

# FINANCIAL AND STRATEGIC UPDATE

June 2017



FIRSTRAND BANK

# Agenda

Overview of the FirstRand group Overview of FirstRand Bank (debt issuer) FirstRand Bank financial performance	Alan Pullinger, Group Deputy CEO
Macroeconomic environment Financial sector and market infrastructure Funding and liquidity Capital	Andries du Toit, Group Treasurer



# OVERVIEW OF THE FIRSTRAND GROUP



FIRSTRAND BANK

# Introducing the FirstRand group – financial position and track record

<b>FINANCIAL HIGHLIGHTS</b> for the year ended 30 June 2016	<b>ZAR</b> <b>million</b>	<b>USD</b> <b>million</b>
Total assets (normalised)	1 149 326	78 399
Normalised net asset value	99 794	6 807
Normalised earnings	22 855	1 575
Normalised ROE	24.0%	
Capital adequacy – CET1 ratio	13.9%	

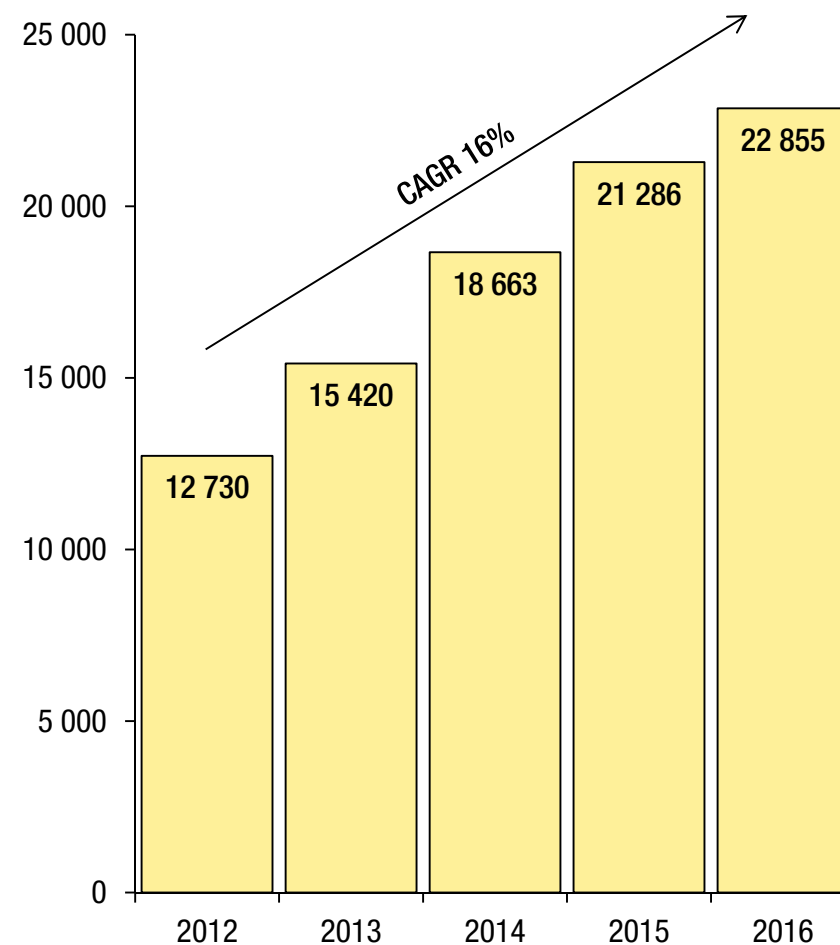
Conversion rates at 30 June 2016: Income statement: USD1 = ZAR14.51, balance sheet: USD1 = ZAR14.66.

<b>KEY OPERATING STATISTICS</b> for the six months ended 31 December 2016	<b>Number</b>
Employees	45 490
Physical representation points*	831
ATMs*	7 487

\* Relates to FNB's representation points and ATMs in South Africa and rest of Africa.

## NORMALISED EARNINGS – YEAR ENDED 30 JUNE

ZAR million



# FirstRand's operating model



## FIRSTRAND

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)



**FNB**  
First National Bank

Retail and commercial bank



**RMB**

Corporate and investment bank

**WesBank**

Instalment finance

**ASHBURTON**  
INVESTMENTS

Investment management



**FCC**

Group-wide functions

**Customer-facing**

**Stakeholder  
management**



# FirstRand's statement of intent

- FirstRand's **portfolio of leading financial services** franchises:
  - provides a universal set of **transactional, lending, investment and insurance** products and services
  - seeks to **operate in markets and segments** where franchises can deliver **competitive** and **differentiated client-centric value propositions...**
  - ...by **leveraging** the relevant **distribution channels, product skills, licences and operating platforms** of the wider group
- Strategy is executed on the back of **disruptive and innovative thinking** underpinned by:
  - **owner-manager culture**
  - **disciplined allocation of financial resources**
- Underpinned by the group's commitment to:

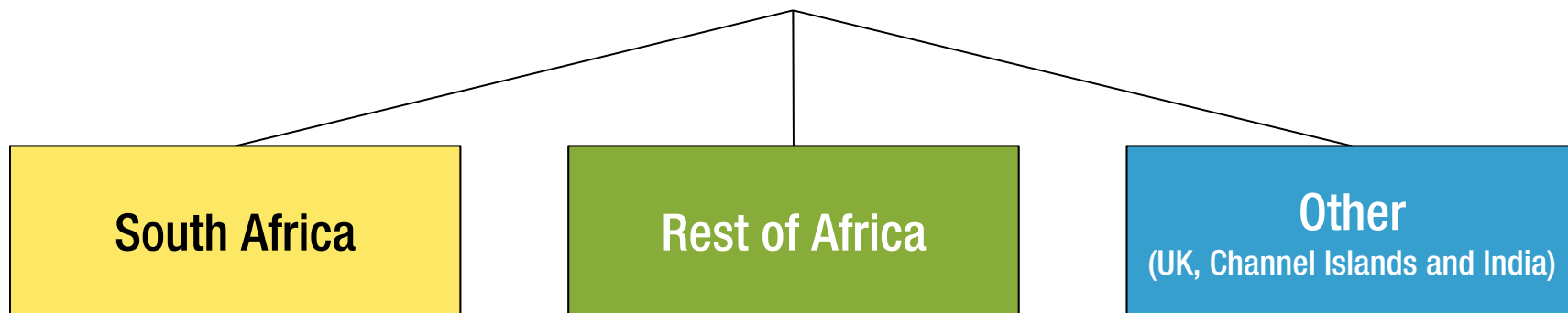
**Create long-term  
franchise value**

**Deliver superior and  
sustainable economic  
returns within acceptable  
levels of volatility**

**Maintain balance  
sheet strength**



# Group strategic framework presents broader opportunities for growth



↓  
Protect and grow banking franchises  
Broaden financial services offering

↓  
Portfolio approach to capitalise  
on long-term growth opportunity

↓  
Protect and diversify



# OVERVIEW OF FIRSTRAND BANK (DEBT ISSUER)



FIRSTRAND BANK



# FirstRand Bank is a wholly-owned subsidiary of FirstRand Limited...



**FIRSTRAND**

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100%

**DEBT ISSUER** →

**FIRSTRAND BANK LIMITED**

**DIVISIONS**



**FNB**  
First National Bank

Retail and commercial bank



**RMB**

Corporate and investment bank



Instalment finance

**BRANCHES**

London, Guernsey\* and India

**REPRESENTATIVE OFFICES**

Kenya, Angola, Dubai and Shanghai

**OTHER WHOLLY-OWNED SUBSIDIARIES OF FIRSTRAND LIMITED**

**FirstRand EMA (Pty) Ltd (FREMA)**

Banking subsidiaries in the rest of Africa

**FirstRand Investment Management Holdings Limited**

Investment management activities

**FirstRand Insurance Holdings (Pty) Ltd**

Insurance activities

**FirstRand Investment Holdings (Pty) Ltd (FRIHL)**

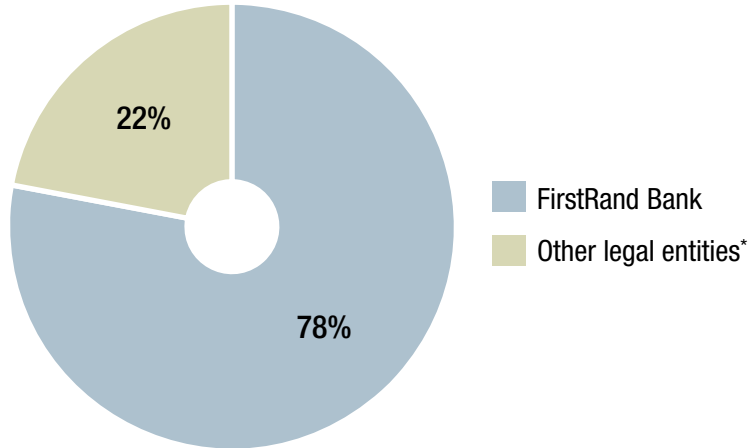
Other activities

\* Trading as FNB Channel Islands.

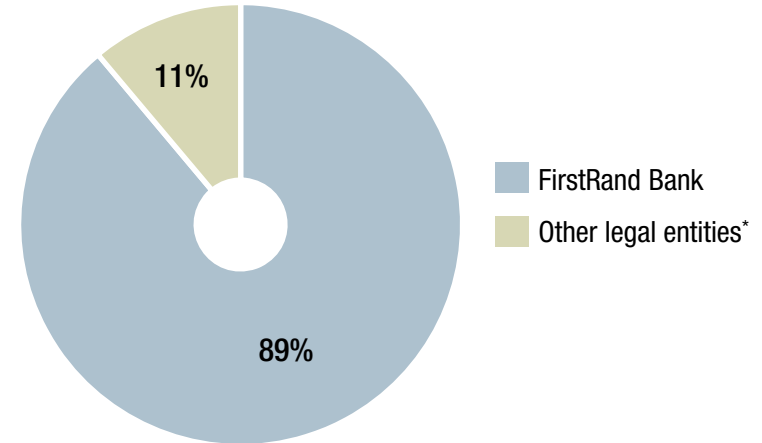


# ... and a significant contributor to the group's financial position

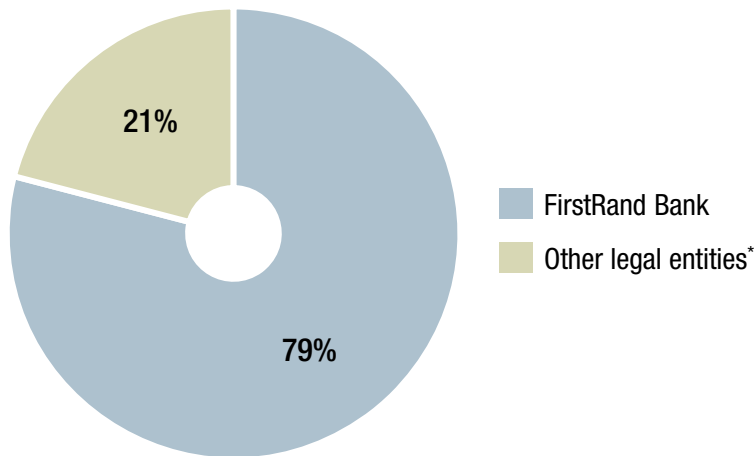
FirstRand normalised earnings



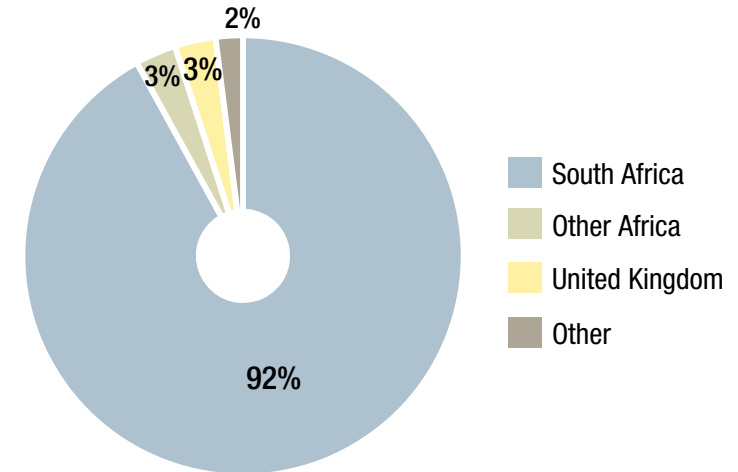
FirstRand normalised assets



FirstRand normalised net asset value



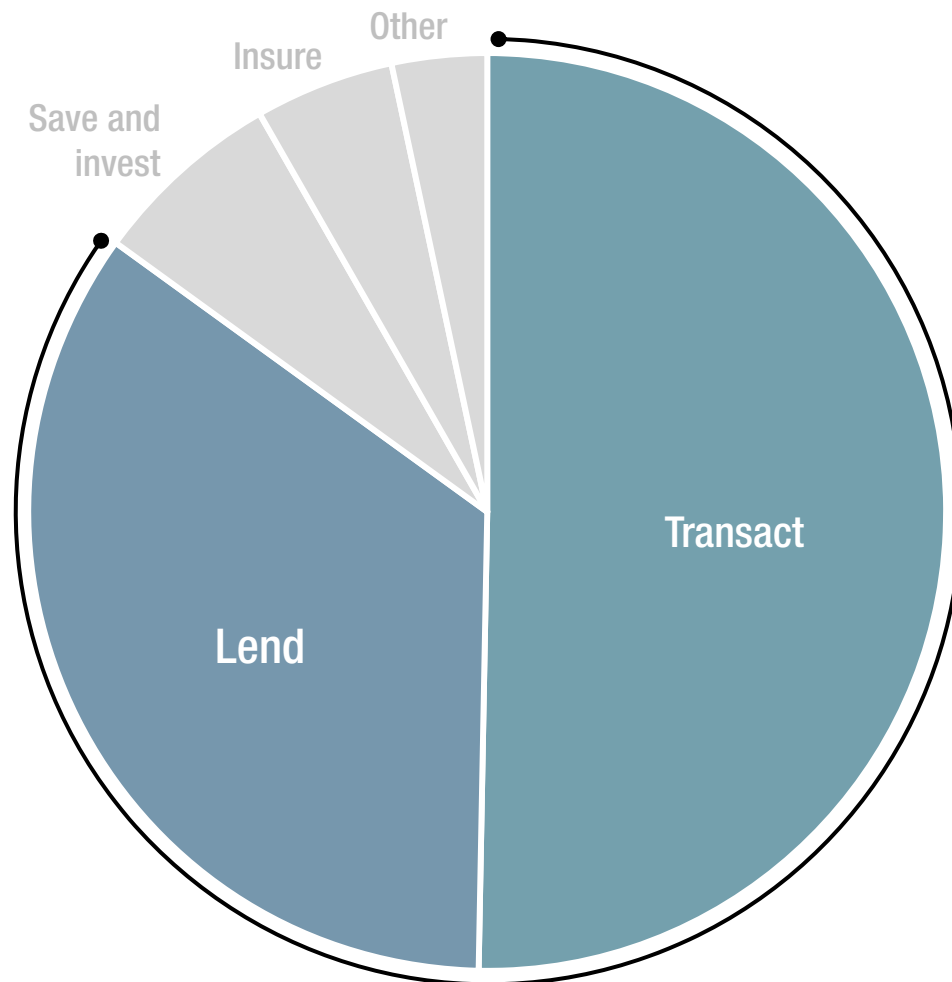
FRB geographical advances split



\* Comprises FREMA, FRIHL, FirstRand Investment Management Holdings Ltd and FirstRand Insurance Holdings (Pty) Ltd.



# Protecting and growing SA banking franchise key to group's growth



**Transact and lend = 85%  
of group revenue**

- Growing and retaining customers across all segments
- Cross-sell and up-sell key to growth in retail and commercial franchises
- E-migration underpins sustainability of retail transactional franchise
- Targeted, prudent origination strategies across all portfolios
- Disciplined allocation of financial resources
- Driving efficiencies



# Diversification in UK still presents growth opportunities for the bank

- Continued growth in motor distribution footprint
- Investing in product diversification
- Funding strategies still supportive of growth plans
- Origination strategies have been adjusted for macros

Other markets (incl. UK and India)

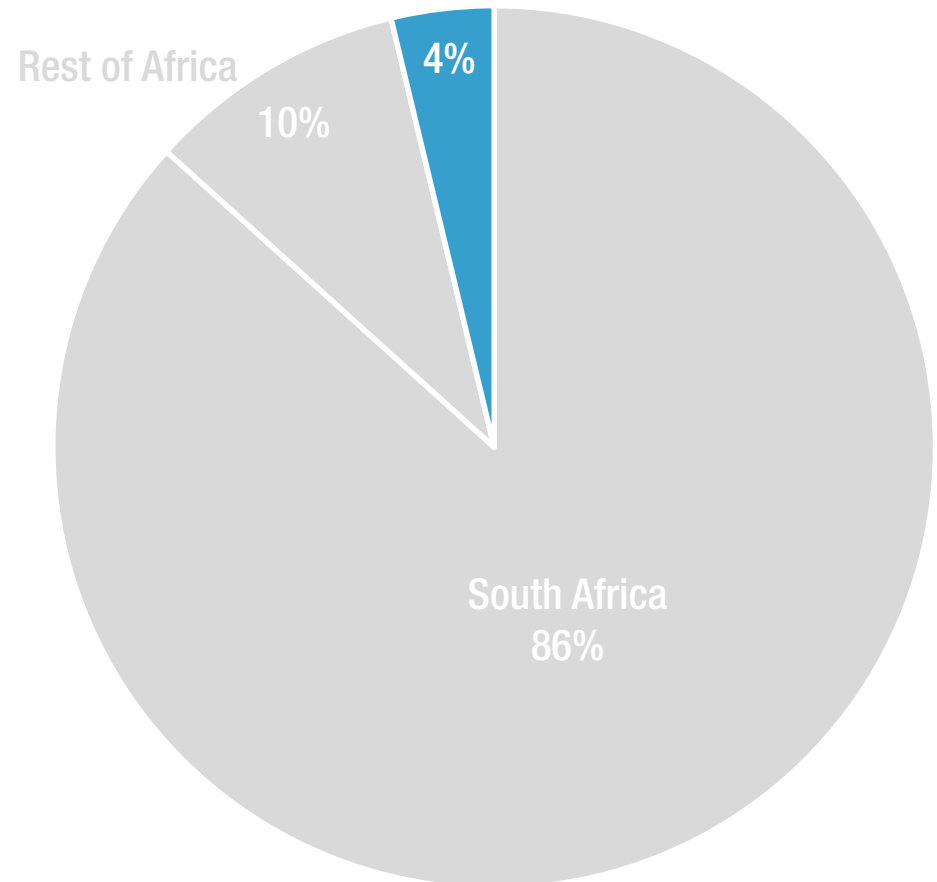


Chart shows group revenue split



## FRB normalised performance highlights

	Dec 2016	Dec 2015	% change
Profit before tax (ZAR million)	12 269	10 661	15% ▲
Earnings (ZAR million)	9 081	7 712	18% ▲
Return on equity (%)	22.6	21.1	▲
Return on assets (%)	1.75	1.57	▲
Credit loss ratio (%) *	0.79	0.79	-
Cost-to-income ratio (%)	53.8	55.4	▼
Tier 1 ratio (%) **	14.5	14.0	▲
Common Equity Tier 1 ratio (%) **	14.1	13.6	▲
Net interest margin (%)	5.22	4.95	▲
Average gross loan-to-deposit ratio (%)	93.2	93.3	▼
Gross advances (ZAR billion)	782	760	3% ▲

\* Credit loss ratio = impairments/average gross advances.

\*\* Reflects FRB including foreign branches. Ratios include unappropriated profits.



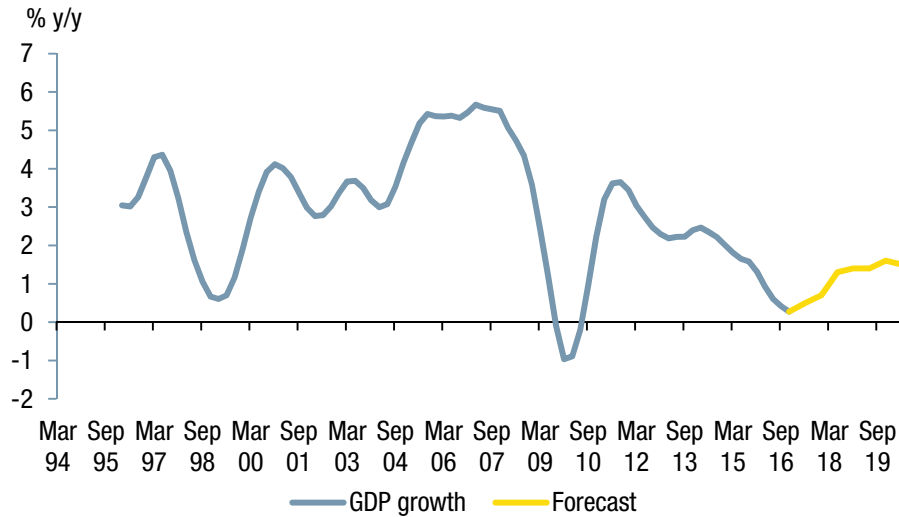
# MACROECONOMIC ENVIRONMENT



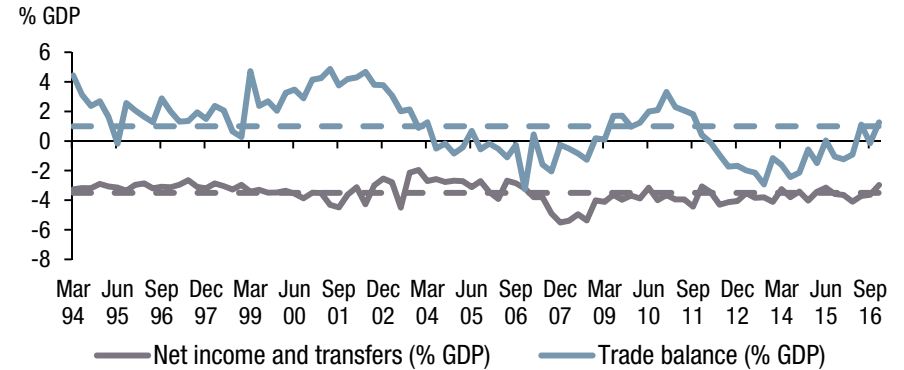
FIRSTRAND BANK

# The macroeconomic cycle has turned

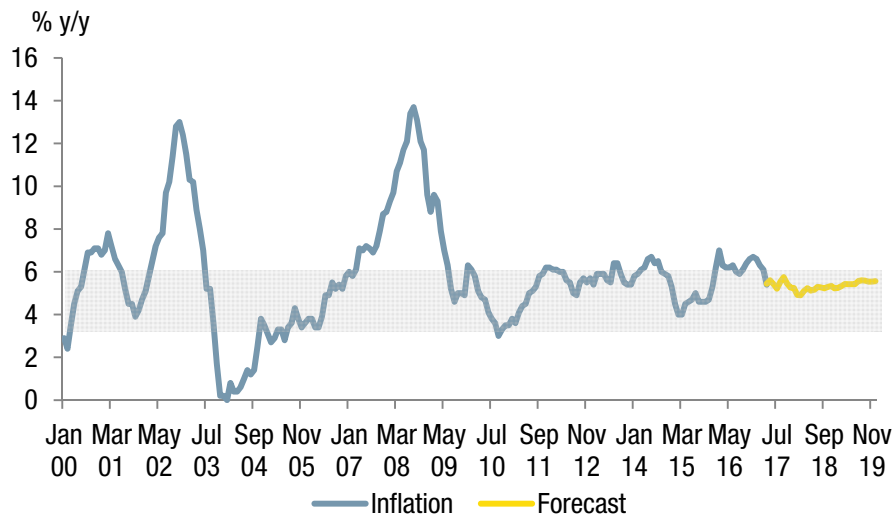
## Economic growth at cyclical lows



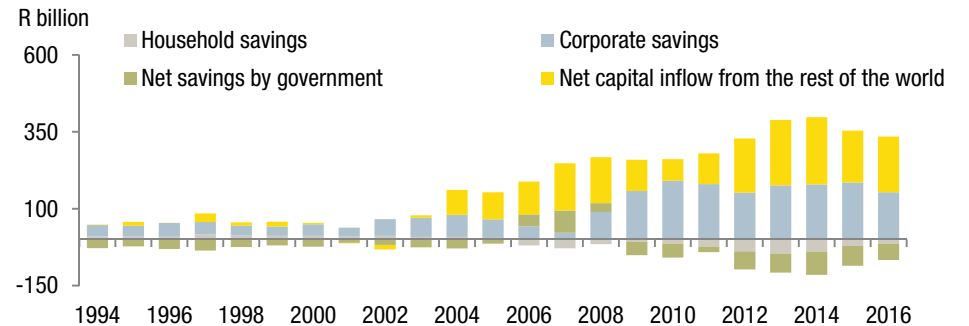
## Trade balance has pushed the CA deficit



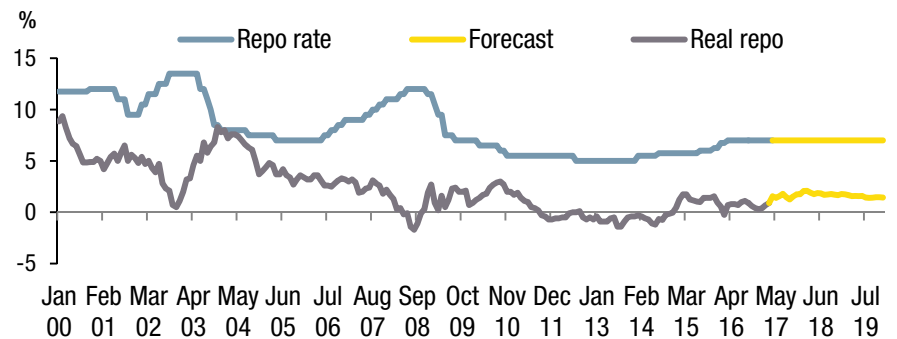
## Inflation back in the target band



## A lower rate of household and government dissaving



## Repo rate has peaked

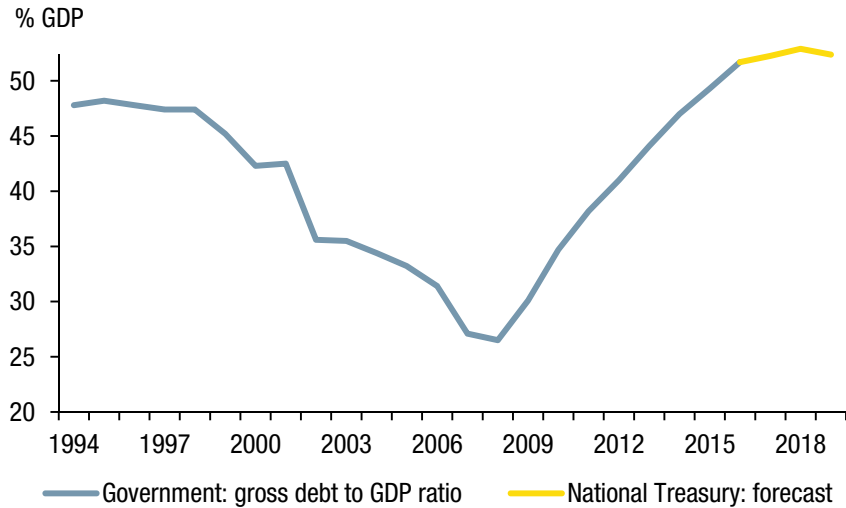


Sources: SARB, StatsSA, FirstRand.

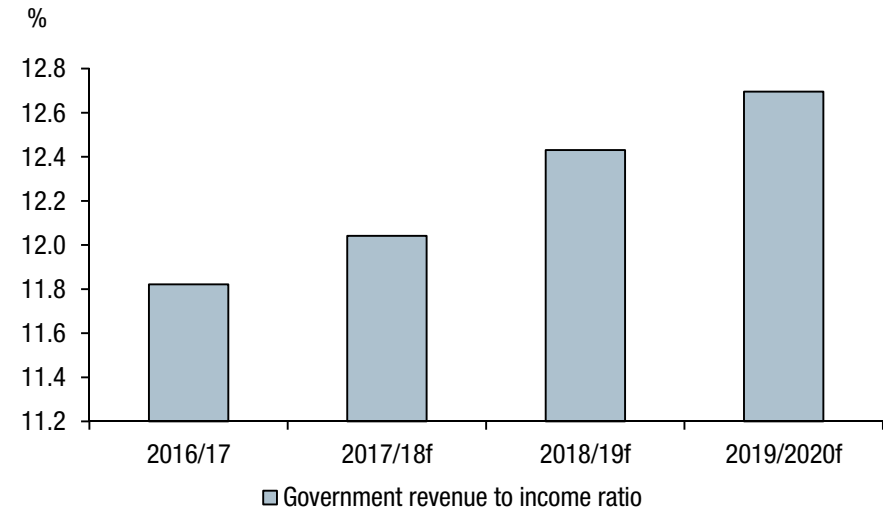


# Government debt has lifted; households have delevered

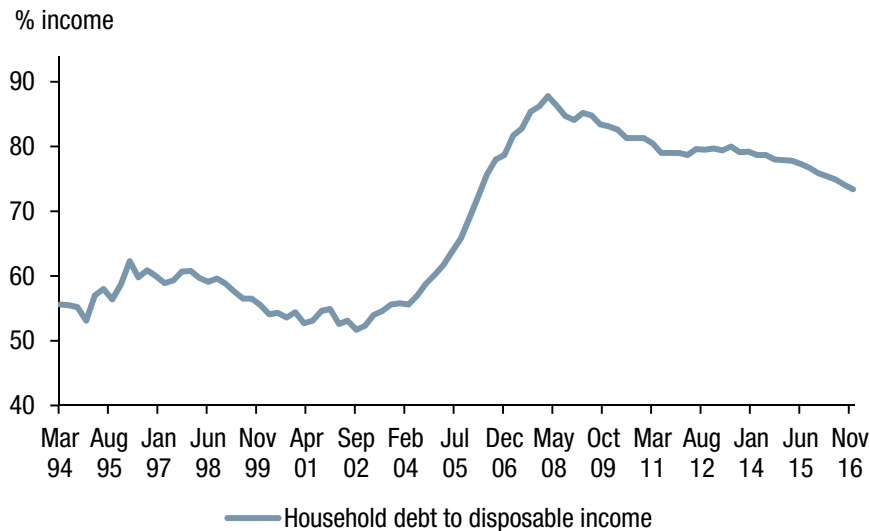
## Government debt to GDP ratio



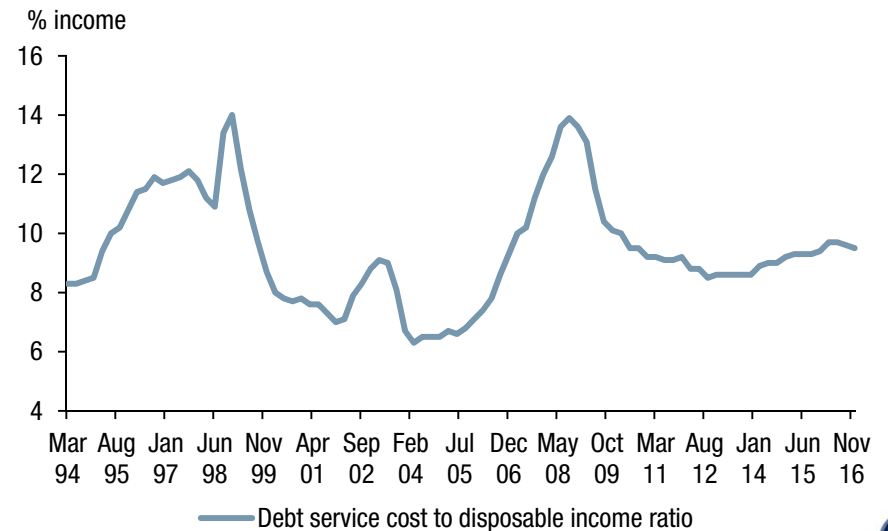
## Government debt service costs



## Household debt to disposable income growth



## Household debt service cost to disposable income



Sources: SARB, StatsSA, FirstRand.





# FINANCIAL SECTOR AND MARKET INFRASTRUCTURE



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# Further strengthening the SA financial system

- SA benefits from world class market infrastructure in payments, exchanges and securities clearing
- SA benefits in financial stability from the closed rand system
- SA is adopting the Twin Peaks model of financial sector regulation
  - Prudential Authority with the SARB
  - Financial Sector Conduct Authority
- Regulation and legislative frameworks

REGULATION	LEGISLATION
<p><b>Prudential</b></p> <ul style="list-style-type: none"> <li>• Basel III</li> <li>• Solvency assessment and management (Solvency II)</li> <li>• Financial conglomerates</li> </ul> <p><b>Market conduct</b></p> <ul style="list-style-type: none"> <li>• JIBAR code of conduct</li> <li>• Code of conduct for OTC market</li> <li>• Treating customers fairly</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Markets Bill 2012</li> <li>• Financial Services General Laws Amendment Act, 2013</li> <li>• Banks Act Amendment Bill (B17 2014)</li> <li>• Financial Markets Act</li> <li>• Credit Ratings Services Bill</li> <li>• Resolution policy framework (2015)</li> <li>• Deposit insurance policy framework (2017)</li> </ul>



# SA is progressing on G20 reforms and alignment



Table on implementation of reforms in priority areas by FSB jurisdictions (as of 31 August 2016)

The table provides a snapshot of the status of implementation progress by FSB jurisdiction across priority reform areas, based on information collected by FSB and standard-setting bodies' (SSBs) monitoring mechanisms. The colours and symbols in the table indicate the timeliness of implementation, while the letters indicate the extent to which implementation is consistent with the international standard (Basel III) or its effectiveness is hampered by identified obstacles (trade reporting).

Reform Area	Basel III <sup>A</sup>						Compen- sation	Over-the-counter (OTC) derivatives				Resolution			Shadow banking+	
	Risk-based capital	Liquidity coverage ratio (LCR)	Higher loss absorbency for G-SIBs (home jurisdictions)	Requirements for D-SIBs	Leverage ratio	Net Stable Funding Ratio (NSFR)		Trade reporting	Central clearing	Platform trading	Margin (as of 1 Sep 2016)	Transfer / bail-in / temporary stay powers for banks	Recovery and resolution planning for systemic banks	Transfer / bridge / run-off powers for insurers	Money market funds (MMFs)	Securitisation
	2013 (2019)	2015 (2019)	2016 (2019)	2016	2018	2018		end-2012	end-2012	end-2012	Sep 2016 (2019)					
Agreed phase-in (completed) date																
Argentina							△							na	**	**
Australia	C														*	**
Brazil	C						△									**
Canada	C, △							D, F							**	**
China	C, △		C				△	R, D, F								
France	MNC	△	C												**	*
Germany	MNC	△	C												**	
Hong Kong	C	C													**	
India	C	LC					△	D, F								
Indonesia							△	R							**	
Italy	MNC	△	C													*
Japan	C		C					D								
Mexico	C	C		&				D							**	*
Netherlands	MNC	△	C												**	*
Rep. of Korea								D							**	**
Russia	C	C					△								**	
Saudi Arabia	C	LC						R, D							**	**
Singapore	C														**	**
South Africa	C	C					△	D, F							**	**
Spain	MNC	△	C													*
Switzerland	C		C				△								**	**
Turkey	C	C						D, F							**	**
United Kingdom	MNC	△	C												**	*
United States	LC	△	C			&	△									

Source: FSB.



# IMF Review: South Africa's financial stability assessment

- Financial sector operates in challenging economic environment
- Relatively high capital buffers as well as sound regulation and supervision have helped mitigate risks
- Stress tests confirm the capital adequacy resilience of banks and insurance companies to severe shocks but illustrate a vulnerability to liquidity shortfalls
- Given significant downside risks to the economy, strong regulation and supervision are essential to ensure financial sector resilience
- Crisis management and resolution framework – work in progress
- Twin Peaks reform to the regulatory architecture provides an opportunity to strengthen areas needing improvement
- Authorities should promote a more competitive financial system to make it more efficient



# FirstRand Bank's credit ratings

	SOUTH AFRICA SOVEREIGN RATINGS	FIRSTRAND BANK LIMITED CREDIT RATINGS		
	FOREIGN CURRENCY	LOCAL AND FOREIGN CURRENCY		
	Long term/ outlook	Long term/ outlook	National scale	Standalone credit rating
<b>S&amp;P Global</b>	BB+/Negative	BB+/Negative	zaA	bbb
<b>Moody's</b>	Baa3/Negative	Baa3/Negative	Aaa.za*	baa3

\* Highest rated in South Africa.

Credit ratings as at 13 June 2017.

Sources: S&P Global Ratings and Moody's Investors Service.

Sovereign rating is a ceiling to standalone credit rating and credit profile



# Protect and enhance market access

- Protect the balance sheet
  - Within our external balance sheet consider both liquidity risk and business risks
  - Rating downgrade risk had been reflected in stress testing, credit origination and balance sheet strength
- Protect the counterparty status
  - FRB is an operating CLS member, FRB is a Euroclear and Clearstream member
  - FRB is an LCH member via FirstRand Securities Limited (UK entity)
- Foreign currency funding
  - Create flexibility, enhance availability, efficiency and more diversified foreign currency funding
  - Considering structured and secured funding solutions
- Developed markets
  - To provide sustainable funding access for MotoNovo alternative funding strategies are being explored



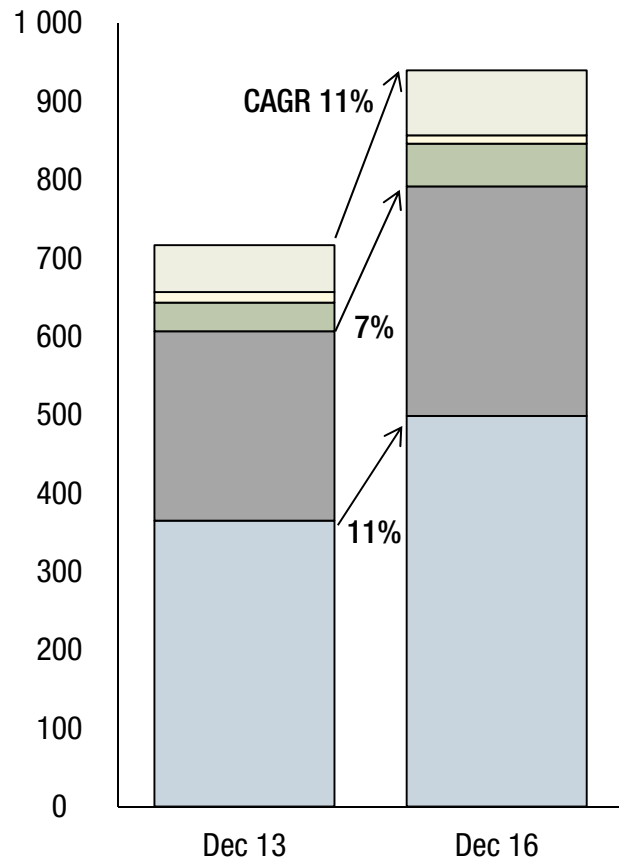
# FUNDING AND LIQUIDITY



FIRSTRAND BANK

# FRB's funding and liquidity strategy is anchored to growing the deposit franchise and improving balance sheet liquidity

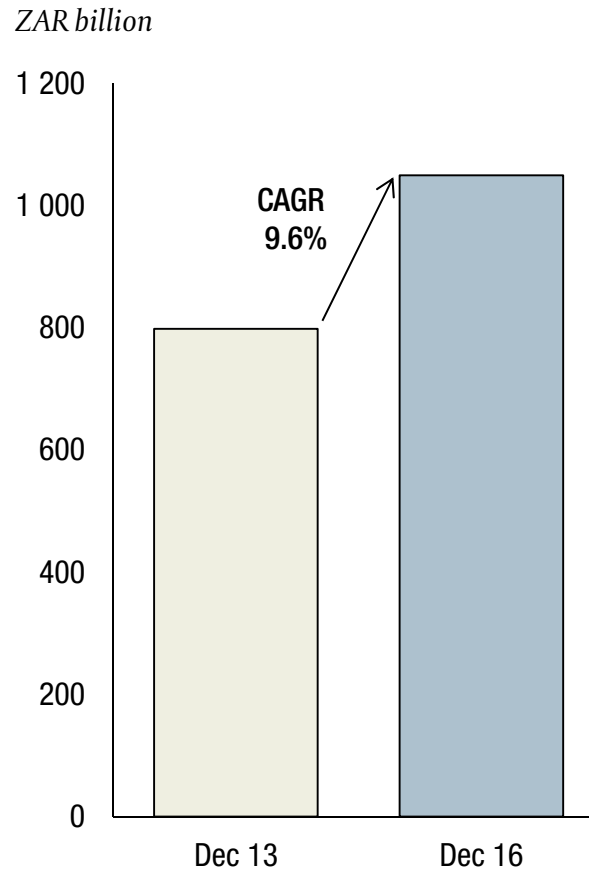
Funding composition (ZAR billion)



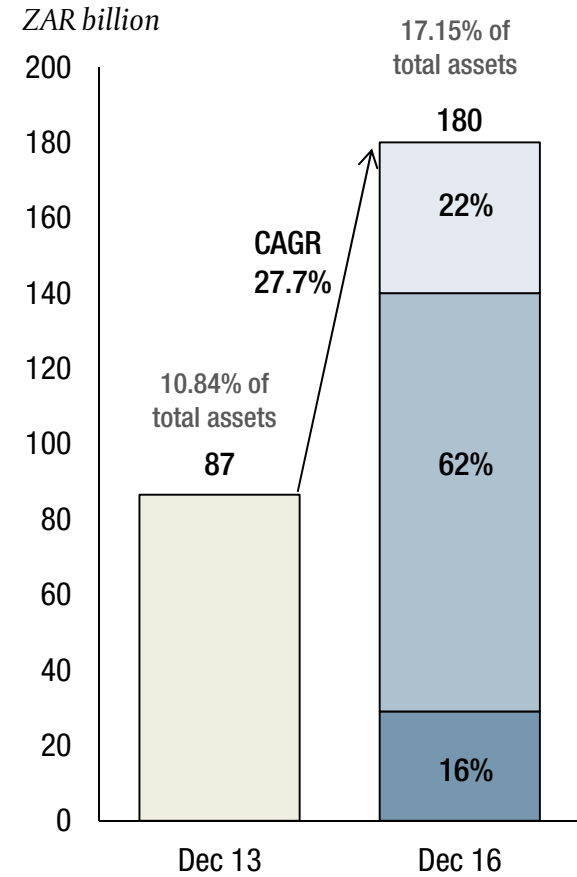
- Capital and retained earnings
- Foreign funding
- Customer deposits
- Other
- Institutional funding

Source: SARB BA900.

Balance sheet growth



Liquid asset\* growth and mix



- Other liquid assets
- Government bonds and bills
- Cash and central bank deposits

\* Includes cash, HQLA and central bank eligible collateral.





# Update on liquidity ratios

## LCR – 104% (Dec 2016)

- LCR phase-in requirements continue with minimum requirement
  - 2017: 80% and 2018: 90%
- Exceed minimum requirements incorporating a management range for seasonal volatility
- Industry work groups to improve reporting consistency to enable a fair and efficient market

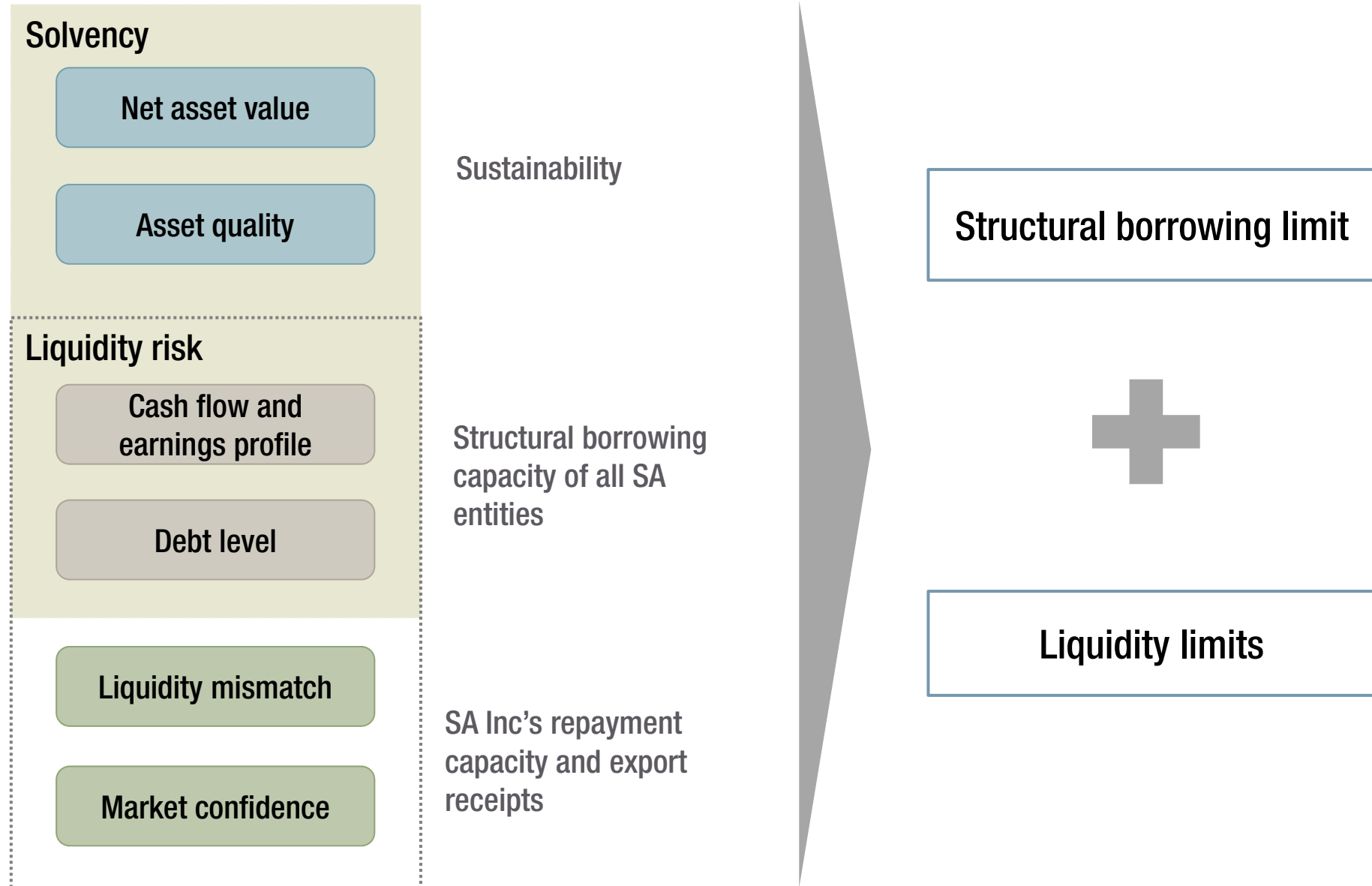
## NSFR – effective Dec 2018

- SARB adopted an ASF for FI deposits <6m of 35%, considering regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy
- In addressing the LCR, the bank adopted strategies that improve structural liquidity risk thereby also assisting with NSFR compliance
- The bank estimates that it exceeds minimum requirements on a *pro forma* basis
- SARB has excluded the CLF from NSFR

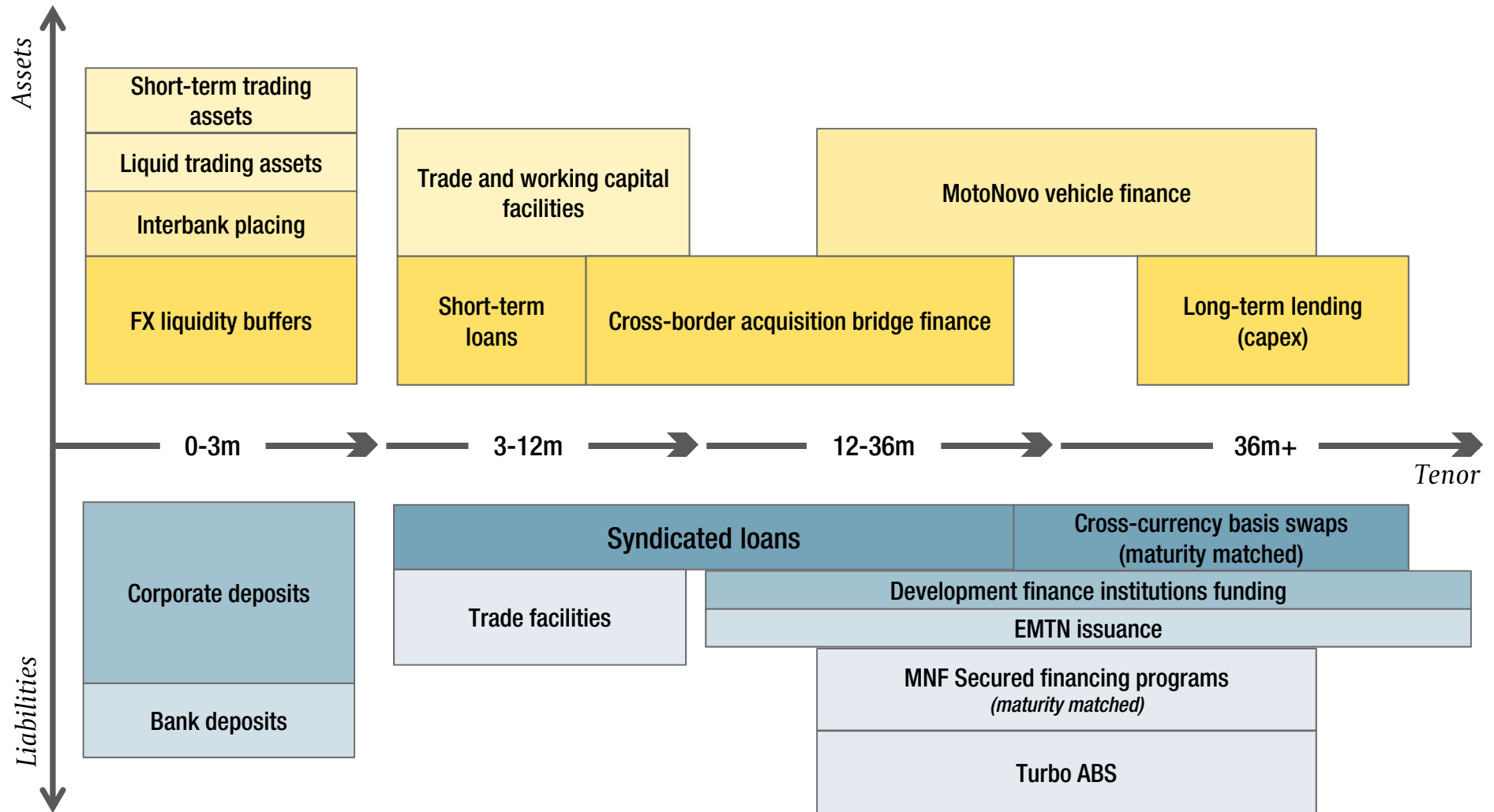
FRB on track to comply with end-state requirements



# Stylised view of FirstRand's external debt philosophy ...



# FirstRand's philosophy results in a sustainable FX balance sheet structure



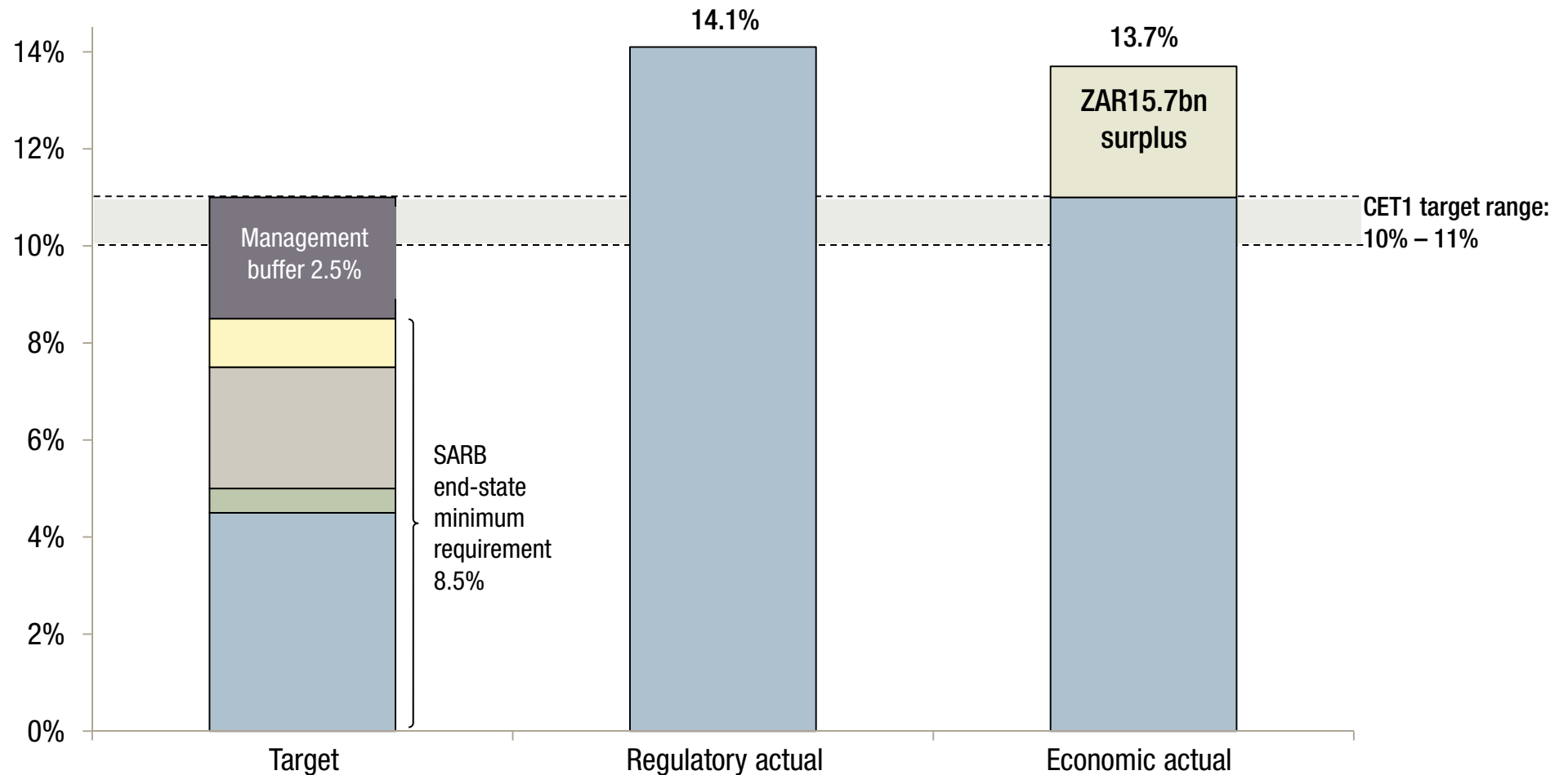
# CAPITAL



FIRSTRAND BANK

# Solid CET1 ratio as at 31 December 2016

CET1 RATIO

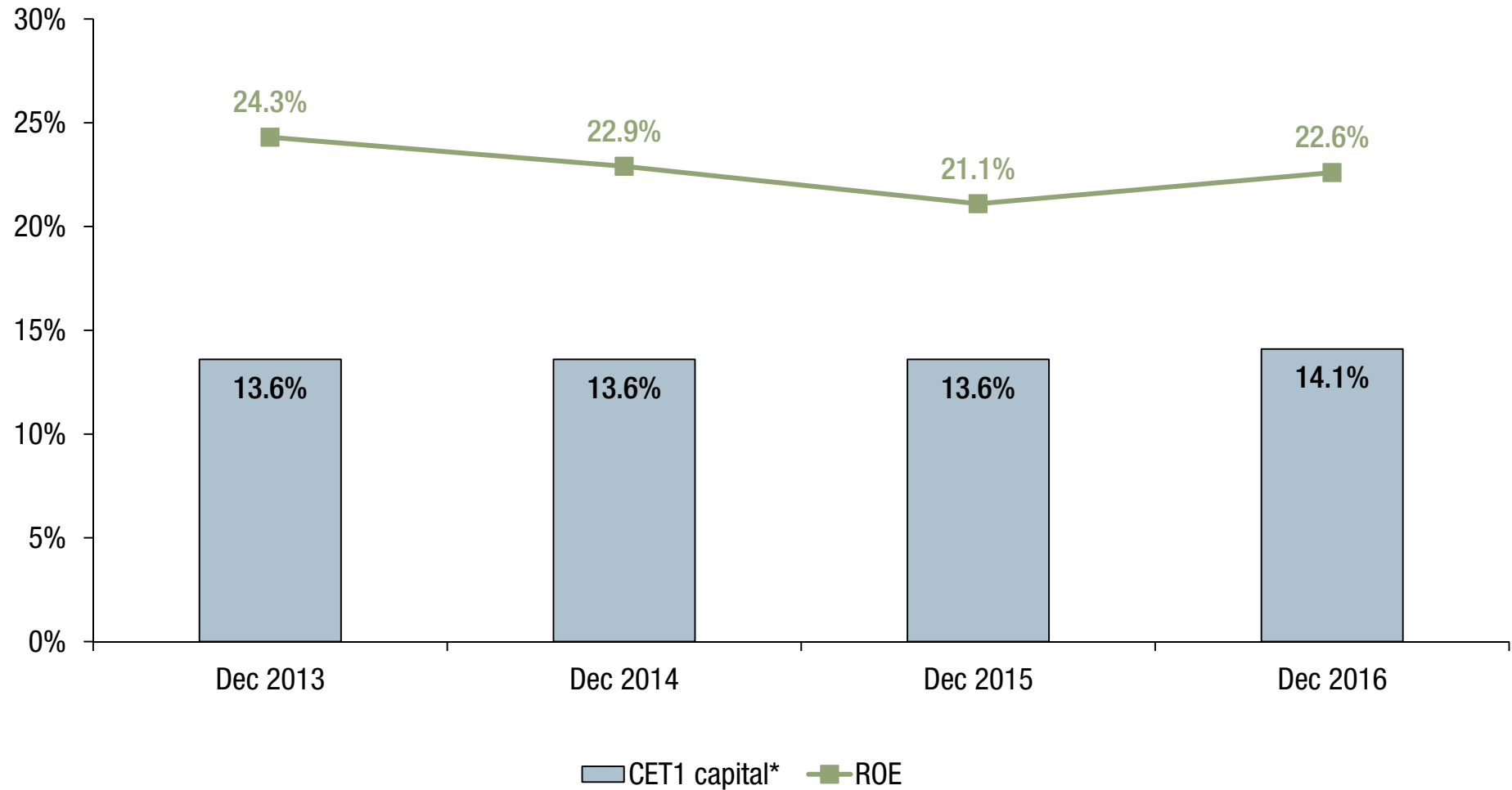


Appropriately positioned for future regulatory and accounting changes

Note: Includes foreign branches and unappropriated profits. Economic capital excludes volatile reserves, i.e. available-for-sale and foreign currency translation reserves.



# Superior returns and strong capital positioned maintained

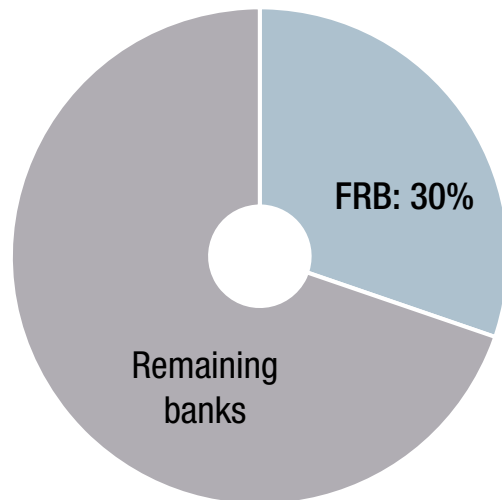


\* Reflects FRB including foreign branches. Ratios include unappropriated profits.



# Domestic market already embracing new generation instruments; language aligned to Basel III

*TIER 2 ISSUANCE IN SOUTH AFRICA*



*FRB TIER 2 ISSUANCE*

	R billion
2014	4.4
2015	4.4
2016	4.9
<b>Total</b>	<b>13.7</b>
= 2.4% of RWA	

- Tier 2 issuance since 2014; limited AT1 issuance
- Well understood by investor base in South Africa
- Frequent issuer, managing roll-over profile
- Issuance primarily from operating company; some competitors shifting to holding company



# South Africa evolving resolution regime

- Broadly in line with FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*
- White paper jointly released in September 2015, *Strengthening South Africa's Resolution Framework for Financial Institutions*
  - Concept of point of resolution (POR) and related criteria
  - No creditor worse off (NCWO)
  - Total loss absorbing capacity (TLAC) – requirement, definition and composition
- Finalisation of paper will form the basis of a Special Resolution Bill (SRB)
- To date various workshops and industry initiatives held
- Draft framework expected in 2017





# A framework to differentiate between issuers

Balance sheet strength	Capital management	<ul style="list-style-type: none"> <li>• Strong capital position               <ul style="list-style-type: none"> <li>• Appropriate buffers in excess of minimum</li> <li>• Distance-to-trigger/default</li> </ul> </li> <li>• Quality</li> <li>• Integrated funding and liquidity</li> </ul>
	Assets	
	Liabilities	
Earnings resilience, volatility and growth		<ul style="list-style-type: none"> <li>• Quality</li> <li>• Diversification</li> <li>• Risk appetite</li> </ul>



# CONCLUSION



FIRSTRAND BANK

## In summary, FirstRand Bank is well positioned for the cycle

- Strong financial position
  - Proactively provided for credit cycle
  - Strong capital position
  - Integrated funding and liquidity management
  - Pre-emptive action was taken to in the event of a downgrade:
    - Protect market access
    - Diversify funding
    - Maintain balance sheet strength
- Earnings should remain resilient
  - Underpinned by quality of franchises and diversification of income streams
  - Bad debts likely to increase, but in line with cycle and portfolio expectations



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