and transition risks.
- Commitment to mitigating the group's direct climate impact by reducing its operational emissions and increasing energy efficiency of its operations.

A more detailed narrative on the group's approach to climate change is contained in new supplementary disclosure at the end of this report.

OUTLOOK REMAINS CHALLENGING, BUT THE GROUP IS WELL POSITIONED

The group believes that economies that entered the crisis weak will take longer to recover. Consequently, South Africa's recovery will be very slow unless its long-term weaknesses are resolved.

Economic activity in South Africa is expected to start to rebound from the depths of the first half of 2020. This is mainly linked to the easing of lockdown measures and could stem the level of job losses and support the start of a recovery. However, given the South African government's limited capacity to inject further stimulus into the economy, there will be ongoing permanent damage to household and business balance sheets. This will limit the extent to which the economy will be able to recoup the output losses sustained during the first half of the year. As a result, private sector credit growth will remain weak and activity levels will continue to trend lower than pre-crisis.

There are several good proposals for South Africa's required structural reform on the table. Examples include the National Development Plan and the recent paper tabled by National Treasury. The COVID-19 crisis has accelerated the need for urgent implementation.

While a few reforms are difficult to implement and execution risks are high, there are some that should be easy, that are relatively inexpensive for the government and will go a long way to boost business and consumer confidence. The low-hanging fruit includes:

- providing licences to businesses to generate their own electricity;
- allocating 5G licences; and
- easing visa regulations for highly skilled job seekers.

As the chairman has already pointed out, private sector capacity and skills can be added to government's capacity as has recently been demonstrated by specific initiatives around COVID-19. FirstRand is committed to playing its part in facilitating the recovery.

The UK is likely to recover faster, given the government's significant stimulus measures. This rebound will, however, depend on the potential imposition of further lockdowns and the added complexity of Brexit uncertainty during the latter part of 2020, which may constrain growth.

For FirstRand, the economic impact of COVID-19 will continue to place acute pressure on the group's performance for the rest of the 2020 calendar year. Trends post lockdown are improving as the economic recovery slowly emerges, however, activity levels will remain muted on a relative basis, balance sheet growth will be subdued, and the credit performance will not materially improve. Whilst this will translate into a recovery of earnings for the six months to December 2020 on a rolling six-month basis, the period-on-period performance compared to the six months to December 2019 (a pre-COVID-19 period) will be a further reduction given the significant base effect.

FirstRand anticipates an upward trajectory in earnings in the second half to June 2021, although the absolute level of earnings for the full 2021 financial year are unlikely to revert to June 2020 levels.

Looking beyond the fallout from the pandemic, the group believes that its unique investment proposition (outlined in the chart below) is intact and will re-emerge in the next few years.

THE GROUP IS:

- A portfolio of multi-branded businesses providing a broad range of financial services
- A market leader in SA with ambitions to achieve leadership in all chosen markets
- Differentiated by a long-standing culture of entrepreneurial thinking

THE GROUP HAS:

- A rapidly maturing, integrated strategy – building ecosystems around the needs of customers
- Demonstrated an ability to create long-term, sustainable franchise value through innovation
- A disciplined approach to the allocation of scarce financial resources
- A long-term track record of delivering superior economic profits, returns and dividends to shareholders

The group believes its portfolio has distinctive characteristics that will drive the recovery in its investment proposition. These include:

- The relative size of the group's transactional franchise:
  - a source of capital-light revenues;
  - digital platform strategy enables regular interactions, ecosystems and network effects – outcome is growth and efficiencies;
  - associated deposit franchise provides cost of funds advantage;
  - data analytics enable contextual customer offerings and portfolio insights; and
  - highly geared to economic recovery and should provide a topline kicker.
- The group's balance sheet mix provides higher risk-adjusted margins.
- FirstRand's deeply embedded financial resource management principles drive the appropriate allocation and pricing of financial resources:
  - credit underwriting anchored to preserve return profile; and
  - ROA, not gearing, drives returns.
- A unique diversification strategy:
  - as the UK recovers, the group's UK operations will provide a risk-adjusted ROA uplift – the optionality to grow in a large market remains compelling; and
  - the group's integrated insurance and investment management businesses diversify and support FirstRand's non-interest revenue (NIR) trajectory.

In closing, FirstRand believes that the actions it has taken to strengthen and protect its balance sheet, combined with the structure of its portfolio and its chosen strategies, will ensure ROE and earnings recovery once the current stress scenario normalises.

The COVID-19 pandemic, as demonstrated in this report, has brought carnage to many economies, businesses and livelihoods. It has also impacted the health of our communities and FirstRand has not been spared. The pandemic has to date tragically seen some colleagues pass away from COVID-19-related illnesses and the group extends its condolences to their families and loved ones.

ALAN PULLINGER
CEO

supplementary
climate change disclosure

As referenced in the *CEO's report*, this new disclosure provides an overview of FirstRand's governance and risk management frameworks relating to climate change. It also covers the financing of climate-sensitive industries and presents the group's current roadmap to developing a complete framework for managing climate change.

GOVERNANCE

Responsibility for strategic focus areas that relate to climate change lies with the group's strategic executive committee (Stratco) which is chaired by the group CEO and is the most senior executive forum of the group.

Stratco delegates climate risk oversight to the chief risk officers (CROs) of FirstRand Limited and FirstRand Bank, as climate change is considered a strategic risk. The CROs are responsible for the management of climate risk as it relates to the business process risk management framework.

Board oversight rests with the Social, ethics and transformation committee and the Risk, capital management and compliance committee. These board committees are supported by the Environmental, social and climate risk committee, which consists primarily of segment/operating business CROs and risk specialists across the group.

The climate steering committee (CSC) is mandated by Stratco to manage climate-related risks and opportunities, and comprises senior representation from risk management, capital management, group finance and investor relations. The objectives of the CSC are outlined in the schematic below.

Climate steering committee

- **Support the climate-related risk management** programme at a strategic level
- **Set broad strategic climate risk management objectives** to inform the group's risk appetite over the short, medium and long term
- **Endorse processes and methodologies** developed by the climate technical committee
- **Build these processes** into the group's overall **risk management processes and governance structures**
- **Approve public climate disclosure** including disclosures aligned with TCFD recommendations

The **technical climate committee (TCC)** is a specialist subcommittee of the CSC that identifies and assesses climate-related risks and opportunities. Specifically, the TCC is responsible for scenario analysis and stress testing and provides input into risk management and governance. There are several working groups within the TCC, including taxonomy, risk analysis, scenario analysis, measurement and disclosure.

RISK MANAGEMENT

Climate change risks do not necessarily represent an exclusively new risk category, but can rather be an amplifying factor for other risk types

Climate change presents a complex set of interconnected outcomes, with financial and operational risks emanating from two primary channels: **physical risks** and **transitional risks**.

PHYSICAL RISK

Over the long term, climate change will result in both acute events (e.g. increased severity and frequency of extreme weather phenomena) and chronic environmental changes (e.g. sustained higher temperatures). Resultant risks may manifest as:

- **operational risk** (e.g. fines and penalties due to non-compliance) resulting in one-off losses or broader sustainability challenges (e.g. workforce absenteeism and illness due to extreme weather events) for the group or for clients; or
- **credit risk** for the group due to damage to physical property and infrastructure resulting in productivity losses or supply chain disruptions which impact customers' cash flows and ability to service existing debt.

SHORT-TERM TRANSITION RISKS

In the short term, changes in client behaviour and investor preferences for less carbon-intensive assets and products may result in market, reputational or legal risks for the group. The market risk arises from changes in asset prices and market spreads given investor capital allocation changes. Reputational or legal risks may arise if clients or funders perceive the group's operational and financing activities to be aggravating climate change.

LONGER-TERM TRANSITION RISKS

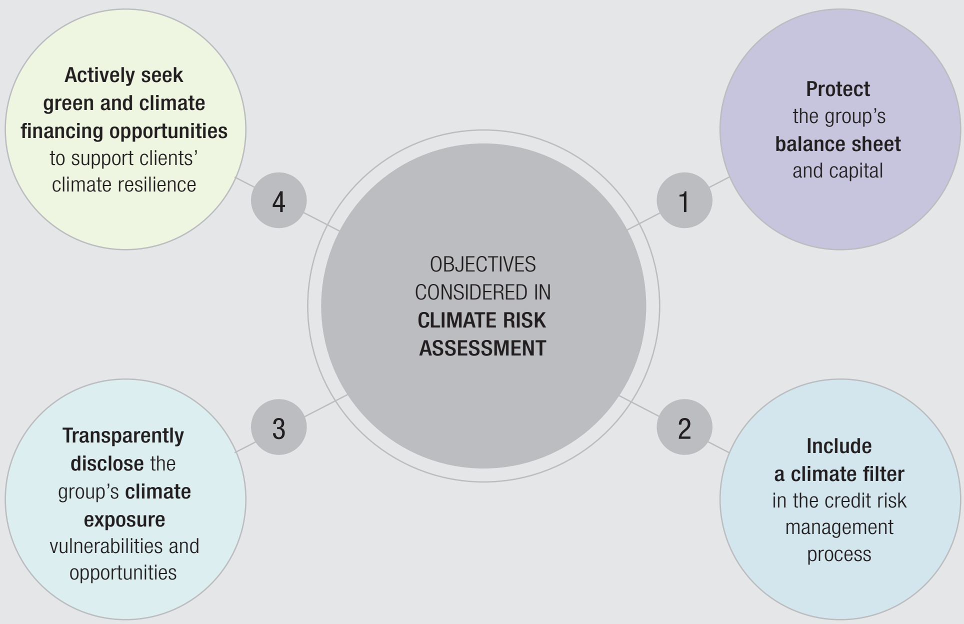
In the long term, transitioning to a less carbon-intensive economy will likely entail significant legal, technology and policy changes, which may be disruptive to established business models. If appropriate climate adoption interventions are not implemented, this could result in unexpected financial losses for the group and clients.

FirstRand addresses these broader climate change risks through its existing environmental, social and climate risk management framework. The identification, monitoring, management and mitigation of environmental risks are fully integrated as part of the enterprise risk management (ERM) function.

AS PART OF THE DEVELOPMENT OF A COMPREHENSIVE GROUP CLIMATE RISK MANAGEMENT PROGRAMME, **THE FOLLOWING PRINCIPLES ARE CONSIDERED:**

INITIAL VISION SETTING:
Leadership supports an enhanced focus on climate-related opportunities and is therefore building the appropriate climate risk capacity in the group.

RISK-BASED PRIORITISATION:
Resource allocation is prioritised for areas with the highest potential impacts. Capacity has been built in areas such as risk, credit, capital, funding and across all business segments.



LENDING TO ENERGY AND FOSSIL FUEL SECTORS

The table below unpacks RMB's net advances by energy sector. This current balance sheet mix mainly reflects the respective energy development needs of the core markets where FirstRand operates, particularly South Africa, Nigeria and Mozambique.

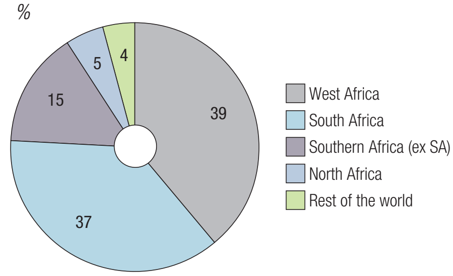
FirstRand's policy on energy financing considers the current energy mix of each country as well as the economic development and social upliftment needs of each jurisdiction. The group has placed limits on the financing of new coal-fired power stations and new coal mines.

South Africa has had a historically high dependence on thermal coal for its energy needs, and lending to thermal coal mines and electrical utilities has been the underlying driver of advances in the past. Nigeria's energy mix is still dominated by oil and is a key determinant of the country's economic growth, and the majority of the upstream oil advances below reflects this. Mozambique is in the process of addressing its energy needs through an extensive offshore gas programme and RMB's participation in this programme is reflected in the growth of gas assets over the past year.

The group's origination focus for fossil fuels has shifted to a greater emphasis on natural gas, which is seen to be a more environmentally friendly fossil fuel. RMB has also been active in the facilitation of mergers and acquisitions of oil and gas companies as the market consolidates in response to changes in the global energy landscape. Renewable energy remains a focus for the group, and RMB is actively looking for opportunities in this space, both in South Africa and other African markets.

FOSSIL FUEL EXPOSURE PER REGION

%



	2020		2019	
R million	**Drawn exposure**	**% of total group loans**	Drawn exposure	% of total group loans
Upstream oil and gas*	**6 703**	**0.5%**	4 579	0.4%
Downstream oil and gas	**8 482**	**0.6%**	6 156	0.5%
Thermal coal mines	**1 435**	**0.1%**	488	0.0%
Fossil fuels excluding natural gas	**16 620**	**1.3%**	11 223	0.9%
Natural gas	**3 093**	**0.2%**	1 334	0.1%
Total fossil fuels	**19 713**	**1.5%**	12 557	1.0%
Solar	**9 540**	**0.7%**	9 448	0.8%
Wind	**4 913**	**0.4%**	2 410	0.2%
Hydro	**166**	**0.0%**	169	0.0%
Other renewable energy	**3 240**	**0.2%**	2 458	0.2%
Total renewable energy	**17 859**	**1.4%**	14 484	1.2%
Electric utilities	**8 723**	**0.7%**	8 395	0.7%

* *Total committed direct facilities to the upstream oil and gas sector amounted to R8.6 billion ($497 million) of which R6.7 billion ($386 million) had been drawn as at 30 June 2020. There has been a year-on-year increase as a result of increased drawdowns and the depreciation of the rand.*

CLIMATE CHANGE PROGRAMME ROADMAP

FirstRand's climate change disclosures will evolve over time as the availability of sufficiently reliable and relevant data permits. FirstRand is a signatory to the TCFD's recommendations and is aware of increasing investor interest in climate-related disclosure practices. The group has every intention of incrementally increasing its disclosure going forward.

FirstRand's roadmap for the development of a complete framework for managing climate change, together with the requirements of TCFD, will inform the group's disclosure going forward.

	PHASE 1	PHASE 2	PHASE 3	PHASE 4
	High-level design and analysis	**Analysis of portfolio exposure and risk prioritisation**	**Ongoing scenario analysis, measurement and incremental analysis of all portfolio exposures**	**Ongoing reinforcement and long-term strategy development**
	FY 2020	**FY 2021**	**FY 2022 – 2023**	**FY 2024 – 2025**
Governance	• Established climate change specialist committees. • Integration of climate risk into existing board governance structures. • Ongoing board training on relevant climate-related risks and opportunities.	• Cascade climate change considerations (risk and opportunity management) into segment committees. • Develop strategies for climate change adaptation and mitigation specific to segments. • Define roles, responsibilities and mandates. • Ongoing policy development.	• Measure progress. • Internal audit of climate change management processes. • Ongoing board and management oversight.	• External assurance of climate-related finance disclosure in the annual financial statements.
Strategy	• Elevate climate change as a strategic risk and opportunity, and a long-term driver of financial and non-financial risk. • Stakeholder engagement and establishment of the relevant technical partnerships, e.g. UNEP-FI* and PCAF**. • Benchmarking – global and local peer gap analysis, emerging green taxonomies from different regulators, climate disclosure and sustainable finance. • The group's strategy includes supporting climate resilience and transition to a lower-carbon economy.	• Define strategic climate objectives and risk appetite. • Develop climate change policy. • Assess climate risk within agriculture and commercial property portfolios. • Further embed climate change considerations – incorporating externalities – into the pricing of financial resources and performance measurement. • Build capacity and train risk professionals on climate change. • Integrate group climate change strategy into investment and insurance activities.	• Define climate metrics and targets. • Align origination strategies with the group's understanding of climate change considerations. • Ensure that performance measurement and remuneration promote and reward sustainable value creation. Integrate climate targets and/or goals into remuneration models. • Build capacity and train risk professionals on climate change. • Board-level agreement through Stratco that the level of climate-related disclosure is proportionate to the materiality of climate-related risks and opportunities and complies with mandatory reporting requirements. • Consideration of mandatory climate-related reporting in other jurisdictions in which FirstRand operates.	• Ongoing assessment of the group's climate strategy and alignment with desired climate outcomes.

* *The United Nations Environment Programme Finance Initiative.*

** *Partnership for Carbon Accounting Financials.*

	PHASE 1	PHASE 2	PHASE 3	PHASE 4
	High-level design and analysis	**Analysis of portfolio exposure and risk prioritisation**	**Ongoing scenario analysis, measurement and incremental analysis of all portfolio exposures**	**Ongoing reinforcement and long-term strategy development**
	FY 2020	**FY 2021**	**FY 2022 – 2023**	**FY 2024 – 2025**
Risk management	• Clarify climate terminology, incorporate climate change with other enterprise risk types. • Identify processes to determine which climate risks and opportunities could have a material financial impact on the group. • Identify climate scenarios to inform the group's assessment of climate change materiality. • Start development of transition and physical risk impact measurement methodology.	• Describe relevant short-, medium-, and long-term time horizons, considering the useful life of the group's assets and infrastructure. • Define and embed the process for identifying, prioritising and managing climate-related risks. • Incorporate climate risk into the group's environmental and social risk assessment (ESRA) due diligence process, materiality assessment and credit modelling. • Risk prioritisation and heat mapping (geographical location, sector-specific vulnerability assessment).	• Continue to improve data systems and reporting. • Understand and prepare for future prudential or regulatory reporting requirements. • Review and improve climate assessment within ESRA due diligence process. • Develop integrated assessment models, portfolio carbon accounting, stress testing, sector analysis and internal capital adequacy assessment processes to model the impact of the transition to a low-carbon economy on the group's lending, investment and insurance portfolios.	• Continue to improve data systems and reporting. • Effectively embed climate considerations into relevant business processes, including risk management, monitoring and reporting. • Ongoing awareness and capacity building.
Risk metrics and targets	• Publication of a thermal coal financing policy. • Set a science-based emissions reduction target for group's own operations scope (1 and 2). • Disclose group's operational carbon footprint.	• Publication of energy financing policy. • Initial assessment of carbon emissions in the group's portfolio. • Define metrics to assess the impact of (transition and physical) climate-related risks on the group's lending and other financial intermediary business activities in the short, medium, and long term.	• Ongoing policy review. • Ongoing assessment of carbon emissions in the group's portfolio.	• Sectoral metrics and targets. • Set a science-based emissions reduction target for the group's financed emissions. • Consider appropriate decarbonisation targets.
Climate finance/ innovation	• Raise awareness about sustainable development opportunities (including climate mitigation and adaptation). • Work with investors and funding partners to develop and support sustainable finance.	• Develop a group climate change taxonomy (including green, brown and blue asset definitions) for incorporation into ESRA and origination process. • Develop a sustainable finance debt issuance framework, with a focus on innovation for climate adaptation and mitigation. • Consumer engagement.	• Measure social and environmental impact of climate financing activities. • Identify investors with climate finance objectives and align to opportunities. • Refine assessment, approval and data management processes for climate finance.	• Define climate finance targets. • Ongoing measurement of success. • Ongoing stakeholder engagement.

CLIMATE RESILIENCE IN THE GROUP'S OWN OPERATIONS

The management and monitoring of the group's operational carbon emissions are important to reduce the group's environmental impact and build climate resilience, and comply with climate-related legislation (e.g. the National Greenhouse Gas Emissions (GHG) Reporting Regulations and the Carbon Tax Act).

Operation performance metrics – carbon emissions

Metric tonnes of CO_2 equivalents	2020	2019	% change
Scope 1 emissions			
Fuel use in generators	2 634	1 680	57%
Business fleet travel	5 102	6 110	(17%)
Refrigerants	565	988	(43%)
Scope 1 TOTAL	**8 301**	**8 778**	**(5%)**
Scope 2 emissions			
Electricity – buildings	163 371	175 068	(7%)
Electricity – ATMs	7 690	8 371	(8%)
Scope 2 TOTAL	**171 061**	**183 439**	**(7%)**
Scope 3 emissions			
Paper use	1 348	1 856	(27%)
Business road travel	4 114	5 493	(25%)
Business air travel	9 231	11 790	(22%)
Fuel well to tank emissions	1 885	1 908	(1%)
Electricity transmission losses	3 228	3 461	(7%)
Scope 3 TOTAL	**19 806**	**24 508**	**(19%)**
Total carbon emissions South African operations	**199 168**	**216 725**	**(8%)**

Note: Overall reduction benefited from lower activity due to lockdown.

There is an **8%** year-on-year **decrease** in emissions for South African operations.

GHG emissions from electricity consumption accounts for **86% of the total emissions** from the group's South African operations.

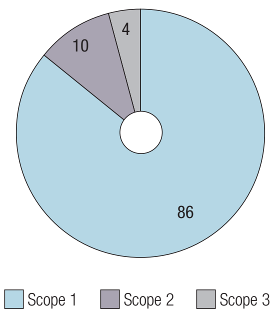
There was a **7% reduction in emissions** from electricity consumption from the previous financial year. This was achieved through ongoing energy efficiencies and utilisation of renewable energy from solar PV projects at several office buildings.

GHG emissions from scope 3 sources account for **10% of the carbon footprint** for South African operations.

A significant reduction in air travel, car rental and paper consumption in the second half of the financial year due to restrictions associated with South Africa's COVID-19 lockdown contributed to the **19% reduction in these scope 3 emissions** from the previous reporting year.

FIRSTRAND* CARBON FOOTPRINT
%

2020



* *South African operations only.*

Operational emission reduction targets

FirstRand has set science-based targets for scope 1 and 2 emissions for the group's South African operations. These targets:

- are aligned with the Paris Agreement goals (i.e. aligned with the decarbonisation level required to keep the global temperature increase below 2°C compared to pre-industrial levels);
- are set using an absolute emissions contraction methodology; and
- resulted in a 75% emissions reduction target for scope 1 and 2 emissions for South African operations by the year 2050, against a 2015 emissions baseline, with short- and medium-interim targets set to track progress.

The group's South African operations are on track to achieve this 75% emission reduction by the year 2050.

Shadow carbon pricing

FirstRand has set an internal shadow carbon price that will be used to consider carbon costs during the evaluation of new projects and infrastructure for the group's operations. This will help incentivise and prioritise low-carbon projects and support emission reductions.