# DEBT INVESTOR PRESENTATION

*April 2015*

FIRSTRAND BANK

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# OVERVIEW OF THE FIRSTRAND GROUP AND FIRSTRAND BANK LIMITED (ISSUER)

FIRSTRAND BANK

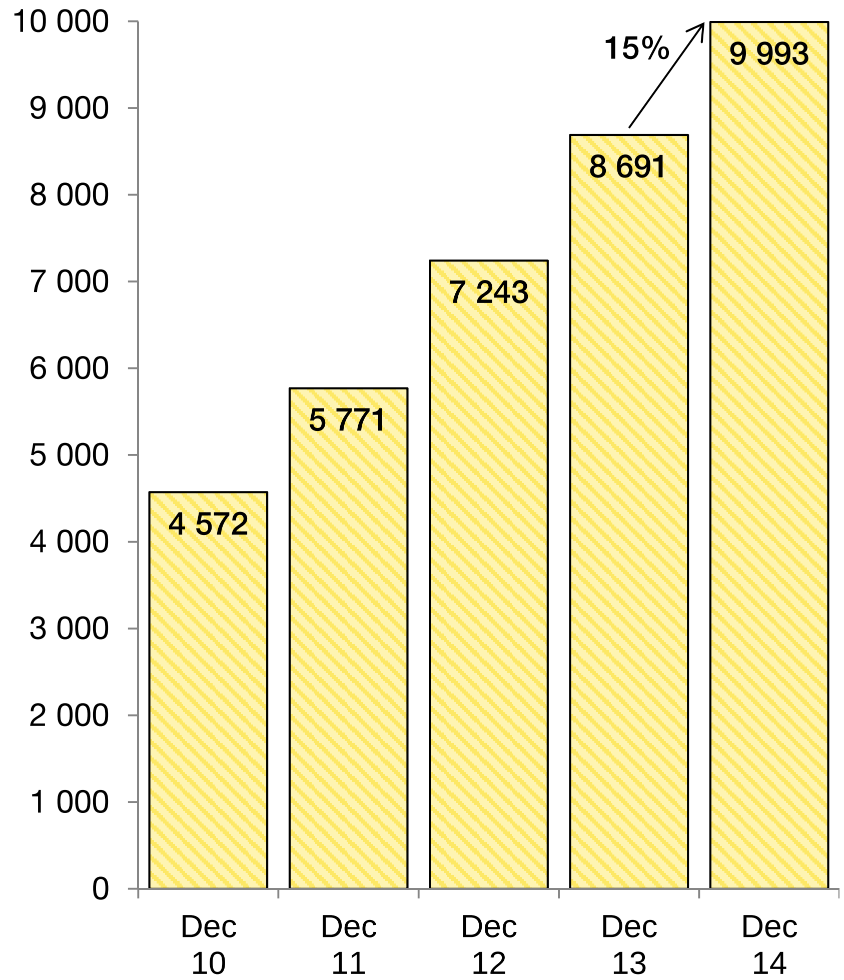
# Contextualising the FirstRand group

| **FINANCIAL HIGHLIGHTS** for the six months ended 31 December 2014 | ZAR million | USD million |
|---|---|---|
| Normalised total assets | 980 176 | 84 717 |
| Normalised net asset value | 85 241 | 7 367 |
| Normalised earnings | 9 993 | 909 |
| Normalised ROE | 24.0% | |
| Capital adequacy – CET1 ratio* | 13.8% | |

*Conversion rates at 31 December 2014:*
*income statement: USD1 = ZAR10.99, balance sheet: USD1 = ZAR11.57*
* *Includes unappropriated profits.*

| **KEY OPERATING STATISTICS** for the six months ended 31 December 2014 | Dec 2014 |
|---|---|
| Employees | 39 508 |
| Physical representation points | 874 |
| ATMs | 7 089 |
| Card-acceptance point-of-sale devices | 125 960 |

**NORMALISED EARNINGS***
ZAR million




* *Normalised earnings shown on a continuing normalised basis 2010 - 2011.*

*Financial results relates to the listed holding company, can be found at: http://www.firstrand.co.za/InvestorCentre/Pages/interim-results.aspx.*

# FirstRand has a portfolio of leading financial services franchises

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

| FCC | FNB First National Bank | RMB | WesBank | ASHBURTON INVESTMENTS |
|---|---|---|---|---|
| Group-wide functions | Retail and commercial bank | Corporate and investment bank | Instalment finance | Investment management |

# FirstRand's strategy

- Objectives
  - Be the African financial services group of choice
  - Create long-term franchise value
  - Deliver superior and sustainable returns within acceptable earnings volatility
  - Maintain balance sheet strength

- ...driven by two growth strategies
  - In South Africa, focus on existing markets and areas currently under-represented
    - Strengthen the relative positioning of franchises
    - Focus on growing client-based revenue
    - Expand into new profit pools
  - Further grow African franchises in key markets and mine the Africa/Asia corridors

Strategy executed through operating franchises and appropriate platforms

# FirstRand Bank is the debt issuer and holds the group's South African banking franchises

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

| 100% | 100% | 100% | 100% | 100% |
|---|---|---|---|---|
| FirstRand Bank Limited* (FRB) | FirstRand EMA (Pty) Ltd (FREMA) | FirstRand Investment Holdings (Pty) Ltd (FRIHL) | Ashburton Investments Holdings Limited | FirstRand Insurance Holdings (Pty) Ltd |
| Banking | Africa and emerging markets | Other activities | Investment management | Insurance |

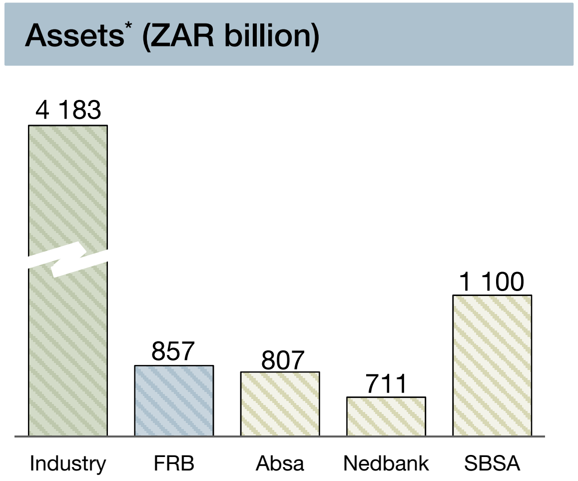
- First National Bank**
- Rand Merchant Bank**
- WesBank**

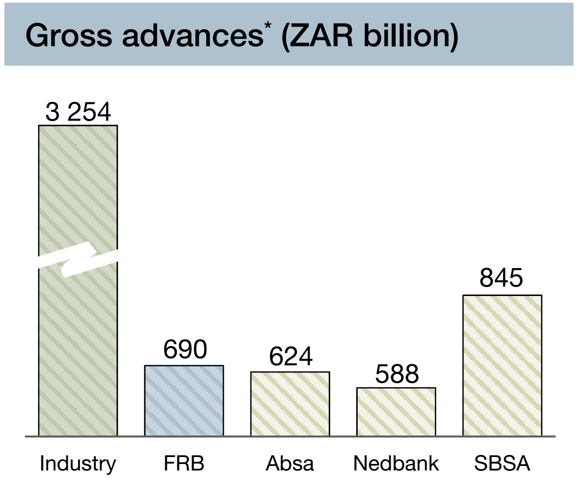
**BOND ISSUER**

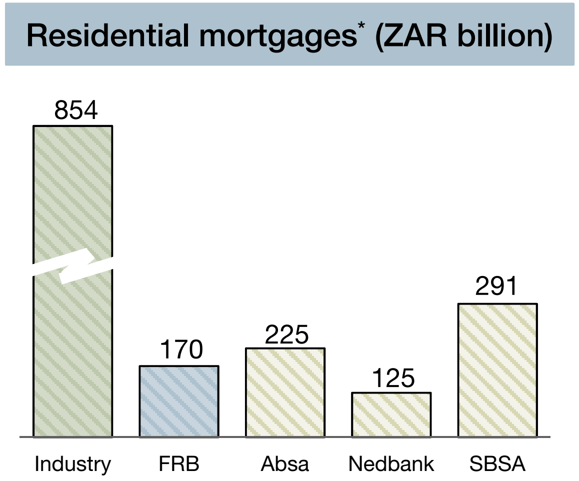
* Also comprises branches (in India and London) and representative offices (in Kenya, Angola, Dubai and Shanghai).

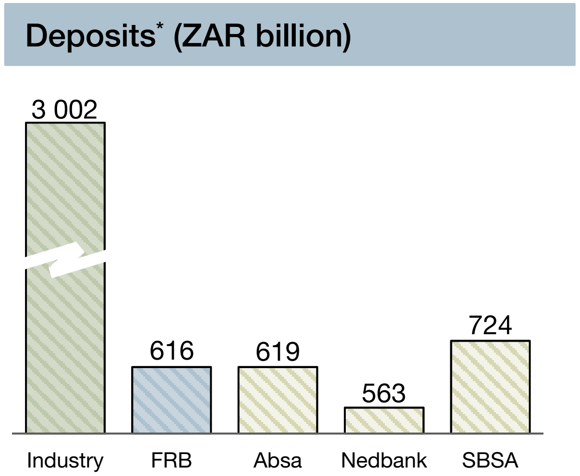
** Divisions of FirstRand Bank Limited.

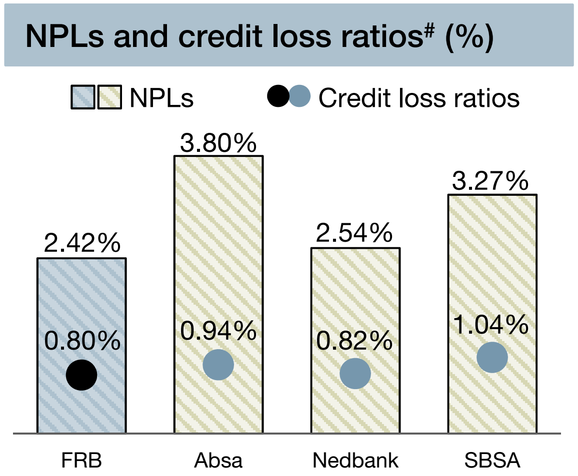
# FirstRand Bank is one of South Africa's Big 4 banks

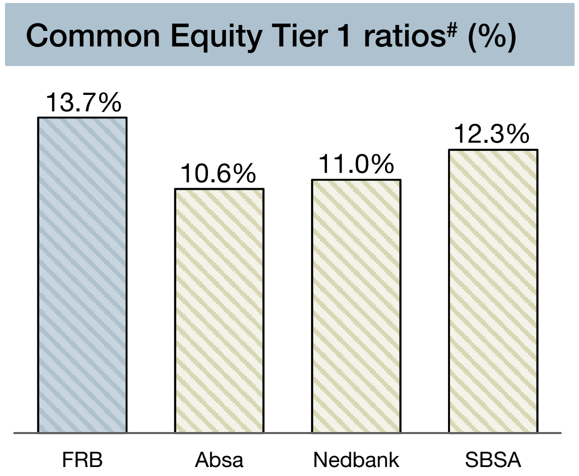



Four pillar banks (FirstRand Bank, Standard Bank of South Africa, ABSA Bank and Nedbank) account for 83% of banking assets and circa 90% of credit is local.

*Sources: * SARB BA900 returns as at Dec 14.*

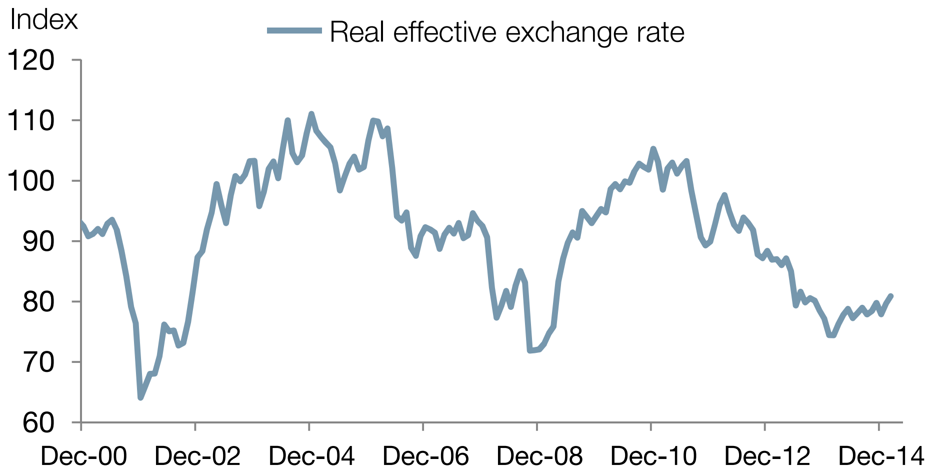
*# Company reports as at Dec 14.*

# FIRSTRAND BANK
# FINANCIAL PERFORMANCE

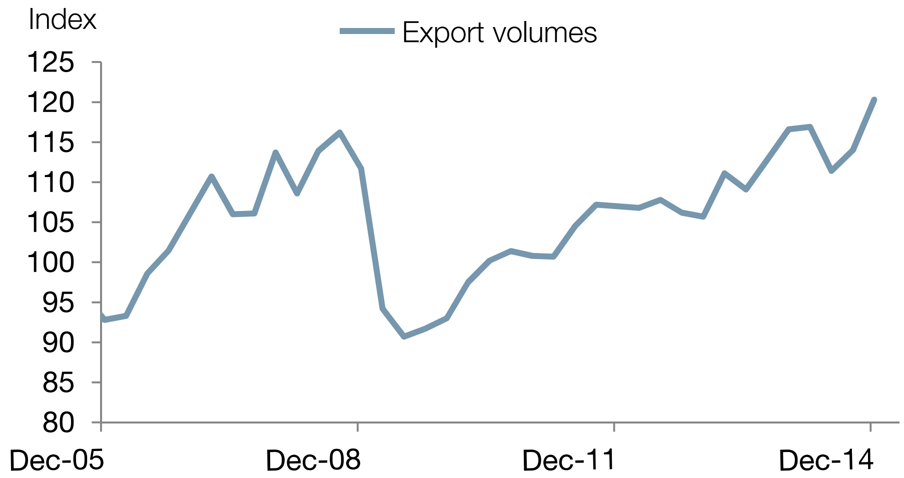
FIRSTRAND BANK

# The economy continues to rebalance

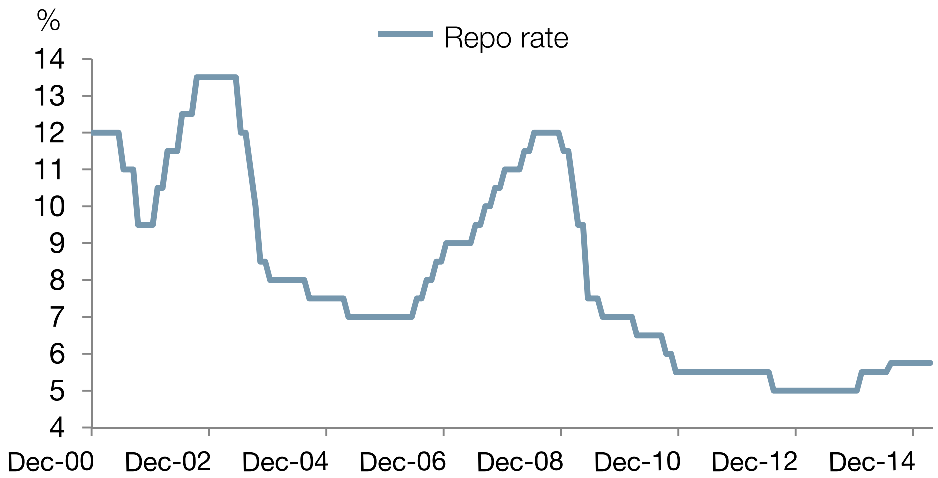
### A weak but stable real effective exchange rate supports exports



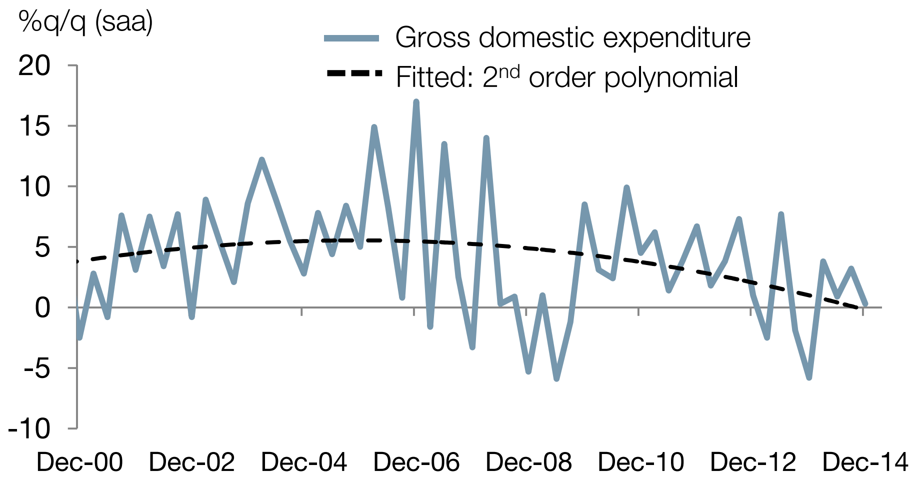

### Export volumes continue to lift




### Monetary policy leaning against inflation and domestic demand




### Muted domestic demand growth




*Sources: SARB database (https://www.resbank.co.za/Research/Statistics/Pages/OnlineDownloadFacility.aspx), Bloomberg and FirstRand*

# FirstRand Bank performance highlights

| Normalised results | Dec 14 | Dec 13 | Change |
|---|---|---|---|
| Profit before tax (ZAR million) | **9 672** | 8 814 | 10% ▲ |
| Earnings (ZAR million) | **7 139** | 6 582 | 8% ▲ |
| Return on equity (%) | **22.9** | 24.3 | ▼ |
| Return on assets (%) | **1.65** | 1.67 | ▼ |
| Credit loss ratio (%)* | **0.80** | 0.78 | ▲ |
| Cost-to-income ratio (%) | **56.3** | 55.9 | ▲ |
| Tier 1 ratio (%)** | **14.2** | 14.1 | ▲ |
| Common Equity Tier 1 ratio (%)** | **13.7** | 13.4 | ▲ |
| Net interest margin (%) | **5.23** | 5.17 | ▲ |
| Average loan-to-deposit ratio (%)# | **91.6** | 89.6 | ▲ |
| Gross advances (ZAR billion) | **663** | 586 | 13% ▲ |

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

** *Reflects solo supervision, i.e. FRB excluding foreign branches. Ratios include unappropriated profits.*

\# *Average loan-to-deposit ratio = average gross advances/average deposits.*

# Adjusting for accounting change at WesBank – strong operational performance

| Normalised PBT (ZAR million) | As reported: Dec 14 | As reported: Dec 13# | As reported: % change | Operational performance: Dec 14 | Operational performance: Dec 13# | Operational performance: % change |
|---|---|---|---|---|---|---|
| FNB | **6 578** | 5 544 | 19 ▲ | **6 578** | 5 544 | 19 ▲ |
| RMB | **1 868** | 2 918 | (36) ▼ | **1 868** | 2 918 | (36) ▼ |
| WesBank | **1 536** | 1 793 | (14) ▼ | **2 082*** | 1 815** | 15 ▲ |
| FCC (incl. Group Treasury) and other | **(310)** | (1 441) | 78 ▲ | **(310)** | (1 441) | 78 ▲ |
| **Profit before tax (PBT)** | **9 672** | **8 814** | **10** ▲ | **10 218** | **8 836** | **16** ▲ |

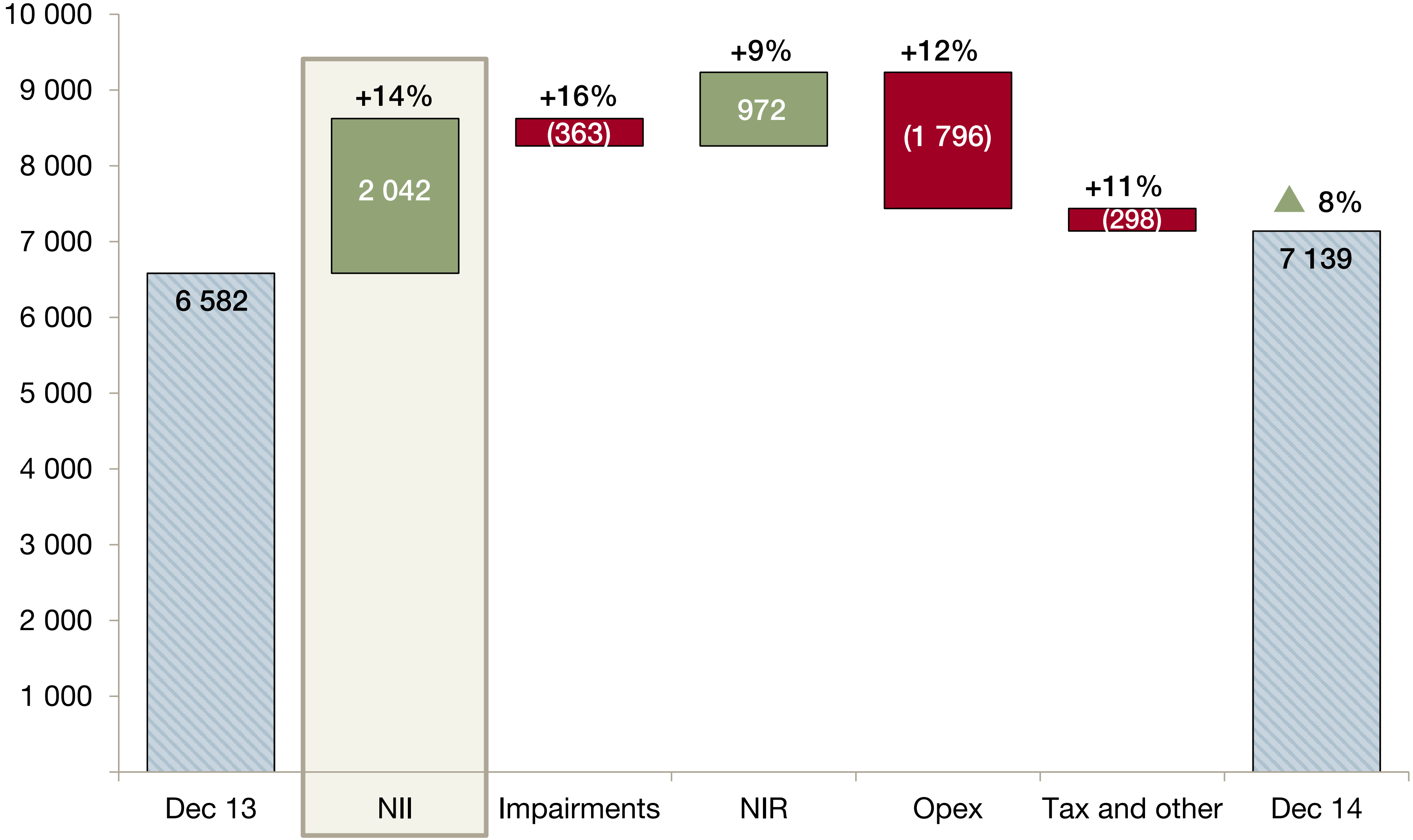
* *MotoNovo's (based in the United Kingdom and provides finance primarily for used cars via independent motor dealers) reported profit was negatively impacted by a prospective change in accounting treatment for incentive commissions on securitisation transactions of ZAR546 million. The operational performance of the business has been adjusted accordingly. Refer to page 9 (WesBank financial highlights) and page 12 (description of "Income on securitised assets") of FirstRand Bank's analysis of financial results for the six months ended 31 Dec 14.*

** *WesBank Corporate profits were impacted by changes to the fleet business structure, which was included for a full six-month period in the Dec 14 results, compared to only three months in the Dec 13 period. The operational performance for Dec 13 has therefore been adjusted upwards by ZAR22 million to be representative of a full six-month period enabling a like-for-like comparison.*

# *December 2013 franchise profits have been restated to include return on capital earned and a portion of bank costs which were previously disclosed as part of FCC profits.*

# Continued strong topline drives earnings growth

Normalised earnings (ZAR million)



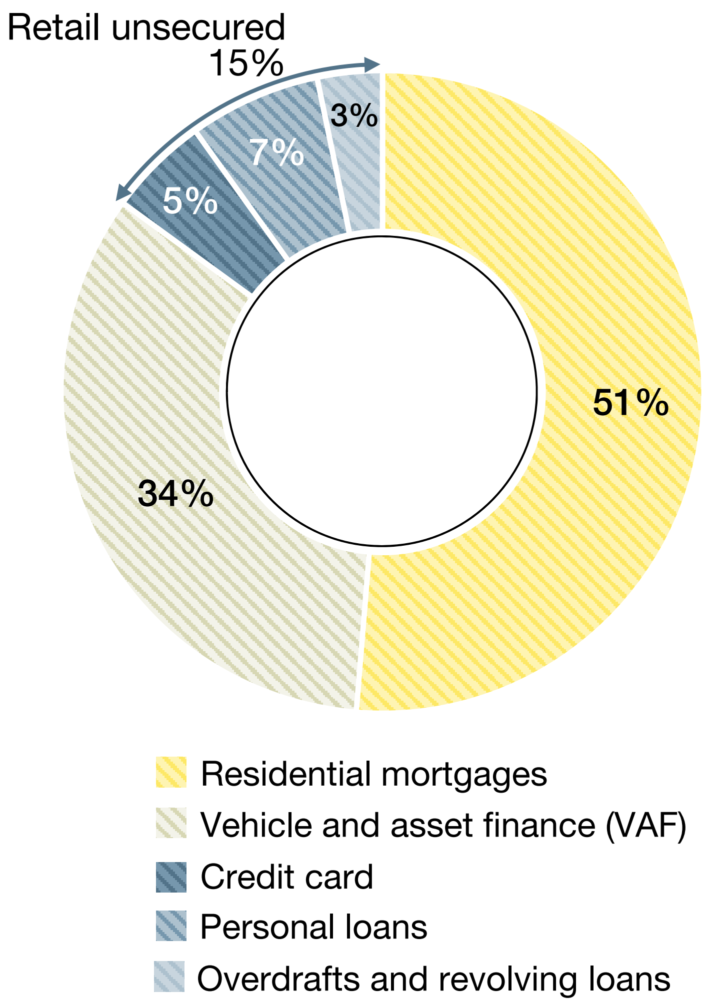

*NII = Net interest income (before impairment of advances), NIR = Non-interest revenue and Opex = Operating expenses. Refer to page 12 of FirstRand Bank's analysis of financial results for the six months ended 31 Dec 14 for a description of difference between normalised and IFRS results.*

# Retail advances reflects strength of lending franchises

| ZAR million | Dec 14 | Dec 13 | % change |
|---|---|---|---|
| Residential mortgages | **175 097** | 166 954 | 5 |
| Vehicle and asset finance (VAF)* | **115 039** | 99 242 | 16 |
| Card | **17 356** | 14 173 | 22 |
| Personal loans | **22 654** | 20 471 | 11 |
| FNB loans | **12 831** | 12 280 | 4 |
| WesBank loans | **9 823** | 8 191 | 20 |
| Retail other | **11 143** | 8 053 | 38 |
| **RETAIL ADVANCES** | **341 289** | 308 893 | 10 |

* *Includes exposures of ZAR5.8 billion (Dec 14) considered retail in nature on a look-through basis, which have been reallocated from WesBank Corporate (Dec 13: ZAR nil).*

**Retail advances breakdown**

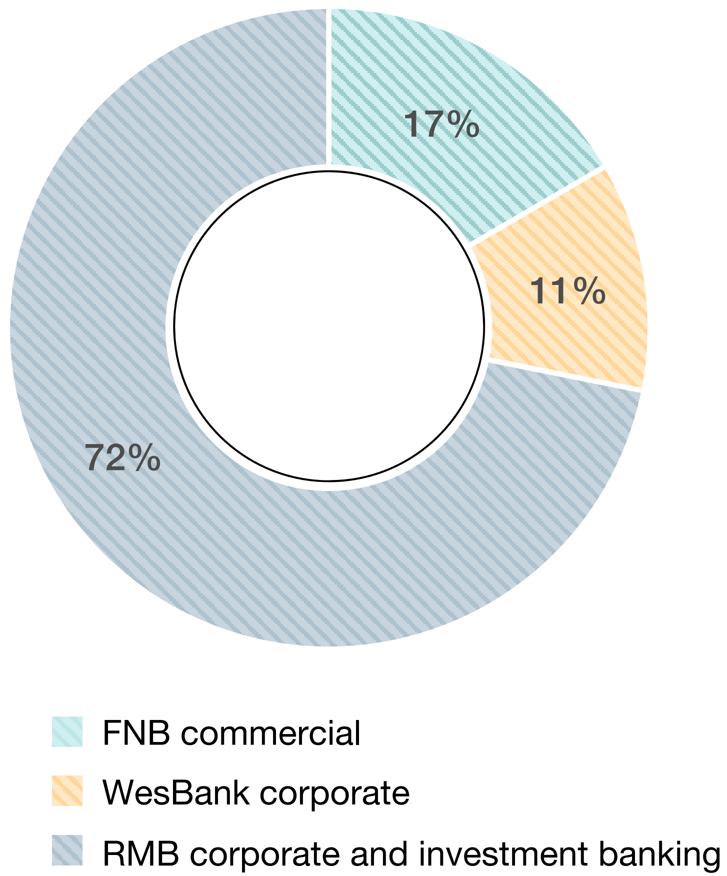


# Corporate advances resilient but slowing, reflecting lower levels of activity

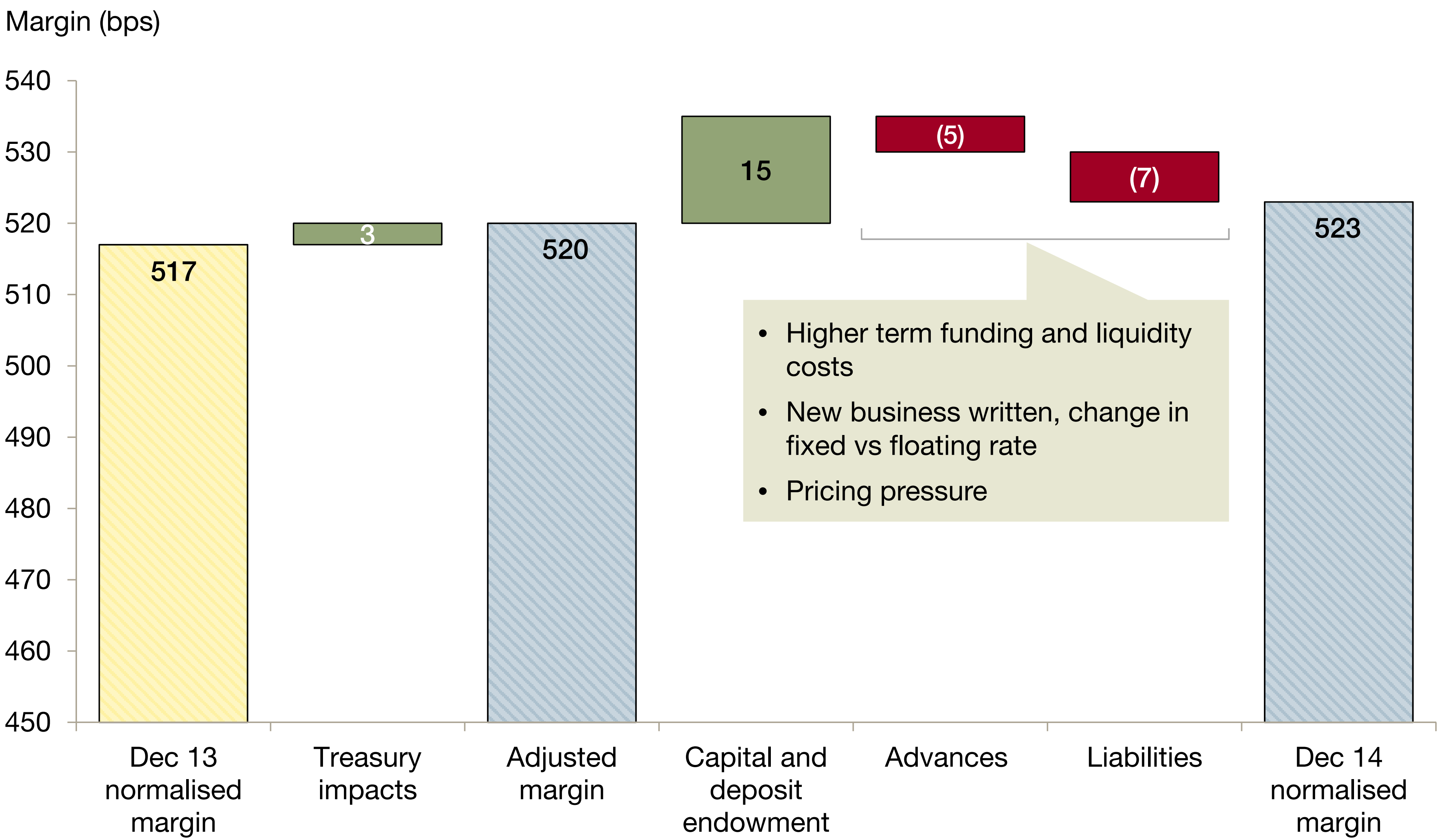
| ZAR million | Dec 14 | Dec 13 | % change |
|---|---|---|---|
| RMB core South Africa | **159 617** | 128 001 | 25 |
| RMB core cross-border | **27 001** | 24 775 | 9 |
| **RMB IB core advances** | **186 618** | **152 776** | **22** |
| Repurchase agreements | **35 837** | 36 599 | (2) |
| **RMB investment banking** | **222 455** | **189 375** | **17** |
| RMB corporate banking | **6 326** | 6 427 | (2) |
| WesBank corporate* | **36 821** | 34 977 | 5 |
| FNB commercial | **52 825** | 44 539 | 19 |
| **CORPORATE ADVANCES** | **318 427** | **275 318** | **16** |

* *Excludes exposures of ZAR5.8 billion (Dec 14) considered retail in nature on a look-through basis, which have been reallocated to retail VAF (Dec 13: ZAR nil).*

**Corporate advances breakdown**

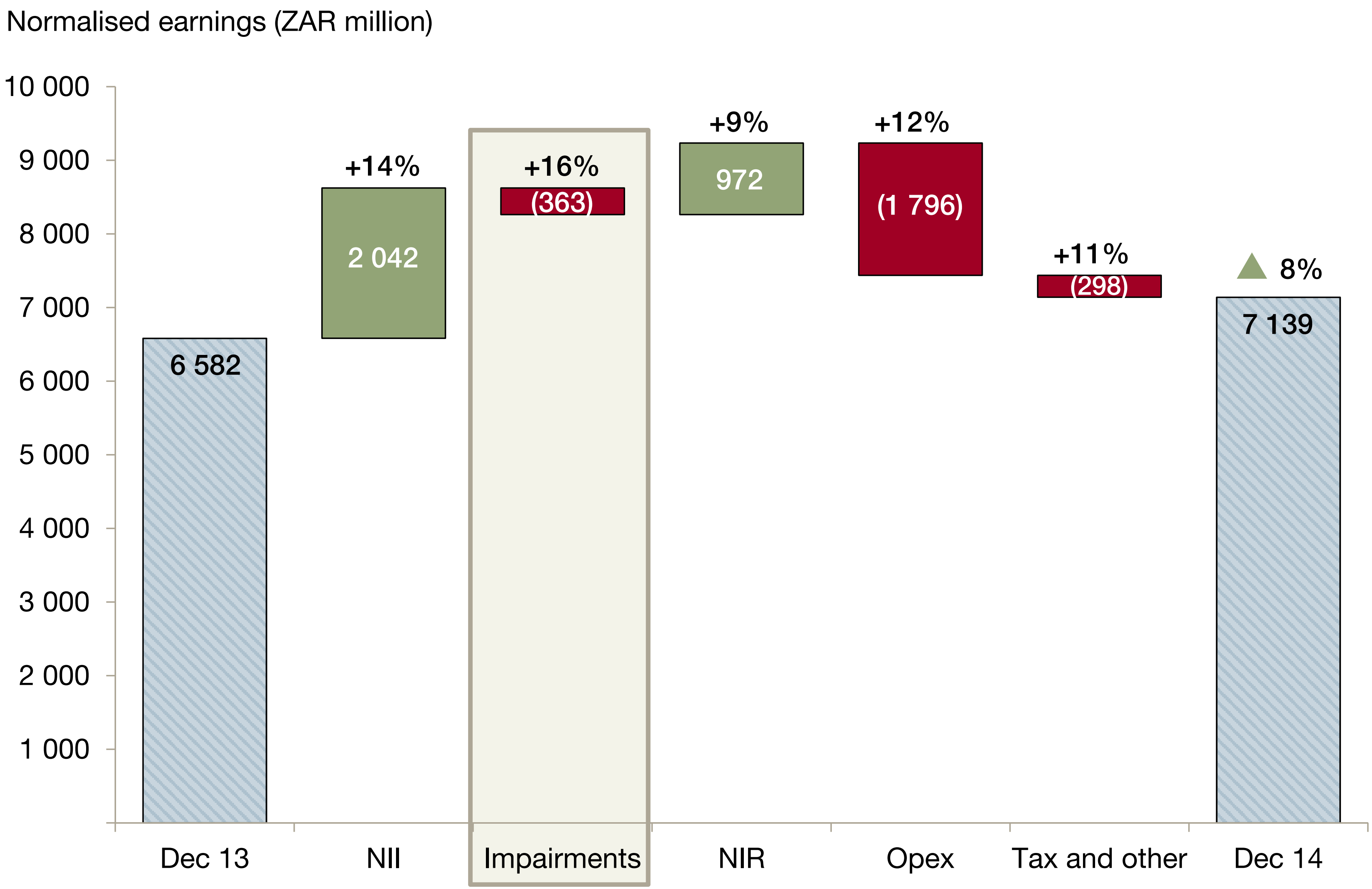


# Margin benefited from deposit strategy and endowment



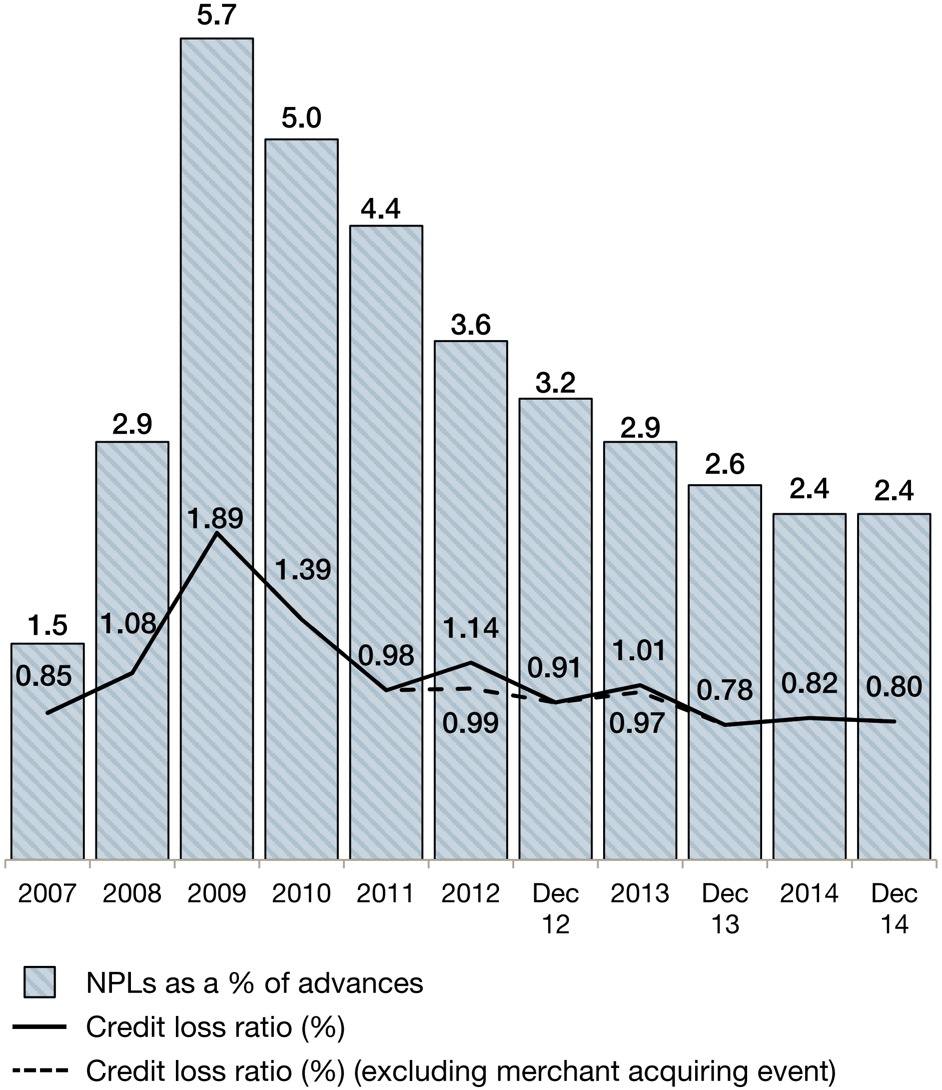

- Higher term funding and liquidity costs
- New business written, change in fixed vs floating rate
- Pricing pressure

# Continued strong topline drives earnings growth




*NII = Net interest income (before impairment of advances), NIR = Non-interest revenue and Opex = Operating expenses*

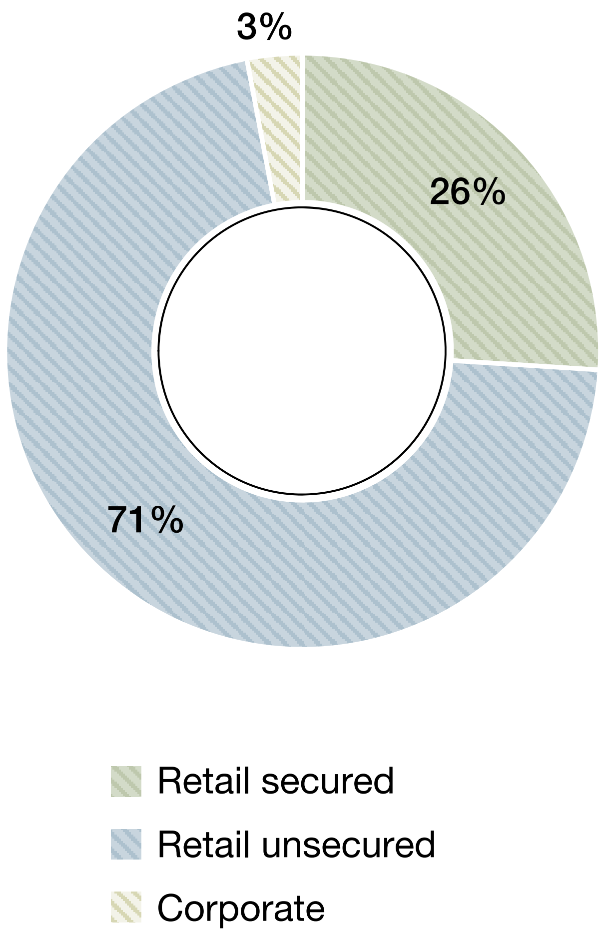
# Increase in impairment charge driven by franchise overlays

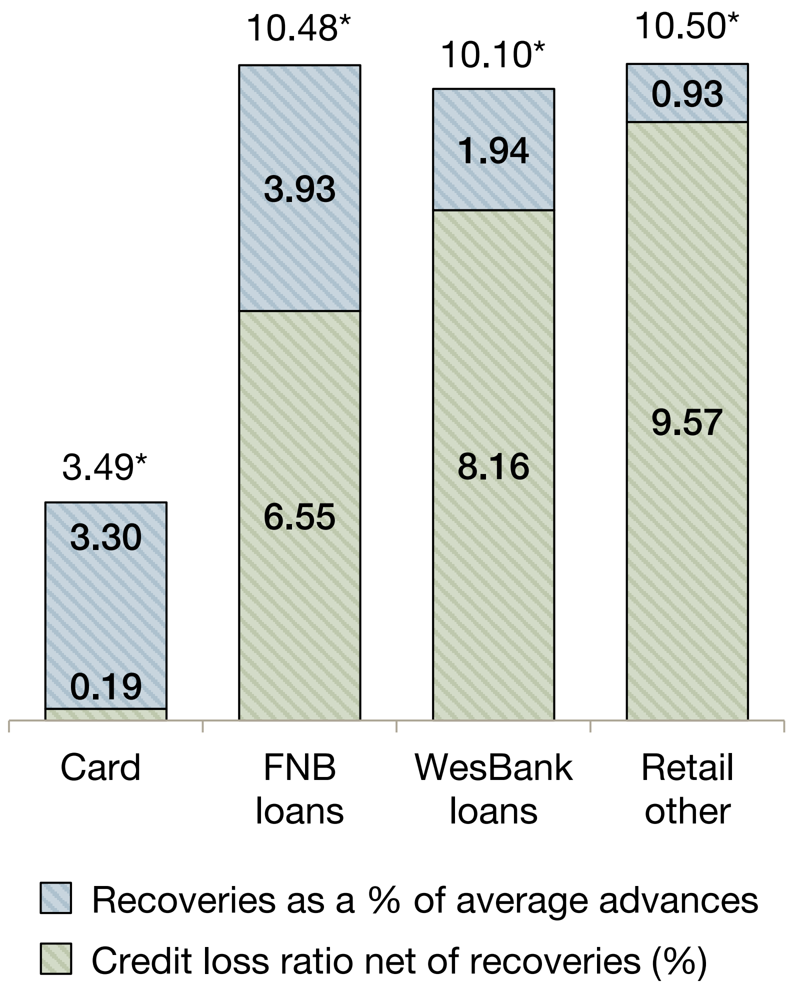



| Credit loss ratio (%) | Dec 14 | Dec 13 |
|---|---|---|
| Retail – secured | 0.44 | 0.48 |
| Residential mortgages | 0.06 | 0.10 |
| VAF | 1.04 | 1.13 |
| Retail – unsecured | 5.35 | 6.16 |
| Card | 0.19 | 0.22 |
| Personal loans* | 7.24 | 8.36 |
| Retail other | 9.57 | 10.99 |
| Total retail | 1.17 | 1.26 |
| Corporate and commercial | 0.50 | 0.24 |
| Franchise impairment charge | 0.85 | 0.78 |
| Central portfolio overlay (releases) | (0.05) | – |
| **Total credit loss ratio** | **0.80** | 0.78 |

* *Includes FNB loans and WesBank loans.*

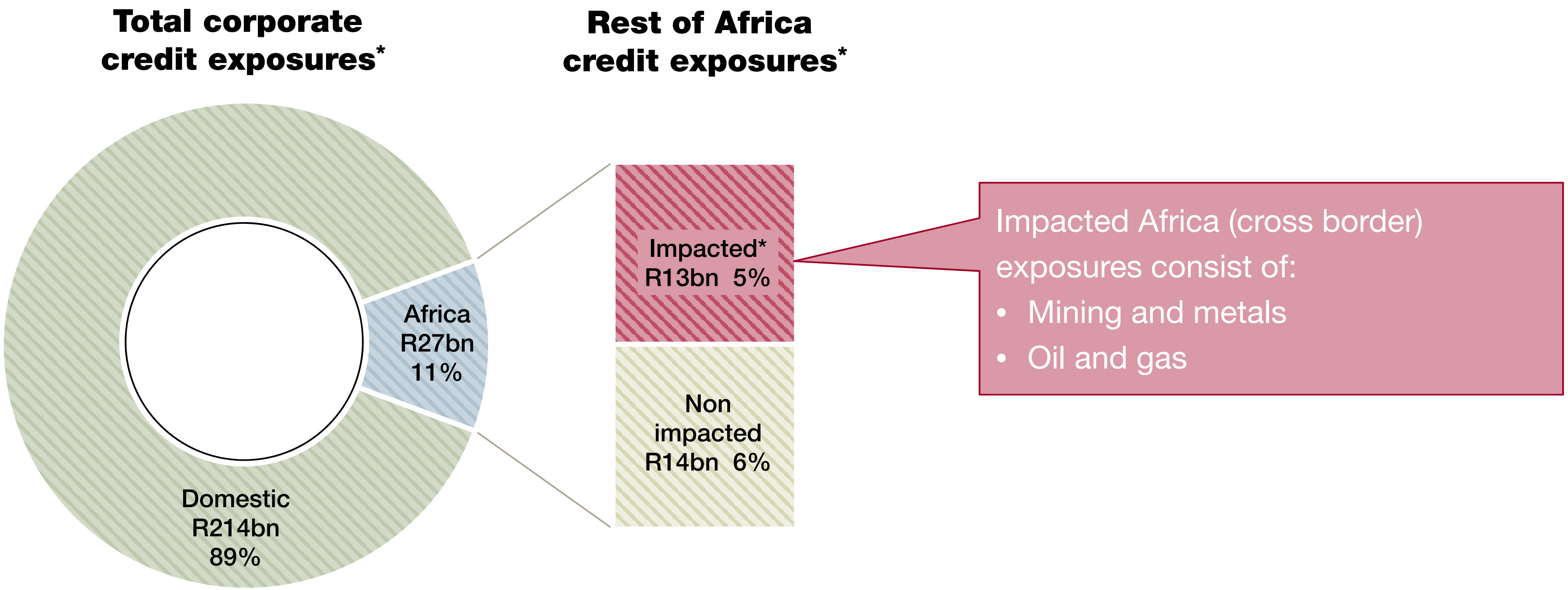
# Unsecured portfolios benefiting from post write-off recoveries




** Credit loss ratio gross of recoveries (%).*

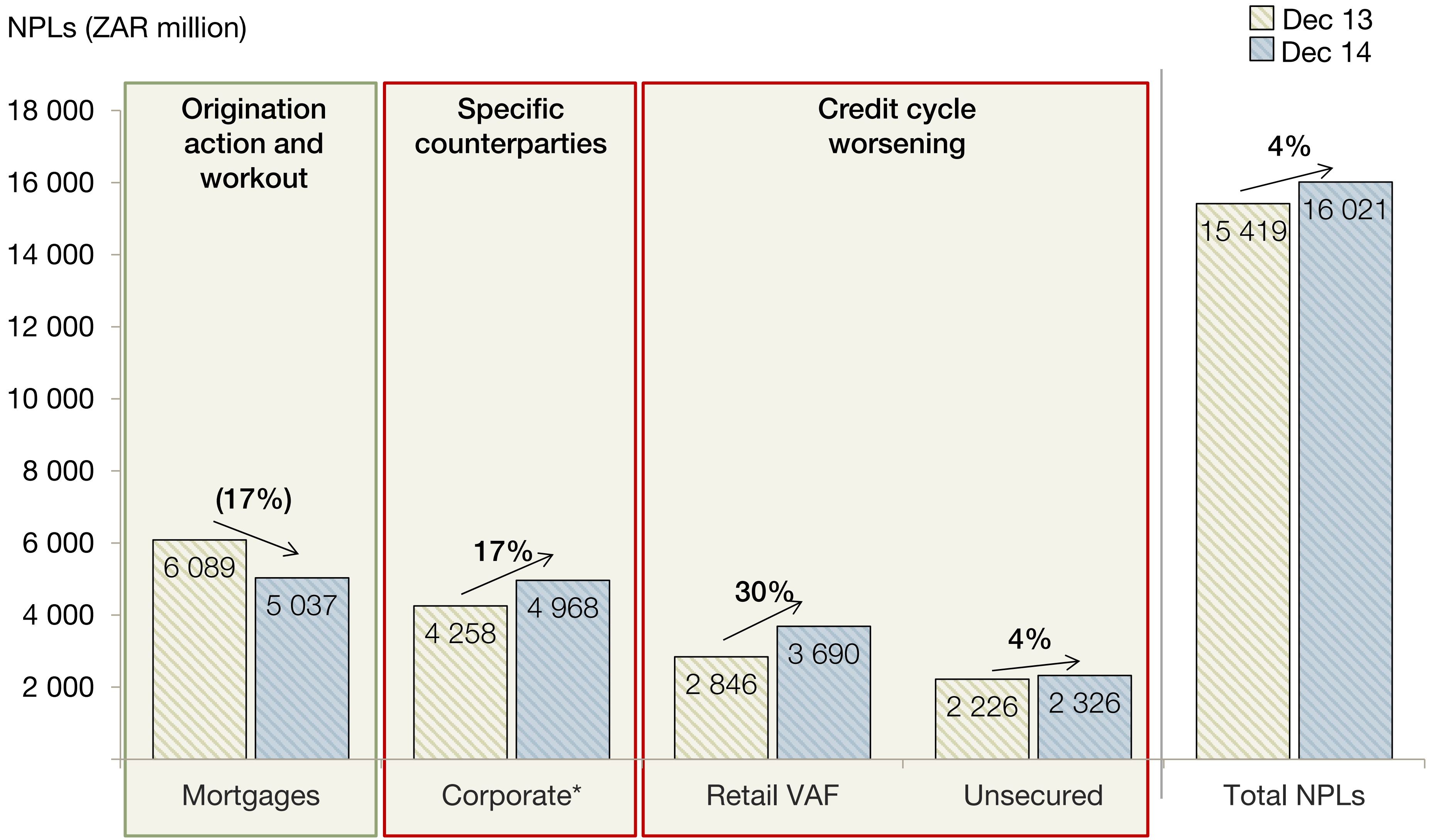
# Not a function of defaults but reflects strengthening of balance sheet…




…given uncertainty on oil and gas, and mining and metals

** Graphs show exposure at default.*

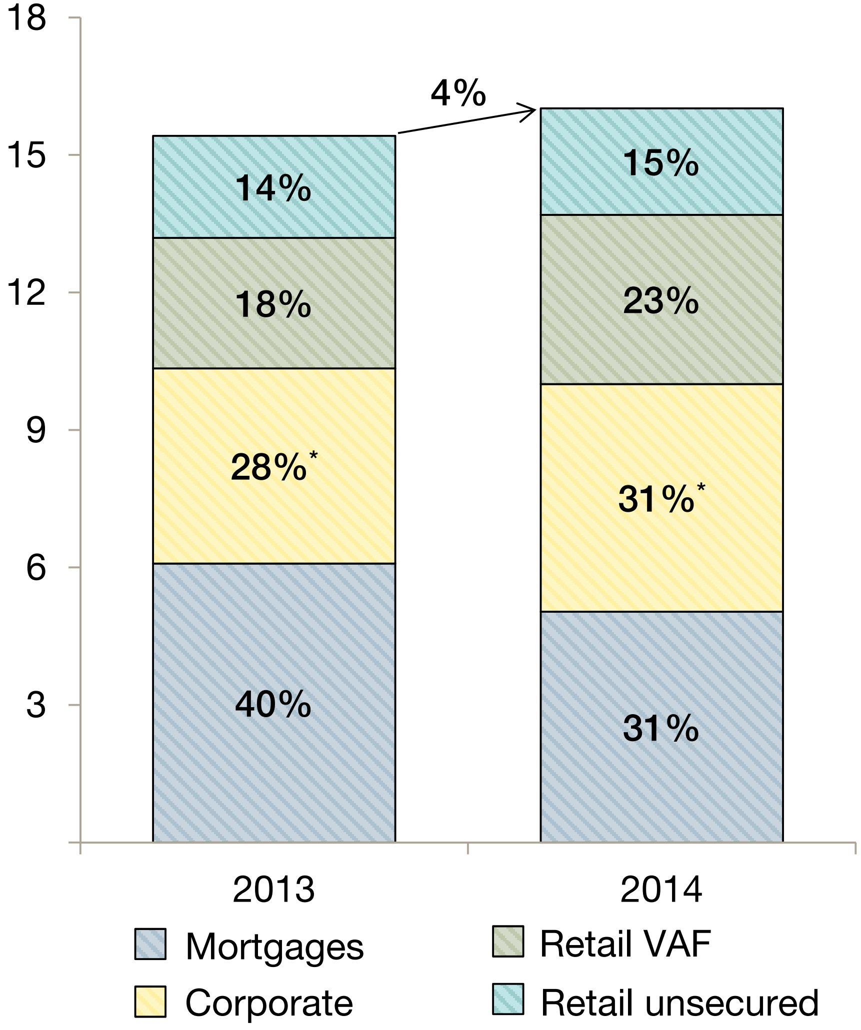
# Continued reduction in residential mortgages NPLs from work-out strategy…




* *Includes FNB Africa (also includes FNB's activities in India)*

# Portfolio impairments underpin higher coverage ratio

NPLs (ZAR billion)



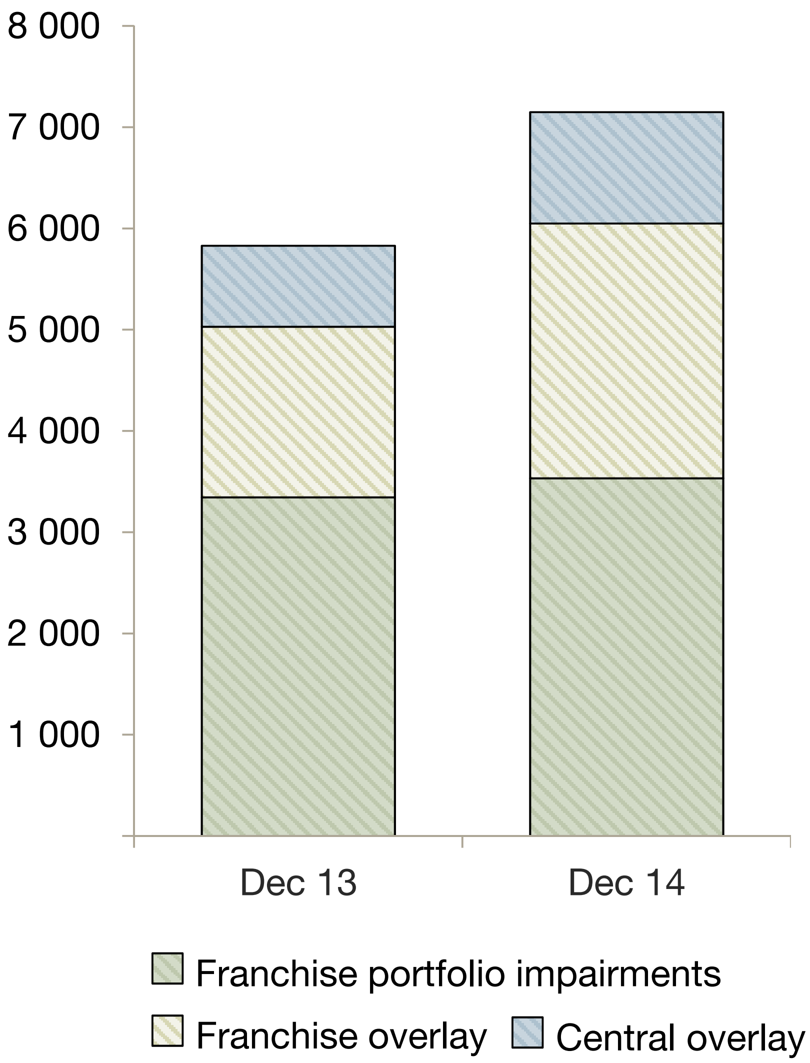

* Includes FNB's activities in India

| Coverage ratios (%) | Dec 14 | Dec 13 |
|---|---|---|
| Retail – secured | **25.0** | 24.6 |
| Residential mortgages | **20.3** | 21.0 |
| VAF | **31.5** | 32.4 |
| Retail – unsecured | **68.2** | 72.7 |
| Card | **73.1** | 72.0 |
| Personal loans* | **64.3** | 72.6 |
| Retail other | **76.2** | 73.7 |
| Corporate and commercial | **57.7** | 54.6 |
| FNB Africa** | **66.3** | 89.5 |
| Specific impairments | **41.5** | 40.0 |
| Portfolio impairments# | **44.6** | 37.8 |
| **Total coverage ratio** | **86.1** | 77.8 |

* Includes FNB and WesBank loans
** Includes FNB's activities in India
\# Includes portfolio overlays

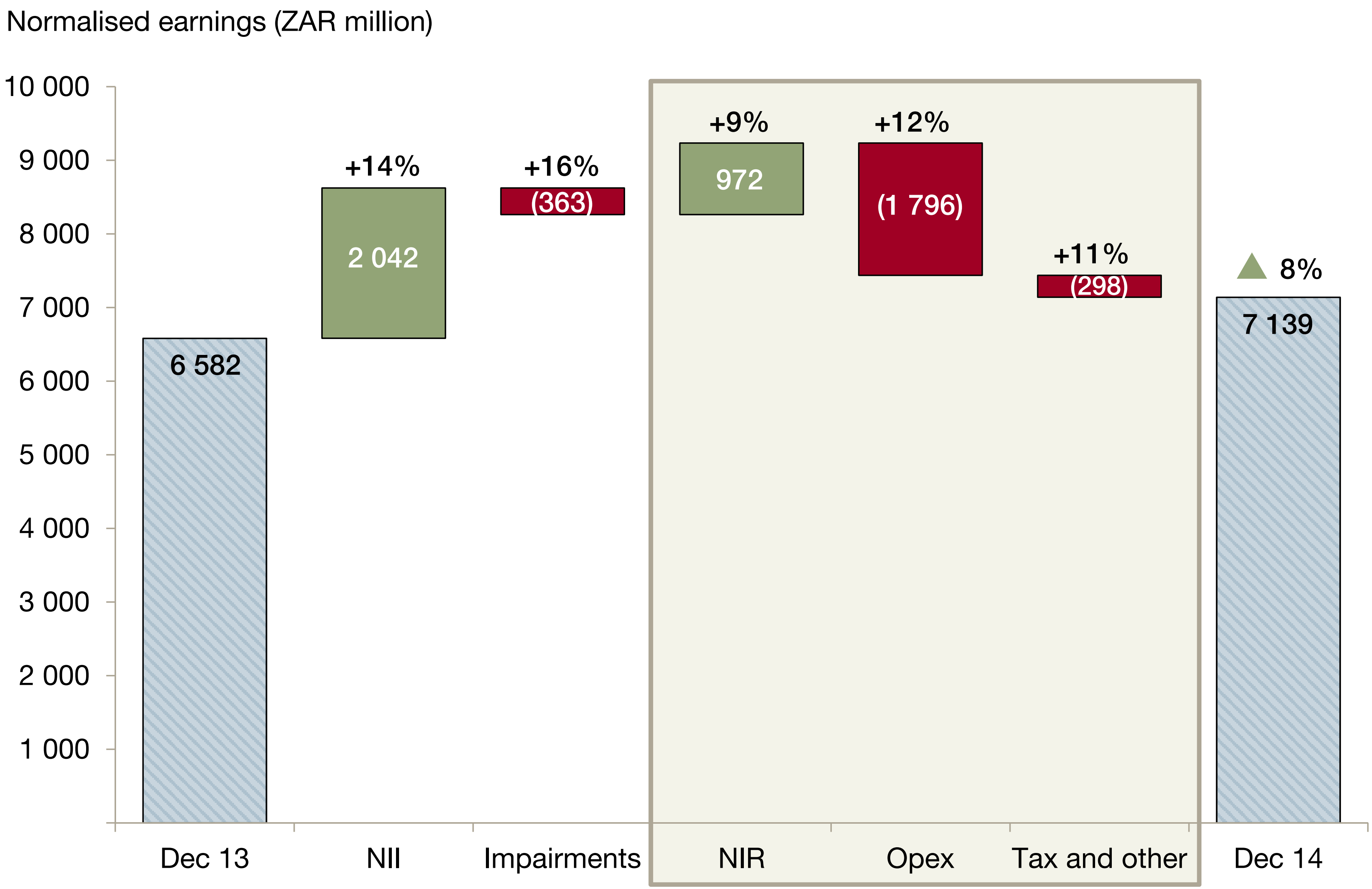
# Overlays reflect countercyclical actions

Portfolio impairments (ZAR million)




| | Dec 14 | Dec 13 |
|---|---|---|
| Portfolio impairments as % of performing book | **1.11%** | 1.02% |
| Bad debt charge (%) | **0.80%** | 0.78% |
| Portfolio impairments (R million) | **7 148** | 5 829 |

# Continued strong topline drives earnings growth




*NII = Net interest income (before impairment of advances), NIR = Non-interest revenue and Opex = Operating expenses*

# NIR driven by strong client franchise; costs up on the back of investment strategy

- Non-interest revenue (NIR) +9%:
  - Fee and commission income +7% (represents 85% of NIR)
    - Strong contribution from FNB (NIR +10%); due to specific strategies; drive customers onto electronic platforms and increase cross-sell
    - WesBank NIR driven by full maintenance rental book and changes to fleet business structure
    - High base effect in IBD and Global Markets impacted by lower levels of activity/volatility
- Operating expenses +12%:
  - Staff costs increased 13% (direct staff costs +11% and variable cost +16%)
  - Continued investment in infrastructure, operating footprint and increased regulatory requirements
  - Costs can be flexed if topline comes under pressure, given variable costs linked to revenue and current levels of investment
- Direct taxation +14%:
  - Higher levels of profitability; change in income mix, strong growth in NII and standard-rate taxable NIR (e.g. fee and commission income)

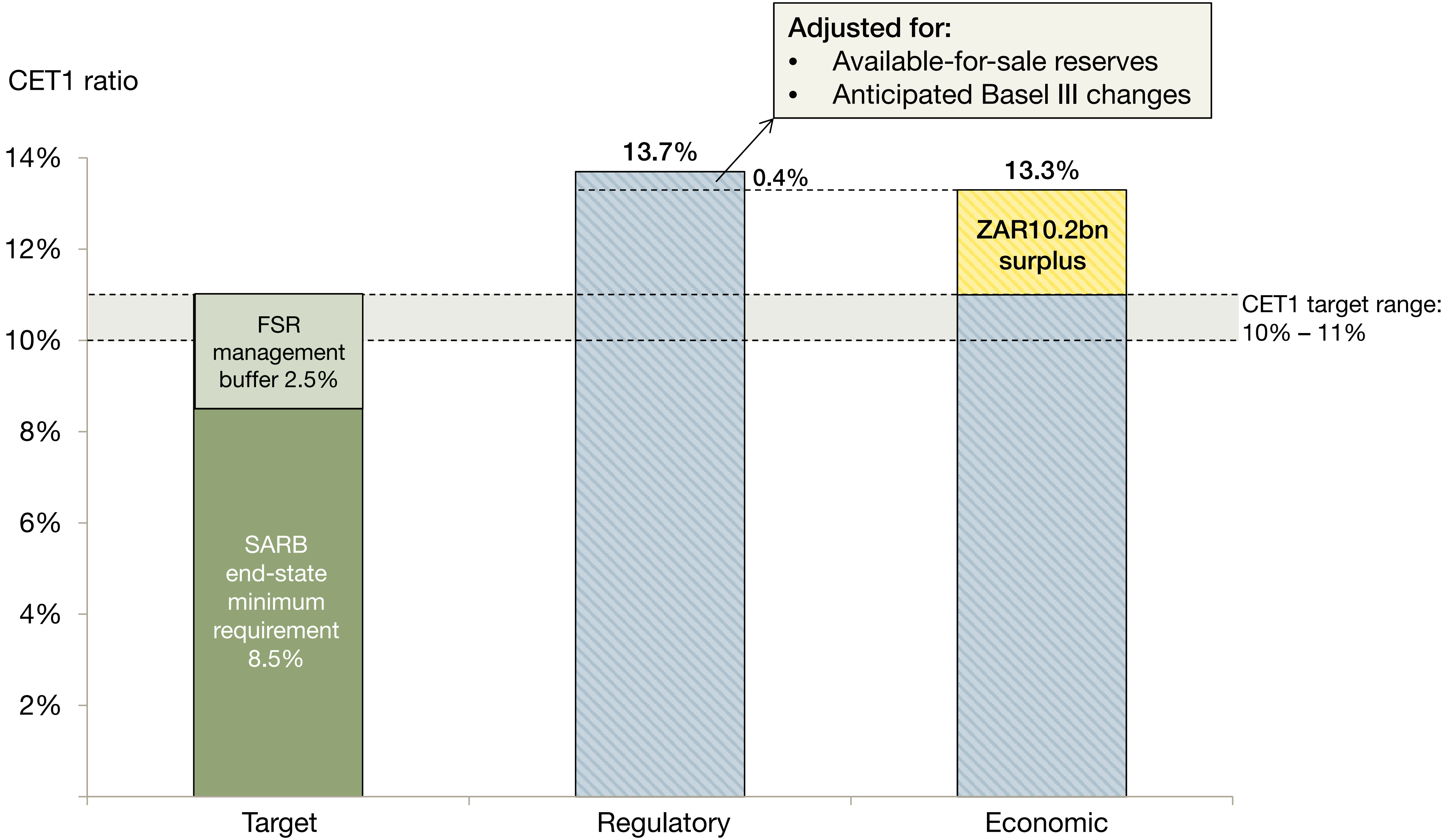
# CAPITAL, FUNDING AND LIQUIDITY UPDATE

FIRSTRAND BANK

# FRB's approach to capital management and issuance of instruments

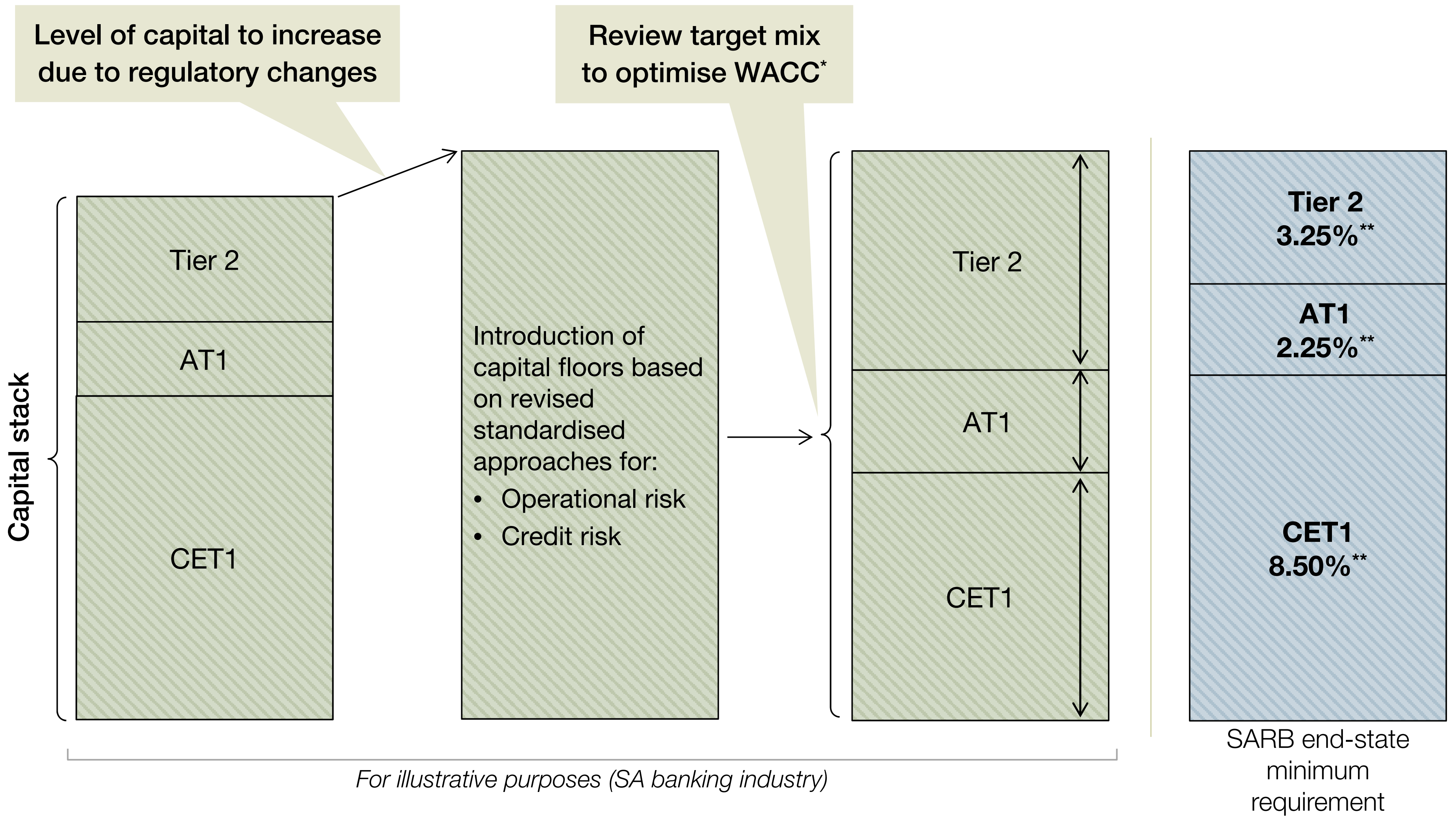
- Capital planning performed on a forward-looking basis, not point-in-time
- Raise capital in good times, not in times of stress
- Considerations for volume of proposed Tier 2 issuance
  - Actual against target levels for all elements of the capital structure
  - Grandfathering of existing AT1 and Tier 2 instruments
  - Frequent domestic issuer, managing roll-over profile
  - Regulatory changes
- Successful issuance of Tier 2 instruments with different loss-absorption features
  - Domestic 2014: ZAR2 billion
  - Offshore 2014: USD172.5 million
  - Domestic 2015 (year-to-date): ZAR2 billion

# Strong capital position…




…comfortably exceeds SARB leverage requirement of 4%

# Regulatory and market developments will require higher level but different mix of capital

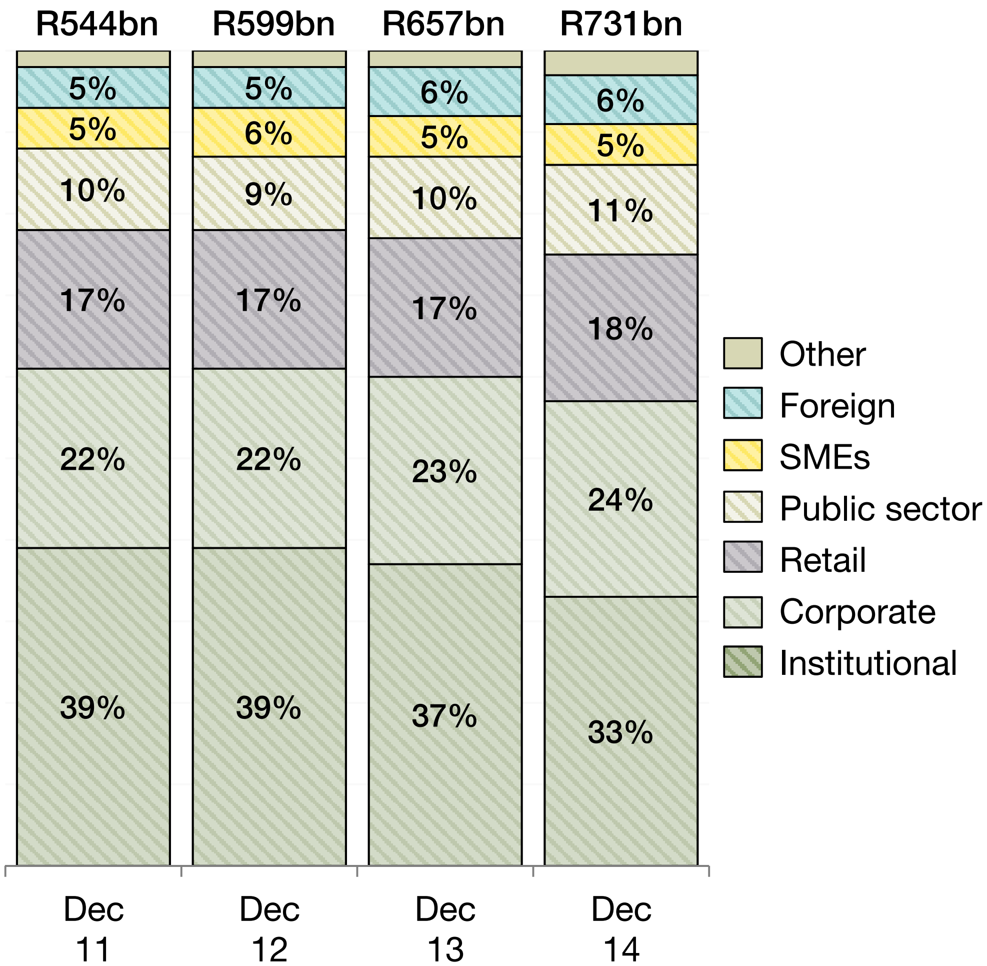



* WACC = Weighted average cost of capital.

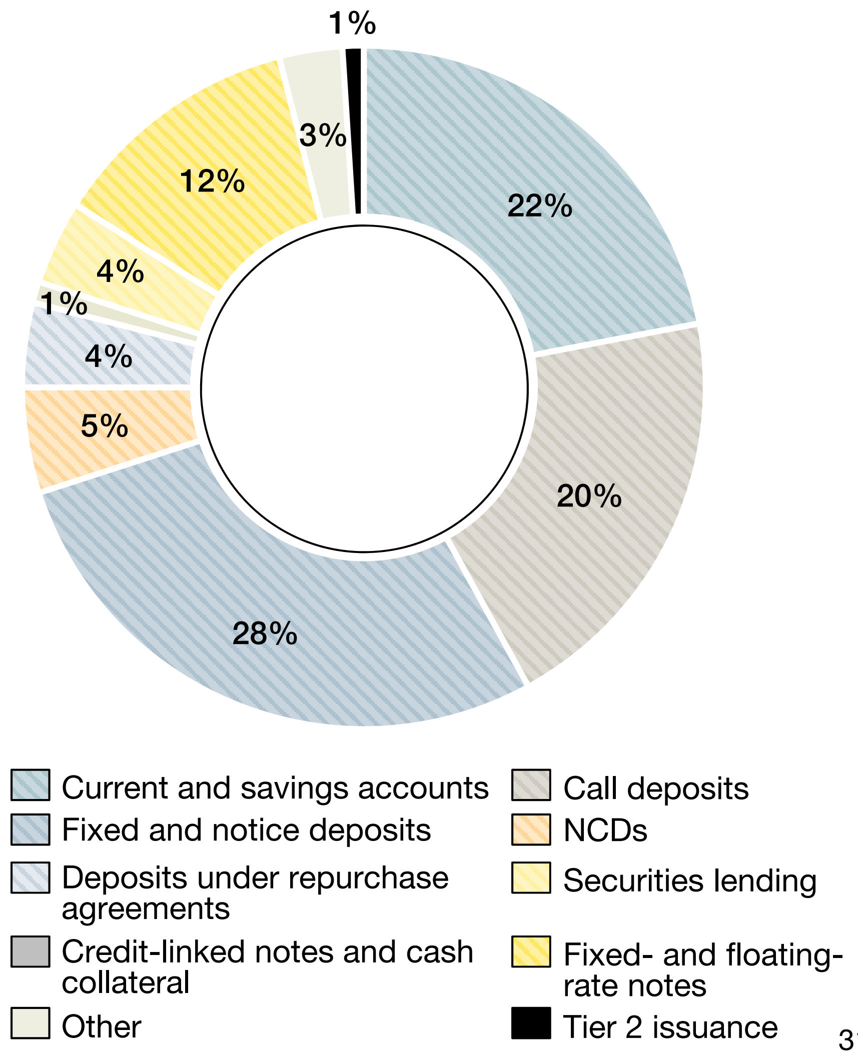
** SARB 2019 end-state minimum requirement; excludes bank-specific individual capital requirement (Pillar 2b), assumes max add-on for domestic systemically important banks (D-SIB).

# Strong focus on building a diversified funding base

## Sources of funding

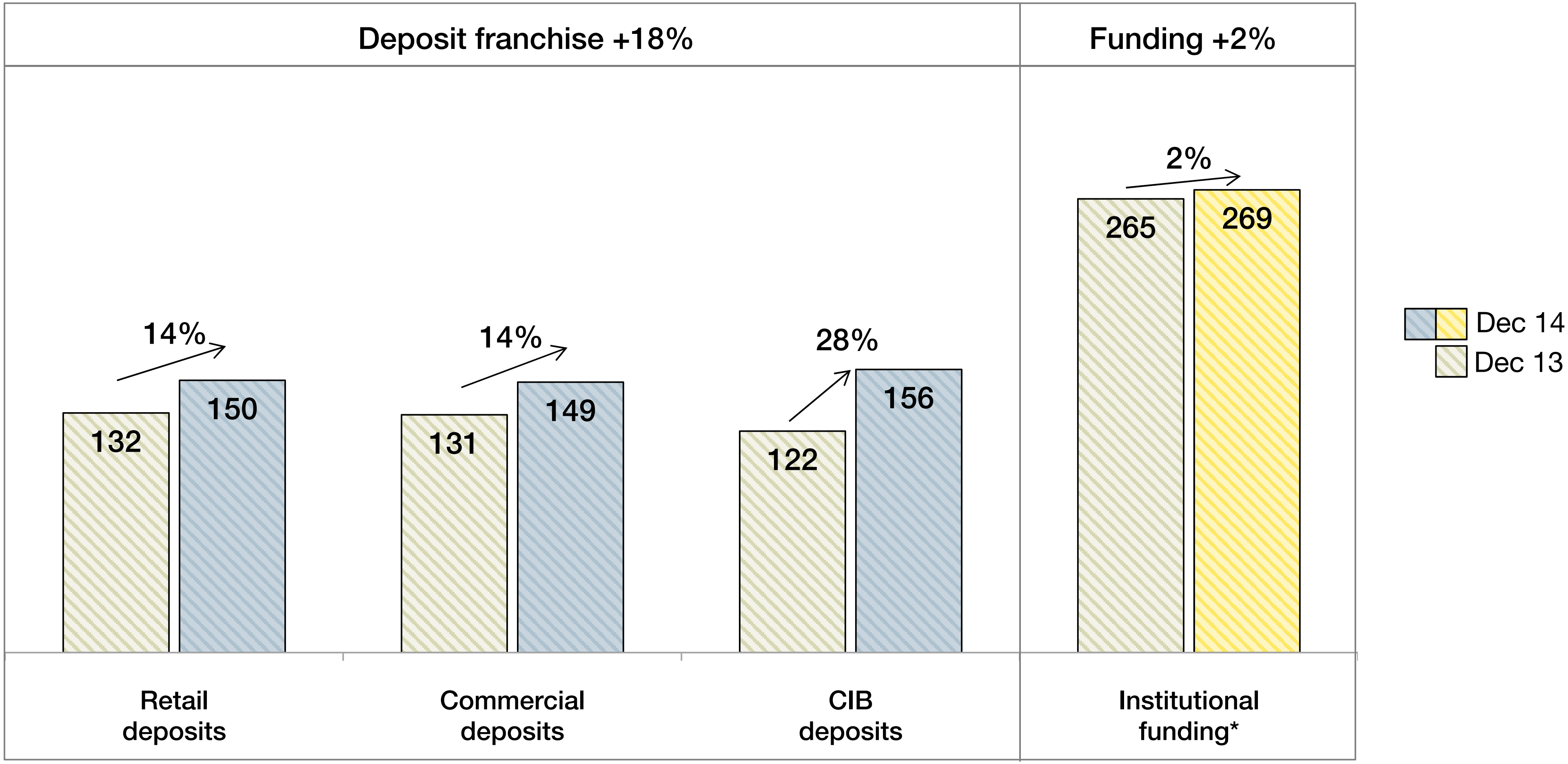



## Funding instruments



# Deposit franchise growing strongly across all portfolios

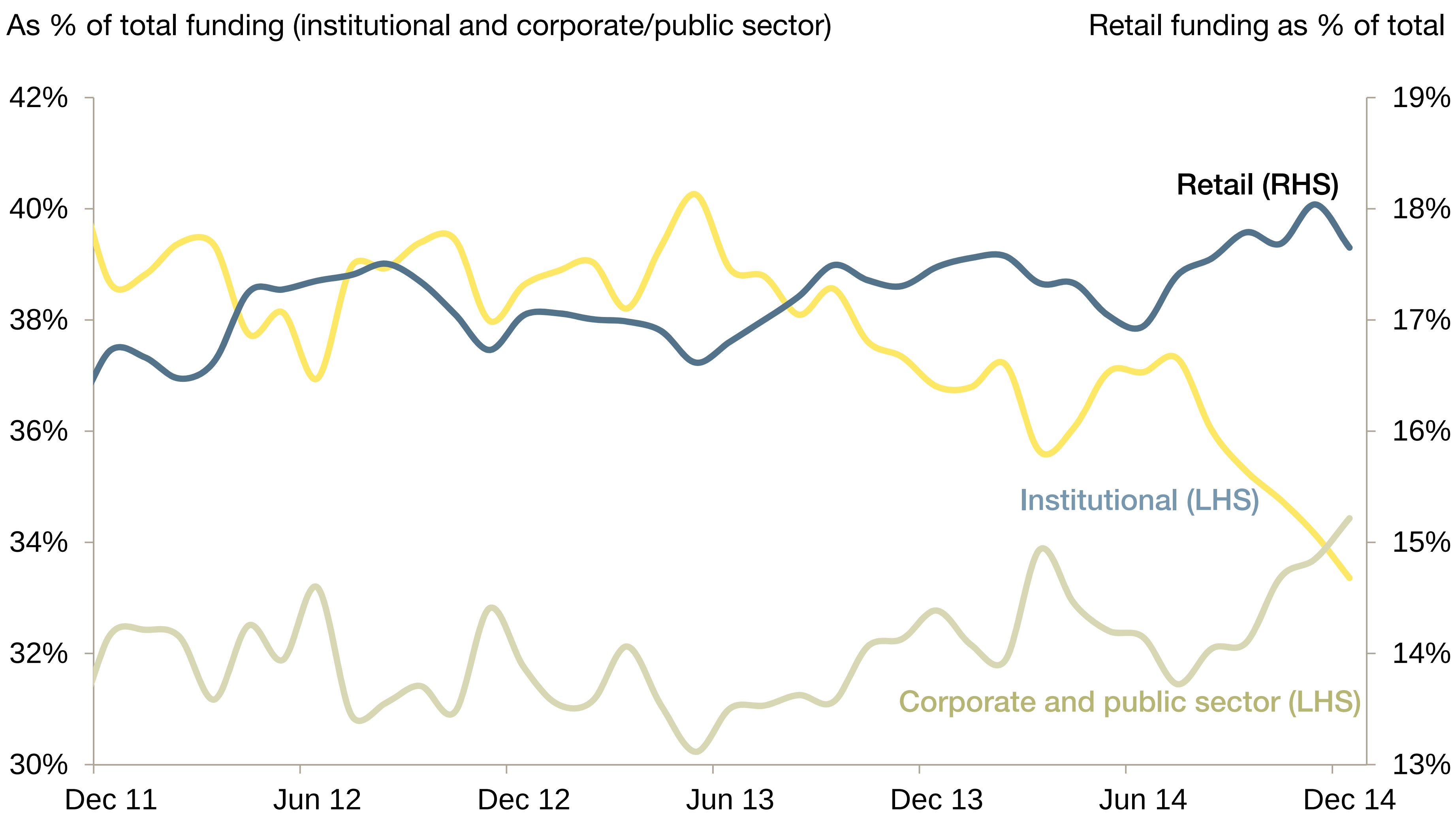
Deposits (ZAR billion)




* *Includes CIB institutional funding and marketable debt securities.*

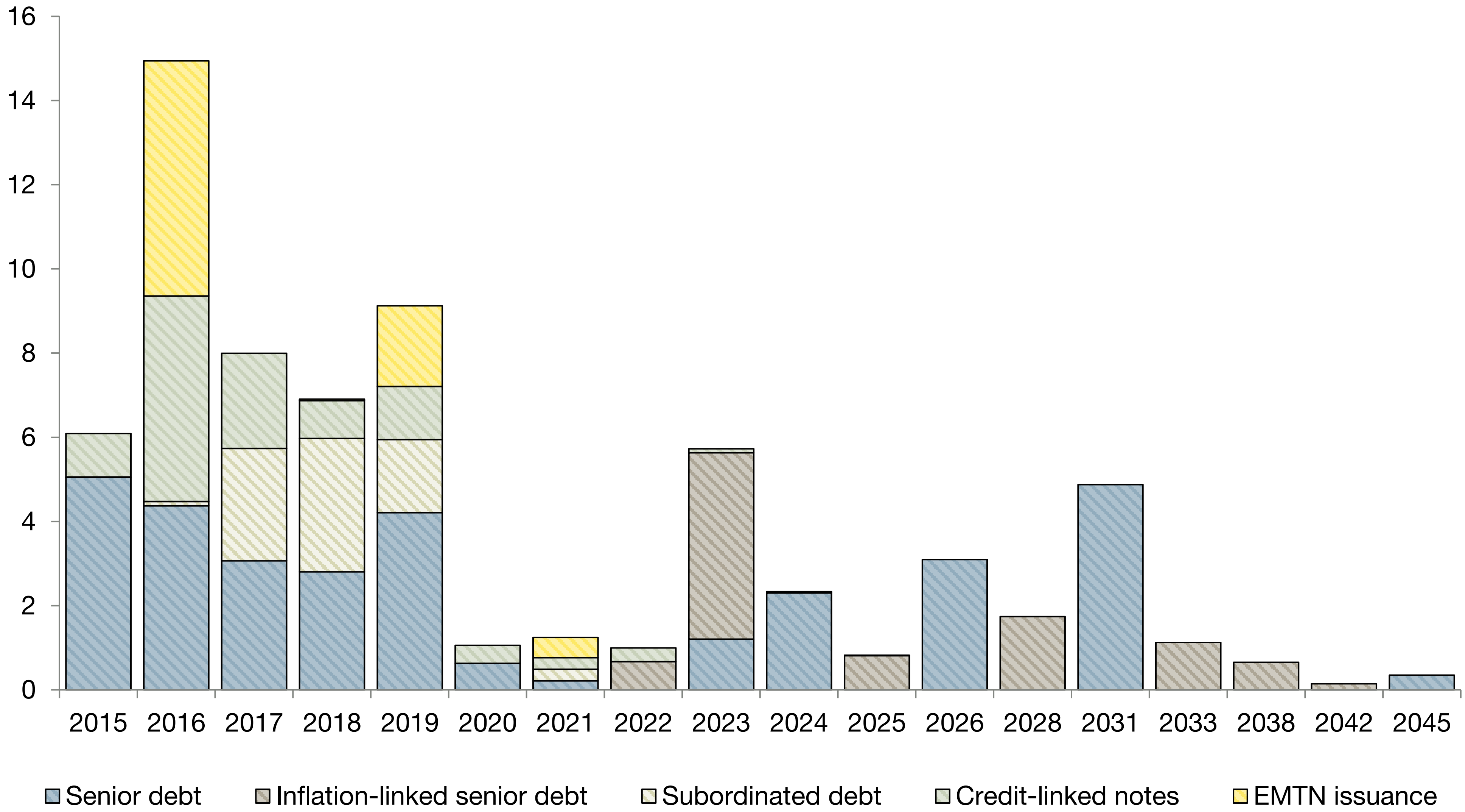
* *Weighted average remaining term of institutional funding lengthened to 28 months in 2014 (2009: 12 months).*

# Funding strategies result in improved profile…



# Listed debt maturity profile

Maturity profile of FRB's capital market instruments (ZAR billion)



# Basel III updates

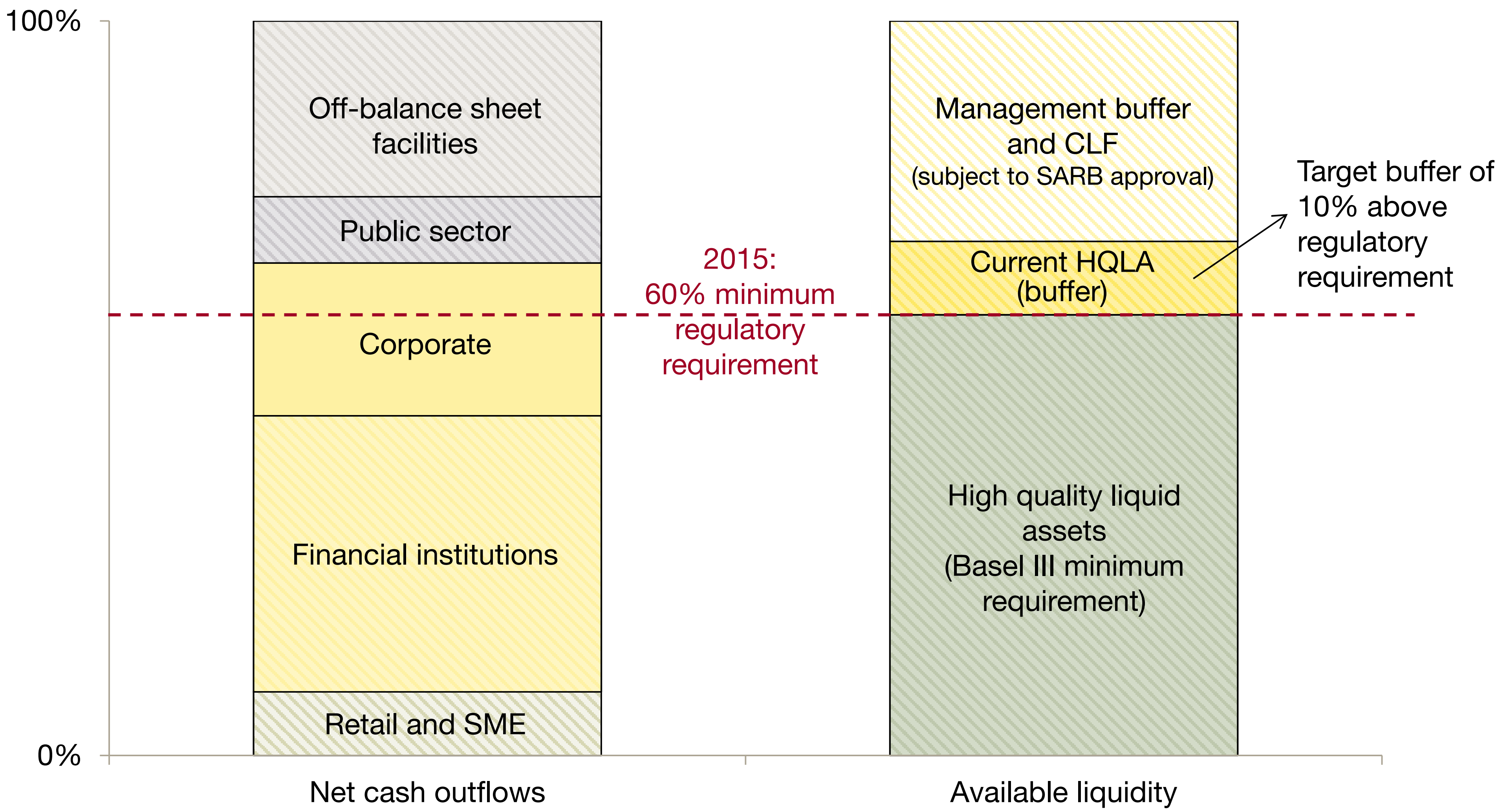
- Liquidity coverage ratio (LCR)
  - SA adopted the LCR phased-in approach from 2015 to 2019
  - Expansion of eligible collateral, with appropriate haircuts
    - Level 2A (AA-.zaf or better) and Level 2B (BBB-.zaf or better)
  - SA has been approved as a jurisdiction eligible for a CLF given insufficient liquid assets
  - SARB has provided the industry with GN6/2013, GN8/2014 and CLF operational notice
  - SA has undergone the RCAP review
    - Amendments to Regulation 26 (Liquidity Risk), all recommendations incorporated

- Net stable funding ratio (NSFR)
  - SARB intends to adopt the NSFR in its final state
  - Poses structural challenges for SA given contractual savings regime & low savings rate
  - Requires further market development and financial sector response
  - National Treasury has convened an industry working group to expedite these developments

*GN6/2013 and GN8/2014 = Guidance Note on provision of a Committed Liquidity Facility*

# Already compliant with LCR and implementing strategies to further improve liquidity position

FirstRand Bank liquidity coverage ratio (LCR)




*HQLA = High-quality liquid assets.*

# IMF review: South Africa's financial system stability assessment

- Financial sector operates in a challenging economic environment
- Relatively high capital buffers as well as sound regulation and supervision have helped mitigate risks
- Stress tests confirm the capital resiliency 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

*Source: International Monetary Fund: Financial System Stability Assessment for South Africa (Dec 14)*

# Further strengthening the banking system

- SA is adopting the Twin Peaks model of financial sector regulation
  - Prudential Authority with the SARB
  - Financial Sector Conduct Authority

- Resolution framework is in development
  - South Africa aims to address the "too big to fail" perception in line with global standards
  - We draw on SARB and National Treasury draft frameworks and their track record of adopting BIS and FSB minimum standards
  - Banks Amendment Bill (Nov 2014) gives resolution powers to a curator
  - Affirmed that "the hierarchy of claims will always be respected in a bail-in situation and no equity holder or creditor will be worse off"*

- Following the FSAP review, draft policy deposit insurance framework for SA is expected this year

* *Implementing a twin peaks model of financial regulation in South Africa (published 1 Feb 2013)*
*Expecting the principals to follow the "Key Attributes for Effective Resolution Regimes" proposed by the Financial Stability Board.*

# Summary

- Strong financial position
  - Long-term external ratings on par with the sovereign
  - Proactively provided for credit cycle
  - Strong capital position
  - Integrated funding and liquidity management

- Earnings should remain resilient
  - Quality and diversification underpin earnings resilience
  - Bad debts likely to increase but in line with cycle and portfolio expectations

The bank's strong balance sheet and origination strategies executed over the past 3 years position it well for what is expected to be a tough domestic credit cycle

# Indicative terms

| | Description |
|---|---|
| Issuer | FirstRand Bank Limited |
| Issuer ratings | Baa2 (Stable) / BBB- (Stable) / BBB (Negative)<br>(Moody's / Standard & Poor's / Fitch) |
| Programme size | USD 1,500,000,000 |
| Ranking | Senior, Unsecured Obligation |
| Distribution / Format | Regulation S Only |
| Currency | USD |
| Issue size | Benchmark |
| Tenor | TBC |
| Listing | London Stock Exchange |
| Governing Law | English Law |
| Joint Lead Managers | Bank of America Merrill Lynch, BNP Paribas, Rand Merchant Bank and Standard Chartered |

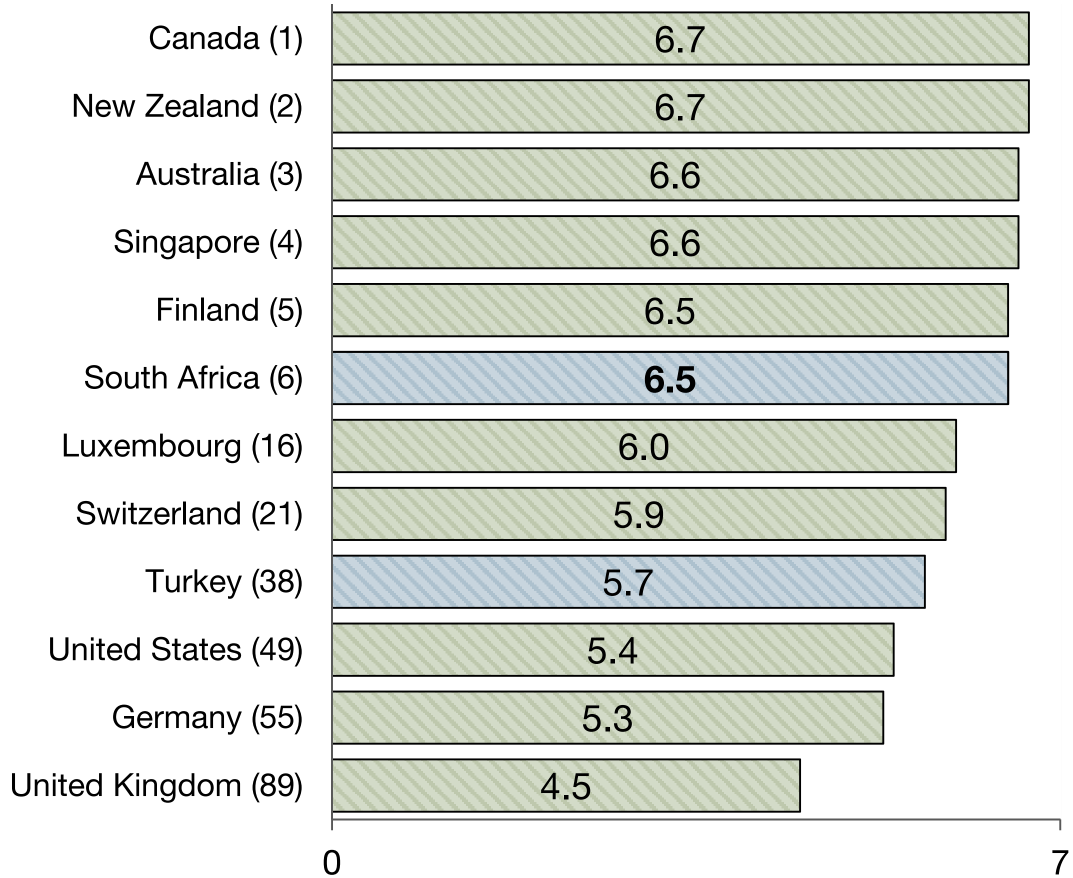
# APPENDIX

FIRSTRAND BANK

# FirstRand operates in a well-regulated banking system

**SA banking system ranked 6th globally**

*1 = insolvent and may require government bailout;*
*7 = generally healthy with sound balance sheets*




| Global competitiveness index | Rank /144 |
|---|---|
| Efficacy of corporate boards | 3 |
| Strength of auditing and reporting standards | 1 |
| Regulation of securities exchanges | 1 |
| Legal rights index | 43 |
| Soundness of banks | 6 |
| Availability of financial services | 6 |
| Financing through local equity markets | 3 |
| Strength of investor protection | 10 |
| Affordability of financial services | 21 |
| Ease of access to loans | 32 |
| Venture capital availability | 37 |

*Source: World Economic Forum, Global Competitiveness Report 2014 – 2015.*

# Credit ratings – FirstRand Bank Limited

| | South Africa sovereign ratings | FirstRand Bank Limited credit ratings | | | |
|---|---|---|---|---|---|
| | FOREIGN CURRENCY | FOREIGN CURRENCY | | LOCAL CURRENCY | |
| | Long-term/ outlook | Long-term/ outlook | Short-term | Long-term/ outlook | Short-term |
| Moody's | Baa2/Stable | Baa2/Stable | P-2 | Baa2/Stable | P-2 |
| Fitch Ratings | BBB/Negative | BBB/Negative | F3 | BBB/Negative | - |
| Standard & Poor's | BBB-/Stable | BBB-/Stable | A-3 | BBB-/Stable | A-3 |

*Credit ratings as at 14 April 2015.*

# Overview of operating franchises' performance

- FNB up 19%:
  - Excellent NIR growth from volumes
  - Robust advances growth in targeted segments
  - Strong deposit growth
  - Bad debts continued to reduce
- RMB down 36%:
  - Lower corporate activity and high base effect impacted performance of IBD
  - Proactive provisions for oil and gas, and mining and metals
  - Whilst Global Markets impacted by lower levels of activity/volatility, Corporate and transactional banking continues to show good growth
- WesBank down 14% (operational performance +15%):
  - Subdued growth from local retail VAF reflects cycle
  - Strong operational performance from MotoNovo
  - Bad debts trending up but remain within through-the-cycle thresholds

# Retail advances growth reflects origination strategies

| Retail advances | | | |
|---|---|---|---|
| **Mortgages** | **Affordable housing** | **SA VAF** | **UK VAF (MotoNovo)** |
| Remain conservative with focus on low-risk FNB customers; gradual improvement in demand | Continued strong demand and credit performance | Gradual reduction of higher-risk with volumes tracking vehicle sales and coming off a high base | Strengthening market position and benefiting from economic recovery |
| **Card** | **Personal loans** | **Other (incl. overdrafts and term loans)** | |
| Strong growth in line with FNB customer base and transactional spend growth | Steady risk appetite after significant cutbacks of 2011/12 | Risk neutral, strongly targeting FNB customer base as currently under-represented | |

# Targeted approach resulted in strong corporate and commercial advances growth

## Commercial advances

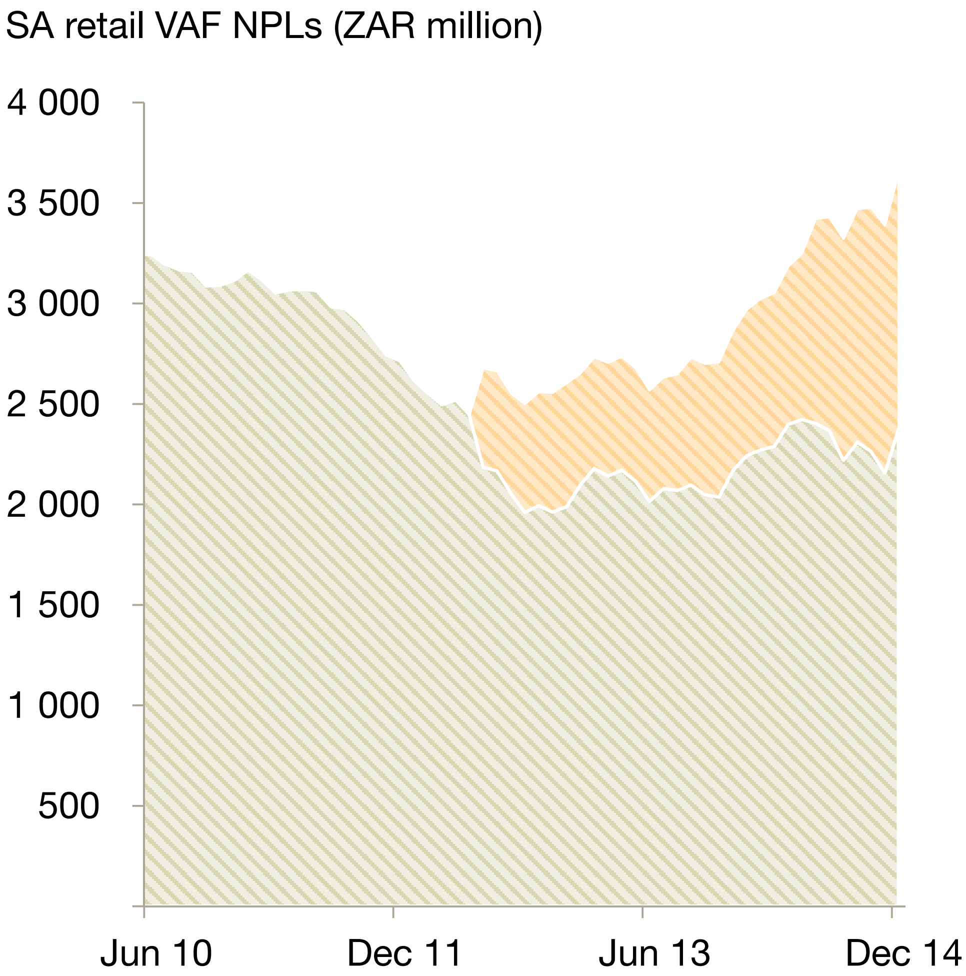
| Commercial property finance | Agri finance | Asset-backed finance | Small businesses (SMEs) | Rest of Africa and India |
|---|---|---|---|---|
| Focus remains on banked owner-occupied and selective multi-tenanted deals | Continued to diversify exposure across commodities and geographically | Growth focus on banked customers across targeted industries | Cross-sell to relationship base with some tightening on new-to-bank and higher-risk business | Continue to target Africa-India corridor clients and introduce specialised product offerings |

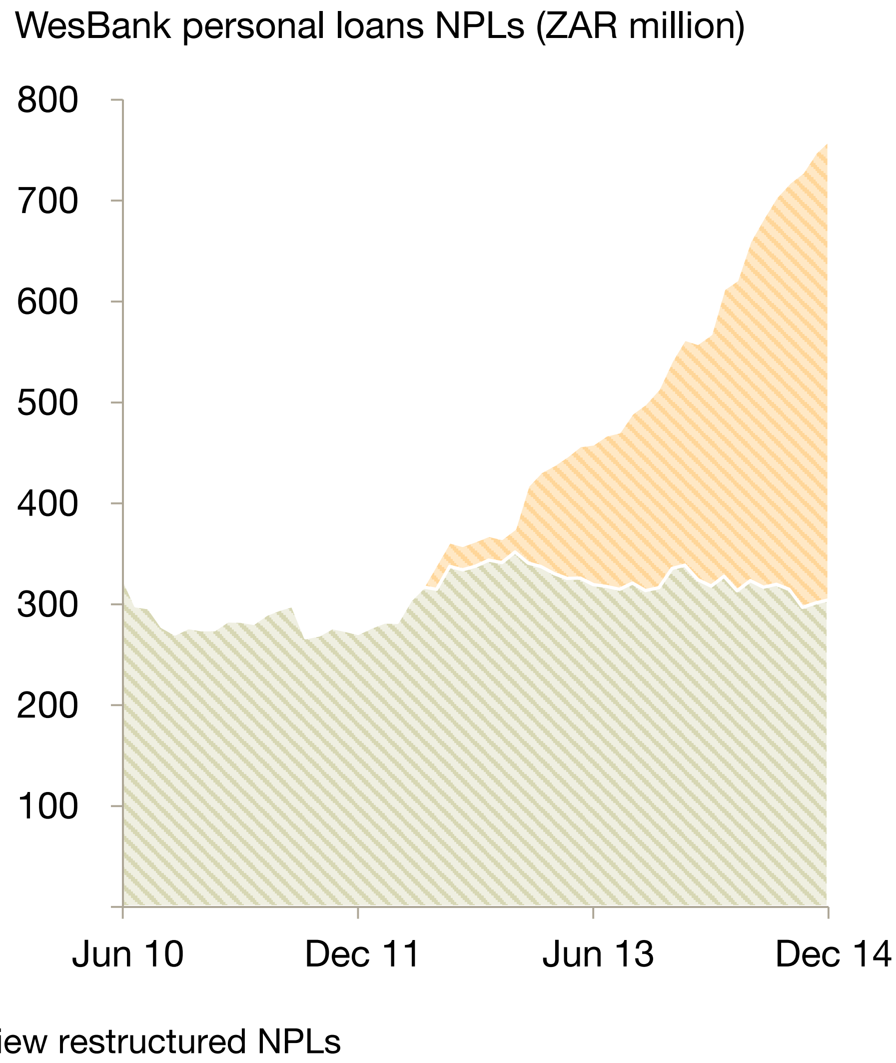
## Corporate advances

| Working capital finance | Infrastructure finance | Cross-border rest of Africa | South African corporates |
|---|---|---|---|
| Tracking nominal SA GDP | SA renewable energy projects still drawing down | Growth in telecom, FI, energy and infrastructure whereas resource finance contained given market stress | Lead arranger of the larger acquisition, leveraged finance and listed property transactions |

*Commercial includes all advances to commercial clients across FNB and WesBank. Corporate includes advances to corporate and public sector customers across RMB, FNB and WesBank.*

# Debt review inflows reflects continued pressure on consumers




Paying customers in debt review result in lower coverage ratio

# FirstRand's philosophy on foreign currency external debt

- Framework for the management of external debt takes into account sources of sovereign risk
- We consider the external debt of all South African entities…
- …as all these entities utilise the South African system's capacity

Therefore FirstRand places internal constraints
that are more stringent than the macro prudential limit

# International funding activities

- EMTN programme
  - Reg S
  - USD500 million 5-year bond due 2016
  - Private placements
  - African currencies BWP, ZMK, NGN settled in USD/EUR
- CHF programme (Six Swiss Exchange)
  - CHF160 million 5-year bond due 2019
- MotoNovo Finance
  - Turbo ABS securitisation programme
  - 5 successful issues – with significant spread compression for the Aaa notes from 180bps to 47bps over 5 years
- Bilateral facilities
- Syndicated loans
- DFI facilities
- Trade finance loans
- Collateralised funding