



FirstRand

MEMO

To	Portfolio Committee on Trade, Industry and Competition
From	Harry Kellan CEO of FNB on behalf of FirstRand Limited
Subject	Engagement on access to development finance in support of economic transformation
Date	January 2025

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1 INTRODUCTION

FirstRand Bank Limited (the bank) is a wholly owned subsidiary of FirstRand Limited (FirstRand or the group), which is listed on the JSE Limited (JSE) and the Namibian Stock Exchange. The bank provides a comprehensive range of retail, commercial, corporate and investment banking services in South Africa and offers niche products in certain international markets. The bank has three major divisions which are separately branded: First National Bank (FNB), WesBank and Rand Merchant Bank (RMB)

FNB services the retail and commercial customer segments, RMB corporate and investment banking clients WesBank provides vehicle and asset finance, fleet management and related services.

Since FirstRand was established in 1998, the group has acknowledged the importance of fostering an inclusive economy and society to ensure a sustainable and prosperous future.

2 PURPOSE OF DOCUMENT

This document provides responses to questions posed by the Parliamentary Committee on Trade, Industry and Competition. The information provided is designed to address intent behind the questions and not specifically in line with the narrow definition of development credit finance as outlined in annexure 1.

The document:

- highlights the approach of FirstRand and its operating businesses to advancing inclusive and sustainable economic growth and fostering broader participation and transformation in that growth (Financial Services Charter data is described in annexure 2);
- outlines strategic initiatives, key achievements and challenges encountered in developing SMEs¹; and
- explains some of the challenges including regulatory complexities and discrepancies when it comes to implementation.

FirstRand **looks forward to next week's session and** welcomes this opportunity for a substantive and constructive engagement with the Portfolio Committee.

¹ SME is defined as companies with revenue of <R60 million per annum.

3 THE ROLE OF FINANCIAL INSTITUTIONS IN SOCIETY

Understanding the financial system within which FirstRand operates provides useful context to the significant role that a systemic financial institution plays in the economy and society. A distinction is made between the real economy and the financial economy.

In the real economy goods are manufactured, infrastructure built, agricultural goods produced, metals and minerals mined, and services provided to individuals, businesses and government entities. In the financial economy monetary services, including payments and credit, are provided. Financial assets such as deposits, bonds and shares are traded. These are also valued and priced in the financial economy, which gauges the risks of these assets.

The sole purpose of the financial system is to serve the real economy. Financial institutions provide many different services that create economic value and contribute to social development. They act as intermediaries in financial transactions, facilitating the flow of funds among participants in the economy. They are also the custodians of financial assets.

These institutions also transfer risk between market participants, either directly by means of trading and market-making activities, or indirectly through the shifting of risk among several market participants, as with insurance activities. This creates stability in the financial system and in society, as risk events are ultimately mitigated through broader distribution and by not being concentrated in a single individual or entity.

Banks, in particular, have a further function: ensuring that capital is allocated efficiently throughout the economy between providers of funds (savers) and users of funds (borrowers). Access to credit increases the supply of money in the system and has a multiplier effect on economic growth. Effectively, borrowers utilise their future income capacity to access current funding available in the financial system, which then enables individuals and businesses to make investments and purchases and build infrastructure much faster than if they had to first build up cash reserves. A bank, through appropriate internal risk management, together with regulators, also ensures that both individuals and entities in these saving and borrowing interactions are protected and not exposing themselves to excessive risk, thus ensuring the safety and stability of the financial system.

A commercially sound and profitable banking system is non-negotiable. Examples from around the world have demonstrated the devastation that results from banking crises, including job losses, recessions and social issues. Banking is the most highly regulated sector given its systemic role in the economies they serve. Banks are subject to stringent requirements and oversight to ensure financial stability, protect consumers, and prevent fraud and money laundering. This extensive regulation helps maintain trust in the financial system. South Africa's banking sector is highly regarded globally.

Protecting **depositors'** money

The primary priority of banks is to protect depositors' money. This fundamental responsibility underscores the critical need for a sound and stable banking system. The ability to maintain depositors' confidence is foundational

to the stability and sustainability of financial systems. This priority ensures that depositors' funds are kept safe and accessible 24/7, supported by stringent prudential and fiduciary regulations.

Given this backdrop, systemic financial institutions such as FirstRand are uniquely placed to facilitate sustainable, inclusive economic activity and positive societal outcomes by:

- Providing products and services that assist customers in creating wealth and saving for their futures.
- Ensuring that low-income consumers can access appropriate financial services, enabling their economic inclusion and facilitating productivity.
- Providing appropriate lending solutions for businesses to grow, create jobs and uplift the broader communities they serve and where they operate.
- Enabling customers to transact on a secure and readily available payments platform safeguarding **customers'** their money.
- Creating opportunities and supporting clients looking to participate in transformational infrastructure projects.

4 FIRSTRAND CONTRIBUTES TO ECONOMIC TRANSFORMATION USING ITS SHARED PROSPERITY APPROACH

South Africa remains one of the most unequal countries with economic growth, unemployment and poverty constraints. As a systemic integrated financial services group, FirstRand supports inclusive economic activity and positive societal outcomes through its business activities and role in capital allocation.

Equitable distribution of wealth is a key imperative for the country's success and sustainability. The group is intentional about creating value for multiple stakeholders and maintaining trust within the financial system, as embedded in its purpose statement. Equitable distribution will also be beneficial to the financial sector as well.

Group's purpose statement:

FirstRand commits to building a future of SHARED PROSPERITY through enriching the lives of its customers, **employees and the societies it serves. This is the foundation to a sustainable future and will preserve the group's enduring promise to create long-term value and superior returns for its shareholders.**

FirstRand's operating businesses are executing on strategies to deliver a blend of financial and social outcomes. Some examples below:

- At 30 June 2024 **FNB's** mortgage book stands at R272 billion, with R22 billion dedicated to affordable housing, promoting home ownership.
- In supporting business financing, FNB has lent R169 billion to South African commercial ventures, including R44 billion for agriculture and R50 billion for women-led businesses.

- As part of efforts to drive a savings culture in the country, FNB has been particularly focused on innovative, well priced savings products and as a result FNB has the largest share of retail and commercial deposits in the sector.
- **FNB's strategy of financial inclusion** has resulted in 8.17 million active eWallets and 4,350 CashPlus agents.
 - An eWallet is a digital wallet that allows users to store, send, and receive money electronically, facilitating access to financial services for unbanked and underbanked populations, thereby promoting financial inclusion by providing convenient and secure financial transactions.
 - CashPlus is a service that allows both FNB and non-FNB customers to deposit and withdraw cash at FNB CashPlus agents using their cell phones, promoting financial inclusion by providing convenient access to banking services without the need to visit a branch.
- Both FNB and RMB are executing on lending for climate transition, raising \$450 million in development finance funding for climate initiatives and R7 billion in green bond issuance.
- At a group level R153 billion in sustainable finance has been facilitated, including R90.6 billion in FY24 and R50 billion for infrastructure. The recent R2.6 billion social bond issuance in November 2024 will fund affordable housing, SME finance, and ICT assets for underserved communities.

For other examples of how the overall group is contributing to positive societal outcomes, please refer to the full 2024 Report to Society and 2024 Climate Strategies Report available at:

<https://www.firstrand.co.za/media/investors/societal/firstrand-report-to-society-2024.pdf> and

<https://www.firstrand.co.za/media/investors/annual-reporting/firstrand-climate-change-strategies-report-2024.pdf>

Transformation within the economy enabled through financial resource allocation

A significant enabler to addressing societal challenges is through a considered approach to the allocation of capital in the economy, in particular to support business in executing transactions that respond to pressing social needs. Enablers executed by Group Treasury include:

- Differentiated pricing for positive impact allows funding benefits on qualifying social deals to be transferred to clients.
- Bond issuances characterised by disciplined capital allocation.
- Five bonds have been issued, with a penalty of 15 basis points for issuer if the full allocation of the bond to identified social or environmental assets is not achieved within 24 months.
- Partnerships with Development Finance Institutions (DFIs) to tackle social development at scale, including the provision of technical assistance for new market-making solutions.

Relationship with Development Finance Institutions

Relationships with the various multinational and national developmental financial institutions (DFIs) where either funding or risk sharing type transactions are key to delivering a positive client impact where activities are aligned, such as across various societal or climate areas of offering and advancement.

For example, collaboration with institutions like the Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF):

- FirstRand and the IDC have an arm's length banking relationship and refer deals to each other, but at this stage there is no direct financing arrangement between these two parties. However, there are financing arrangements through subsidiaries of the IDC, such as Small Enterprise Finance Agency (SEFA) and Khula Credit Guarantee Limited (Khula)
- With reference to the NEF, FirstRand is supportive of the initiative and is currently working with the NEF to finalise support for industrialisation and small business development, especially in rural areas.

As at 30 June 2024, the below reflects that rand equivalent of funding raised from the DFIs and the developmental categories that it supports.

<i>Societal / climate focus area</i>	<i>Available funding ('Rm)</i>	<i>Utilised funding ('Rm)</i>
<i>Affordable housing</i>	R910	R910
<i>Climate adaptation</i>	R673	R218
<i>Financial inclusion (SMEs)</i>	R13,150	R8,869
<i>Green buildings</i>	R8,645	R8,645
<i>Renewable energy</i>	R7,335	R3,695
<i>Women in the economy (SMEs)</i>	R1,593	R1,593
<i>General agriculture</i>	R910	R910
Grand Total	R33,215	R24,839

ZAR/USD exchange rate of R18.20 is used.

Guarantee arrangements also exist with local and international DFIs, such as Khula Portfolio Credit Guarantee for R160million, and FMO's Nasira facility R910million for financial inclusion where risk mitigants products assist lending to underserved client bases.

Case study 1: Khula Portfolio Credit Guarantee

Many emerging farmers either lease land or use communal property instead of owning land. This results in challenges when applying for finance as leased and communal property has limited or no collateral value. To address this challenge, FNB entered into an agreement with the DFI Khula Credit Guarantee Limited (Khula) whereby Khula provides a guarantee for the missing collateral. This protects FNB from credit losses, provides access to funding for farmers who would not meet normal credit appetite and enables preferential pricing.

The total facility size is R160m, where initial financing has been provided to eight projects involved in the production of citrus, maize, beef and avocados by end 2023. One of these projects is Makgoba Dieplaagte, a community-based partnership between the Mamphoku Makgoba Community Trust and a large commercial farmer, ZZ2 Group (ZZ2). FNB provided R7.2 million in 2020 to support the development of a 10-hectare avocado farm on communal land. Now operating as Afrikado, the project has generated 11 permanent employment opportunities and 12 seasonal employment opportunities for the community. Once in full production, it is expected that the project will generate more than R5 million in revenue per annum. The agreement with ZZ2 also provided the community with access to technical skills, management services, machinery and offtake in local and international markets.

Case study 2: FMO Nasira facility

The NASIRA program is a risk-sharing facility for emerging and frontier market financial institutions, providing an innovative way of unlocking support to small entrepreneurs. The NASIRA programme is supported by the European Union and MASSIF, which is the financial inclusion fund that FMO manages on behalf of the Dutch government.

The total facility is equivalent of R910m, where the guarantee focuses on loans provided to Micro, Small, and Medium-sized Enterprises (MSMEs). **The NASIRA guarantee aims to support FNB's strategy to increase its lending to MSME entrepreneurs.** The NASIRA guarantee will target a segment of customers in the South African financial industry, namely >50% Women/Youth/Rural and >65% Black Economic Empowerment as defined in the South African context.

The benefit to FirstRand is the intentionality to building a future of shared prosperity, i.e. intentionally using its core business activities, including its role in allocating capital to the economy, to add value to society profitably **and at scale. This aligns well with FMO's goal of supporting impactful lending** in the region, making FirstRand an ideal cooperation partner. This guarantee will enable FirstRand to lend to MSME clients that are typically outside of its risk appetite, thereby contributing to financial inclusion and job creation.

5 FINANCE PROVIDED BY FNB FOR DEVELOPMENTAL AND/OR PRODUCTIVE PURPOSES:

As the retail and commercial business of the group **FNB's activities have a meaningful impact on the country, the economy and broader society. This section of the document represents a deep dive on FNB's strategies to deliver products and services that drive financial inclusion and economic transformation.**

FNB is structured to service customer segments and sub segments with the appropriate products and services. The Personal Segment serves customers who earn up to R750 000 per annum. This segment includes customers that are characterised as unbanked, underbanked and underserved. While South Africa has made significant strides in reducing the underbanked population to 4.1 million as per the 2023 BMR report, there are still 12.5 million underbanked and 2.9 million underserved South Africans.

Given this backdrop, the Personal segment strategy focuses on developing solutions that meet customer needs and providing easy-to-understand **products accessible on FNB's secure platform**.

In the Business sub segment FNB supports the development and financing of small and medium enterprises (SMEs), which FNB defines as businesses that generate a maximum of R60 million annual business turnover.

FNB continues to provide financial solutions and access to financial resources for the unbanked and underbanked in South Africa, despite recent challenges. These include changes in regulations that introduced more stringent requirements and created limitations on **customers'** ability to use some of these solutions within the financial ecosystem. Despite the challenges, FNB continues to innovate and strive to meet the needs to underserved customers across its ecosystem.

The products and services relevant to all these underserved customers – both retail and commercial - are covered in this section.

- Affordable housing
- Transformational agriculture
- SME lending and development
- Lending to women in business
- Black business growth financing
- Community economy

Unlocking credit to enable financial inclusion

In considering how to assess credit risk for the unbanked and underbanked, it is critical to consider alternative data sources that provide opportunities to assess the potential of a customer to repay debt. In response, FNB has introduced alternative data sources to unlock credit for financial inclusion, within the confines of adhering to consent and Protection of Personal Information Act requirements. This provides an indication of risk, which opens up the potential to offer credit to a base that was previously unknown in terms of risk.

Critical to the inclusion of non-banked and low-income customers in the formal credit market, is that the type of credit products offered needs to evolve outside of the standard offerings.

Affordable housing

Owning a home is foundational to improved living standards and financial security, better educational outcomes and health standards, and greater social cohesion. FNB has developed affordable housing products to facilitate home ownership through offering mortgages to low-income communities, thus providing access to collateral to build their net asset value and create intergenerational wealth over time.

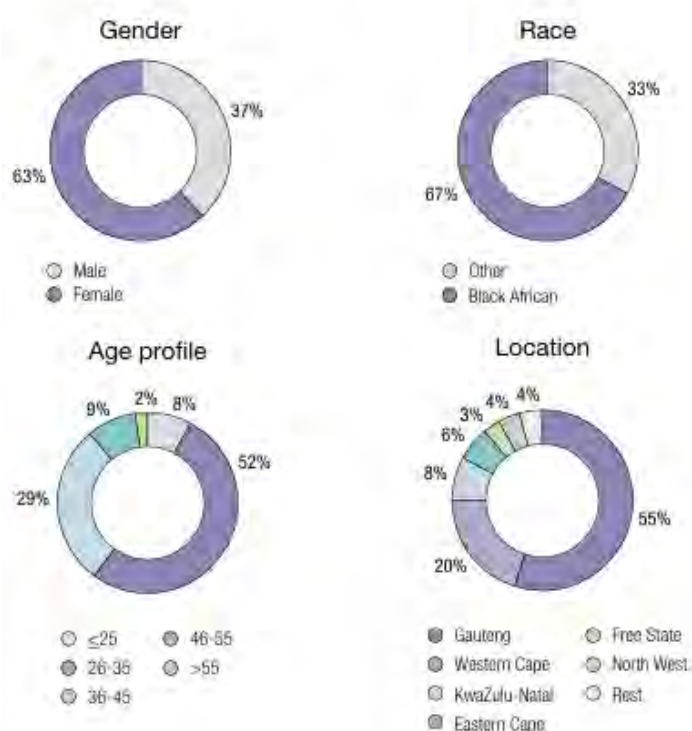
FNB's key achievements so far include the following:

- A focused strategy to assist low-income households in purchasing homes in the primary and secondary markets has resulted in an affordable housing book of R21.9 billion as at 30 June 2024, representing 69 429 low-income households. The housing book has increased 34% since June 2021
- Government subsidies have been integrated into affordable housing lending processes to improve affordability for customers.
- Improved efficiencies have been brought about throughout the property value chain.
- Several programmes have been piloted to regularize title deeds for low-income households, which enables homeowners to gain access to the appropriate credit product.

During the year

R3.1 billion in home loans was advanced
(representing 20% of total home loans advanced) to

5 313 low-income households across the following demographic:



Newly developed housing units

The development of new units in the affordable housing market is crucial to addressing the current housing backlog in South Africa. FNB plays a significant role in this value chain, and during the 2024 financial year, 1 494 low-income households received home finance from FNB for newly developed housing units valued at a

total of R1 billion. Using Stats SA data, it is estimated that 16 134 job opportunities were created on the back of these advances.

Secondary market

During the 2024 financial year, FNB advanced R2.1 billion of funding to 3 819 low-income households purchasing already-built properties in the secondary market.

For the year ended 30 June

	2024	2023	2022	2021
Newly developed units				
Value of funding provided for newly developed housing units	R1 billion	R1.5 billion	R1.3 billion	R0.8 billion
Number of low-income households that received home finance for newly developed housing units	1 494	2 213	2 014	1 417
Number of job opportunities created on the back of advances	16 134	22 130	20 014	14 170
Secondary market				
Value of funding provided for the secondary market	R2.1 billion	R2.5 billion	R2.4 billion	R1.8 billion
Number of low-income households that received home finance for housing units in the secondary market	3 819	4 272	4 121	3 329

Affordability

The affordability of housing remains a significant challenge in South Africa, with the majority of South Africans unable to afford an entry-level house based on their income and limited access to collateral. The high inflation and interest rate environment since November 2021 has contributed to affordability constraints. Other key pressures include increases in building costs and, as mentioned earlier, insufficient supply of housing stock in the affordable segment, particularly in metropolitan areas experiencing rapid urbanization. The following initiatives demonstrate how FNB is contributing to improving access and affordability in this space.

- First Home Finance

First Home Finance (FHF) is a government subsidy aimed at customers who fall within the “gap” housing market. The subsidy is designed to bridge the gap for customers who earn too much to qualify for social housing and too little to afford a privately developed home. These customers are currently defined by the Department of Human Settlements as households earning less than R22 000 in gross monthly income, which would enable a household to qualify for a bond of approximately R600 000. The subsidy is calibrated on a sliding scale, meaning the less a customer earns the larger the subsidy they receive. The maximum subsidy is R169 000.

The subsidy covers attorney-related registration and bond costs. It also applies to home purchases funded by personal loans, pension-backed loans and stokvels. In addition, permission-to-occupy agreements for communal land areas are eligible for the subsidy.

During 2024 FNB advanced over R1.1 billion of home loans to households in the gap housing market, leveraging R76 million of FHF disbursements. This has been used to finance a total of 1 075 units.

- Collective Buying

The FNB collective buying home loan solution allows up to 12 people to buy a home together and share monthly repayments. This way of investing makes it more affordable for customers to build a home, buy or invest in property and achieve their financial goals. This has been particularly helpful for affordable housing customers facing persistently high interest rates.

Benefits:

- More affordable monthly repayments
- Qualifying for a larger home loan
- Ability to pay a larger deposit as a collective
- Shared maintenance and running costs, as well as shared financial risk

These customers may also access FHF if their collective monthly income is less than R22 000.

During the past financial year:

- R340 million has been advanced.
- The homes purchased have been sold for an average price of R1.2 million.
- Fifty-nine per cent of them were full-title properties and 37% were sectional title, with 4% falling into the “other” category.
- Twenty per cent of the value advanced fell into the category of affordable housing market.

Property ownership unlock

Whilst home ownership is vital for household wealth it can only be leveraged if a formal title exists. “Dead capital” refers to property held informally and not legally recognised, hence it cannot be mortgaged.

Dead capital disproportionately affects low-income households for several reasons. It includes houses built before 1994 and never transferred, and housing built as part of the rollout of the Reconstruction and Development Programme after 1994, where beneficiaries may not have received title deeds. Households with untitled properties have no access to traditional mortgage products, which may lead them to accessing more expensive unsecured debt. In addition, properties at the low end of the market, particularly social housing units, tend to trade below their true value.

FNB has partnered with multiple stakeholders to address this systemic challenge. The potential exists to unlock significant value for each household assisted. With appropriate scale this could prove to be transformational, leading to increased household wealth, improved recovery of municipal levies and the growth of local economies.

A government-subsidised home on average sells for R235 137 without a mortgage, compared to R560 570 when mortgaged². The R325 433 differential represents the potential loss of equity for sellers.

- The differential is due to the price of government subsidised homes being driven down by decades of trading outside of formalised and regulated transfer and titling. The significant discount can therefore be attributed to the inherent risk for the buyer as well as the inability for the buyer to mortgage or re-mortgage the property. By contrast the formal market has checks and balances in place, including for example, established valuation practices, electricity compliance etc.

FNB provides support to the Tenure Support Centre, an organization that focuses on assisting clients on formalizing titling due to some of the challenges described above. The TSC has a desk at the FNB Khayelitsha branch. FNB also supports the TSC and its important work in Operation Vulindlela on the property titling stream.

- When a home is mortgaged, the customer benefits in terms of access to one of the cheapest forms of credit that can be repaid for an extended period of up to 30 years (generally 20 years). The term and the relatively low cost of credit therefore enables wealth creation, especially in a market where there is property price appreciation. Due to the property being used as collateral in the mortgage loan, the bank can mitigate its risk in the event of default by the client and that then leads to the ability to lend money to clients at much cheaper rates, whilst creating an adequate return on shareholder capital.

Agriculture

Investment in agriculture is critical to food security as well as the sector's transformation and sustainability, given the size of its contribution to South Africa's GDP.

The South African commercial farming sector remains largely untransformed, given that emerging farmers have limited access to resources, including land and investment capital, to build productive assets. FNB commercial continues to focus on supporting the **sector's transformation and is committed to developing a larger base of black commercial farmers**. To ensure a holistic approach, FNB collaborates with commodity organisations, industry leaders and government institutions to develop solutions that promote financial inclusion and access to funding in emerging agriculture.

Agricultural transformation

FNB's agriculture solutions enable commercial farmers to proactively engage in transformation initiatives to empower emerging black farmers, their employees and the communities in which they operate. These solutions include funding, as well as access to training and offtake contracts, which are typical barriers to entry.

² South Africa Housing Market Report 2024, Centre for Affordable Housing Finance in Africa.

Below is an example of the most common BEE structure, which highlights the value contributed and derived by each party.



Year As at 30 June	Lending to black-owned companies in the agriculture sector (R million)	Funding deployed through BEE structures (R million)	Number of black farming enterprises participating in BEE structures
2020	3,167	669	79
2021	3,626	676	87
2022	5,186	806	98
2023	8,352	1,300	103
2024	6,757	1,068	94

The 2023-2024 year-on-year decline in lending reflects muted activity across the sector, given a decrease in commodity prices and the impact of drought.

Support for SMEs

SMEs and Micro, Small and Medium-sized Enterprises (MSMEs)³ are vital drivers of economic growth, job creation and innovation. FNB supports this sector through providing accessible and affordable credit facilities to SMEs and through SME development. FNB leverages tailored financial products, capacity building initiatives and strategic partnerships with key financial institutions such as developmental finance institutions, to bolster SME growth. Furthermore, FNB provides black-owned SMEs with non-financial support, some examples of which are included later in this document.

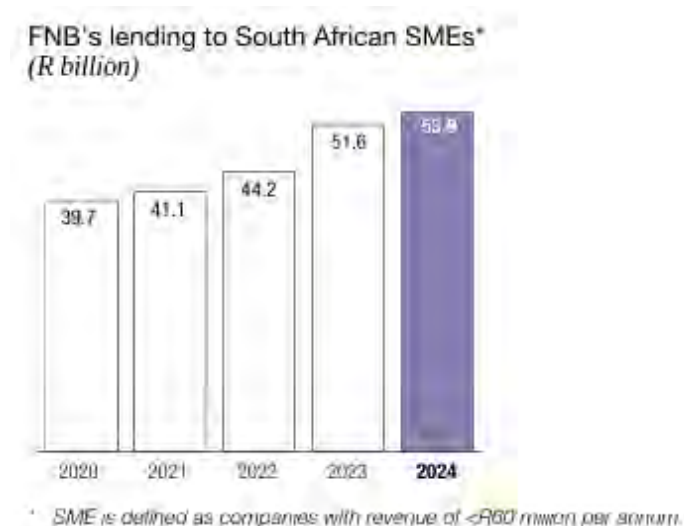
³ Micro, small and medium-sized enterprises. Micro enterprises are considered to have between 0 -10, employees. Small enterprise 11 – 50 and medium enterprise 51 – 250 employees.

FNB remains committed **to supporting government's vision for a transformed economy and ensuring that** financial services play a pivotal role in driving equitable growth. By prioritizing financial inclusion and SME support, the bank contributes to national development goals and promotes shared prosperity.

SME lending

FNB contributes to economic development and employment by providing innovative funding solutions to SMEs. FNB is now the largest lender to SMEs in South Africa.

To facilitate lending to SMEs, FNB utilises an alternative credit scoring model. This model analyses behaviour – instead of audited financial statements – to understand financial and trading history. It also applies automated processes that significantly simplify loan application and approval. The financing primarily facilitates working capital facilities which assist businesses in maintaining healthy cash flow positions. Behaviour-scored credit represents approximately 30% **of FNB's SME lending and facilitates** meaningful financial access for SMEs that lack audited financial statements.



FNB's base scored credit lending offering is supplemented by alternative funding offerings, including invoice financing (Selective Invoice Financing) and more recently, Merchant Cash Advance (FNB Cash Advance) which was launched in October 2024 and has already shown strong demand and take-up from SME clients.

FMO Nasira (further described in section 4. Relationship with development finance institutions), was launched in November 2024 and supports FNB's strategy by focusing on BBEE, Women in Business, Youth Entrepreneurs, and Community Economy growth.

The Starter Limit Credit Card was introduced to improve financial inclusion. It is designed to offer all the features and benefits of **FNB's** business credit card, with limits ranging from R500 to R2000 for existing customers and R500 for new customers. A key part of the strategy is to help customers build a credit history. The Starter Limit

Credit Card has proven effective in this regard, allowing customers to qualify for higher credit card limits or other credit facilities, such as business loans or overdrafts.

Other credit products that FNB has developed for SMESs are described below:

- **Energy Bounce Back Loan:** FNB has partnered with government to help consumers mitigate the impact of electricity supply challenges through the Energy Bounce Back Loan Guarantee Scheme. The scheme is designed to assist businesses and households through financial incentives for the installation of rooftop solar-generated energy and energy storage assets, contributing to a more sustainable future and ensuring businesses stay operating during periods of loadshedding.
- **Purchase Order Financing:** FNB has partnered with a financier to address a need in the SME sector by providing funds for purchase orders. Many SMEs receive purchase orders but face difficulties covering the costs to fulfil them. This service offers funding solutions for cash-strapped SMEs.
- **Asset Based Finance:** Credit facilities used to assist businesses to finance productive business assets.
- **Commercial Property Finance:** FNB offers facilities that SMEs can use to own, build, and invest in office, industrial, retail space or residential developments with flexible repayments aligned with various incomes.

FNB being a responsible credit provider, offers SMEs credit facilities if they meet the necessary qualifying criteria. Generally, FNB offers credit facilities to SMEs who have an active FNB Business Account and are in good standing. Depending on the product requested additional conditions may apply e.g. minimum turnover per annum, security/collateral, and the usual compliance of a tax clearance certificate. All credit facilities are marketed via the FNB website, banking app, social media pages, billboards and other media channels like TV and radio. All interest rates on FNB products are personalised and linked to prime.

SME development

SMEs require a broad range of solutions to overcome obstacles to growth, optimise opportunities and improve business sustainability. FNB has long-standing initiatives that support SME development, such as alternative funding solutions and developmental programmes that address growth constraints for SMEs at different maturities and in different sectors. The Vumela Fund (Vumela) is a vehicle to implement enterprise and supplier development objectives. Vumela focuses on the provision of growth finance to early-stage SMEs.

FNB provides black-owned SMEs with non-financial and financial support through various mechanisms.

- **Programmatic, non-financial support:** Developmental programmes tailored to specific SME needs, i.e. relative to their size, stage of growth and/or industry.
- **Grant funding:** Non-recoverable grants to SMEs to drive innovative, catalytic projects.
- **Loans at preferential funding rates:** FNB offers preferential rates to the group's SME suppliers on overdraft and loan facilities. This reduces the cost of funding of traditional working capital products.
- **Patient growth capital:** FNB provides qualifying SMEs with term loans that have more tailored repayment schedules and requirements compared to normal commercial loans. This eases the repayment pressure on the SME, allowing it to implement long-term growth strategies.

- Non-traditional funding: Debt and equity funding to black-owned SMEs through the Vumela Fund (a vehicle to implement enterprise and supplier development objectives. Vumela focuses on the provision of growth finance to early-stage SMEs).

For the year ended 30 June

Metric	2024	2023	2022
SME development spend (non-recoverable)	R58.5 million	R53.9 million	R45.7 million
Of which programmatic, non-financial support	R54.3 million	R36.2 million	R27.9 million
Of which grant funding	R4.2 million	R17.7 million	R17.8 million
Number of SMEs that received training and mentorship	369	214	245
Number of SMEs that received grant funding	2	8	4
Loans advanced at preferential rates	R39 million	R34 million	R38 million
Numbers of SMEs receiving loans at preferential rates	81	58	55
SME development through Vumela			
Funds under management at 30 June	R732 million	R502 million	R566 million
Contribution in the year	R230 million	R0	R200 million
Funds deployed to beneficiaries since 2009	R438 million	R415 million	R404.3 million
Of which loans	R290 million	R97 million	Not reported
Of which equity	R148 million	R89 million	Not reported
Number of SME beneficiaries (investees) supported since 2009	42	31	29
Number of jobs created since 2009	8 910	7 860	7 026

Enterprise Development

FNB's partnership with various local business development specialist firms has enabled the rollout of educational summits and masterclasses in each of the nine provinces. FNB believes that entrepreneurs benefit most from learning directly from other entrepreneurs. Therefore, FNB is committed to partnering with a range of business development support service providers—who themselves are successful entrepreneurs with proven track records—which enables FNB to assist these service providers in expanding their own businesses. Additionally, **FNB's Fundaba (an online “business coach in your pocket”)** remains a key resource in delivering self-paced educational content to SMEs. This past year, FNB is particularly proud to have collaborated in launching the Art of Scale, an innovative business development support platform that assists businesses in the scaling phase of their growth journey.

During the 2024 financial year, 19 bespoke business developmental programmes were delivered, focused on supporting youth, and SMEs in untransformed industries both within our supply chain (e.g. external debt collectors and tracers), as well as serving markets such as the export market. The programmes reached 369 beneficiaries through the delivery of more than 17000 hours of support in various forms.

Women in business (WIB)

Women-owned businesses⁴ are crucial for Africa's growth, driving economic development, job creation and financial integration. They foster innovation and often achieve high profitability⁵. Promoting gender equality in business reduces disparities and enhances community wellbeing.

Over the past decade, FNB has focused on its commercial strategy, gaining the largest market share of commercial clients in South Africa, and in the process has supported many women-owned businesses. FNB's partnership with the International Finance Corporation (IFC), especially in the early years allowed it to provide preferential funding to WIB clients. FNB currently has a funding arrangement with the FMO Dutch Developmental Finance Institution Nasira Risk Sharing Scheme (FMO Nasira), which is further described in section 4.

As at 30 June	2024	2023
FNB's Lending to South African women-owned businesses	R49.6 billion	R40.9 billion
Number of unique customers (circa)	229 000	223 000

Over and above lending, FNB Business continues to provide support to women in business through education and access to markets and networks:

- Market access: FNB Business offers digital platforms and in-person events for women to connect with potential suppliers and clients. The FNB digital nav>> Marketplace features a women-owned business badge, helping buyers identify and support these businesses.
- Networking: Opportunities are created through FNB events and sponsorships that allow women-owned businesses to connect, share and engage with each other.
- Education: FNB provides financial literacy education and development programmes.

Black Business Growth Financing (BBGF)

BBGF is a revised category under the amended Financial Sector Charter (FSC) and replaces the previous categories of black-owned SME lending and BEE transactions.

The criteria for BBGF is to finance black-owned companies that have direct black management and control. A key objective is assisting these businesses to become financially sustainable. Solutions include preferential lending terms and conditions, committing funds to black-owned fund managers, and equity and asset financing at preferential rates.

⁴ Definition of women-owned business:

- **≥51% owned by a woman or women; or**
- **≥20% owned by a woman or women; and (i) with ≥1 woman as CEO/COO/president/vice-president and (ii) with 30% of the board of directors composed of women, where a board exists.**

⁵ World Economic Forum, *How female-led start-ups can transform Africa*, August 2002

Community Economy

Many SMEs operate in townships and rural areas (which is collectively referred to as the “**Community Economy**”). This segment of the economy has traditionally been referred to as “informal” given the high prevalence of businesses that aren’t formally registered and which transact mainly in physical cash, which has the unintended consequence of limiting the digital financial footprint these businesses need to be eligible for traditional banking products.

With a dedicated team focused on the community **economy**, FNB’s objective is to provide financial and non-financial solutions to businesses in and around townships. The intended outcome is to improve their financial inclusion, independence and scale, thereby contributing to improved livelihoods and job creation.

FNB’s approach has combined on-the-ground local market insights and data, informing decisions like branch footprint (e.g. most of the branches opened by FNB in the last five years have been in townships).

For the 2024 financial year, independent merchants ⁶have met performance expectations. The introduction of new solutions such as FNB Cash Advance, tiered pricing and outright purchases of merchant devices is expected to further grow financial inclusion.

For the current period, FNB’s focus areas include enhancing service capabilities, regional support, and further alignment of products and solutions within the community economy. FNB also plans to continue expanding the community economy initiative to include more communities (geographies), further extending the reach of its financial services.

FNB’s township marketing/sponsorship efforts span from supporting local sports tournaments to signage/branding of local businesses – showcasing FNB’s partnership with local industry leaders that themselves play a big role in their communities.

As at 30 June

	2024	2023	2022
Number of active, unique customers ^{1,2} in targeted communities	219 874	205 266	204 601
Number of active independent merchants across targeted communities	4 701	4 400	3 802
Merchant card activity in targeted communities	R9.9 billion	R9.6 billion	R7.9 billion
Unique customer turnover ³	R280 billion	R268 billion	R224 billion
Advances – MSME ⁴	R1.6 billion	R1.1 billion	R931 million
Deposits – MSME ⁴	R5.5 billion	R4.7 billion	R4.4 billion

⁶ Excludes major franchises/corporates like Clicks, Engen, KFC, Builders Warehouse etc, being larger companies and already counted within corporate banking; and are not “additive” in growing FNB’s penetration of true township originated businesses.

eWallet enabling financial inclusion for the unbanked

eWallet allows FNB customers to send money to any recipient, with or without a bank account. The introduction of electronic wallets creates a safe and convenient way to remit money, address the security issues associated with carrying cash and solving for financial inclusion.

June 2024 Performance:

- eWallet's active base grew by 4% from 7.9 million to 8.2 million.
- Send money volumes grew by 5% from 65.6 million to 68.7 million,
 - Of the 68.7 million send money transactions initiated by FNB customers, 29% (20 million) were free for the FNB customer who sent the eWallet, thus encouraging this solution to remit to the unbanked.
- In transaction value, send money grew by 7% from R39 billion to R41.8 billion.
 - Of the total send money value, 10% (R 199.3 million) was used by the recipient for prepaid airtime purchases.

The current eWallet offering allows recipients to cash out at FNB ATM networks and selected retailers. FNB standalone merchants and several fuel stations. An initiative through retailer partnerships via technology integration with a third party will optimize cash servicing costs and enable recipients to access funds at more cash-out points.

The new payment landscape will shift cash to digital methods like PayShap, on-sends, virtual cards, and cross-border payments, enhancing financial access and reducing security risks. Furthermore, the enhancement of eWallet will focus on enabling merchants to facilitate acceptance. This approach ensures that the strategy can achieve broader inclusion by addressing both the needs of individual wallets and merchant wallets.

It is worth noting, 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. FNB believes this is the correct outcome for customers.

Enabling funeral cover on EasyZero

The EasyZero transactional product was created as a bridge between eWallet and introducing clients to the formal banking ecosystem. This product was designed to address barriers to entry by offering a solution that promotes financial inclusion for South African citizens through the creation of a product that does not charge any monthly account fee and operates under a risk based regulatory framework.

Easy Zero provides financial services to 1.3million customers of which 57% are female and 20% are receiving social services grants. The product provides essential banking services ensuring customers incur little to no transaction fees, monthly account fees, or rogue debit orders. It includes:

- Low transactional fees and no debit orders
- Multiple payment solutions
- Funeral cover

- Linked savings account.
- The ability to receive and send money to any bank, deposit at ADTs, withdraw money (free up to R1,000) and buy prepaid airtime/data bundles and electricity.

Access to funeral cover for the underbanked using an innovative collection method: Easy Zero allows for a simple account-opening process to promote financial inclusion for customers who cannot provide proof of residence by allowing them to open an account using their phones and start transacting without visiting an FNB Point of Presence. The product has evolved to enable customers to take up additional banking solutions. In November 2022, FNB introduced a solution that enables Easy Zero customers to take up personalized funeral **policies through a simplified due diligence process. Monthly premiums are based on the customer's profile and** the number of lives covered (each policy allows for cover of up to 21 family members). To date, almost 29,375 customers have protected themselves and their families with over R2,5 billion worth of cover.

Stokvel digitisation

A stokvel is a type of savings club, mainly utilised by low-income individuals and communities, which consists of a group of people who have entered into an agreement to contribute a fixed amount of money over a specific period for a common purpose.

Even after almost a century of existence, the Stokvel market remains an untapped opportunity for banks and related financial institutions. Typically, members contribute a fixed amount of money regularly, whether it be weekly or monthly, and the pooled funds are then used for various purposes, such as buying groceries, paying school fees, investing in property, or using it as a burial society to cover the family or community.

FNB introduced its digital stokvel offering to enable the stokvel group to manage and monitor funds more effectively through the following functionality:

- All members can view the account balance instantly.
- Security and convenience are significantly improved, as transactions are digital.
- Dual authorisation.
- No need to go to an FNB branch to draw or deposit cash.
- Signatories can digitally invite members to join.
- **Payments can be made directly to members' nominated bank accounts.**
- Members receive InContact messages with stokvel updates.

Beyond the low fee structure, other benefits include:

- Groups making purchases via home finance stokvels can buy properties jointly, which contributes to long-term investments and wealth building for members, by means of:
- **diversifying these groups' investment holdings to asset classes other than cash; and**
- generating income via rentals of such properties purchased.

Stokvel members can buy funeral cover for themselves and family members. Group members have the benefit of a discount of up to 20% on insurance premiums, depending on the number of stokvel members.

In April 2023, FNB introduced three additional interest rate tiers for stokvels. Prior to this, balances of R100 000 and above were grouped together. The introduction of the interest rate tiers means that groups with balances above R500 000, R1 million and R5 million, respectively, now have an interest tier catered to each. The higher interest rates for larger balances reward growth and have contributed to a significant increase in the average interest earned by customers during the financial year.

The FNB Stokvel digital solution has grown by 60% year on year in terms of the number of Stokvels on the FNB book. This value proposition ensures that once a Stokvel group opens their Stokvel Savings account in branch, they can handle all other Stokvel affairs without having to go back into the branch for servicing. The Stokvel can digitally add and delete members, as well as pay the members via eWallet or EFT, whether they bank with FNB or not. This ensures that the FNB Stokvel solution is not just for FNB banked customers but encourages customers to either be banked or digitally registered on the App to enjoy the full benefits of a digital account, which also enables all members to be able to view the Stokvel balance on a safe and secure platform.

As at 30 June

	2024	2023	2022	2021
Number of stokvels registered on the digital platform	84 761	52 920*	26 195*	11 582
Number of stokvel members registered on the digital platform	302 002	188 171	89 572	35 919
Total inflows**	R3.9 billion	R2.5 billion	R1.1 billion	R315 million
Balance of group savings	R2.6 billion	R1.5 billion	R667.3 million	R223.5 million
Percentage of new to bank transactional accounts from stokvel members	47%	46%	45%	40%
Average annual interest rate earned by customer	7.7%	6.3%	3.3%	2.8%

Foreign nationals

As with FNB's resident customer base, there is also a non-national customer segment with the same needs and wants as resident customers. These customers are grouped into in-country non-nationals (i.e. Asylum Seekers, Refugees, Foreign Nationals, and customers from the CMA that are residing and working in South Africa) and out-of-country non-nationals (i.e. non-residents, non-tax residents and customers from the CMA residing and working in their home country).

FNB provides banking services to in-country non-nationals, offering products they qualify for. FNB addresses the needs of out-of-country non-nationals by offering a value proposition that complies with Exchange Control regulations, enabling them to bank similarly to locals within set parameters.

Extraction and recognition technology has been implemented with the use of AI which has improved the ability to authenticate the validity of passports across 20 countries. FNB is committed to onboarding quality, compliant customers through **FNB's** industry-first Visa Verification capability. Formulation of a collections strategy for non-residents was introduced to reduce debit card abuse within the customer base.

FNB's marketing to support financial inclusion strategies

FNB's marketing strategies are designed to educate customers on product features and processes utilising channels to reach all segments. These include:

- Direct Marketing to eligible base via App push messages (APM, SMS, USSD and Emails).
- Data is used to identify contextual client base, and clients are filtered based on risk eligibility.
- Digital and social media campaigns
- FNB Distribution Channels and Sales teams: Branches, Advisors, Contact Centres
- Public Relations related engagements, Television, and Radio
- Billboards
- Community radio
- Market activations at various geographies e.g. University campus activations and awareness days.

6 **FNB'S** CORPORATE SOCIAL INVESTMENT

As a complement to business activity, teams across FNB's customer-facing brands have set up initiatives that seek to leverage platforms, systems, client relationships and outreach ability for the benefit of broader society. This portfolio is known as the Care portfolio with social and community causes supported across four key mechanisms:

1. **Donate:** Customers can donate cash or eBucks to a cause of their choice. Donations are disbursed to vetted organizations to ensure effective use and measurable social impact. Donors receive section 18A tax certificates for cash donations.
2. **Adopt:** Customers can adopt an ECD center, Old Age Home, or GBV safe house. Tools and checklists are available on the app to guide the adoption process. A dedicated team provides additional support to adopters and beneficiaries.
3. **Volunteer:** Employees can volunteer their time and monetary donations to registered organizations or schools. The volunteer program matches employees with opportunities to make a real difference.
4. **Disaster Relief:** The Retail and Commercial Disaster Relief Fund provides rapid temporary disaster relief to affected communities.

As at 30 June	2024	2023	2022
Total number of ECD facilities adopted	3 303	1 203	1 099
Of which by employees	3 074	1 083	1 059
Total number of retirement homes adopted	276	106	68
Of which by employees	183	38	29
Number of adoptions on app through nav» Care	648	308	166
Total number of GBV safe home facilities adopted	56	7	n/a

Disaster relief

The Retail and Commercial Disaster Relief Fund (Disaster Relief Fund or the fund), which includes FNB, WesBank, DirectAxis and MotoVantage as its donors, was set up in 2020 to complement existing CSI initiatives in providing rapid temporary disaster relief to affected communities.

In 2024, R18.3 million was donated to humanitarian relief in disaster-affected communities. These interventions impacted 17 545 direct beneficiaries and approximately 1 600 households.

7 APPENDIX - DATA TABLE

Metric	Unit	2024	2023	2022	2021	2020
Supporting SMEs						
FNB's lending to South African SMEs	R billion	53.9	51.6	44.2	41.1	39.7
SME development						
SME development spend (non-recoverable)	R million	58.5	53.9	45.7	NR	NR
Of which programmatic, non-financial support	R million	54.3	36.2	27.9	NR	NR
Of which grant funding	R million	4.2	17.7	17.8	NR	NR
Number of SMEs that received training and mentorship	Number	369	214	245	NR	NR
Number of SMEs that received grant funding	Number	2	8	4	NR	NR
Loans advanced at preferential rates	R million	39	34	38	NR	NR
Numbers of SMEs receiving loans at preferential rates	Number	81	58	55	NR	NR
<i>SME development through Vumela</i>						
Funds under management at 30 June	R million	732	502	566	NR	NR
Contribution in the year	R million	230	0	200	NR	NR
Funds deployed to beneficiaries since 2009	R million	438	415	404	NR	NR
- Of which loans	R million	290	97	NR	NR	NR
- Of which equity	R million	148	89	NR	NR	NR
Number of SME beneficiaries (investees) supported since 2009	Number	42	31	29	NR	NR
Number of jobs created since 2009	Number	8910	7660	7026	NR	NR
Women in business						
FNB's lending to South African women-owned businesses	R billion	49.6	40.9	NR	NR	NR
Number of unique customers	Number	229000	223000	NR	NR	NR
Transformational agriculture						
Lending to black-owned companies in the agriculture sector	R billion	67.57	83.52	51.86	36.26	31.67
Funding deployed through BEE structures	R million	1068	1300	806	676	669
Number of black farming enterprises participating in BEE structures	Number	94	103	98	87	79
Financial Inclusion						
Community Economy						
Number of active, unique customers in targeted communities	Number	219874	205266	204601	NR	NR
Number of active independent merchants across targeted communities	Number	4701	4400	3802	NR	NR
Merchant card activity in targeted communities	R billion	9.9	9.6	7.9	NR	NR
Unique customer turnover	R billion	280	268	224	NR	NR
Advances - MSME	R billion	1.6	1.1	0.9	NR	NR
Deposits - MSME	R billion	5.5	4.7	4.4	NR	NR
Personal cash-to-card ratio	%	62.2	60	56.2	52.2	48.9
Transformational and employment equity						
Preferential procurement						
Spend on SME suppliers	R million	5648	5857	4772	4225	4265
Spend on black-owned suppliers	R million	9014	7787	6893	5452	6169
Spend on black women-owned suppliers	R million	5684	5784	4506	3405	3565
<i>As % of group total procurement spend</i>						
SME suppliers	%	38.8	44	36.3	31.2	32.9
Black-owned suppliers	%	50.8	58.5	52.4	40.2	47.6
Black women-owned suppliers	%	38.3	43.5	34.3	25.1	27.5
Supplier development spend	R million	534	438	412	259	405
Empowerment financing – black business growth financing						
Lending to black business growth funding initiatives	R billion	14.6	20.1	17.5	14.9	14

NR: not reported

ANNEXURE 1 - DEVELOPMENTAL CREDIT FINANCE AS DEFINED IN THE NATIONAL CREDIT ACT

FirstRand acknowledges that during the engagement on 22 November 2024, between the Portfolio Committee of Trade, Industry and Competition and the Standing Committee on Finance, the National Credit Regulator (NCR) stated its view that low levels of Developmental Credit Agreements (as defined in the National Credit Act (NCA)) were being granted by the credit industry, particularly by banks.

Sections 1, 2 and 3 of this document highlight the financial support FirstRand continues to provide its customers in support of financial inclusion, transformation and socio-economic development. However, none of the credit granted, as outlined in these sections, is reported as Developmental Credit Agreements for the purposes of statistical reporting to the NCR.

The reason for this misalignment between what the NCR reports as Development Credit Agreements and what the bank sees as development finance lies in the very specific definition requirements that need to be met, under the NCA, for a credit agreement to be classified as a Developmental Credit Agreement. The following examples illustrate the core definition components that prevent bank credit for developmental purposes from being classified as such in NCR statistical reports.

Examples of developmental finance that does not qualify as NCR credit finance.

Educational Loan (including student loan / school loan):

Student Finance that the bank provides is not paid directly to the tertiary education institution and the contract is mostly concluded with the parent / guardian of the student as the student does not typically earn an income yet for affordability assessment purposes.

Small business development finance:

- According to the definition and the accompanying schedule, only credit agreements advanced to consumers that are separate and distinct business entities would qualify under this category of developmental credit. This limits this type of credit (and its benefits) to companies, close corporations, and co-operatives. It excludes other forms of consumers such as partnerships and individuals who are sole proprietors from qualifying for developmental credit to develop their small businesses, because they are not registered as separate and distinct business entities.
- The NCA also has limited applicability to juristic person consumers and therefore various credit agreements concluded with juristic persons would fall outside of the ambit of the NCA and therefore **outside of the NCR's statistics**.
- As such, where the bank grants credit to juristic persons that fall outside the ambit of the NCA or to sole proprietors or similar persons that are not separate and distinct business entities, the credit cannot be classified as Developmental Credit for statistical reporting purposes.

The acquisition, rehabilitation, building or expansion of low-income housing:

- The definition speaks to any housing provided in terms of a housing development programme, housing assistance measure or any other measure or arrangement designed to – facilitate access to housing or housing delivery; or
- rehabilitate or upgrade existing housing stock, or related municipal infrastructure and services, for the benefit of persons contemplated in section 13(a), or other persons who cannot independently provide for their own housing needs.
- The bank grants credit for the financing of Reconstruction and Development Program (RDP) houses as well as against the Finance Linked Subsidy Program (FLISP) as per the schemes that the Department of Human Settlements run. Each has its own requirements and criteria but none of these can be linked back specifically to this definition of low-income housing for the purposes of defining as developmental credit granted under the NCA.
- Banks further report to the Office of Disclosures within the Department of Human Settlements under the Home loan and Mortgage Disclosure Act (HLAMDA) about low-income housing related credit advanced.

Developmental credit (with the exception of student and school loans as defined) is subject to the specific affordability assessment requirements of the Act, and this does impact access to credit and prevent bespoke credit and affordability assessments for this type of credit.

The bank's pricing of different credit products follows a risk-based approach, in line with the relevant legislation. The maximum cost of credit caps for developmental credit are higher than other types of credit, such as credit facilities, unsecured credit transactions and mortgage agreements. Therefore, consumers are **not negatively impacted due to the bank's credit pricing, even if it does not fully meet the criteria to be** classified under maximum cost of credit caps for developmental credit.

The NCR included several proposed legislative changes in its presentation on 22 November 2024, between the Portfolio Committee of Trade, Industry and Competition and the Standing Committee on Finance, the National Credit Regulator (NCR). The aim of the proposed legislative changes is to broaden consumer access to Developmental Credit. FNB welcomes an opportunity to engage with the NCR on these proposed changes.

ANNEXURE 2 - TRANSFORMATION AND EMPLOYMENT EQUITY UNDER THE FINANCIAL SECTOR CHARTER

FirstRand is proud to have achieved a level 1 broad-based black economic empowerment (B-BBEE) rating under the Financial Sector Charter (FSC) scorecard for the past seven financial years. Notwithstanding this achievement, the group acknowledges that true transformation is much broader than scorecards and that it still has more work to do. B-BBEE, as defined in legislation, means the broad-based economic empowerment of all African, Coloured and Indian (ACI) South Africans.

Employment Equity, Diversity and Inclusion

FirstRand is committed to creating a diverse and inclusive organization. This will enable innovative thinking, deeper insights, and broader perspectives. FirstRand is focused on black and female appointments at senior management levels.

Development of Black Business

The group continues to procure goods and services from companies that have been rated for their compliance with black economic empowerment (BEE) legislation. Supporting black-owned and black women-owned suppliers remains a priority. Various business units within the group offer financing/investment to black-owned small and medium-sized enterprises (SMEs) at preferential rates. Support is provided to black-owned SMEs **through the group's enterprise and supplier development initiatives.**

Equitable Ownership

FirstRand's direct black economic interest is 35.99% and its black female economic interest is 17.63%. The FirstRand Empowerment Foundation was created from the group's BEE transaction. It represents one of the largest endowments in South Africa and is black controlled. In 2024, there was significant growth in the value of unencumbered shares for black beneficiaries.

Please refer to the group's 2024 transformation and employment equity report for the detail <https://www.firstrand.co.za/media/investors/societal/firstrand-transformation-and-employment-equity-report-2024.pdf>