

FINANCIAL AND STRATEGIC UPDATE

June 2016



FIRSTRAND BANK

Agenda

Overview FirstRand Bank financial performance Asset quality	Alan Pullinger, Group Deputy CEO
Capital, funding and liquidity	Andries du Toit, Group Treasurer



OVERVIEW OF THE FIRSTRAND GROUP AND FIRSTRAND BANK (ISSUER)



FIRSTRAND BANK

Introducing FirstRand group – financial position and track record

FINANCIAL HIGHLIGHTS for the six months ended 31 December 2015	ZAR million	USD million
Normalised total assets	1 139 523	72 860
Normalised net asset value	95 878	6 130
Normalised earnings	10 915	802
Normalised ROE	23.4%	
Capital adequacy – CET1 ratio*	13.7%	

Conversion rates at 31 December 2015:

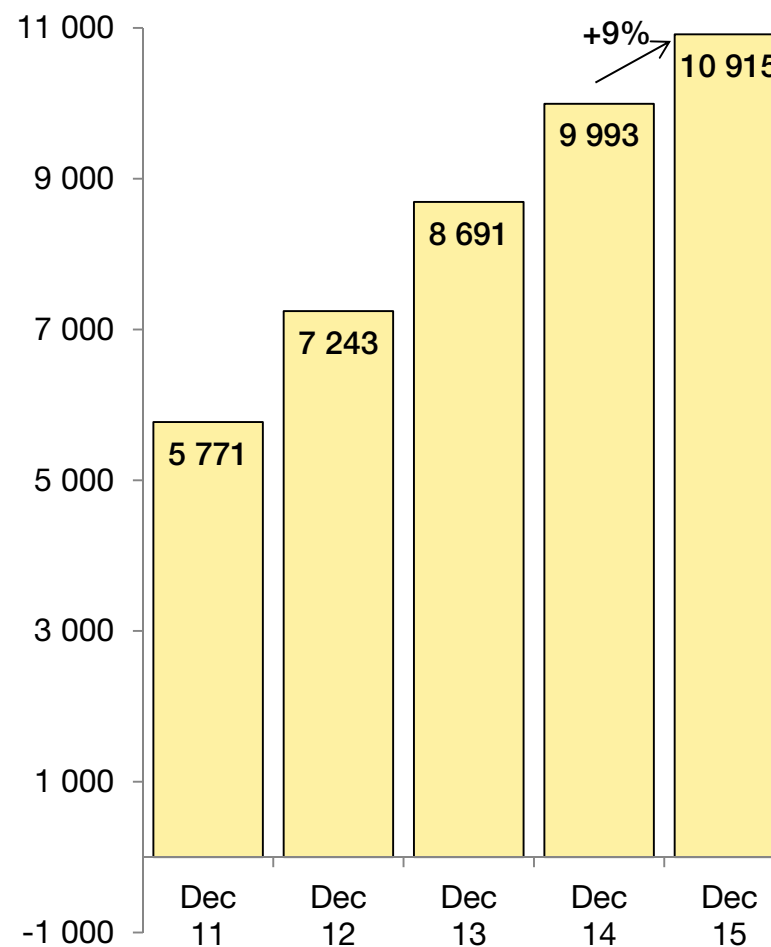
income statement: USD1 = ZAR13.61, balance sheet: USD1 = ZAR15.64

* Includes unappropriated profits.

KEY OPERATING STATISTICS for the six months ended 31 December 2015	Dec 2015
Employees	43 406
Physical representation points	862
ATMs	7 347

NORMALISED EARNINGS

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**



Group 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 our commitment to:

**Create long-term
franchise value**

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

**Maintain balance
sheet strength**

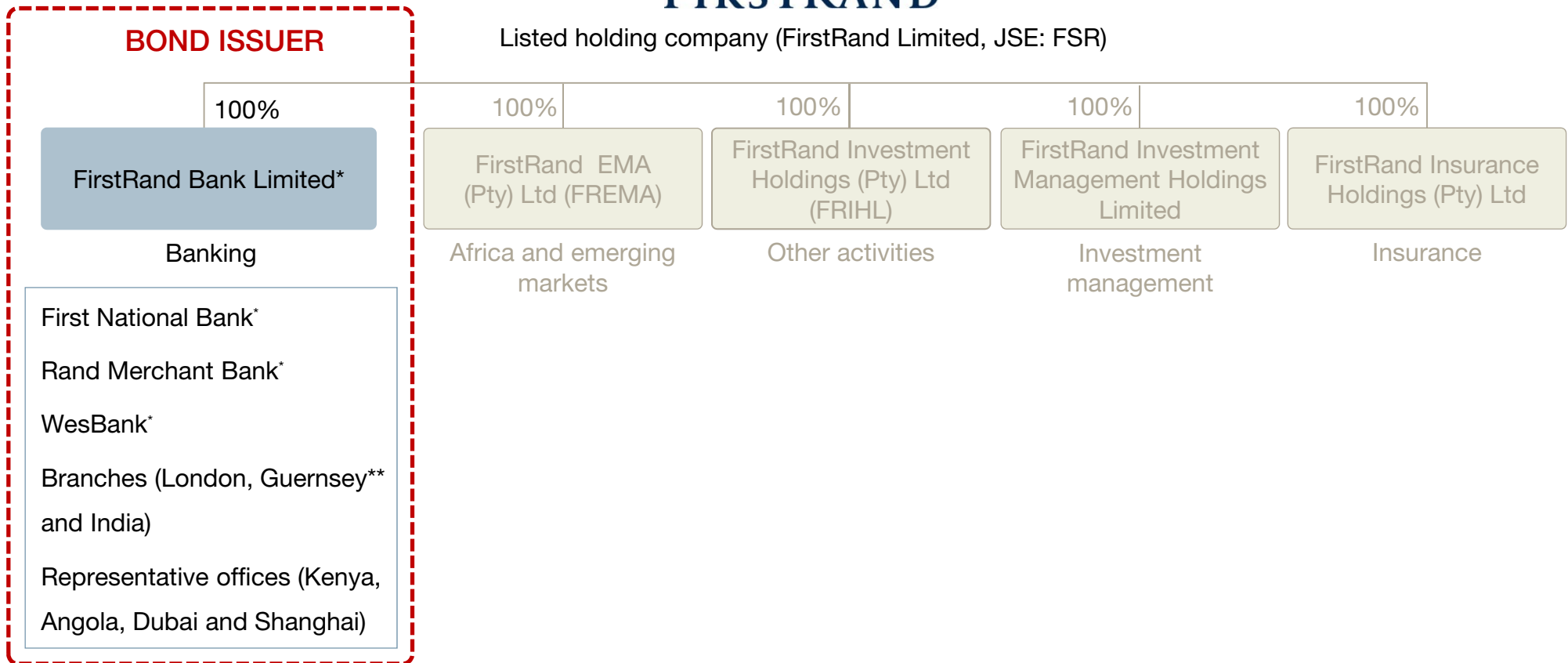


FirstRand Bank (FRB) is the debt issuer and holds the group's South African banking franchises...



FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)



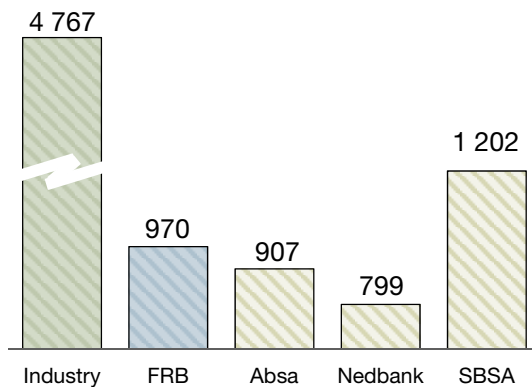
* Divisions of FirstRand Bank Limited.

** Trading as FNB Channel Islands.

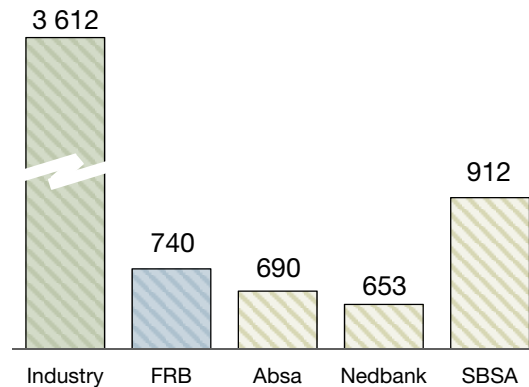


For context, FRB is one of South Africa's Big 4 banks...

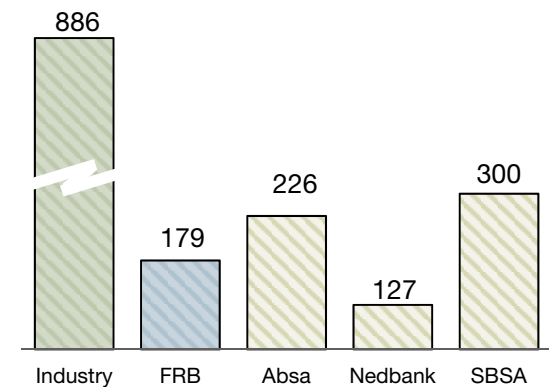
Assets* (ZAR billion)



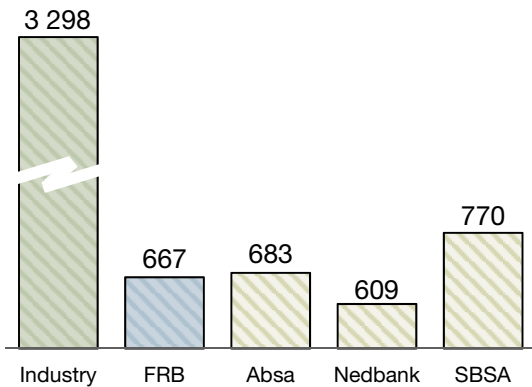
Gross advances* (ZAR billion)



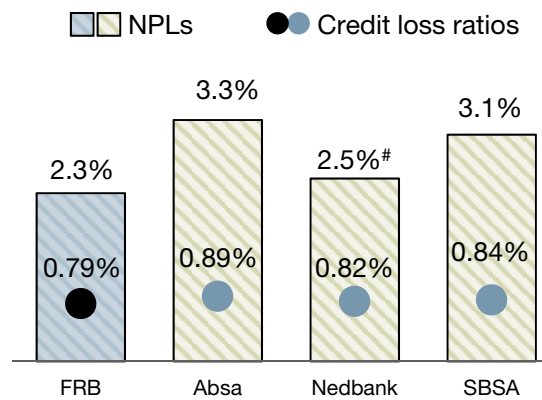
Residential mortgages* (ZAR billion)



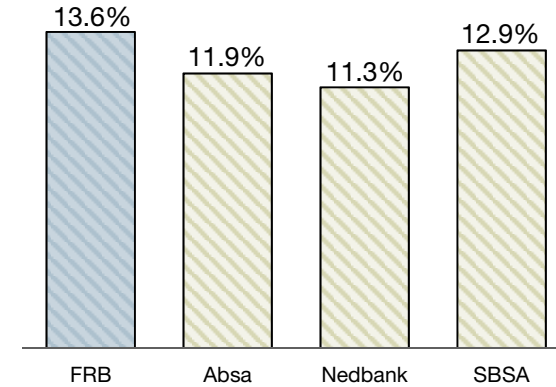
Deposits* (ZAR billion)



NPLs and credit loss ratios** (%)



Common Equity Tier 1 ratios** (%)



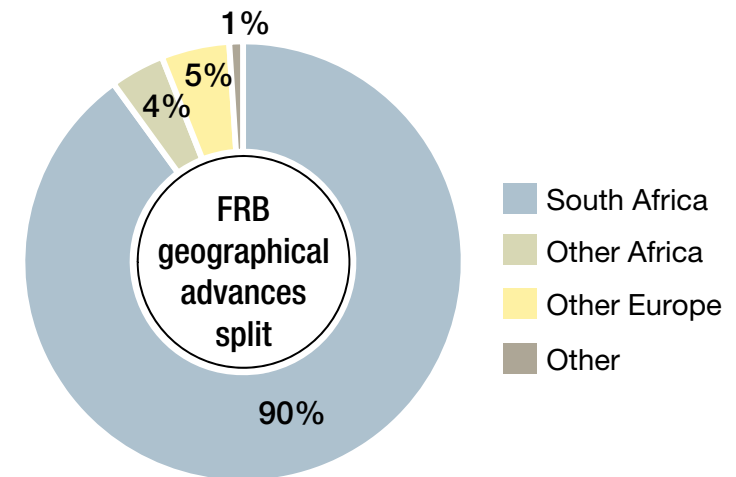
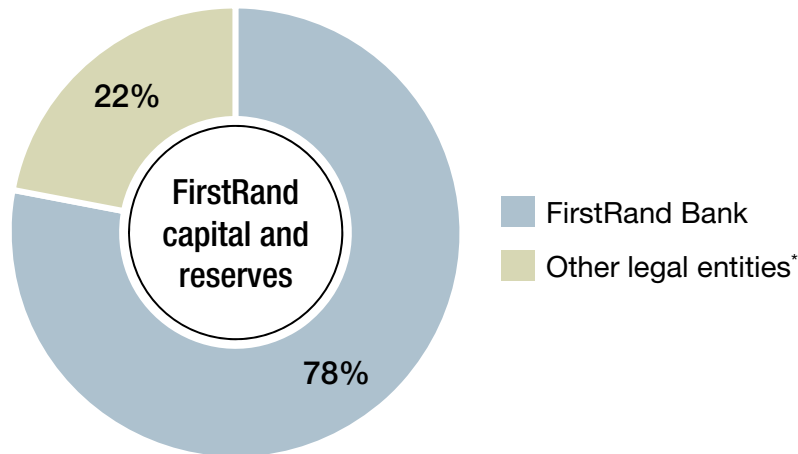
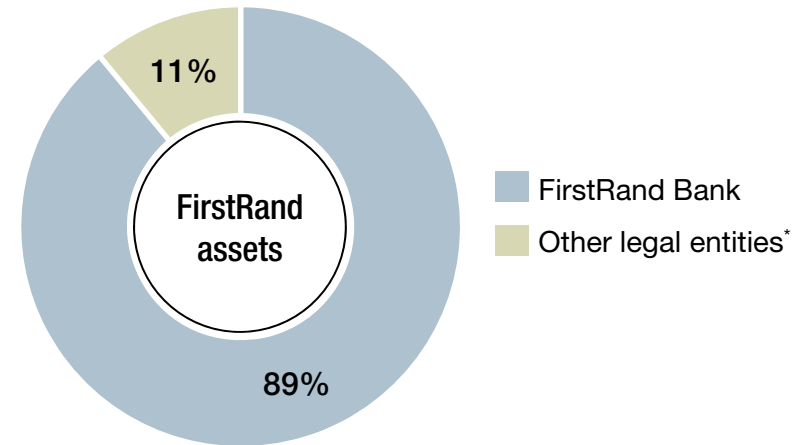
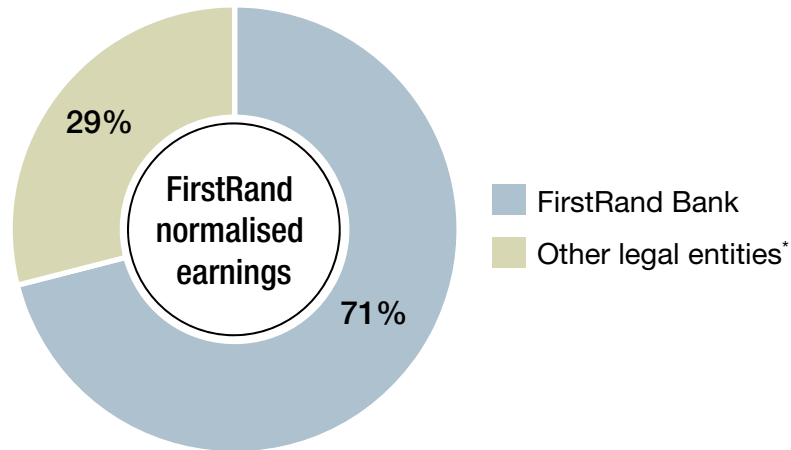
Sources: * SARB BA900 returns as at Dec 2015.

** Company reports as at Dec 2015.

NedBank group ratio presented.



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

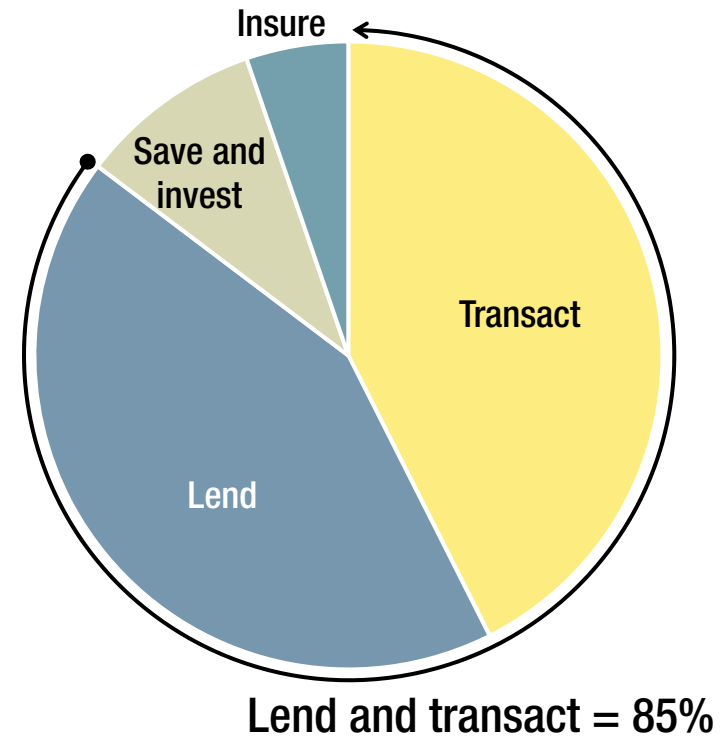
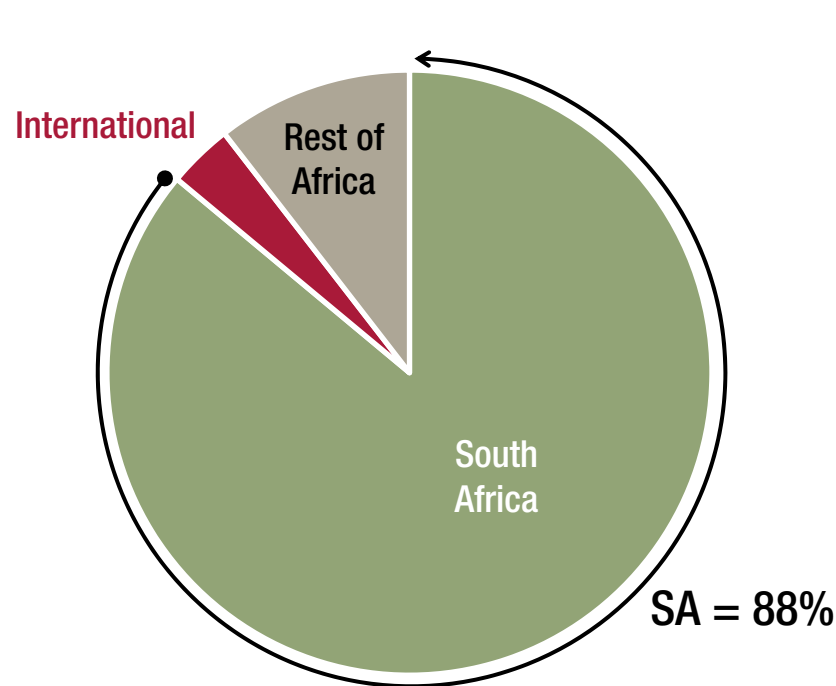


* Comprises of FREMA, FRIHL, FirstRand Investment Management Holdings Ltd and FirstRand Insurance Holdings (Pty) Ltd.



Focus on growing the transactional and lending franchises

GROUP REVENUE SPLIT



South African core banking businesses still critical to the group's growth

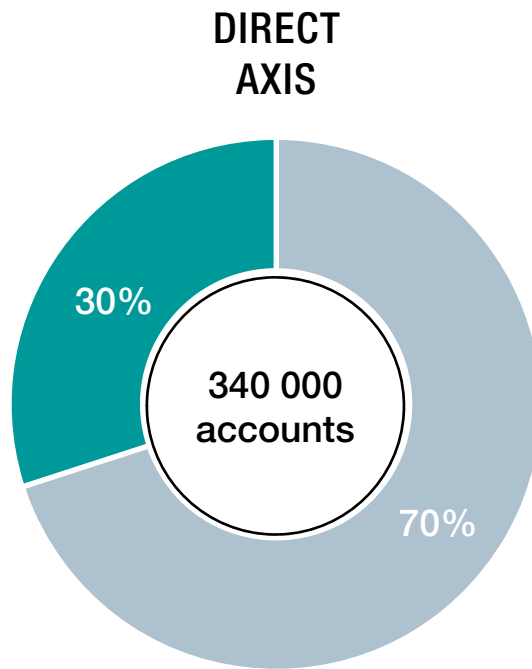


Strategies to protect and grow transactional and lending franchises

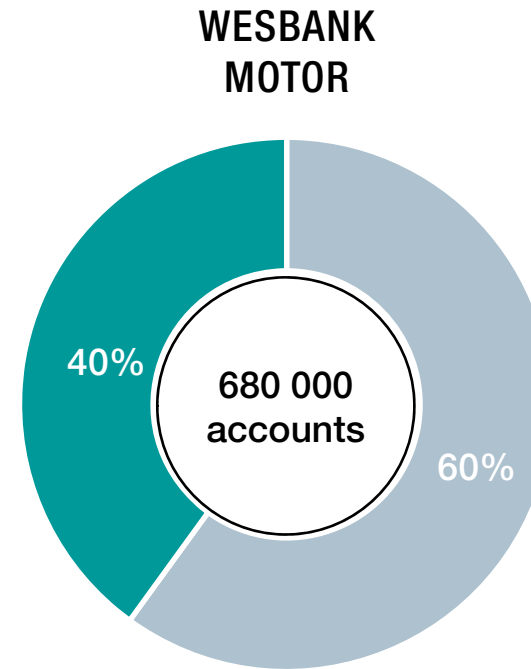
- Continuing innovation and differentiation in mature markets
- Cross-sell and collaborate
- Strategic allocation of financial resources
- Drive efficiencies



For example, significant cross-sell opportunities through the mining of group customer bases



■ FNB banked ■ Non-FNB



■ FNB banked ■ Non-FNB



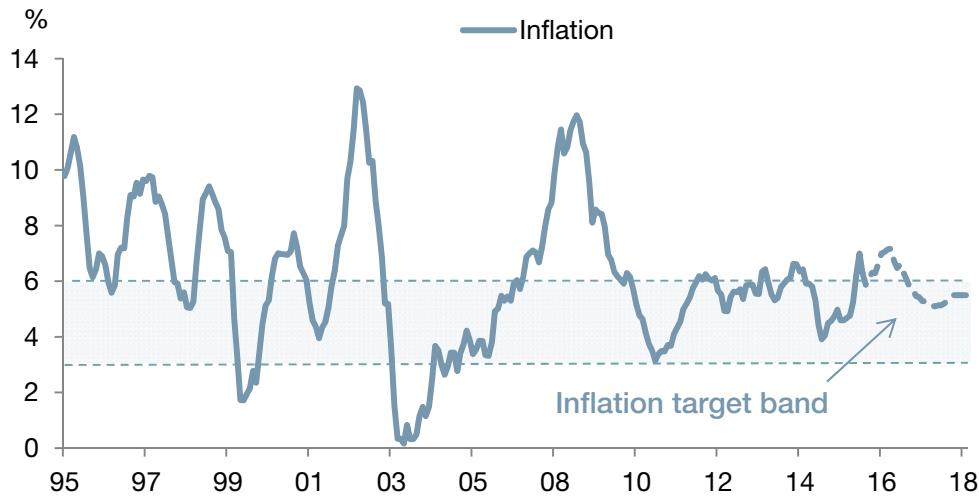
FIRSTRAND BANK FINANCIAL PERFORMANCE



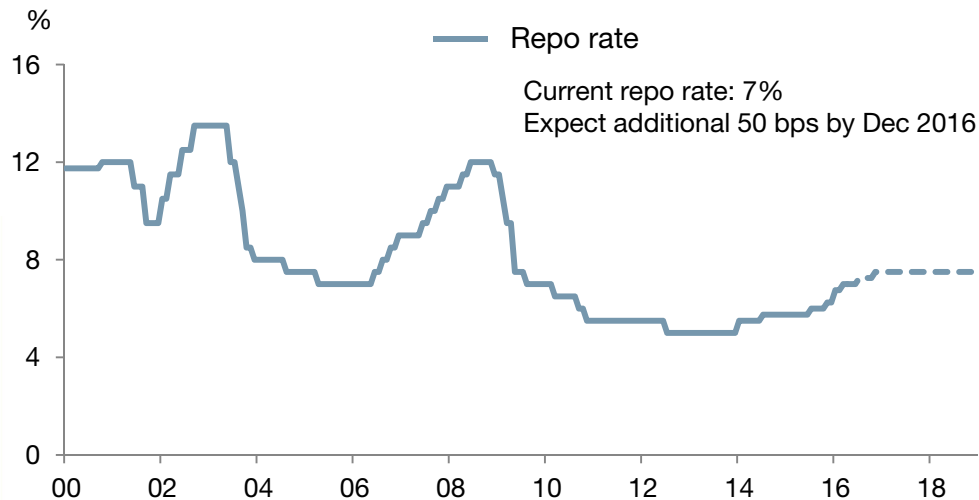
FIRSTRAND BANK

SA's economy facing headwinds

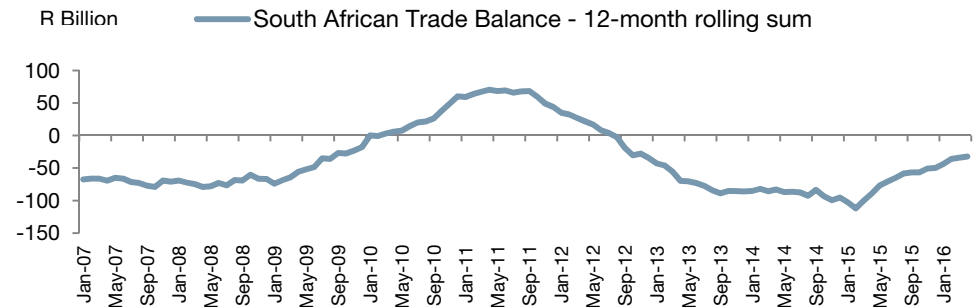
Inflation to lift until year end



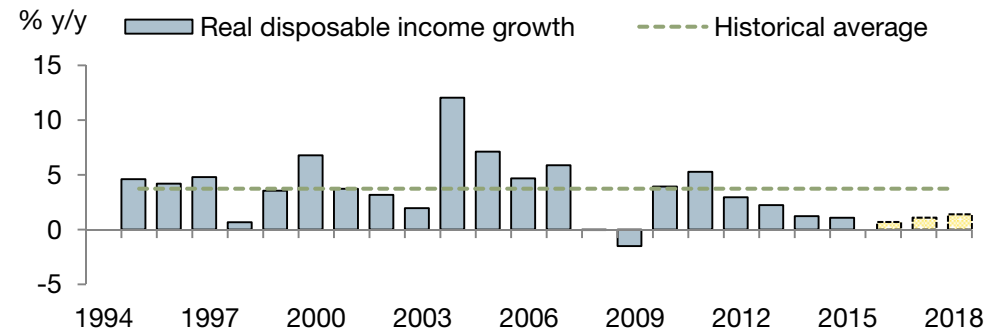
Pro-cyclical monetary policy



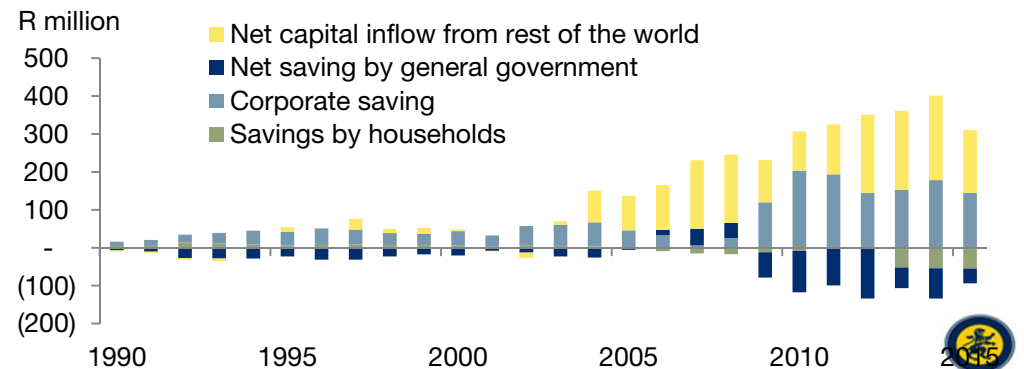
Trade balance improving



Household disposable income under pressure



Savings under pressure



Sources: South African Reserve Bank, Bloomberg, FirstRand.



FirstRand Bank performance highlights

Normalised results	Dec 15	Dec 14	Change
Profit before tax (ZAR million)	10 661	9 672	10% ▲
Earnings (ZAR million)	7 712	7 139	8% ▲
Return on equity (%)	21.1	22.9	▼
Return on assets (%)	1.57	1.65	▼
Credit loss ratio (%)*	0.79	0.78	▲
Cost-to-income ratio (%)	55.4	56.3	▼
Tier 1 ratio (%)**	14.0	14.1	▼
Common Equity Tier 1 ratio (%)**	13.6	13.6	
Net interest margin (%)	4.95	5.13	▼
Average gross loan-to-deposit ratio (%)	93.3	93.8	▼
Gross advances (ZAR billion)	760	682	11% ▲

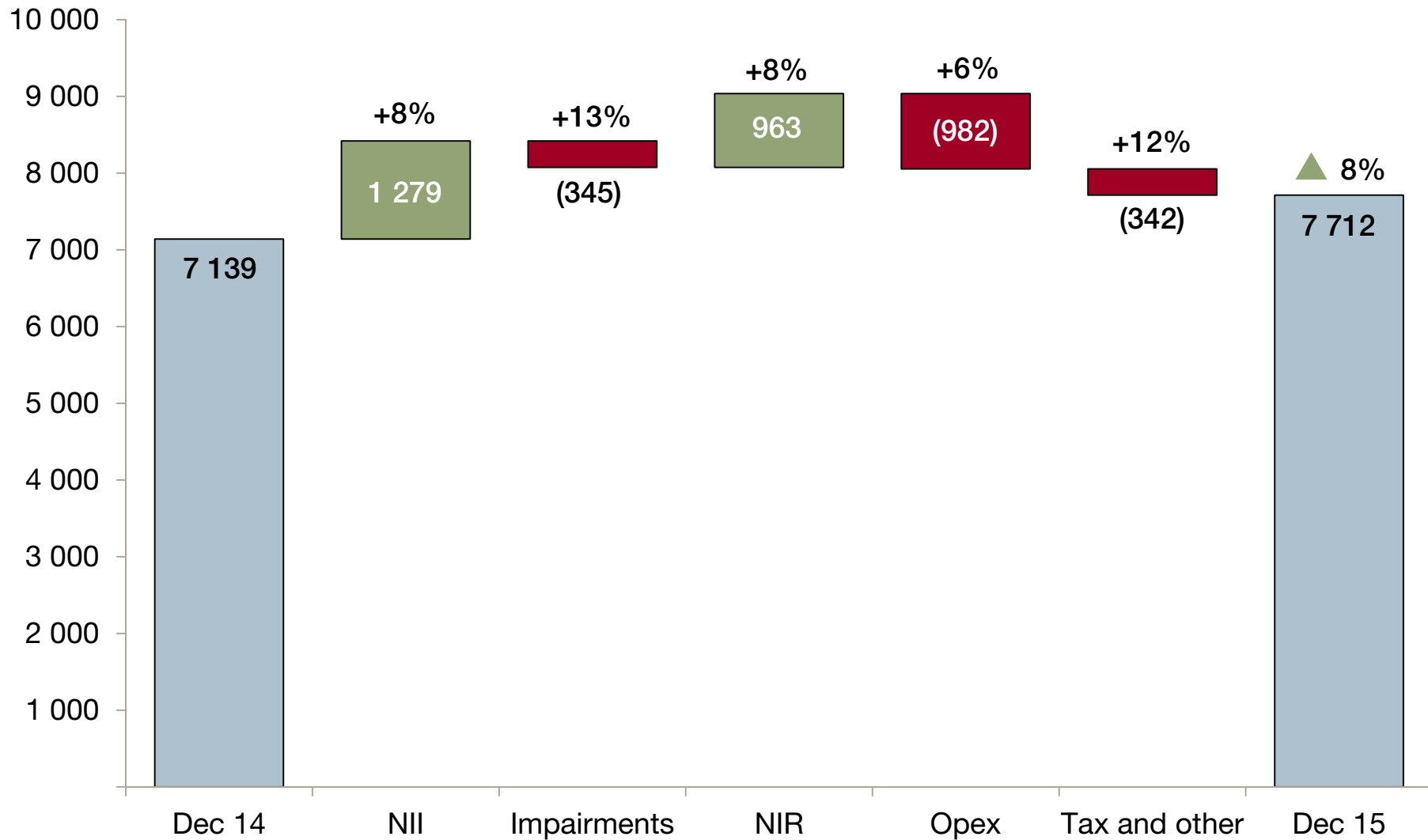
* Credit loss ratio = annualised impairments/average gross advances.

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



Topline continues to drive earnings growth

Normalised earnings (ZAR million)



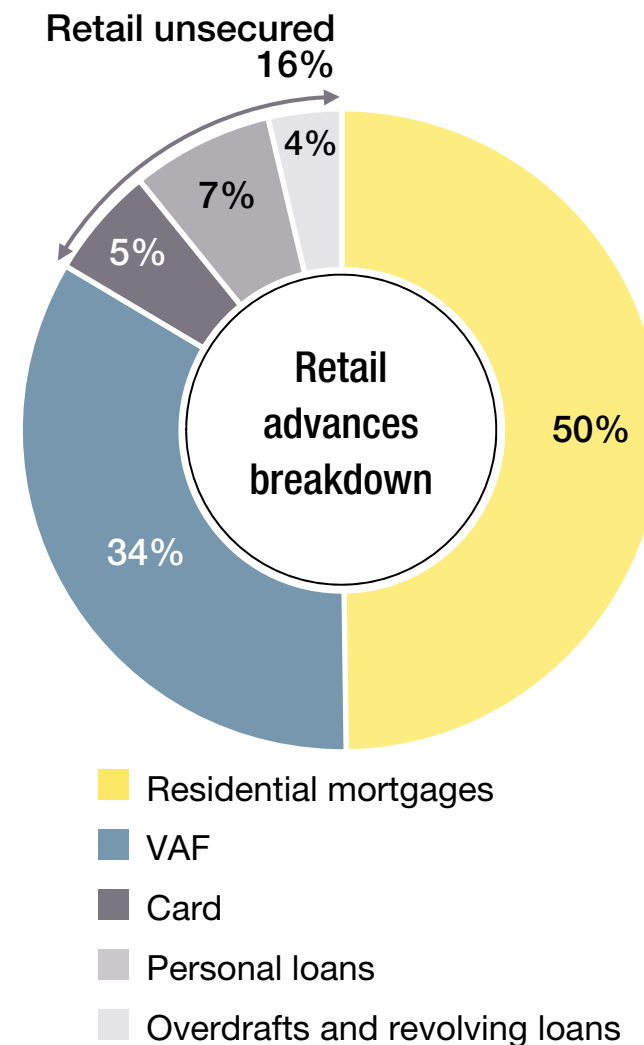
ASSET QUALITY



FIRSTRAND BANK

Retail advances reflect both macros and specific origination strategies

ZAR million	Dec 15	Dec 14	% change
Residential mortgages	184 641	175 097	5
Vehicle asset finance (VAF)	125 198	109 229	15
- SA	96 748	97 539	(1)
- MotoNovo (UK)*	28 450	11 690	>100
Card	20 854	17 356	20
Personal loans	26 471	22 654	17
FNB	15 206	12 831	19
WesBank	11 265	9 823	15
Transactional and account-linked overdrafts and revolving term loans	13 690	11 143	23
Retail advances	370 854	335 479	11

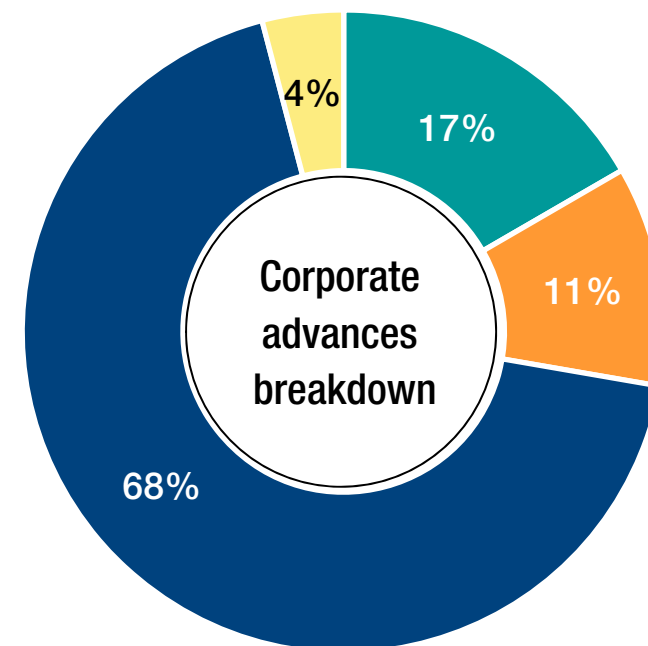


* 89% advances growth in GBP terms.



Solid growth cross most domestic corporate books

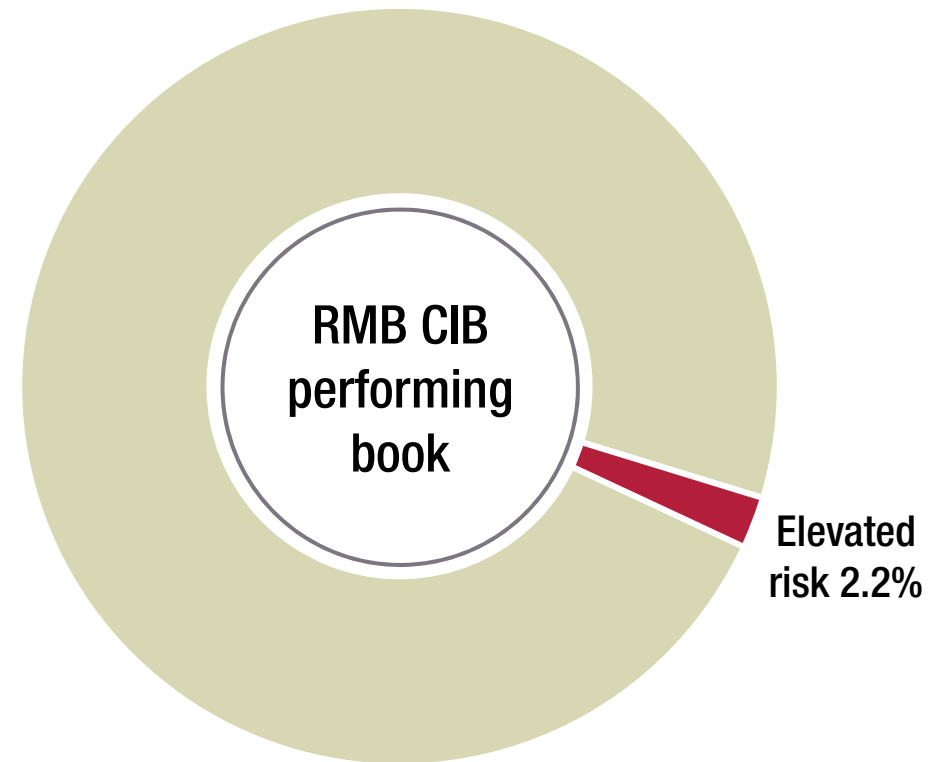
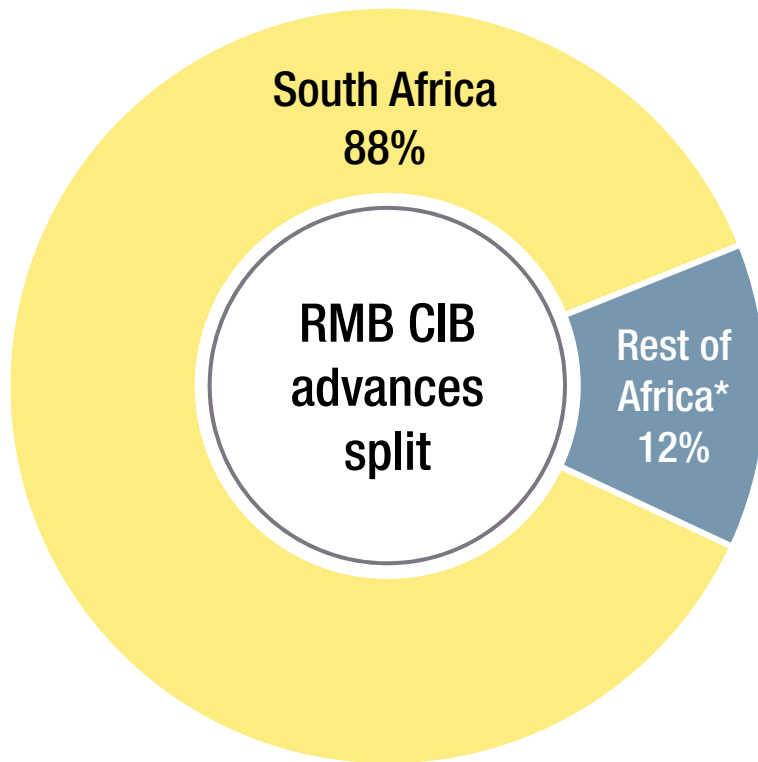
ZAR million	Dec 15	Dec 14	% change
RMB IB core South Africa	149 748	159 659	(6)
HQLA corporate advances	15 280	-	-
Investment banking-related corporate advances	165 028	159 659	3
RMB CIB cross-border	29 670	25 930	14
RMB corporate banking	35 669	26 011	37
WesBank corporate	41 365	42 631	(3)
FNB commercial	62 149	52 825	18
Core corporate advances	333 881	307 056	9
RMB CIB repurchase agreements	39 439	35 837	10
Total corporate advances	373 320	342 893	9



- FNB commercial
- WesBank corporate
- RMB corporate and investment banking
- HQLA corporate advances



Contextualising risk in the RMB CIB credit portfolio

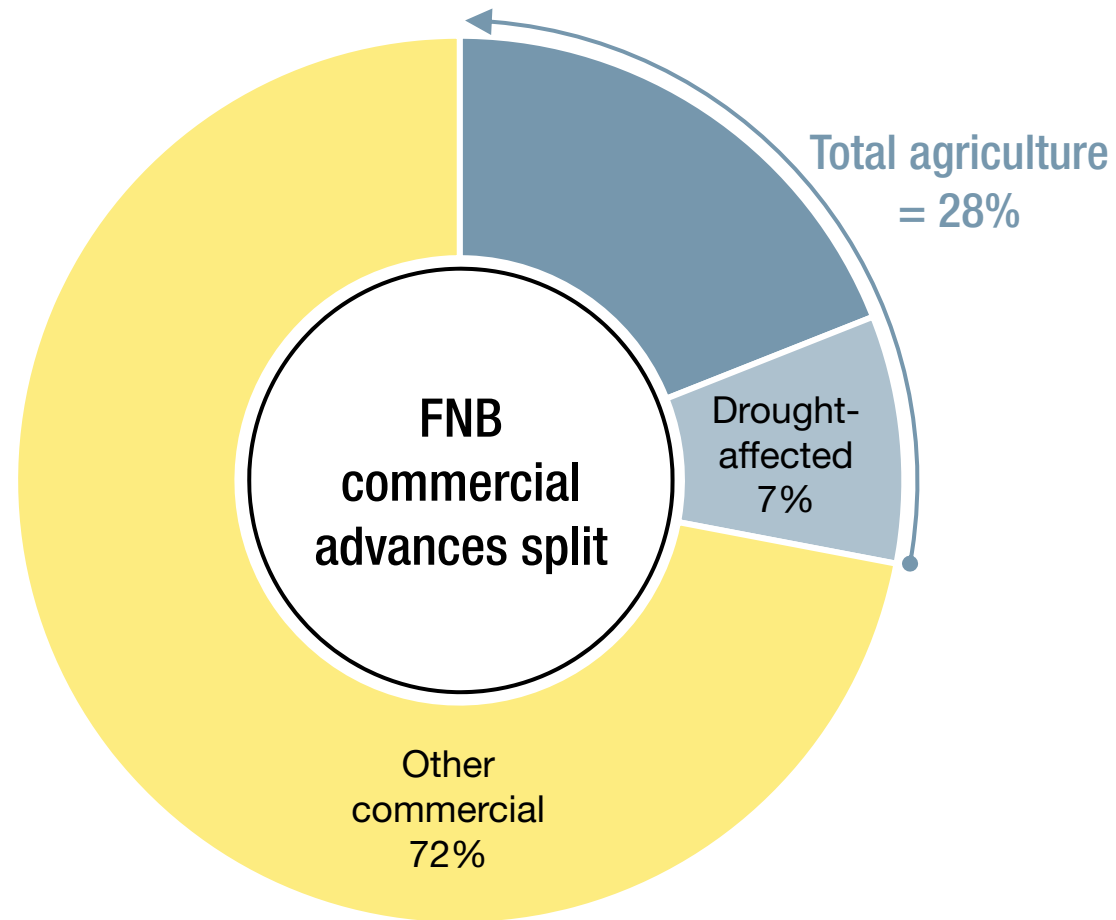


- Elevated risk exposures represent 2.2% of the performing book (oil and gas exposures in the rest of Africa and certain resources counters)
- RMB has further increased overlays and the group is comfortable with its overall level of provisioning

* Includes cross-border and in-country.



FNB agri book well diversified within commercial portfolio

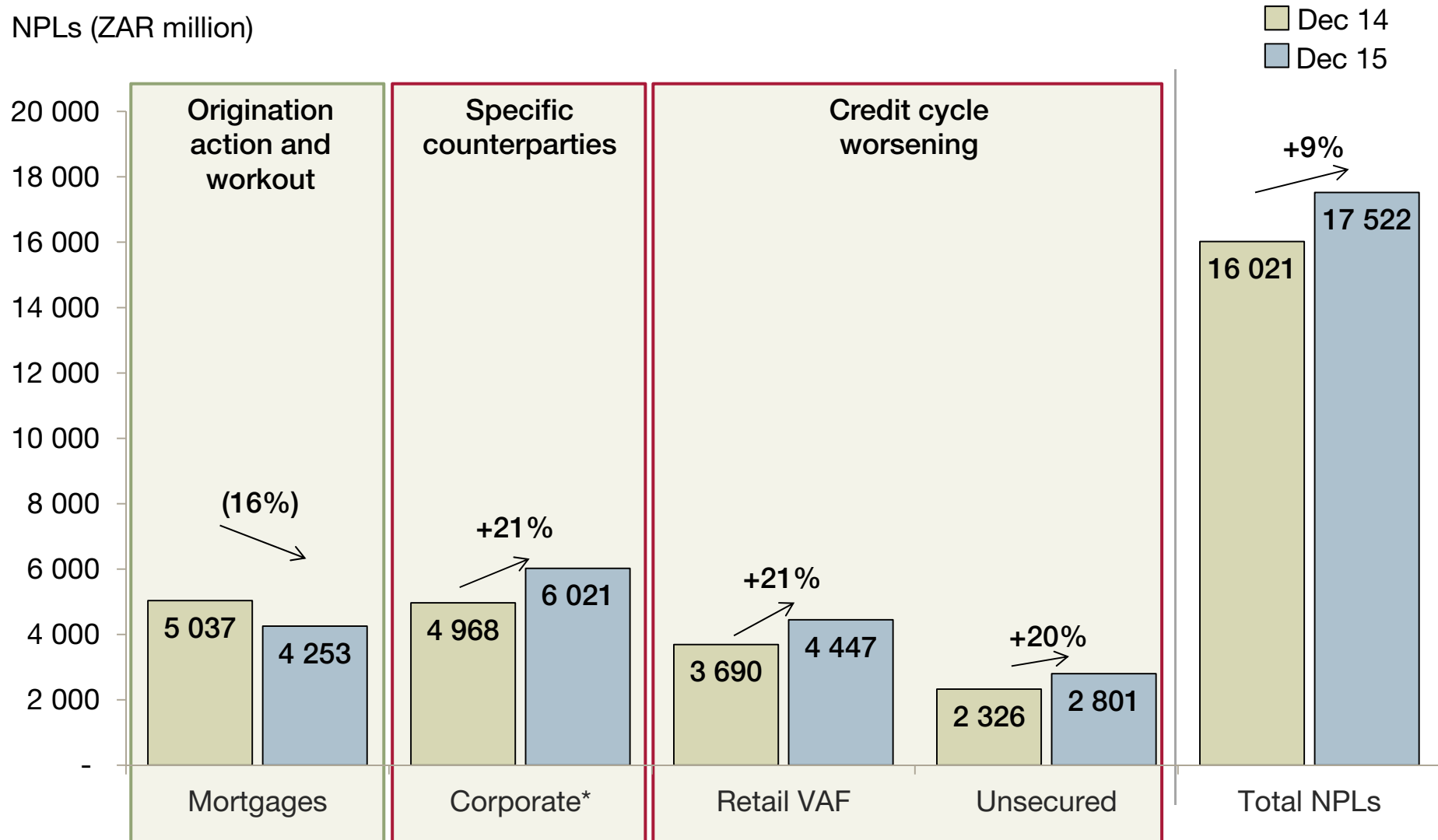


Drought-affected commodities = 7% of total commercial portfolio



NPL trend reflects macros and cycle...

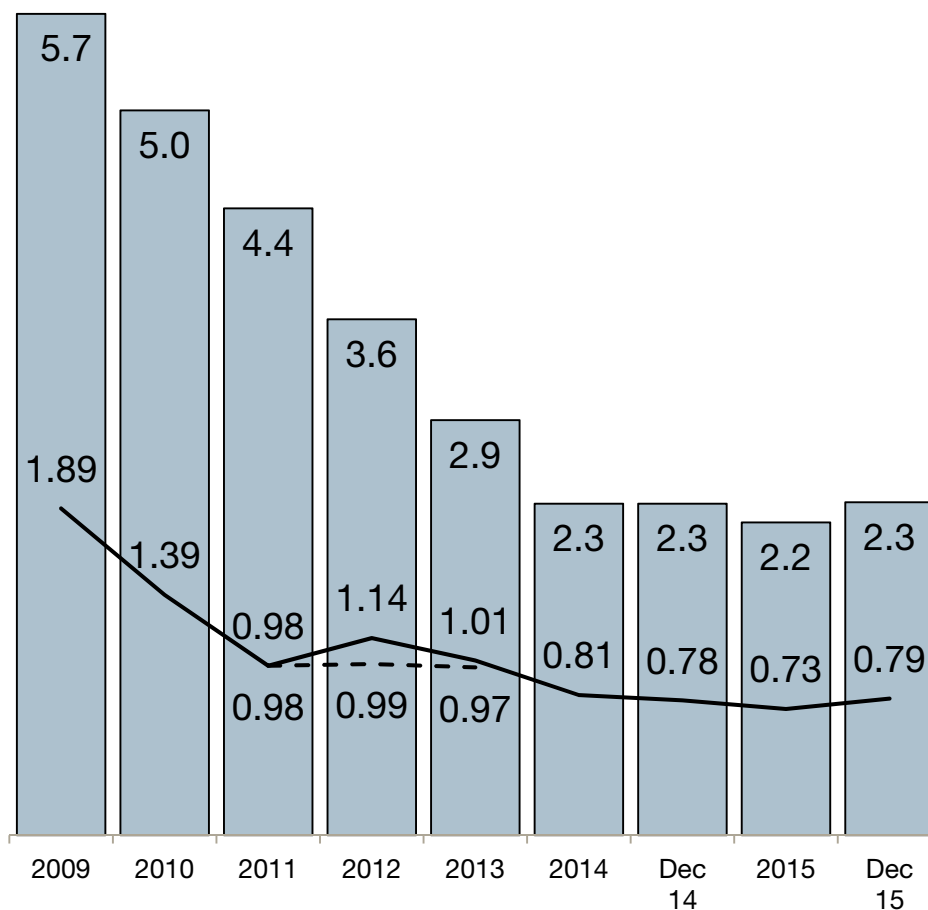
NPLs (ZAR million)



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



..but the actual credit performance not yet fully reflecting that cycle has turned



■ NPLs as a % of advances
— Credit loss ratio (%)
- - - Credit loss ratio (%) (excluding merchant acquiring event)

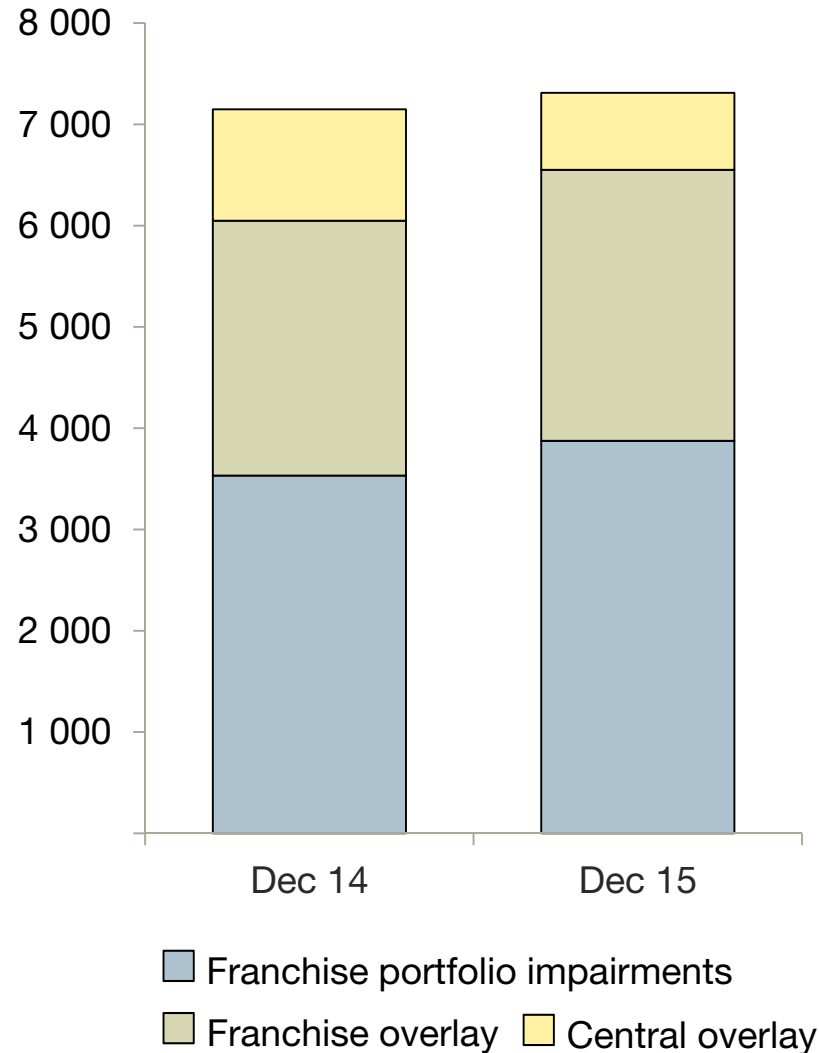
Credit loss ratio (%)	Dec 15	Dec 14
Retail – secured	0.61	0.44
Residential mortgages	0.18	0.06
VAF	1.27	1.04
Retail – unsecured	4.98	5.35
Card	2.18	0.19
Personal loans*	7.02	7.24
Retail other	5.34	9.57
Total retail	1.32	1.17
Corporate and commercial	0.39	0.48
Rest of Africa	0.37	12.52
FCC (including Group Treasury)	(0.04)	(0.05)
Total credit loss ratio	0.79	0.78

* Includes FNB and WesBank loans.



Started early with proactive provisioning – prudently positioned for credit cycle

Portfolio impairments (ZAR million)



	Dec 15	Dec 14
Portfolio impairments as % of performing book	0.99%	1.07
Bad debt charge (%)	0.79%	0.78%
Portfolio impairments (R million)	7 311	7 148



CAPITAL, FUNDING AND LIQUIDITY



FIRSTRAND BANK

Conservative approach to financial resource management

- Subsidiaries are managed on a stand-alone basis
- No implicit or explicit support from the group
- Subsidiaries in each jurisdiction capitalised on a Basel III basis in accordance with its risk profile and fully funded to support its growth aspirations
- Subsidiaries must comply with SARB regulations and those of respective in-country regulators – focus placed on Tier 1 capital and total capital adequacy
- Each subsidiary target capital levels (in excess of regulatory minimums) informed by stress testing
- Focus on developing in-country deposit franchises



Further strengthening the SA financial 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
 - South Africa aims to adopt G20 and FSB recommendations in line with global standards, and is well underway

REGULATION	LEGISLATION
<p>Prudential</p> <ul style="list-style-type: none"> • Basel III • Solvency assessment and management (Solvency II) <p>Market conduct</p> <ul style="list-style-type: none"> • JIBAR code of conduct • Code of conduct for OTC market • Treating customers fairly 	<ul style="list-style-type: none"> • Financial Markets Bill 2012 • Financial Services General Laws Amendment Act, 2013 • Banks Act Amendment Bill (B17 2014) • Financial Markets Act • Credit Ratings Services bill • Resolution policy framework (2015) • Deposit insurance policy framework (TBA 2016)



FSB implementation dashboard

Implementation of reforms in priority areas by FSB jurisdictions (as of 31 October 2015)

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' 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				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 domestic systemically important banks (D-SIBs)		Trade reporting	Central clearing	Platform trading	Margin	Availability of transfer / bail-in / temporary stay powers for banks	Recovery planning for systemic banks	Resolution planning for systemic banks	Money market funds (MMFs)	Securitisation
Agreed phase-in (completed) date	2013 (2019)	2015 (2019)	2016 (2019)	2016		end-2012	end-2012	end-2012	Sep 2016 (2019)					
Argentina	Δ				Δ							**	**	
Australia	C											*	*	
Brazil	C			&	Δ								**	
Canada	C					D, F						**		
China	C	Δ			Δ	R, D, F				Δ		**		
France	MNC	Δ										**	*	
Germany	MNC	Δ										**	*	
Hong Kong	C	C										**		
India	C	LC			Δ	D, F								
Indonesia	Δ					R						**		
Italy	MNC	Δ									Δ		*	
Japan	C					D								
Mexico	C	C				D						**	*	
Netherlands	MNC	Δ										**	*	
Rep. of Korea						D						**		
Russia	Δ				Δ							**	**	
Saudi Arabia	C	LC				R, D						*		
Singapore	C	Δ										**		
South Africa	C	C			Δ	D, F						**		
Spain	MNC	Δ											*	
Switzerland	C				Δ						Δ	**		
Turkey		Δ				D, F						**		
United Kingdom	MNC	Δ										**	*	
United States	LC	Δ			Δ	D								



Basel III update

- Liquidity coverage ratio (LCR)
 - LCR phase in requirements continue with minimum requirement (2016: 70%, 2017: 80%)
 - FRB exceeds minimum requirements – optimisation and phase-in will continue
- Net stable funding ratio (NSFR)
 - SARB announced amendments to the NSFR*
 - Indicating that the BIS calibration does not reflect the actual stability of this funding source for SA
 - Considered actual local conditions, determining that regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy
 - Funding from financial institutions in local currency
 - where remaining maturity < 6m **apply 35% ASF (BIS ASF: 0%)**
 - FRB estimates that it already exceeds NSFR minimum requirements further optimisation is required

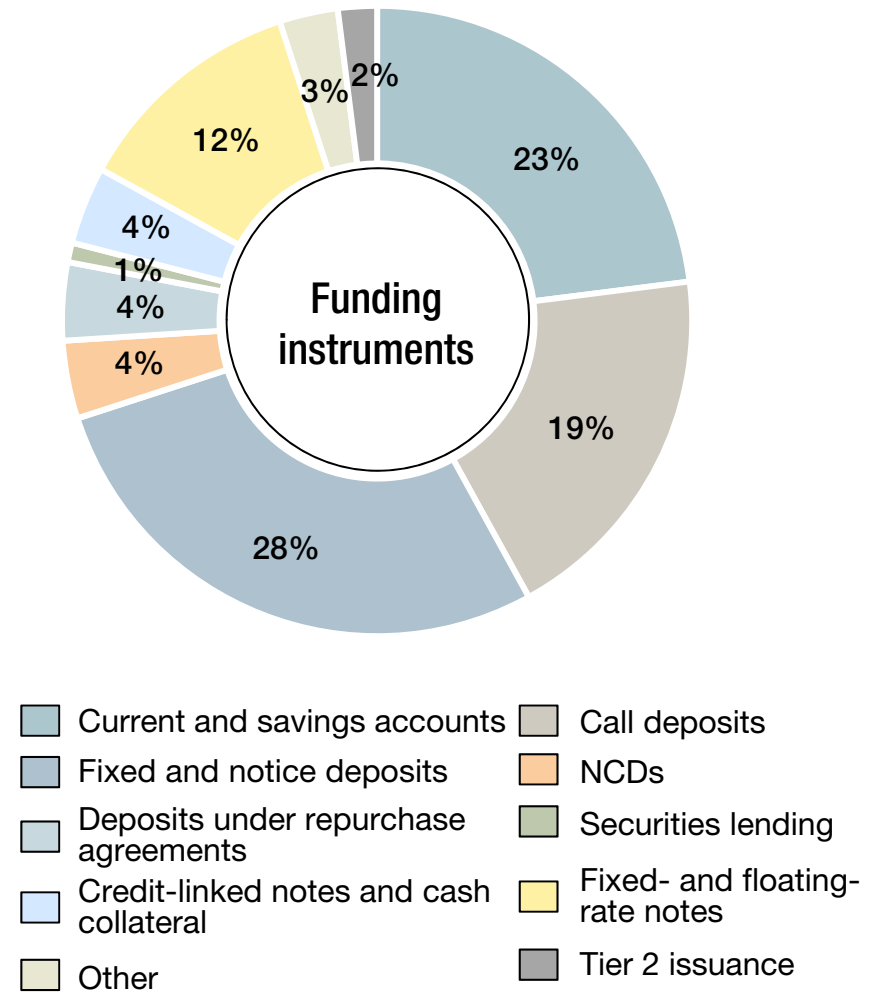
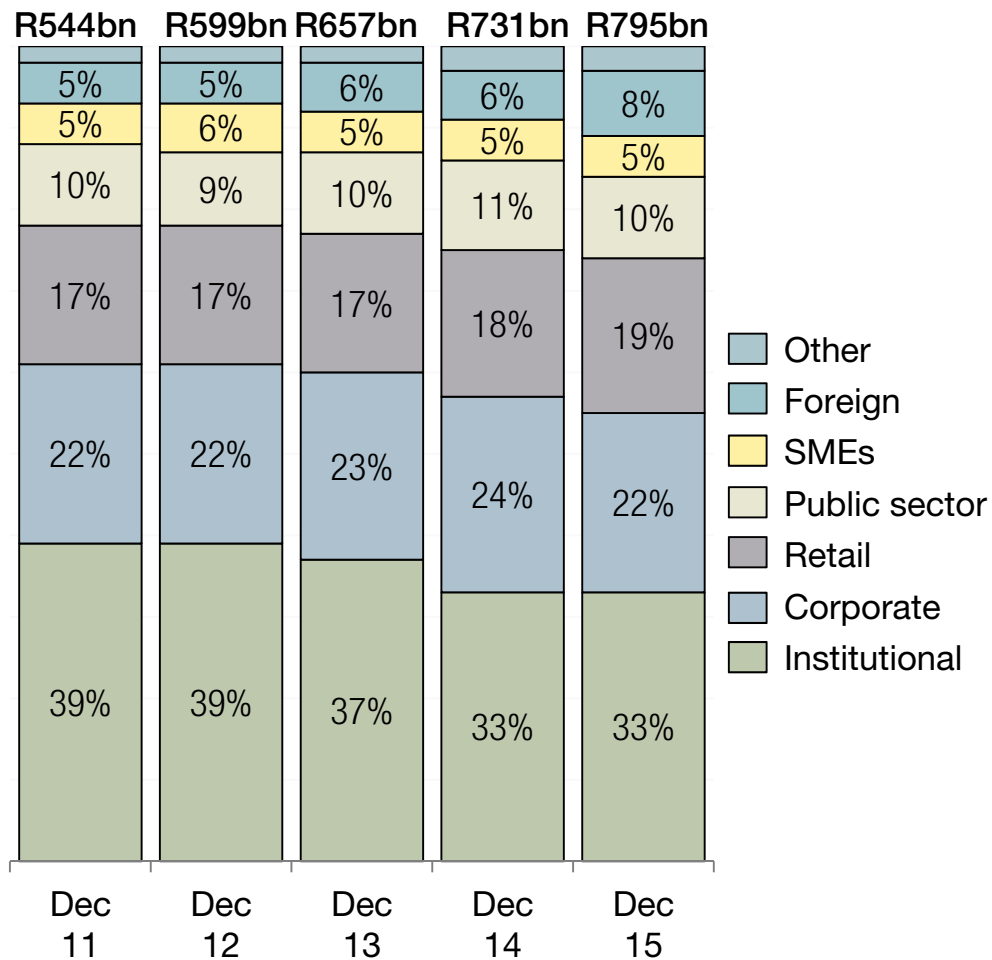
NSFR amendment is a significant outcome

* Proposed directive published 18 November 2015 (Ref:15/8).



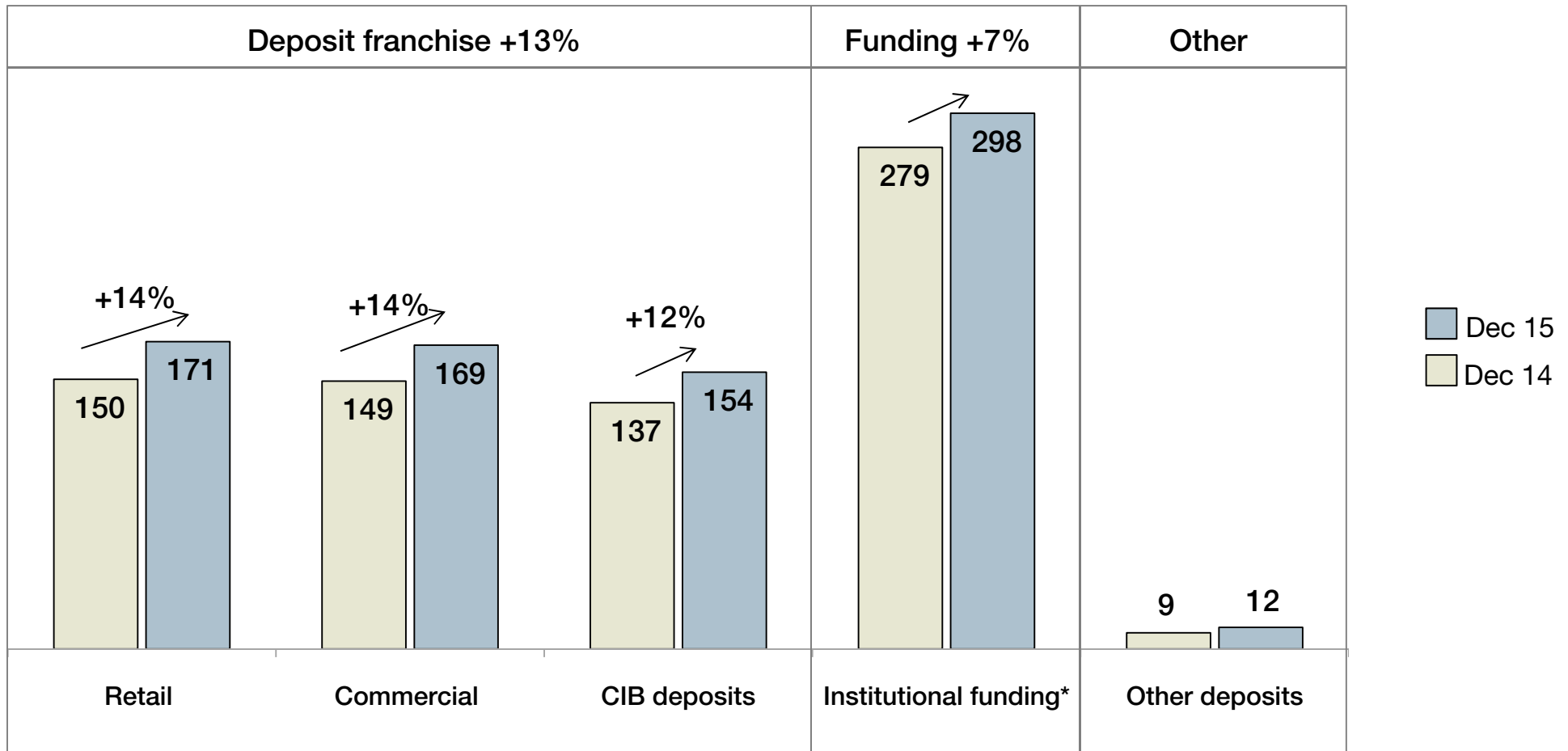
Strong focus on building a diversified funding base

Sources of funding



Deposit franchise growing strongly across all portfolios

Deposits (ZAR billion)



* Excludes operational deposits from financial institutions, but includes London branch.



FRB requires a sustainable, efficient diversified funding strategy for international market access

- Group has adopted a conservative approach to external financing risk
 - Considering the external debt of all South African entities
 - Considering all claims on SA Inc's repayment capacity
 - Confidence and export receipts
 - Taken an approach to not add to the natural risk position of SA Inc
- FRB has maintained hard currency LCR and NSFR in excess of 100%
 - Stable funding against assets limits refinancing risk
- Evolving the operating structure
 - Need to employ a structure and funding strategy that allows counterparties closer to assets, ring-fenced from SA operating entity
 - Creates flexibility, should enhance availability, efficiency and more diversified foreign currency funding

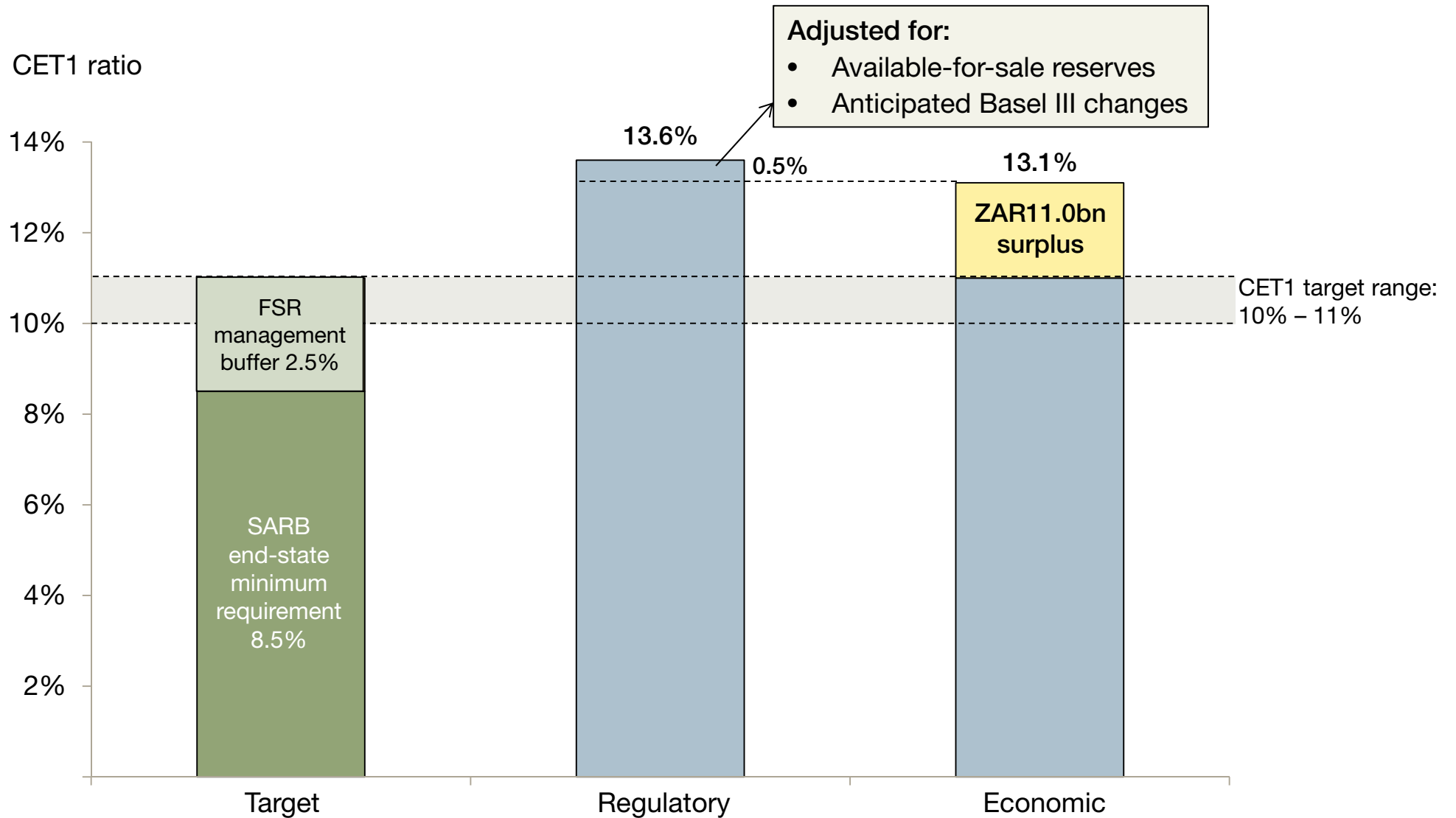


Proactive funding strategies

- EMTN programme
 - USD500 million 5-year bond due 2020
- CHF programme (Six Swiss Exchange)
 - CHF160 million 5-year bond due 2019
- MotoNovo Finance
 - Turbo ABS securitisation programme
 - 6 successful issues
 - Committed secured financing
- Bilateral facilities
- Syndicated loans
- DFI facilities
- Trade finance facilities
 - USA, Europe
 - Middle eastern and Asia
- Secured financing facilities



Bank remains well capitalised



Comfortably exceeds SARB leverage requirement of 4%



MANAGING THE RISK OF AN SA RATINGS DOWNGRADE



FIRSTRAND BANK

Credit ratings for FirstRand Bank Limited (subsidiary of FirstRand) – debt issuer

	FIRSTRAND BANK	SOUTH AFRICA
Standard & Poor's		
Foreign currency long-term	BBB-	BBB-
Local currency long-term	BBB-	BBB+
National scale	za.AA-	za.AAA
Moody's		
Foreign currency long term	Baa2	Baa2
Local currency long term	Baa2	Baa2
National scale	Aaa.za*	

* Highest rated in South Africa..

Credit ratings as at 17 June 2016.

Given the negative outlook on investment grade we must
consider all factors and pre-emptively manage

Sources: Standard & Poor's and Moody's Investors Service.



A rating agency view of FirstRand Bank Limited

Anchor rating

		Economic risk		
Industry risk		5	6	7
4	bbb	bbb-	bb+	
5	bbb-	bbb-	bb+	

	ANCHOR	BUSINESS POSITION	CAPITAL AND EARNINGS	RISK POSITION	FUNDING AND LIQUIDITY	SACP/ GCP	ICR
FIRSTRAND BANK	bbb-	Strong (+1)	Adequate (0)	Adequate (0)	Average (0) and adequate (0)	bbb	bbb-
OTHER BANKS			Moderate (-1)			bbb-	

SA outlook remains negative (S&P, June 2016)

- Weak economic growth, relative to that of peers
- Adverse terms of trade and weak external demand
- Potential adverse consequences of low GDP growth
- Could lower ratings on SA if policy measures do not turn the economy around



Protect and enhance market access

- Possible rating downgrade reflected in stress testing, credit origination and balance sheet strength
- FRB is now an operating CLS member
- FRB is a member of Euroclear and Clearstream
- Submitted application to become a LCH member via FirstRand Securities Limited (UK entity)
- To provide a sustainable funding access for MotoNovo we are exploring the creation of a consumer finance company (CFC)
 - Will enable funders to have direct recourse to assets and the operating entity



In summary, our banking businesses are very well positioned for the cycle

- Strong financial position
 - 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



QUESTIONS?



FIRSTRAND BANK