

OVERVIEW OF FIRSTRAND



FIRSTRAND



FirstRand has pursued a very consistent growth strategy

- To be the African financial services group of choice
- By creating long-term franchise value
- Through delivering superior and sustainable returns
- Within acceptable levels of earnings volatility
- Maintaining balance sheet strength

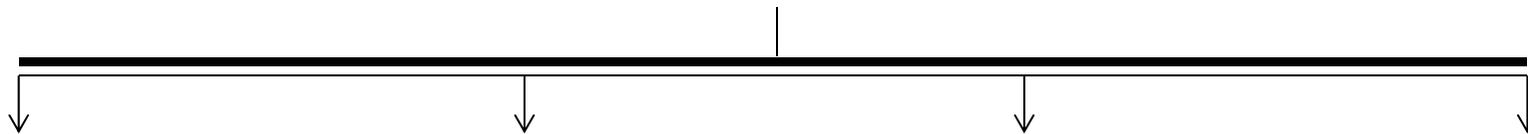


Portfolio of operating franchises



FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)



Retail and commercial bank



Corporate and investment bank



Instalment finance



Investment management

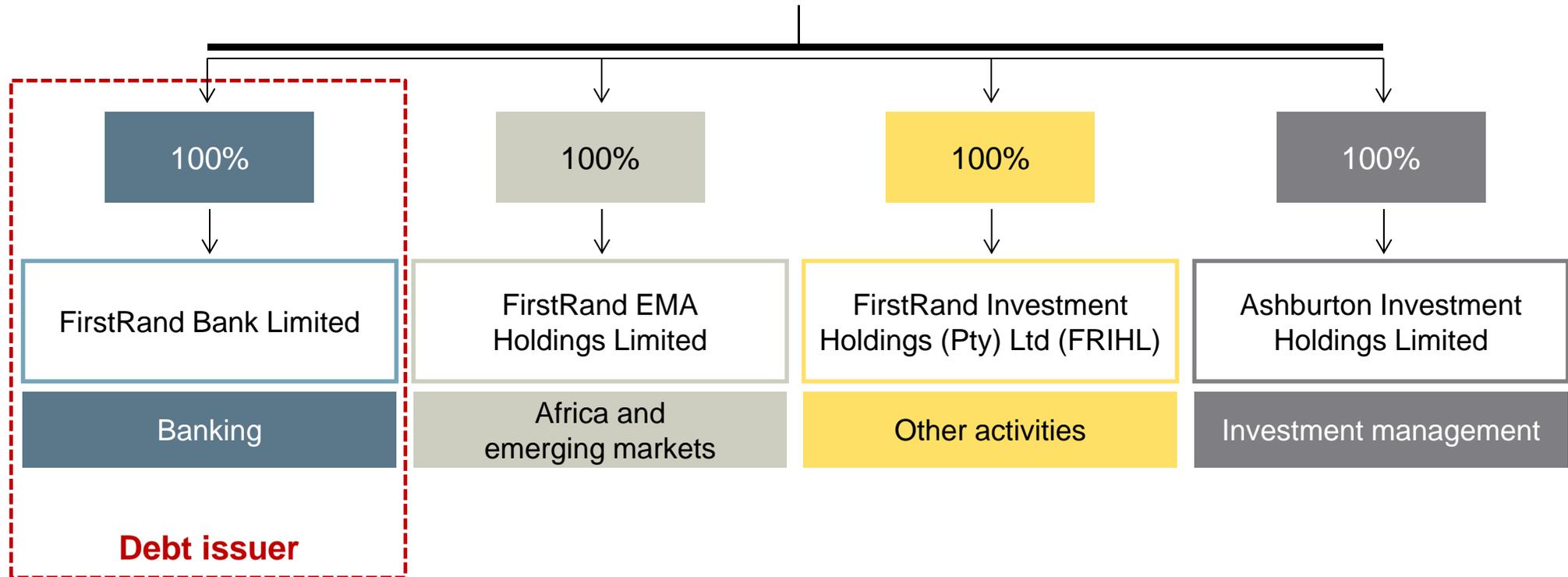


Simplified legal structure – FirstRand Bank is the debt issuer



FIRSTRAND

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Good progress on execution of strategy in SA...

- Strengthened the relative positioning of franchises
 - **FNB's** differentiated customer offering, based on a unique value proposition underpinned by innovative products, channels and rewards programmes
 - **RMB's** CIB strategy to leverage quality of investment banking franchise to build full-service offering for large corporates
 - **WesBank's** strategy to broaden alliances and diversify products and segments (corporate and commercial)
- Focused on growing client-based revenue
 - Success of FNB's strategy to grow transactional accounts and cross sell
 - RMB's client-related activities now represent 84% of its earnings (2007: 39%)
- Expanded into new profit pools
 - Investment management through Ashburton Investments



...and in the corridors and rest of Africa

- Strong profit growth from the Group's Indian strategy continues
 - RMB leveraging the platform for corridor and in-country growth
 - Commercial gaining momentum; retail still in pilot phase
- Rest of Africa – good progress on strategy to expand whilst protecting shareholder returns
 - Consistent execution through operating franchises matched with disciplined capital deployment
 - Country selection focused on main economic hubs of east and west Africa
 - Three pillars to strategy:
 - Utilise existing balance sheet and intellectual capital
 - Greenfields
 - Corporate action



Key performance ratios

FirstRand Group	2013	2012	% change
Return on equity (%)	22.2	20.7	▲
Return on assets (%)	1.87	1.73	▲
Credit loss ratio (%)	0.99	1.08	▼
Credit loss ratio (%)*	0.95	0.94	▲
Cost-to-income ratio (%)	51.9	53.4	▼
Tier 1 ratio (%)**	14.8	13.2	▲
Common equity Tier 1 (%)**	13.8	12.3	▲
Net interest margin (%)	4.97	4.92	▲
Gross advances (R billion)	612	536	▲ 14%

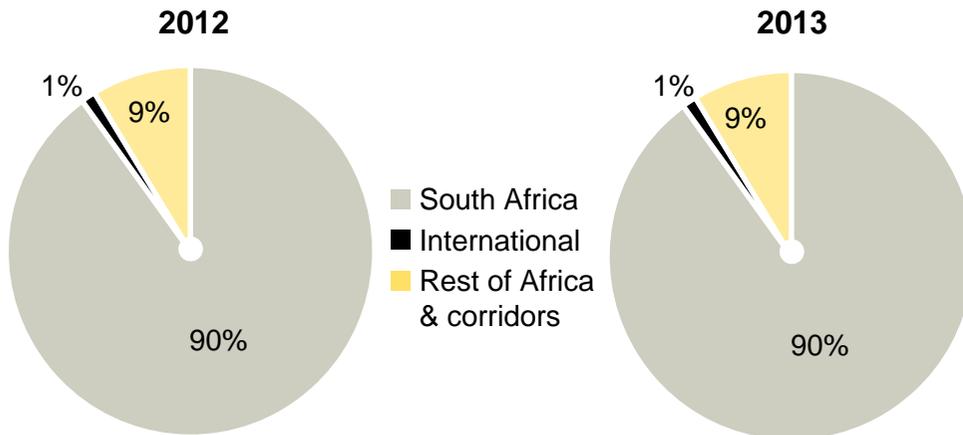
* Excluding the impact of the merchant acquiring event.

** 2013 capital ratios are calculated on a Basel III basis; 2012 capital ratios are calculated on a Basel 2.5 basis.

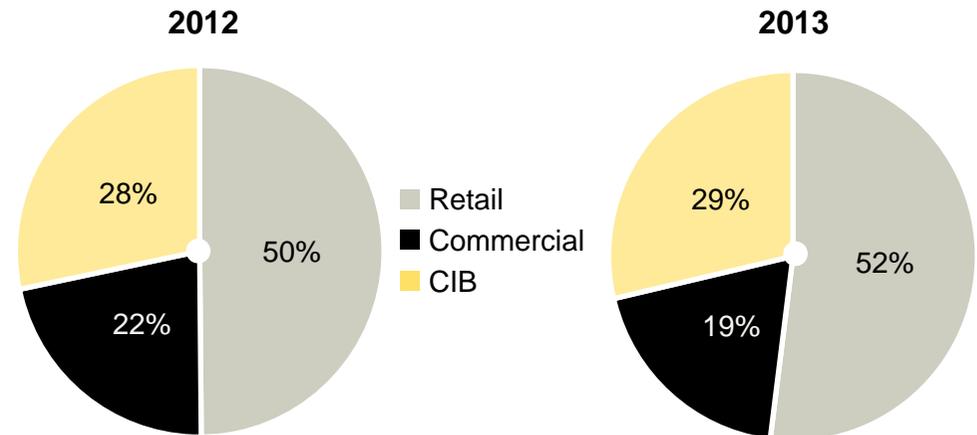


Sustainability and predictability of earnings

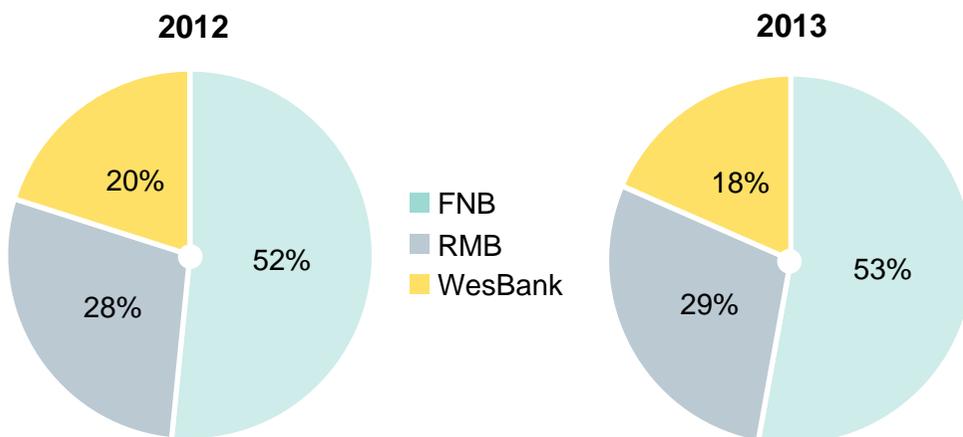
Geographic diversification is a long-term strategy



Segment diversification reflects structure of SA growth profile

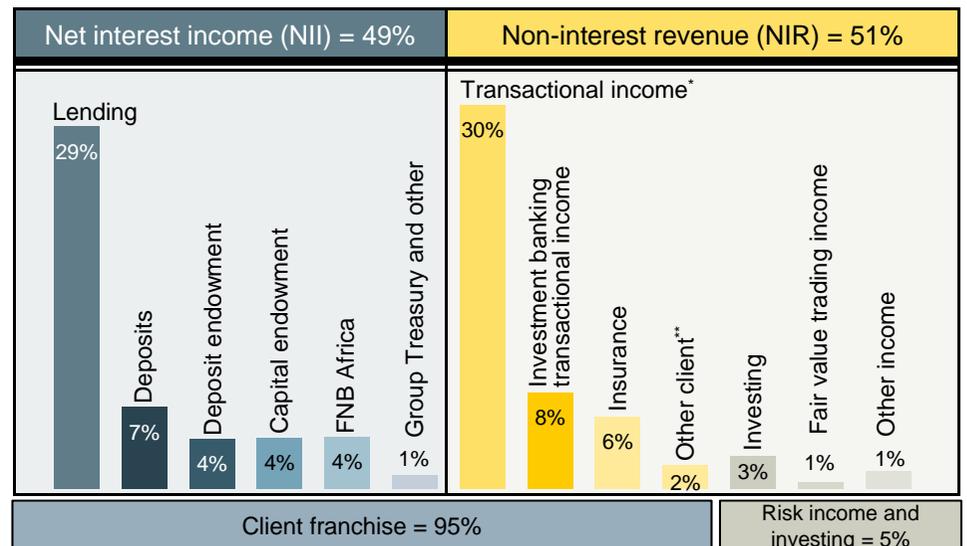


Franchises* provide diversification



* Excluding Corporate Centre and consolidation adjustments.

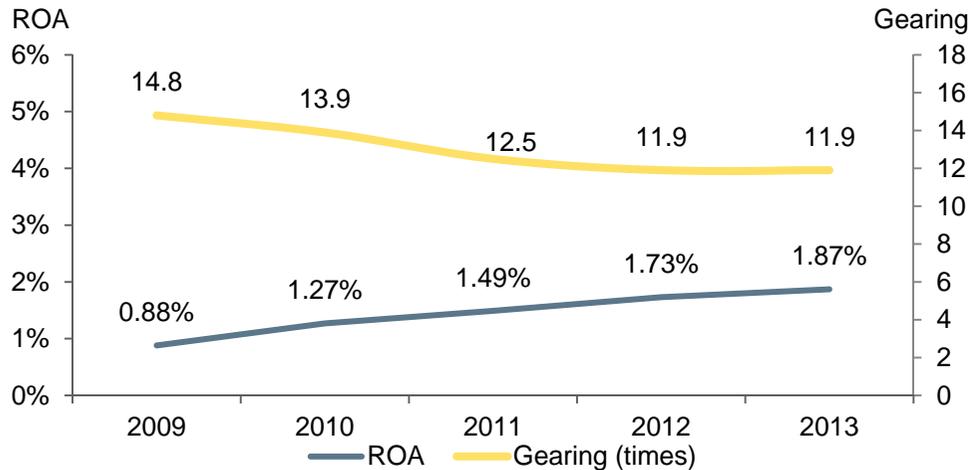
Client franchise contributes 95% of gross revenue



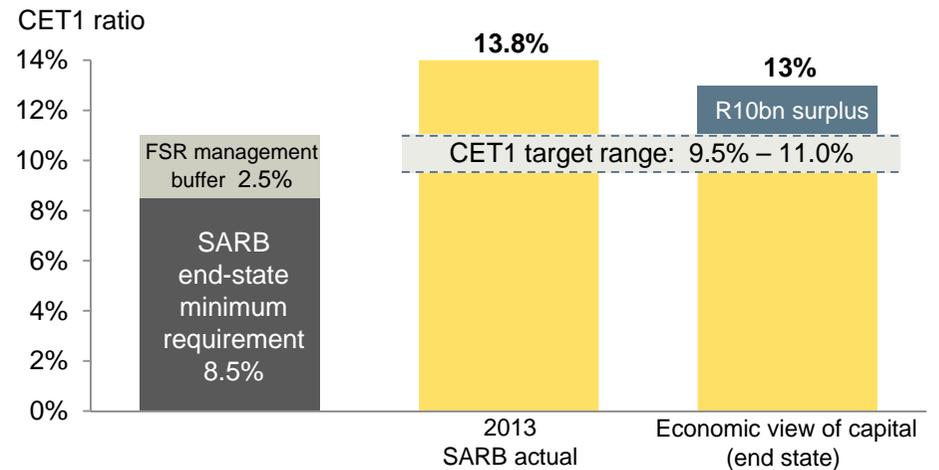


Quality of returns and strong capital position

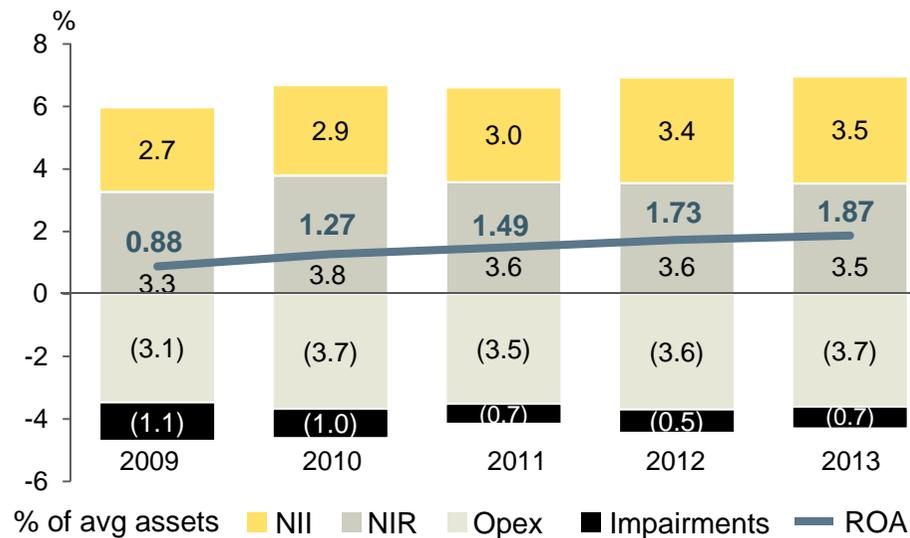
ROE driven by ROA not gearing



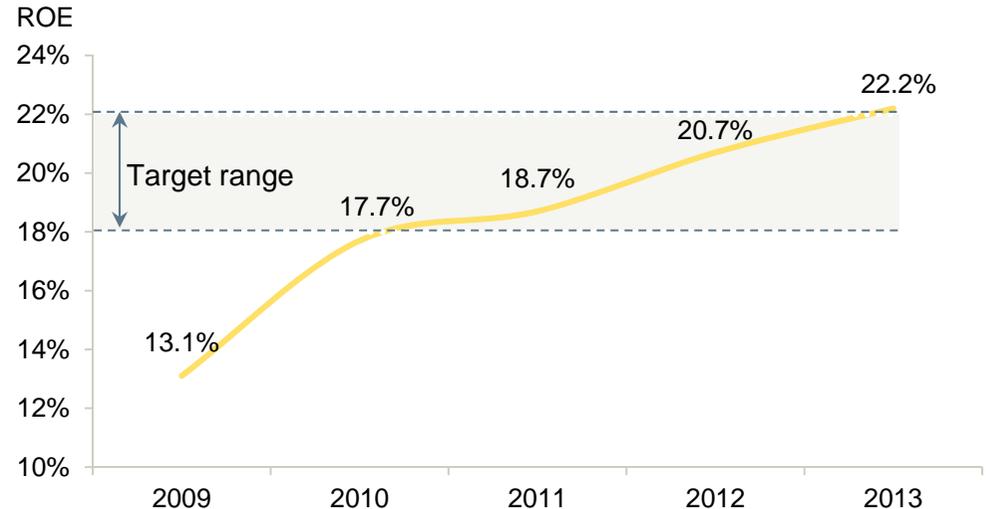
CET1 ratio reflects strong capitalisation and capacity for expansion



ROA reflects quality of earnings



Strong ROE and capital position – lower dividend cover



OVERVIEW OF SA & FIRSTRAND BANK



FIRSTRAND



Agenda

- Overview of South Africa's
 - Flow of funds
 - Financial market infrastructure
 - Banking sector
- FirstRand Bank
 - Balance sheet strength
 - Funding and liquidity
 - Capital position
 - International funding and capital plans

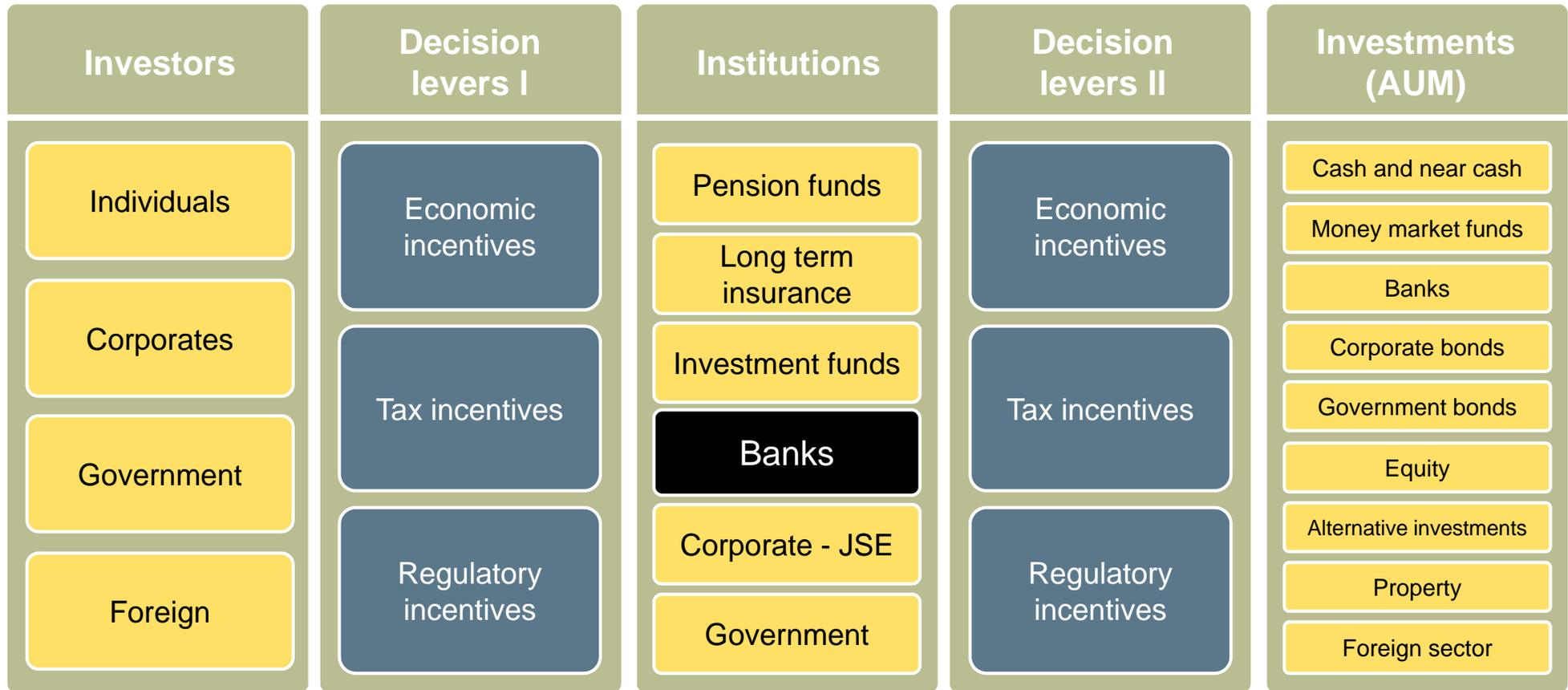


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Understand what drives savings flows to platforms

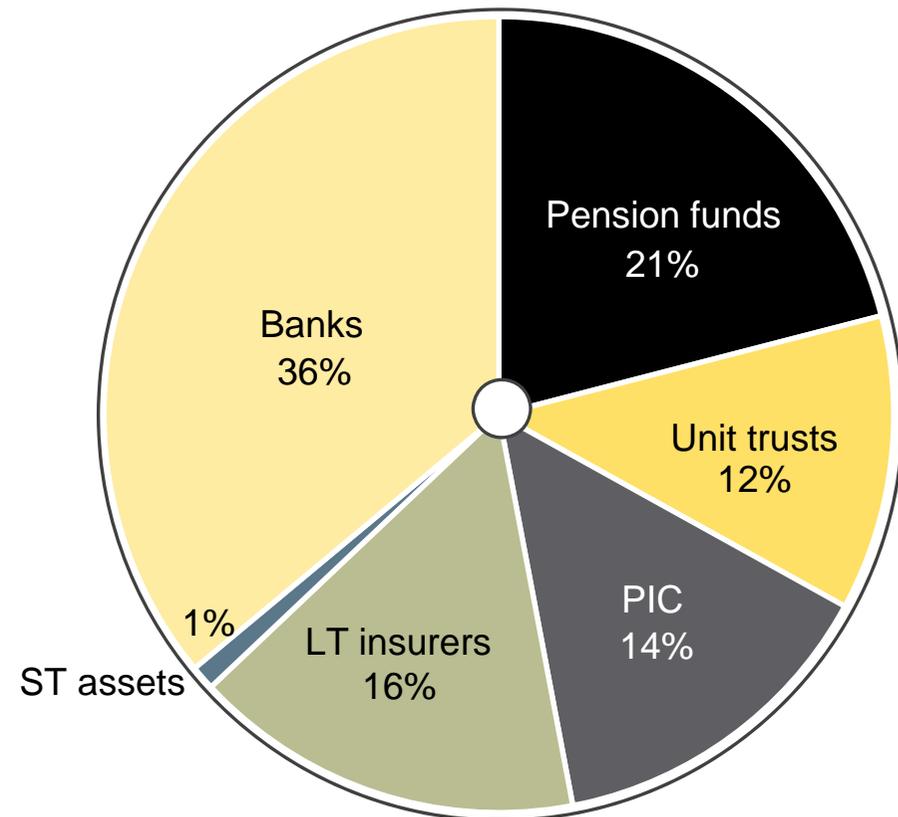


Banks only one of many platforms

Financial institutions in South Africa

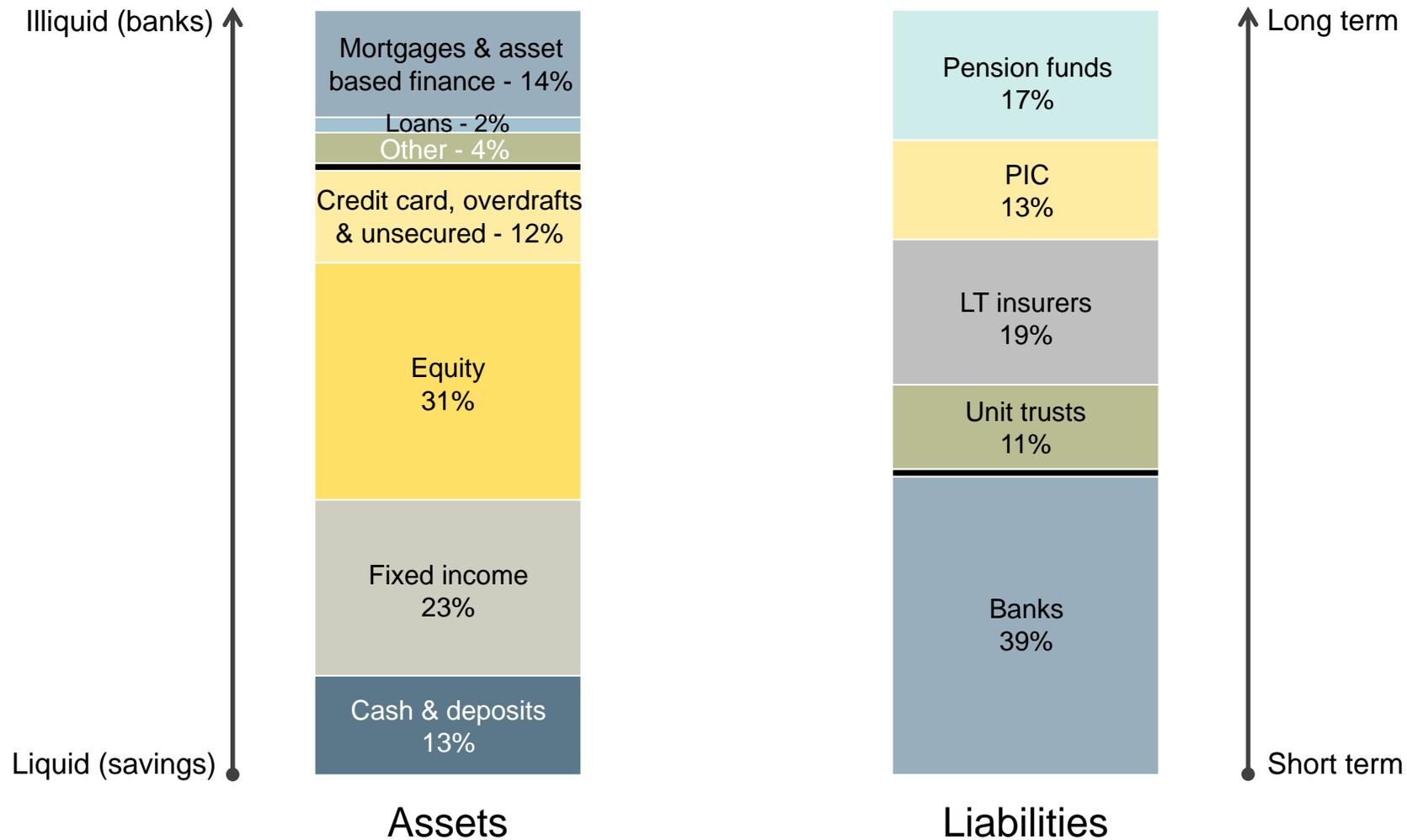
- **Asset managers (ASISA)**
 - R1 204bn AUM
 - Number of funds
 - 266 equity
 - 483 balanced
 - 31 property
 - 187 fixed interest funds
- **Banks**
 - R3 600bn AUM
 - 31 banks
- **Life companies**
 - R1 950bn AUM
 - 81 life companies
- **Pension funds**
 - R2 145bn AUM
- **Short-term insurers**
 - R107bn AUM
 - 108 short term insurers

Assets under management





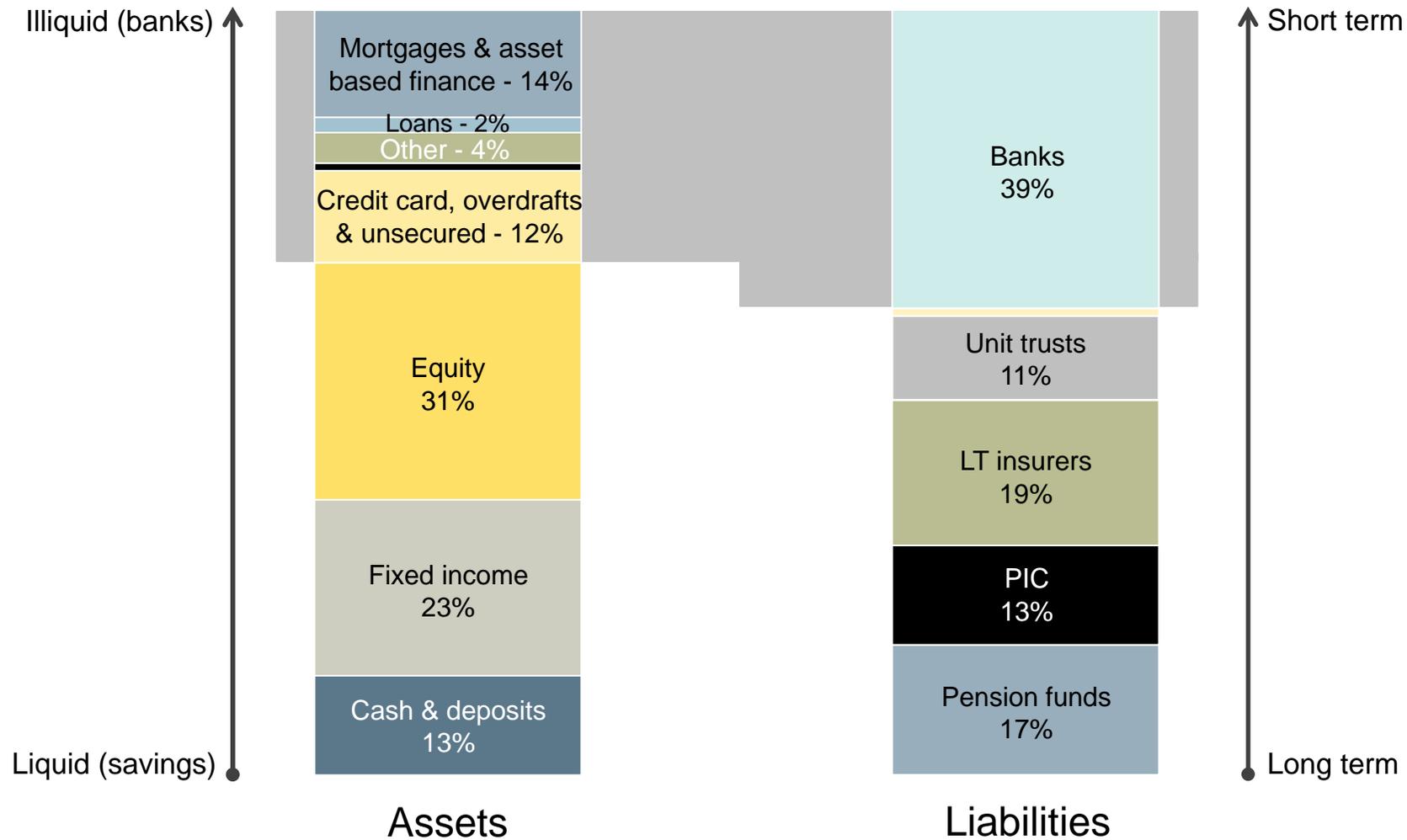
SA Inc – liquidity profile of assets and liabilities



SA Inc. system matched...

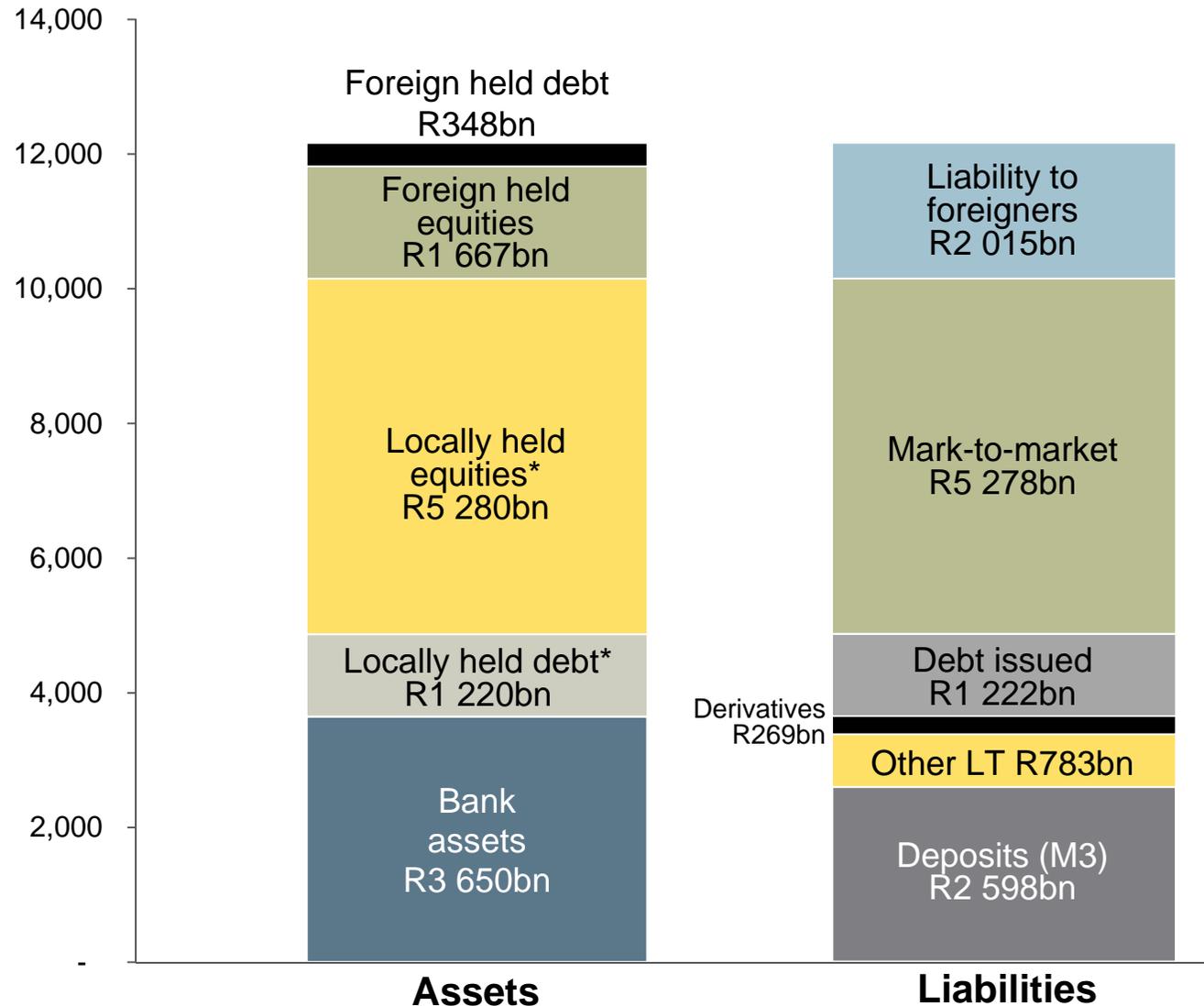
Source: SARB Quarterly Bulletin, FirstRand Research.

However, banks are mismatched



...is the mismatch appropriate?

Relating financial assets to the monetary base



The money base represents a fraction of financial assets in the system.

The savings allocated to equities cannot be significantly re-allocated.

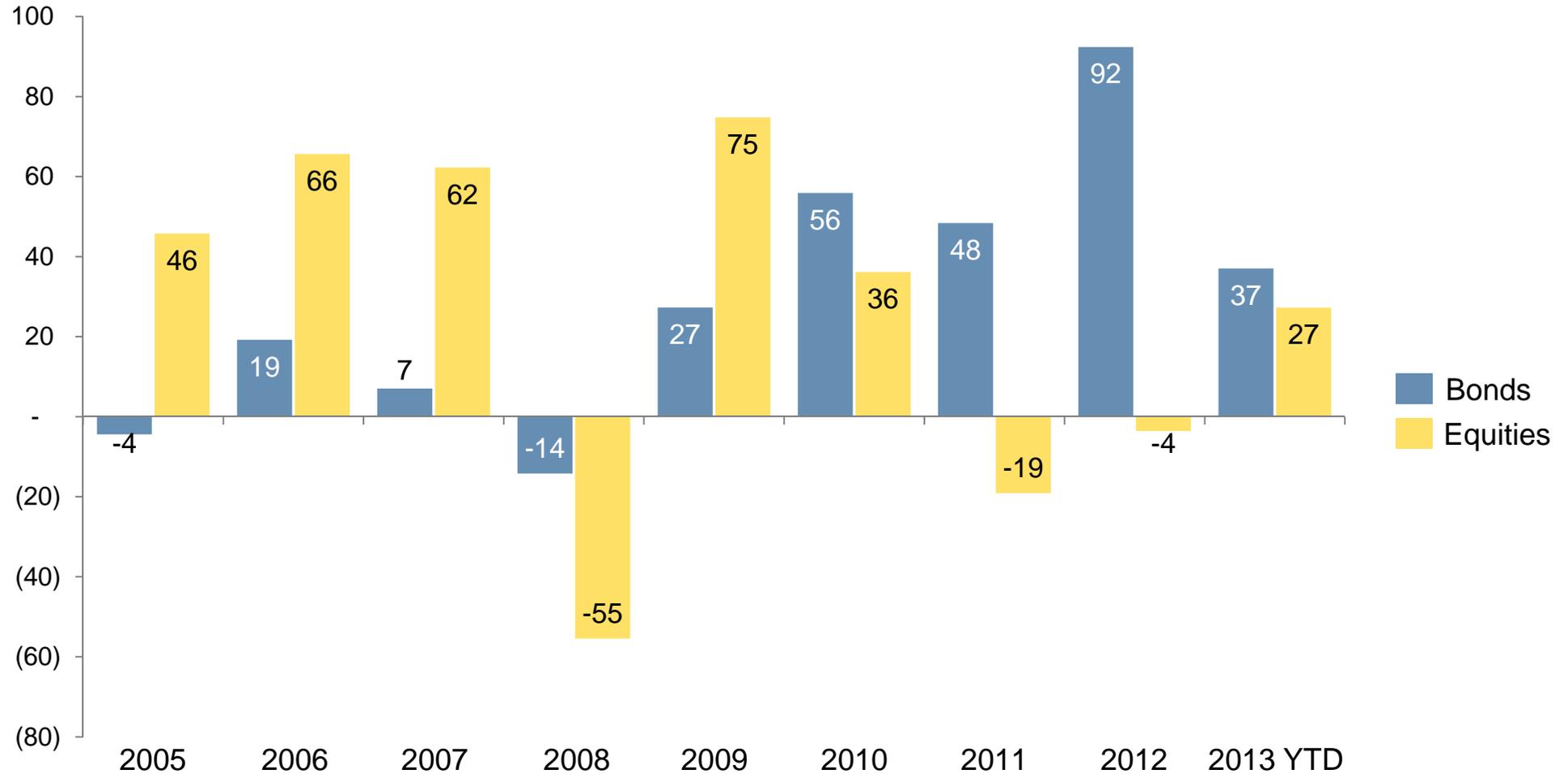
A greater allocation of savings to fixed income is required in order to unwind maturity transformation in the banking sector.

Note: Excludes unlisted equity and debt to the extent not in regulated entities.



South Africa benefitting from the rotation into EM

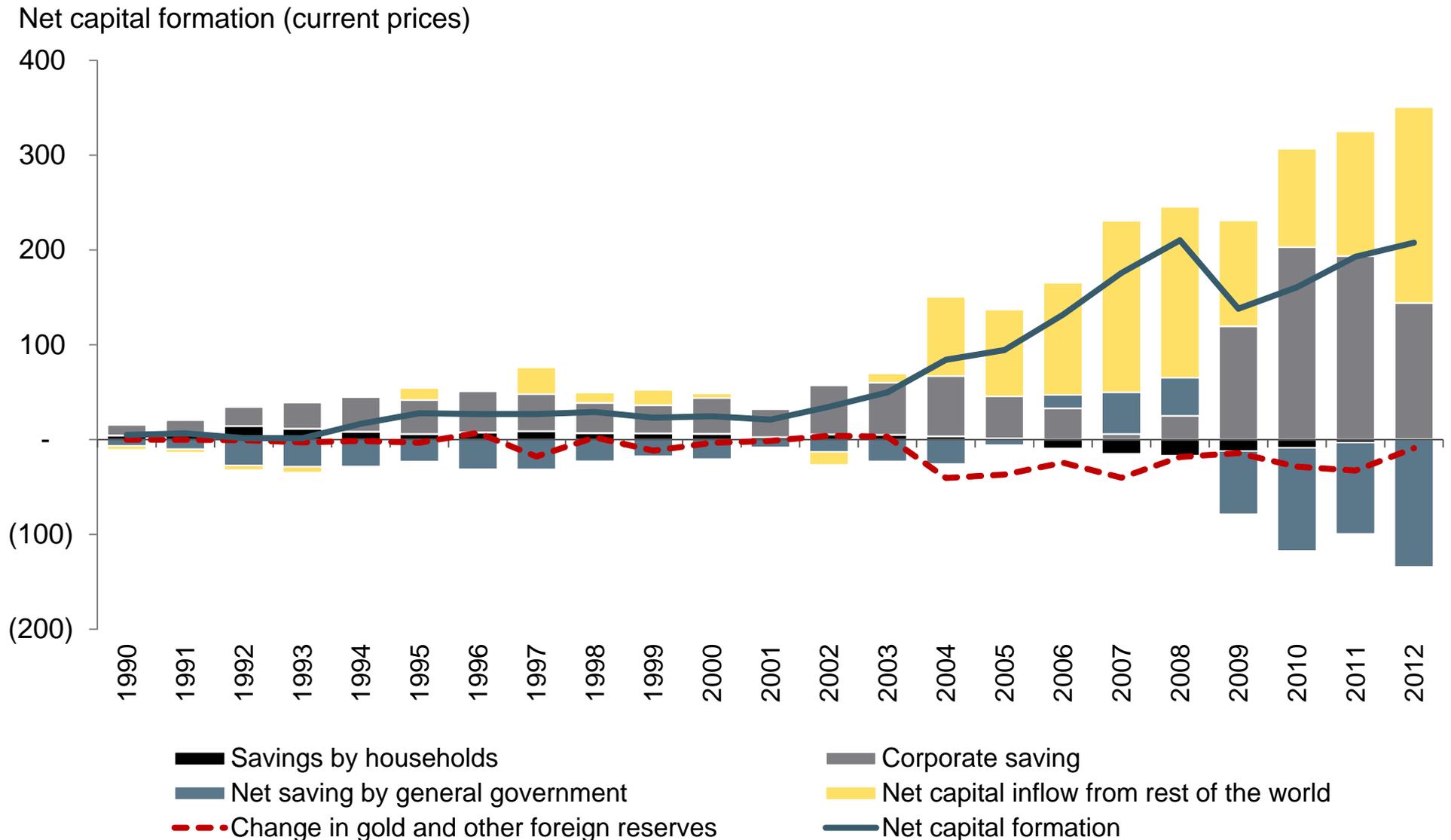
Net purchases/sales by foreigners (Rbn)



Source: Bloomberg data (SABO and SAEQ indices).



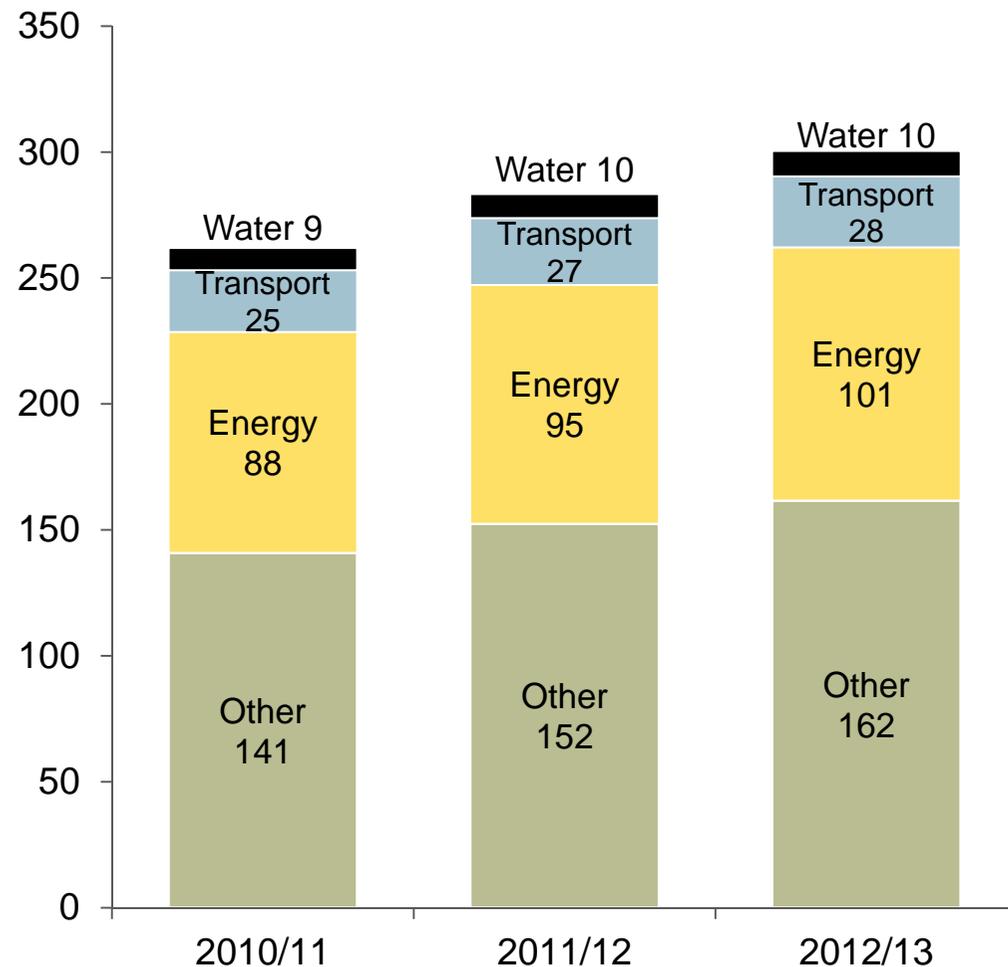
South Africa's net capital formation – funded by foreigners and corporate balances



Source: SARB Quarterly Bulletin, National Accounts.



Government investment spending forecast

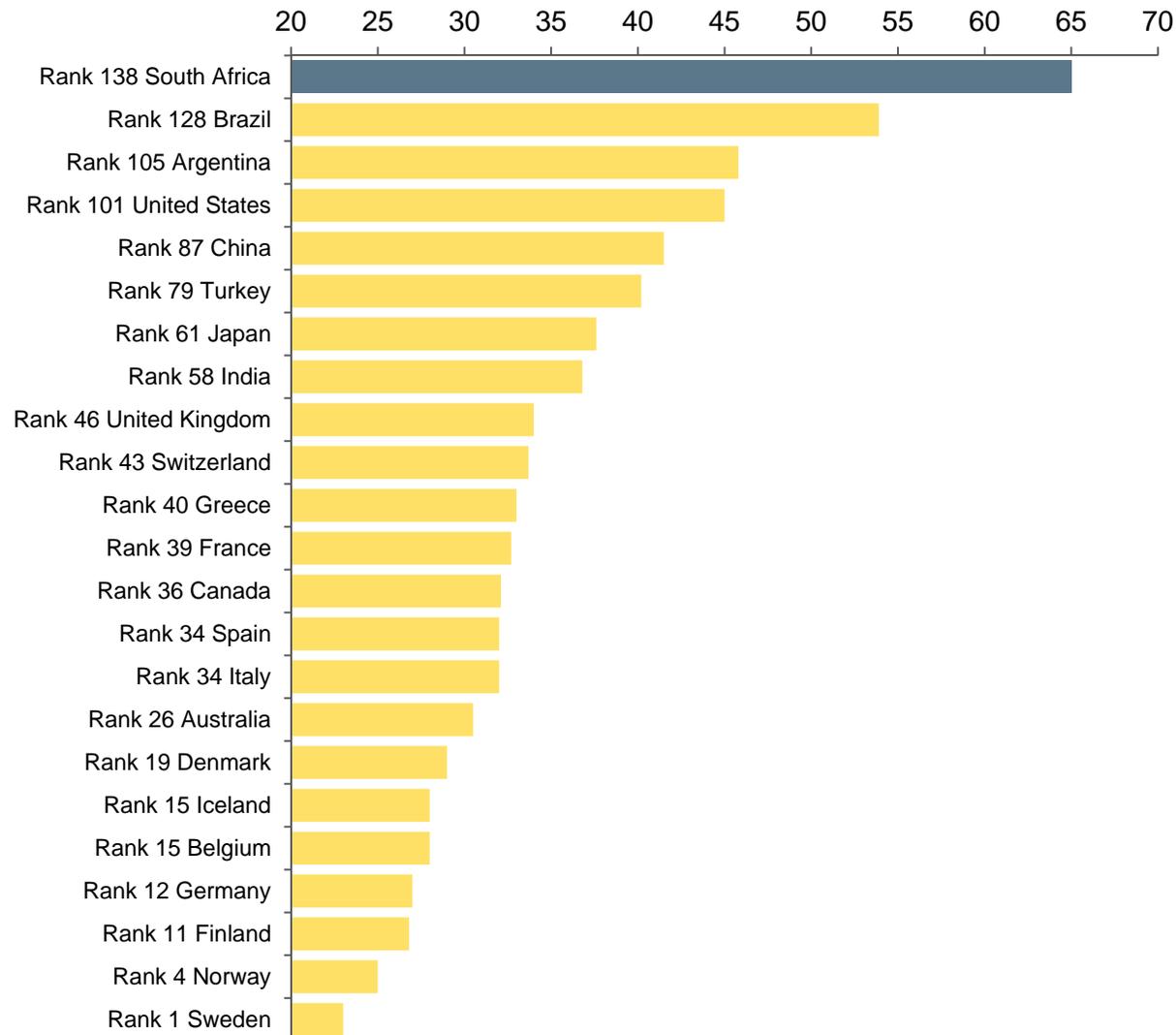


Government's planned 3-year investment spending totals R846bn. Will impact the flow of funds. Dependent on GDP growth. Averaging 9.5% of GDP p.a.

- RMB – sole mandated lead arranger:
 - Financing two solar PV power plants (in Aurora and Vredendal)
 - 96MW Jasper Solar PV project (in the Northern Cape)
 - R3.5-billion Kathu Solar Energy Project
 - 75MW Lesedi Solar Power PV Project and 75MW Letsatsi Solar Power PV Project
 - Umoya Energy's 67MW Hopefield Wind Farm
- RMB – sole co-ordination bank and joint mandated lead arranger for the 100MW Kaxu Solar One CSP Project (Northern Cape)



Income inequality – impacts savings channels and risk

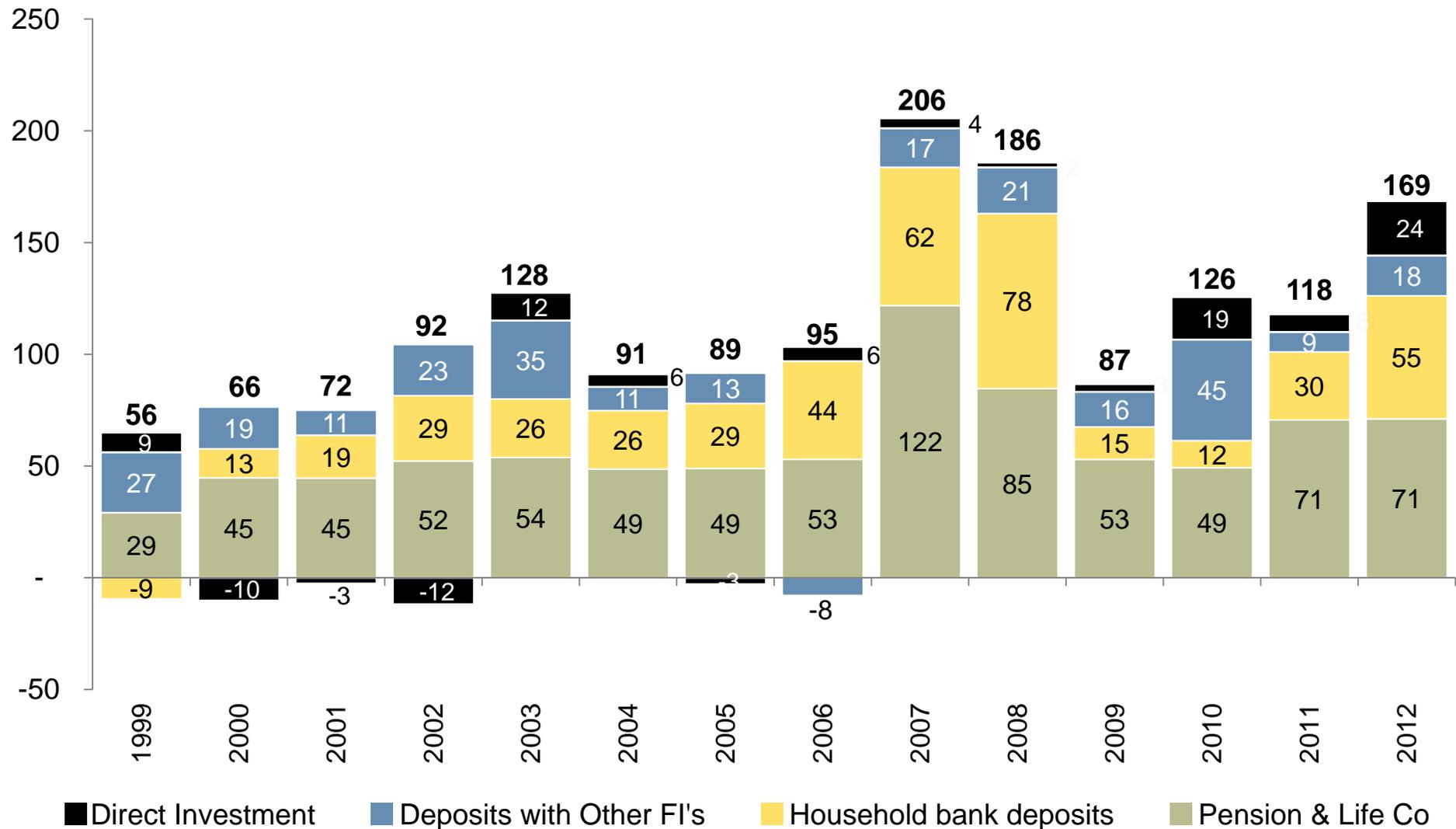


South Africa has one of the most unequal societies in the world ranking 138th of 142 countries according to the UN.

Income inequality impacts both the capacity for savings as well as the channels for savings.

Household savings flows

Household flow (Rbn)

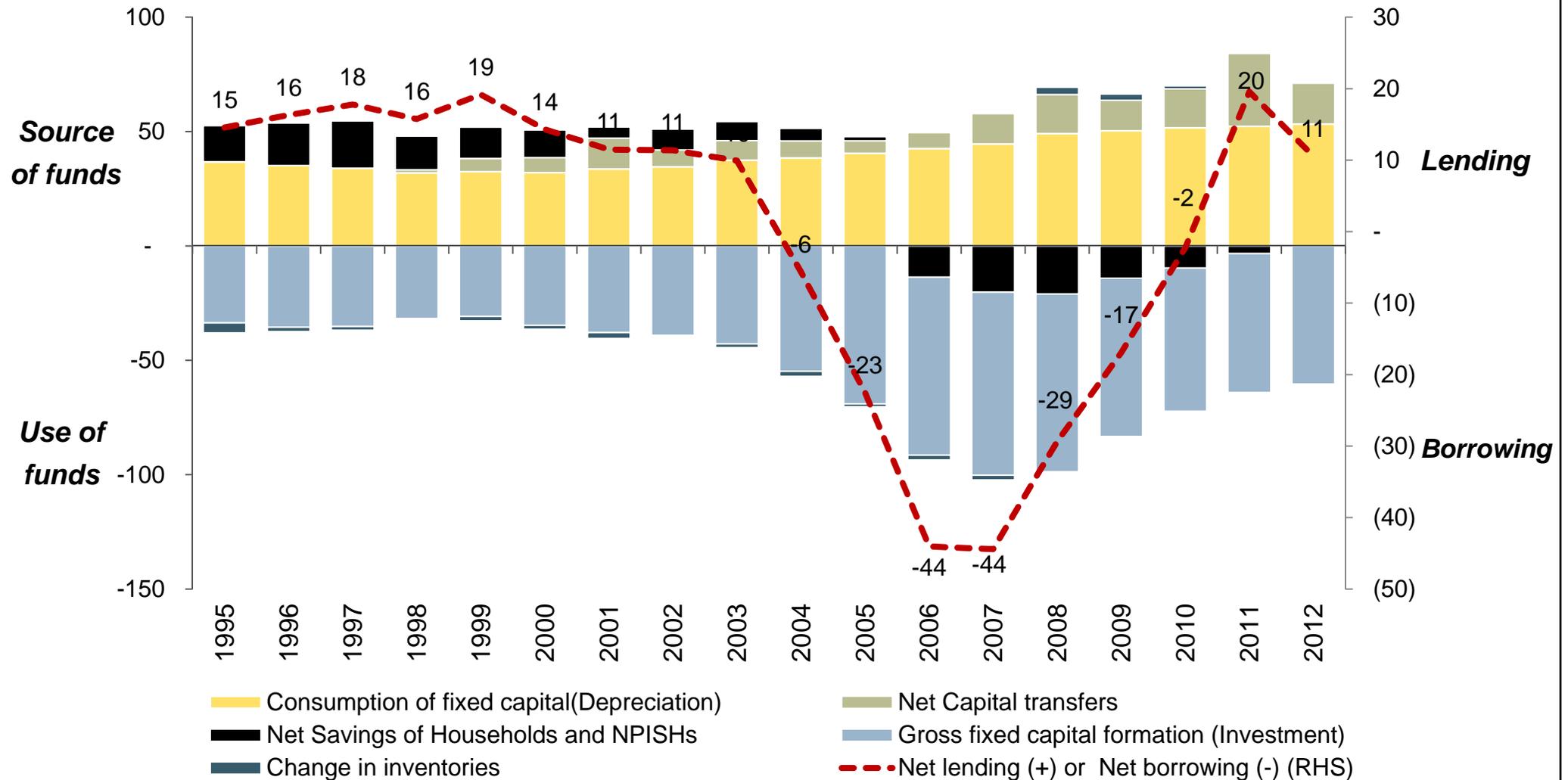


Source: SARB Quarterly Bulletin, National Accounts



Household balance sheet – household net savings has turned positive

Household balance sheet (constant 2012 prices)



Source: SARB Quarterly Bulletin.



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Financial market infrastructure

- Capital markets (debt and equity markets)
- Financial Markets Bill – legal framework
- Comparison of LIBOR, EURIBOR and JIBAR
- SIRESS (SADC Integrated Regional Electronic Settlement System)
- Regulatory reforms
 - Twin peaks
 - Central clearing, trade repositories
 - Resolution and recovery planning
- Gateway to Africa
- South African Holdco



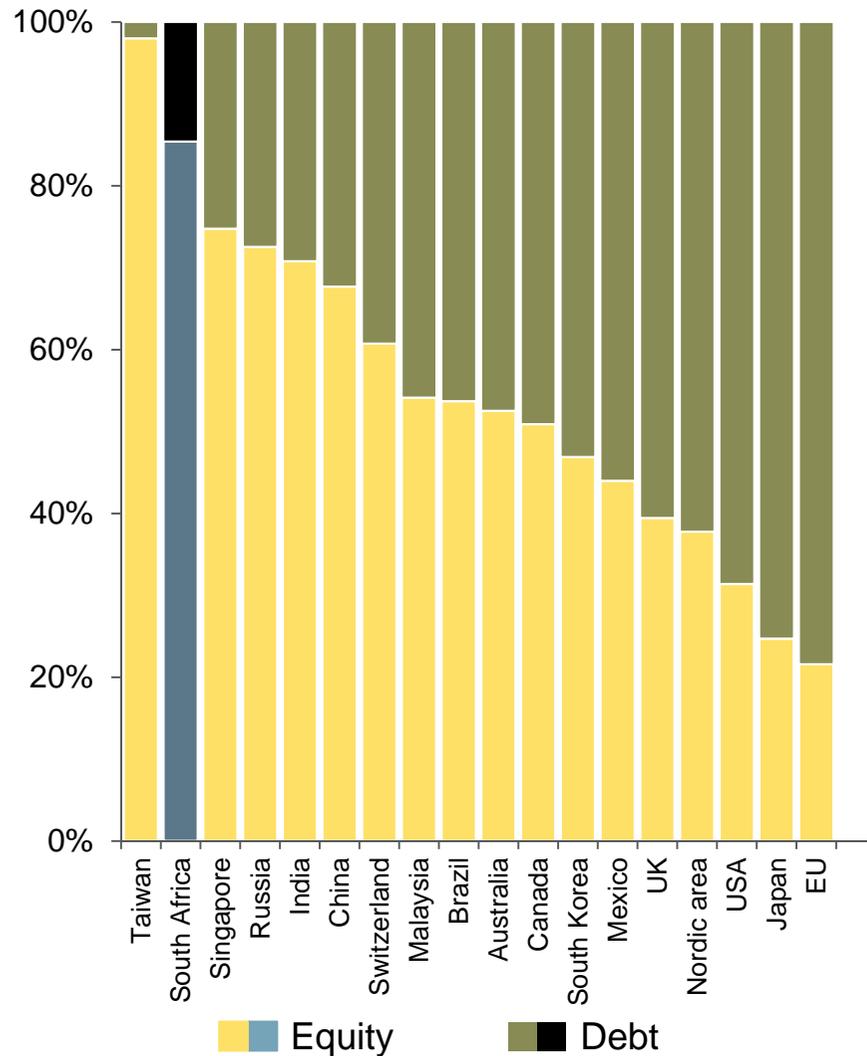
Well-developed capital markets

Global Competitiveness Index	Rank of 144
Efficacy of corporate bonds	1 st
Strength of auditing and reporting standards	1 st
Regulation of securities exchanges	1 st
Legal rights index, 0-10 (10 = best)	10
Soundness of banks	2 nd
Availability of financial services	2 nd
Financing through local equity markets	3 rd
Strength of investor protection	10 th
Affordability of financial services	22 nd
Ease of access to loans	30 th
Venture capital availability	37 th

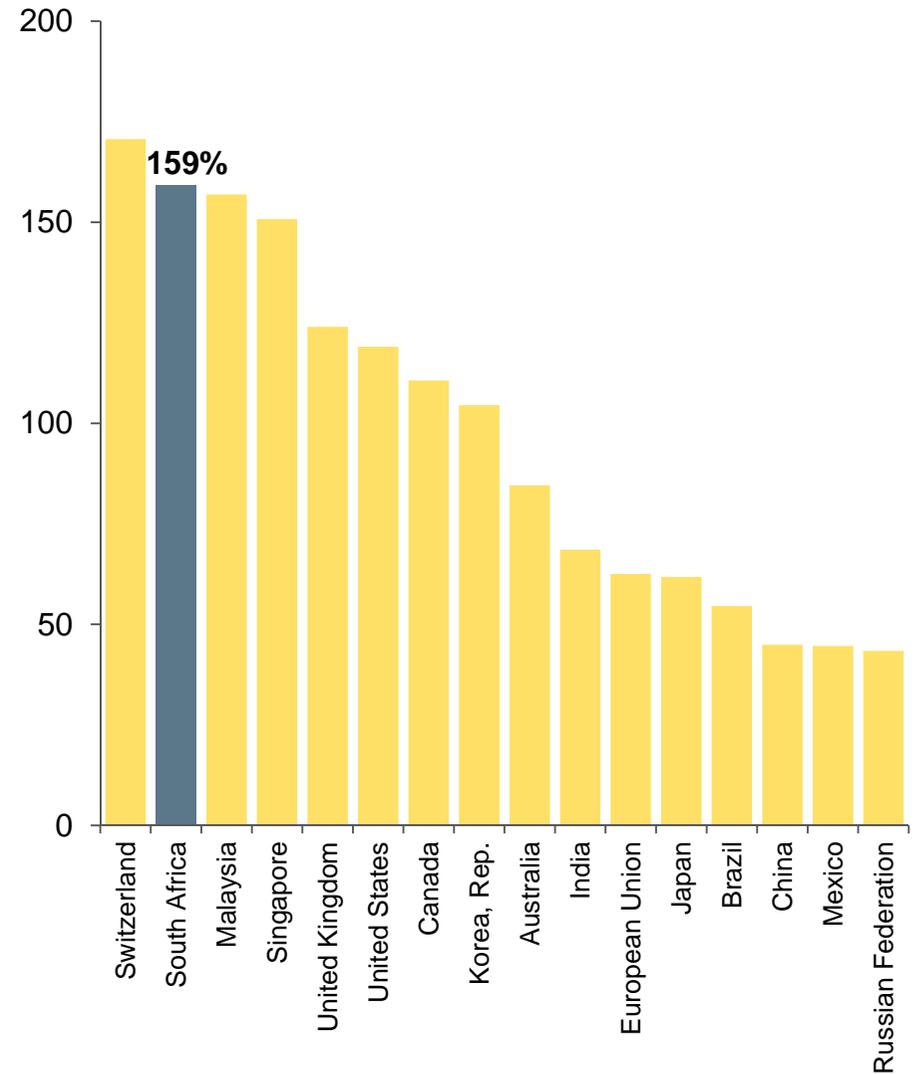


Global capital market composition

Equity-to-debt composition



Equity-to-GDP (%)

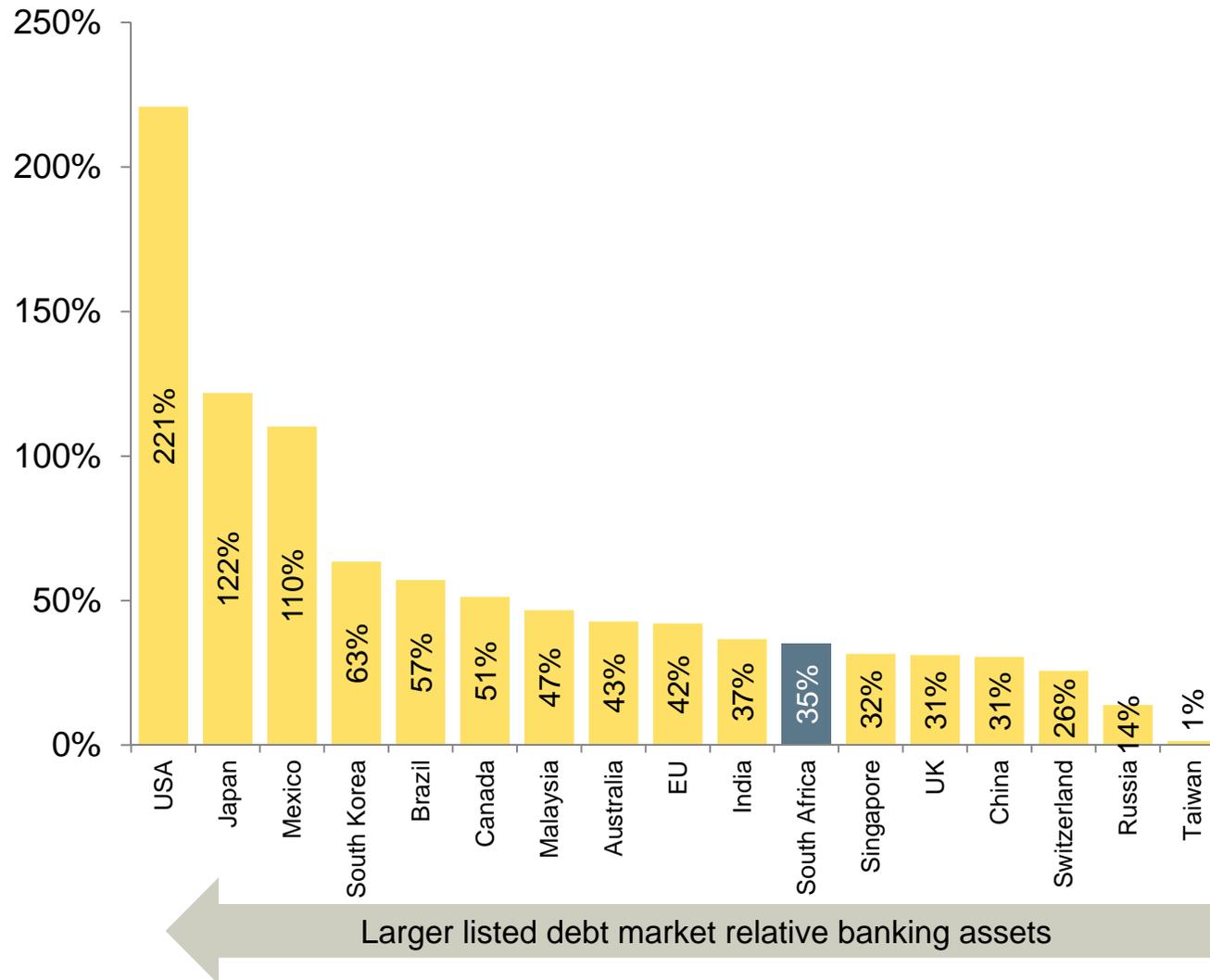


Source: BIS, The World Bank.



Global capital market composition

Listed debt as a percentage of banking system assets



In South Africa debt funding occurs primarily on bank balance sheets.

This feature would be more pronounced if we removed government debt.

It should also be considered in light of the historic exchange control restrictions applicable to South Africa.

(UK, German & Swiss banks, for example, have very large foreign assets on their bank balance sheets.)

Source: BIS.

Financial Markets Bill – legal framework

Bill aims to increase confidence in the South African financial markets and promoting the protection of regulated persons and clients

- 1 Regulatory model/effectiveness
- 2 Investor/client protection and systemic risk
- 3 Central counterparty, financial stability and cross-border participation
- 4 Securities ownership register and IFRS
- 5 OTC regulation
- 6 Settlement assurance and certainty
- 7 Regulatory cooperation and competition/ownership issues
- 8 Limitation of liability

 Principle issues



Comparison of LIBOR, EURIBOR and JIBAR

	LIBOR	EURIBOR	JIBAR
Calculation and publication of rates	Thomson Reuters on behalf of the BBA	Thomson Reuters	JSE
Number of rates published	150 LIBOR rates	15 EURIBOR rates	5 JIBAR rates
Underlying info	quoted rates	Estimated rates	Traded rates of NCD (include deposit and forward rates)
Financial transactions worth	USD300trillion	Not available	ZAR3–4 trillion
Panel of banks	15 (for each of the 10 currencies)	44	8
Guiding principles	Scale of market activity; credit rating; and perceived expertise	active players and if they are able to handle good volumes	Voluntary: No formal inclusion and/or exclusion
Calculation method	Trimmed arithmetic. Contributions are ranked in descending order. The highest and lowest 25 per cent are excluded	The highest and lowest 15 per cent of all quotes collected is eliminated	A mid-rate: The 2 highest and 2 lowest mid-rates are discarded

Source: Bank of England, European Central Bank, European Banking Federation, and the JSE.



SADC Integrated Regional Electronic Settlement System



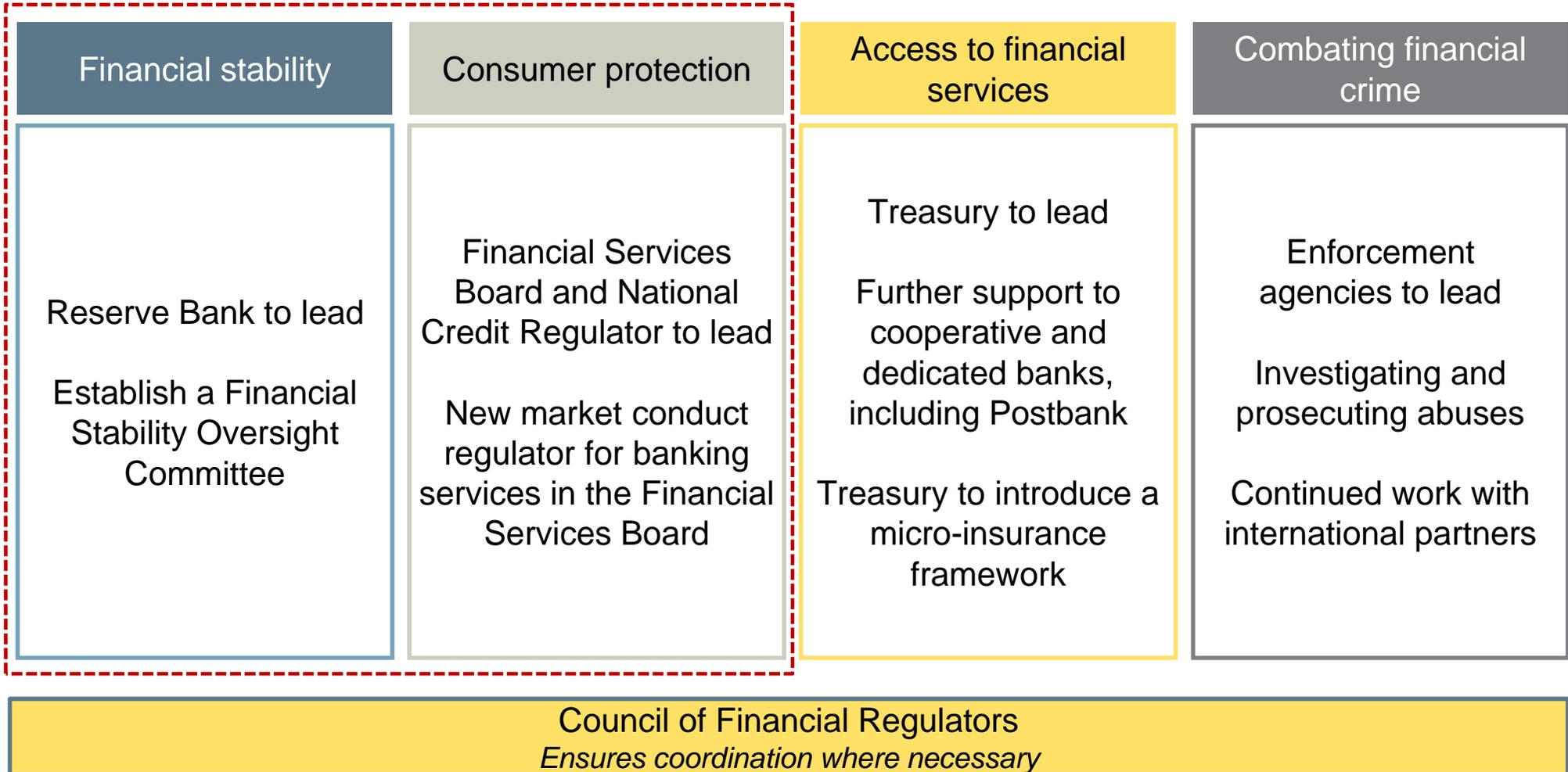
- Country representatives
- SIRESS implemented (CMA countries)

- Project vision – each SADC country has
 - An efficient and effective payment system
 - Internationally acceptable
 - Interlinked within the region
 - Supports the SADC aims of free trade
- International organisations
 - BIS, IMF and World Bank
- Committee of Central bank Governors
 - Steering group



Twin peaks – prudential and market conduct regulation

Twin peaks





Regulatory reforms

- OTC derivatives
 - South Africa should carefully assess the cost and benefits of mandating central clearing for its OTC derivatives markets:
 - Size of SA derivatives market and breakdown by asset class
 - High concentration by five dealers
 - Allocation of SA derivatives market as between dealer-to-dealer and dealer-to-customer transaction
 - Incremental benefit of a multilateral netting benefits achieved as to existing bi-lateral “ISDA”
 - Existing efficiency and market infrastructure of foreign exchange markets
 - Liquidity of individual products in specific asset classes
 - Existence of a domestic or foreign CCP to clear such products
 - If no domestic CCP exists, the cost, risk and benefit if a foreign CCP exists

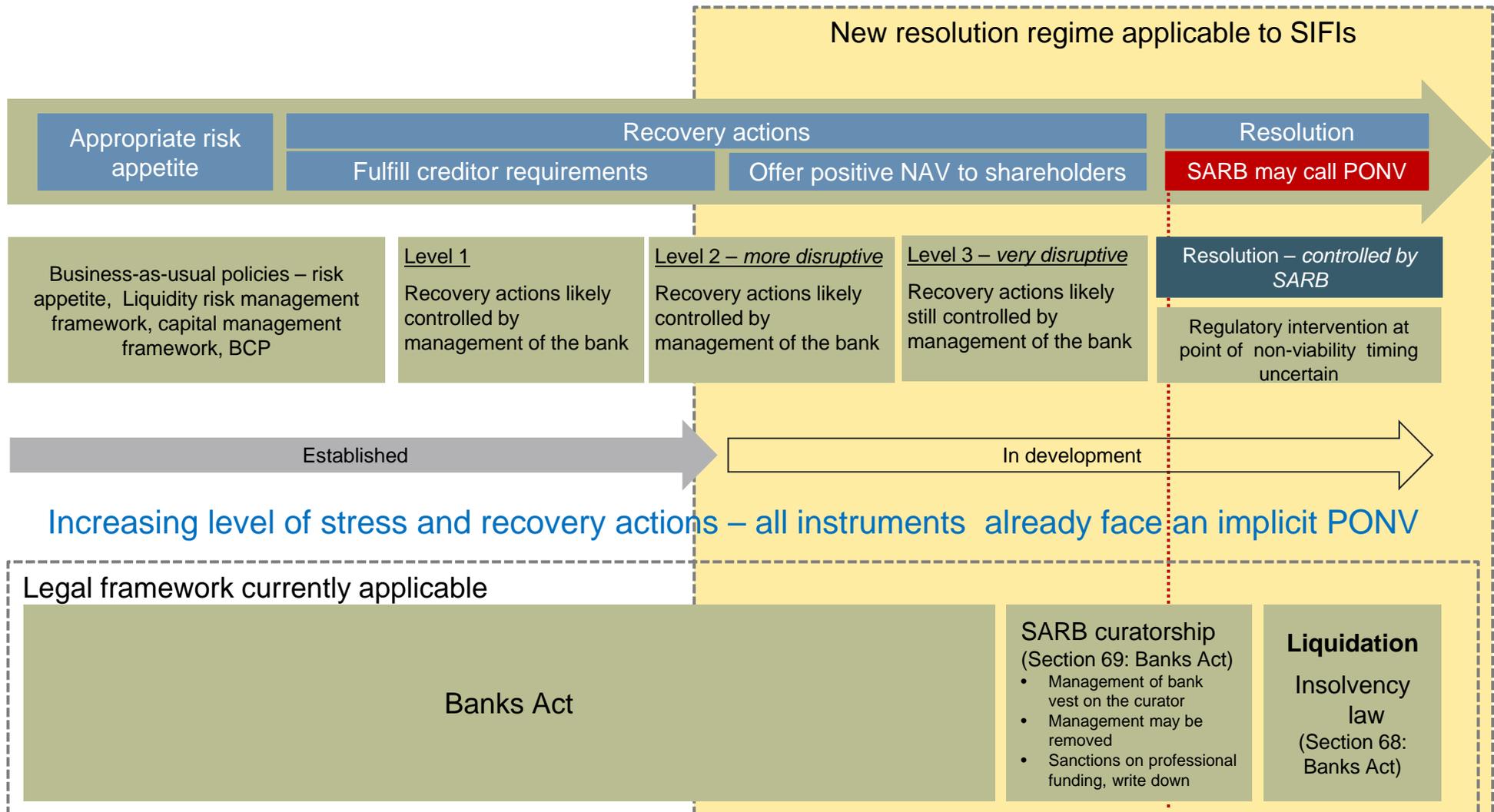


Regulatory reforms (cont.)

- **Central counterparty clearing**
 - CCP should have a robust risk management program (stringent membership, level of initial and additional margin, calculation of daily MTM exposure, payment and receipt of variation margin)
 - Adequate financial resources (guarantee fund deposits, standby funding, high level of surplus capital sufficient to withstand the default of one or two), the concentration in CCP could result in a greater potential for systemic risk
- **Trade repositories**
 - Key recommendation that arose from the 2009 G20 Pittsburgh Summit
 - Financial Markets Bill appropriately establishes the function and responsibilities of trade repositories and provides a framework for their supervision
 - There is a need for flexibility in implementing requirements as systems, technology and data formats will evolve over time
- **Volker rule** - no decision has been made in terms of these principles across the markets we operate, except for the Nigeria market

Regulatory reforms (cont.)

Example of recovery and resolution regime – timing and regulation TBA by SARB



Gateway to Africa – helping South African companies expand internationally



- Over 1 billion people on the African continent
 - Presents substantial economic opportunities for South Africa
- Between 2007 and 2011 SA undertook
 - Nearly 1 000 new investments...
 - ...in 36 countries (Nigeria, Zambia, Angola, etc.)
- In 2012, Africa accounted for 17.6% of South Africa's total exports

• Gateway to Africa proposal

1. SA companies that want to expand into rest of Africa and offshore
2. Will boost local tax revenue, dividends, competitiveness and jobs
3. Supports economic growth
4. Supports regional integration across the continent

South African Holdco - Excon



- One subsidiary per JSE listed entity
- Parent to the HoldCo up to ZAR750m per year
- Certain tax incentives being finalised (TBA)
- Manage offshore operations from South Africa
- Avoid expensive offshore operational costs
- Freely raise and deploy capital offshore
- Holdco may operate as an
 - offshore treasury
 - and facilitate cash pooling
 - freely transferable
- Income generated from cash management operations is considered offshore income



IMF Article IV: “A strong banking system but increasing risk”

“South Africa remains at the forefront of financial sector regulatory reform globally

*The adoption of Basel III earlier this year, the envisaged implementation of the Twin Peaks system from 2014, and several financial sector initiatives **will further reinforce South Africa’s already strong financial architecture.***

*Including the National Credit Regulator within the Twin Peaks System, as recommended by the 2012 FSB peer review, **would consolidate regulation and supervision and market conduct** for all financial institutions.*

*The SARB last year introduced a **committed liquidity facility that enables banks to meet the liquidity coverage ratio**, and very limited new style Basel III type of bail-in capital instruments have been issued by local banks to strengthen banks’ loss absorption capacity and enhance long-term stable funding sources, though banks would still find it **difficult to meet the net stable funding ratio (NSFR)** in the form currently envisaged.*

*A **deposit insurance scheme is being developed** and the crisis management framework is being improved.”*



Agenda

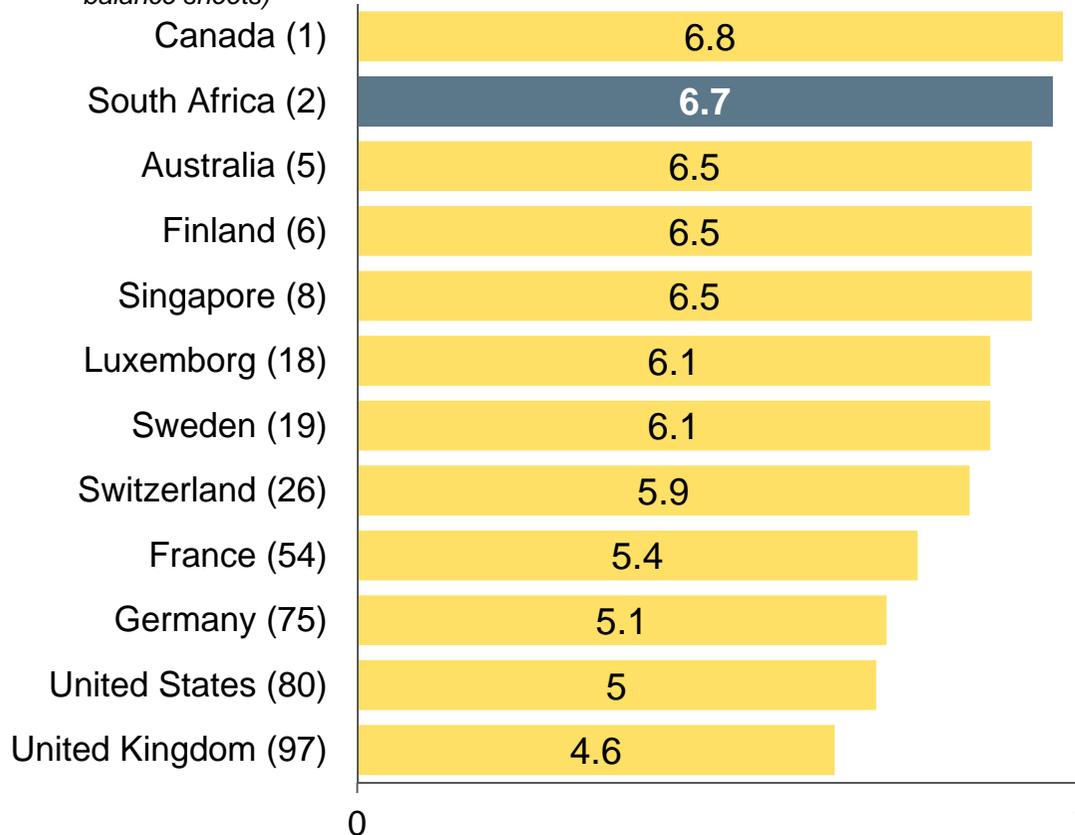
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Well-regulated, well-capitalised banking system with low leverage

SA banking system ranked 2nd globally

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



Global Competitiveness Index

Rank of 144

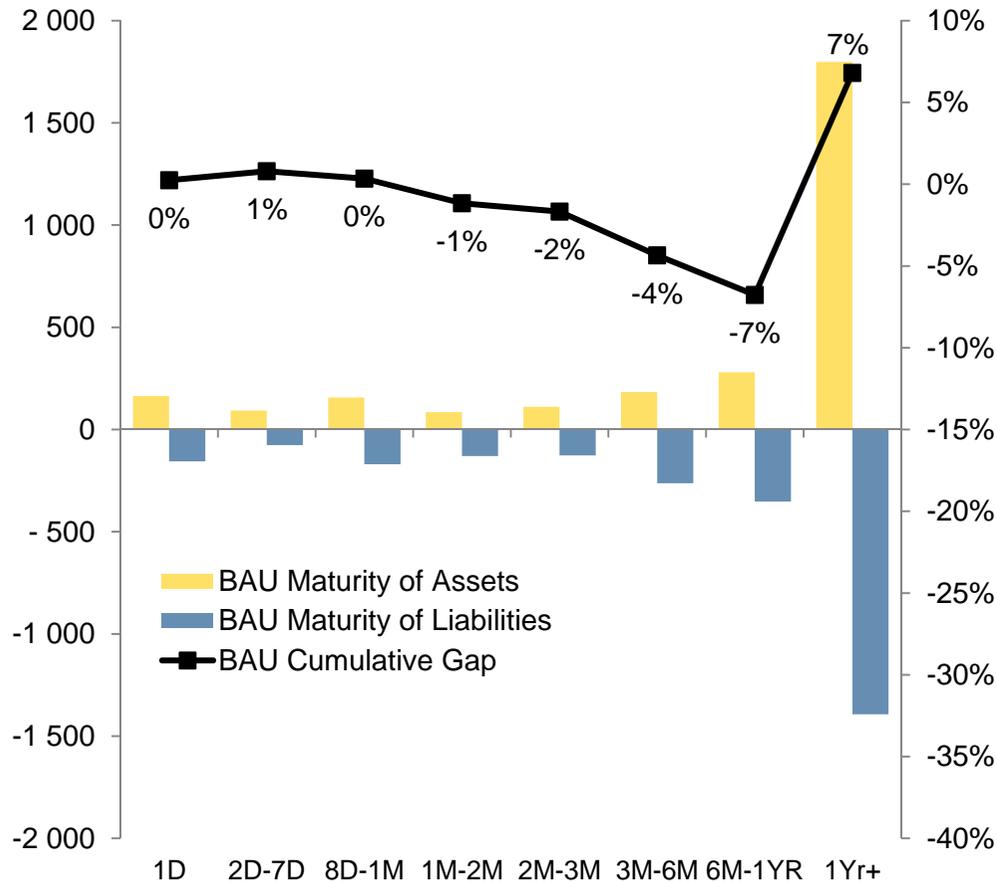
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Financing through local equity markets	3 rd
Strength of investor protection	10 th
Affordability of financial services	22 nd
Ease of access to loans	30 th
Venture capital availability	37 th

Four pillar banks (known as the “Big 4”) - FirstRand Bank, Standard Bank, ABSA and Nedbank. South Africa adheres to Basel III capital adequacy and funding and liquidity guidelines. 90% of credit is local with low exposure to international wholesale funding and low gearing ratios.

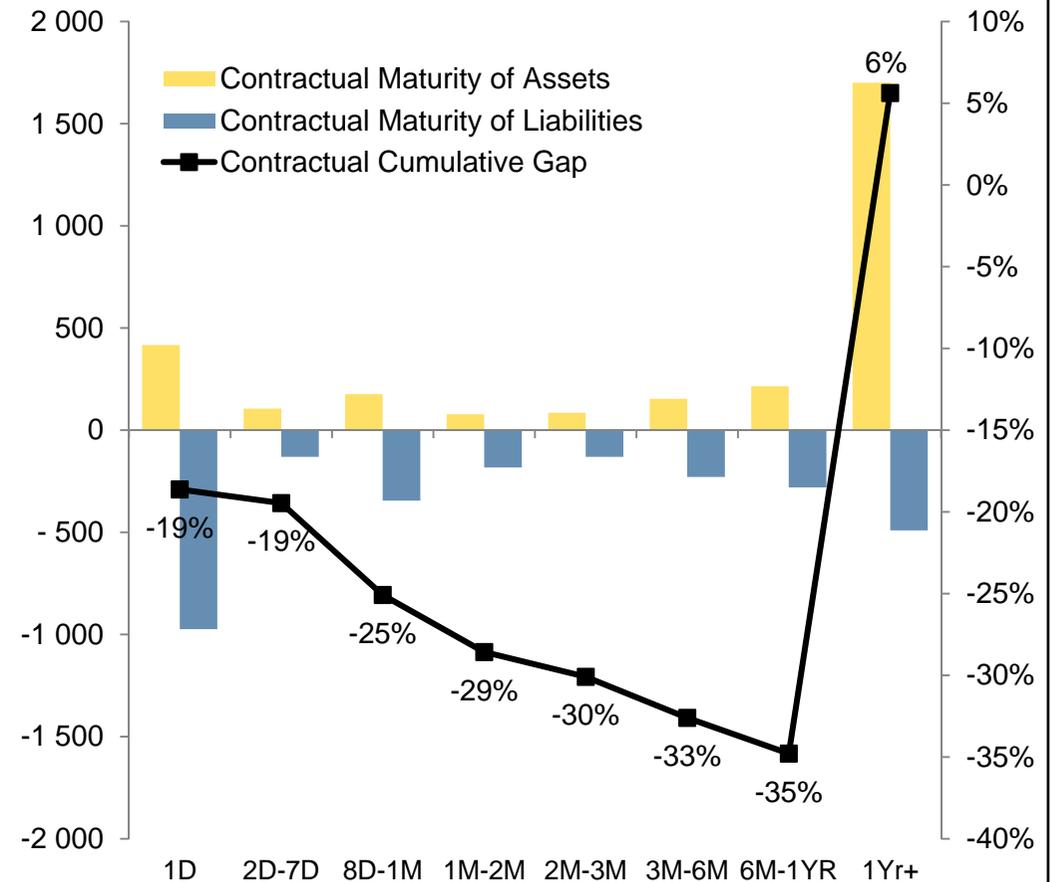


South African banking liquidity gap

Business as usual gap



Contractual maturity gap



- Liquidity risk is largely managed on a business as usual (BAU) basis
- However under stressed conditions the BAU conditions no longer apply.

- The contractual maturity profile is also managed within the context of the structure of the SA economy

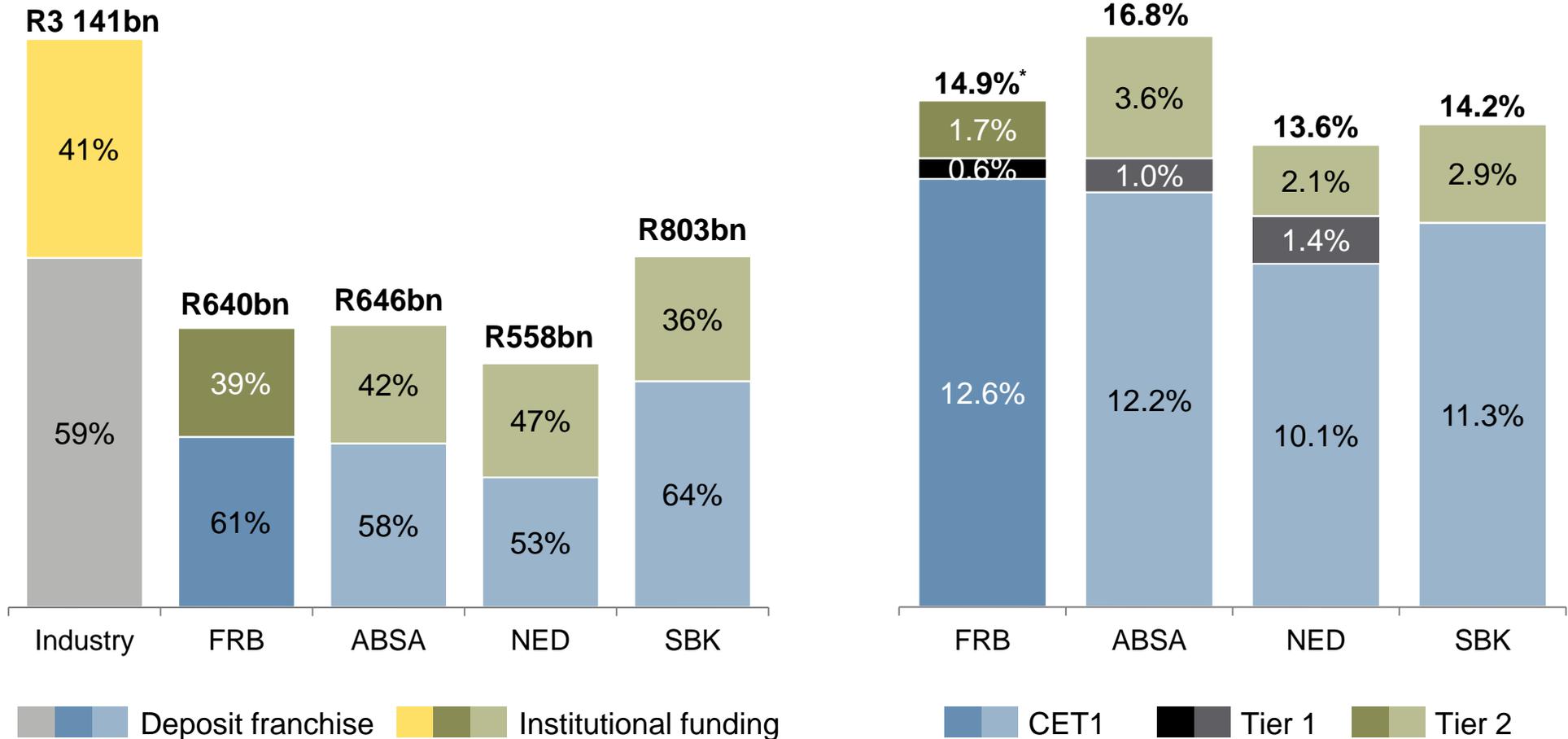
Source: SARB BA returns.



FirstRand Bank is one of South Africa's Big 4 banks – liabilities and capital

Deposits

Capital adequacy

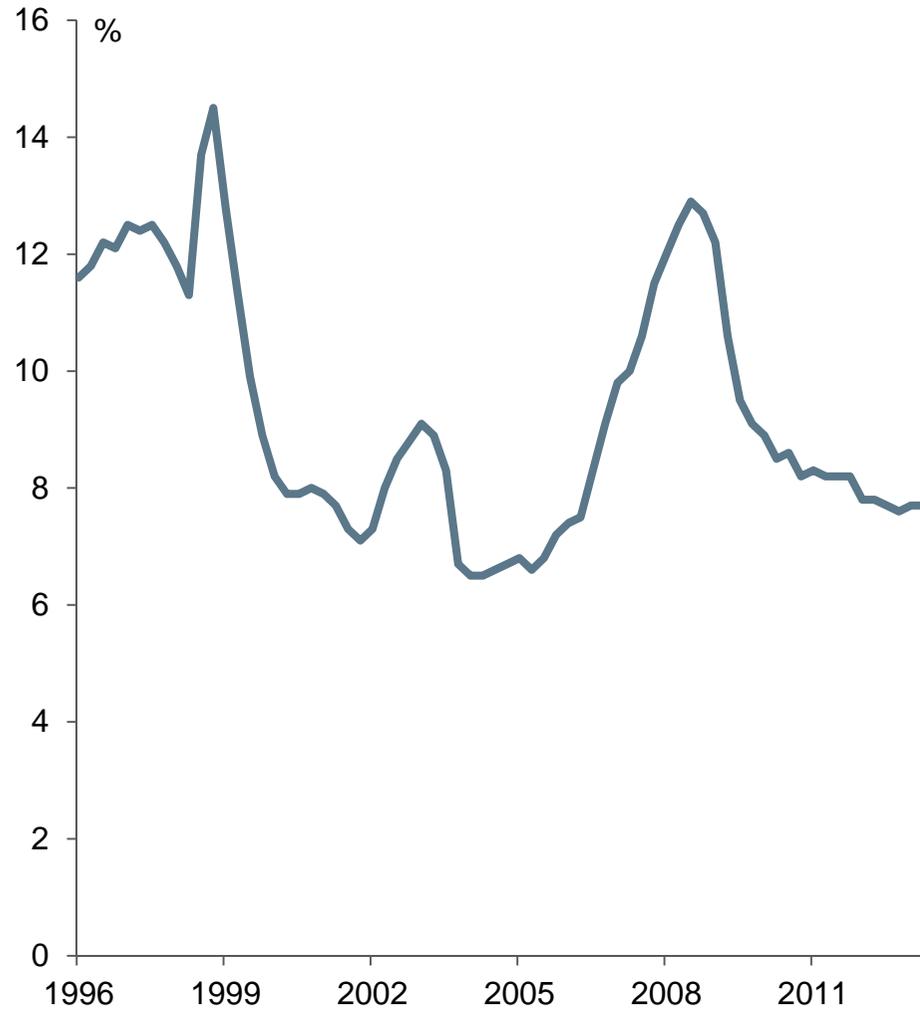


Source: SARB BA returns – June 2013.

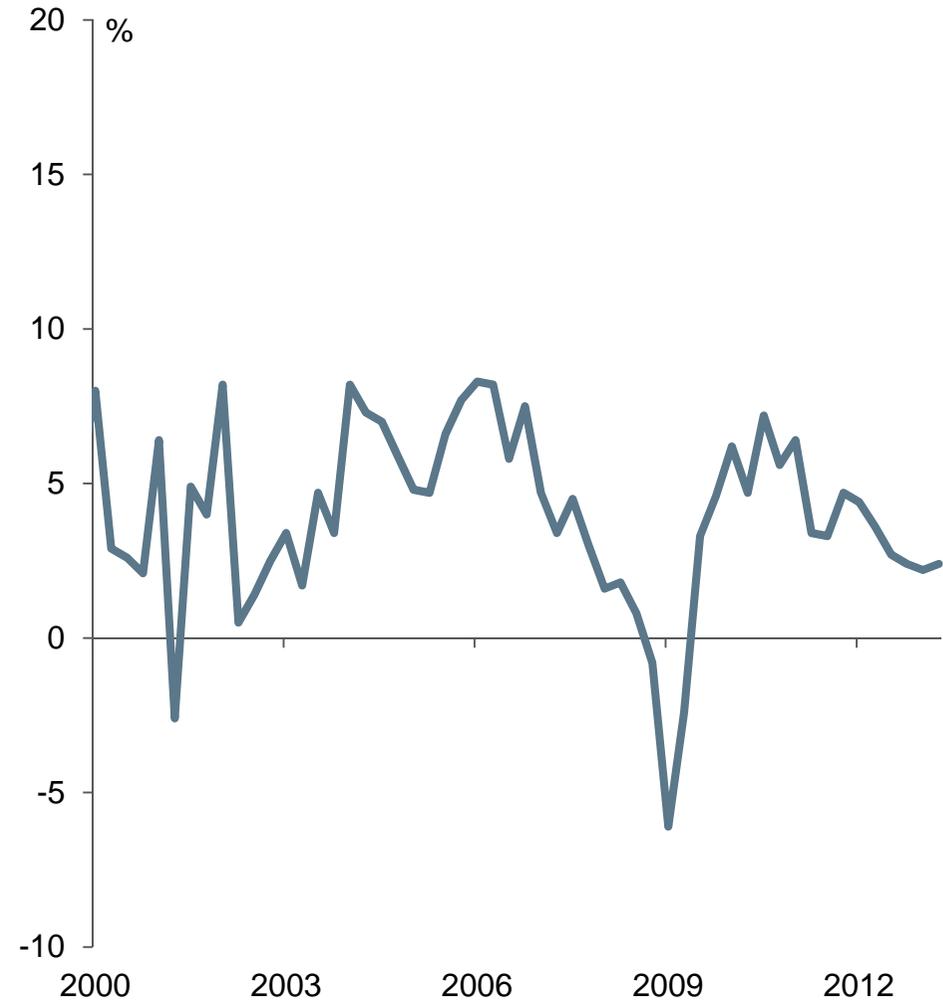
* Reflects solo supervision, i.e. the Bank excluding branches, subsidiaries and associates.

Influences on household credit extension

Debt service costs

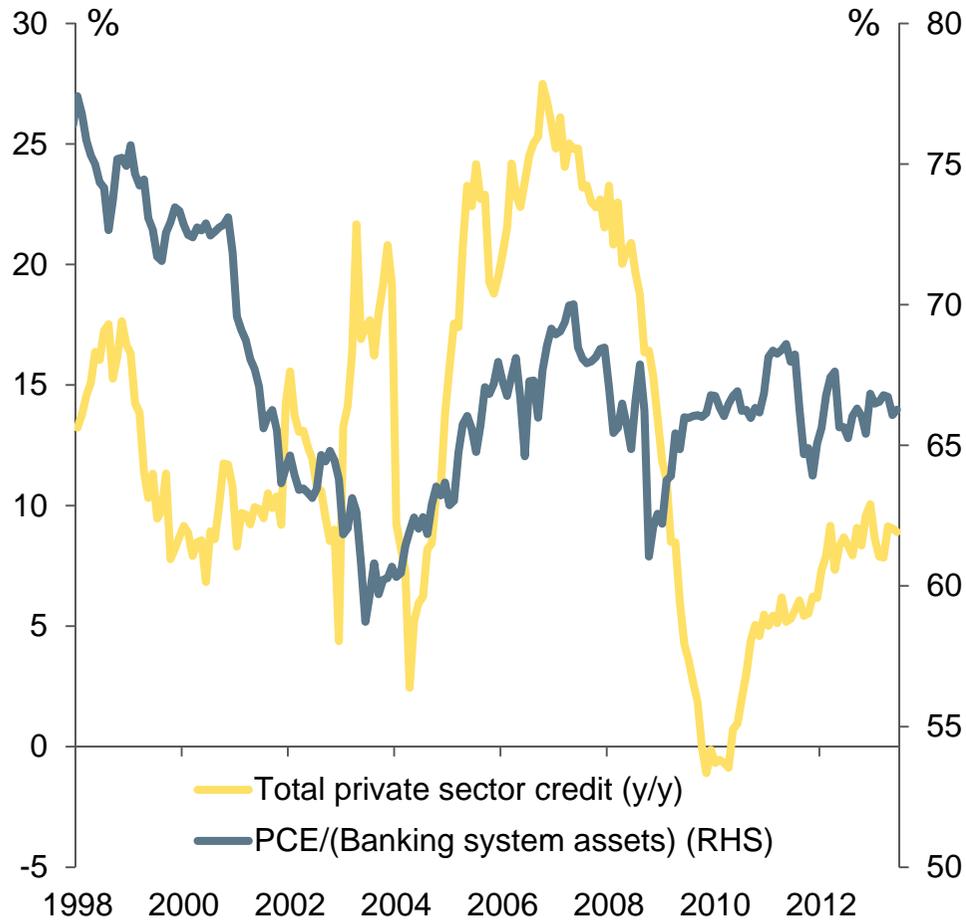


Disposable income of households

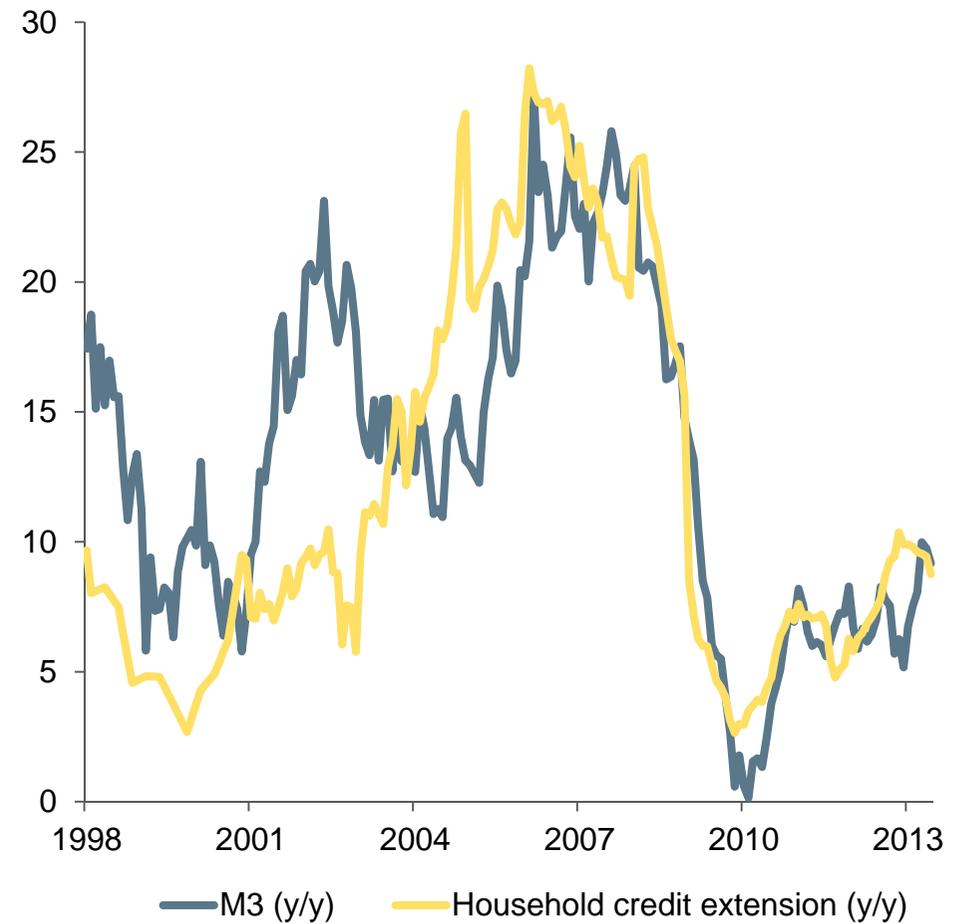


Credit extension supported M3

Credit extension & bank assets



Money supply and credit extension (%)



- Private sector credit extension (PCE) as a percentage of SA banking system assets is relatively stable at 80%
- In the context of the volatile PCE y/y growth this suggests that banks are the primary funders of PCE

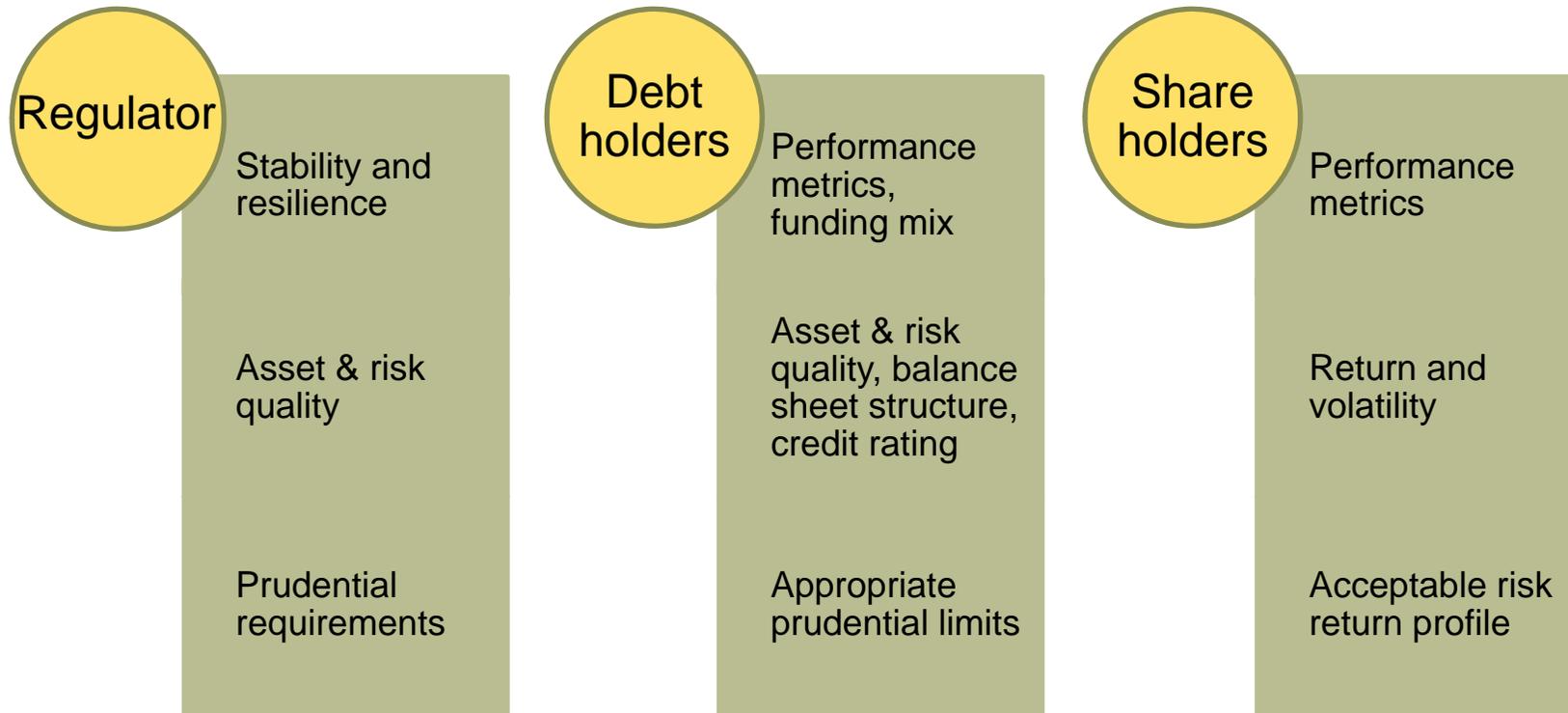


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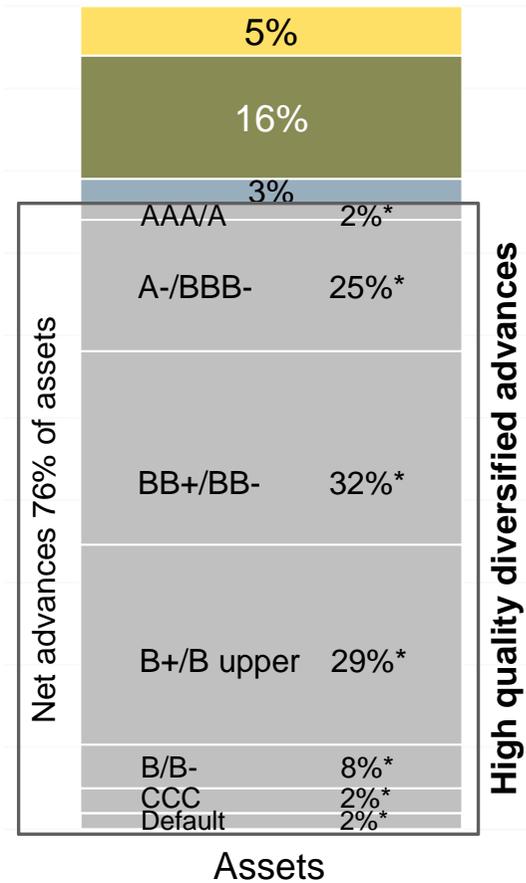
Key stakeholders of the bank to whom we have a fiduciary responsibility



An effective and executable resolution plan with associated resolution powers best serves the interest of all stakeholders platforms

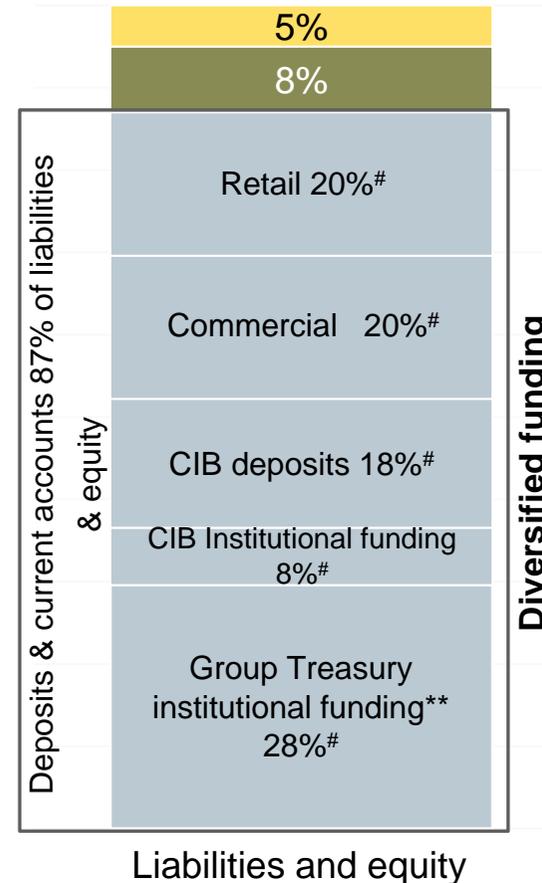


Economic view of the balance sheet



High quality diversified advances

Nominal gearing: 15 times



Diversified funding

- Other assets
- Cash, cash equivalents and liquid assets
- Trading and equity investments
- Net advances

* of net advances

- Other liabilities
- Ordinary equity and NCNR preference shares and Tier 2 liabilities
- Deposits and current accounts

of deposits and current accounts.

** includes consolidation and IFRS adjustments.

Derivative-, securities lending- and short trading position asset and liabilities have been netted off.



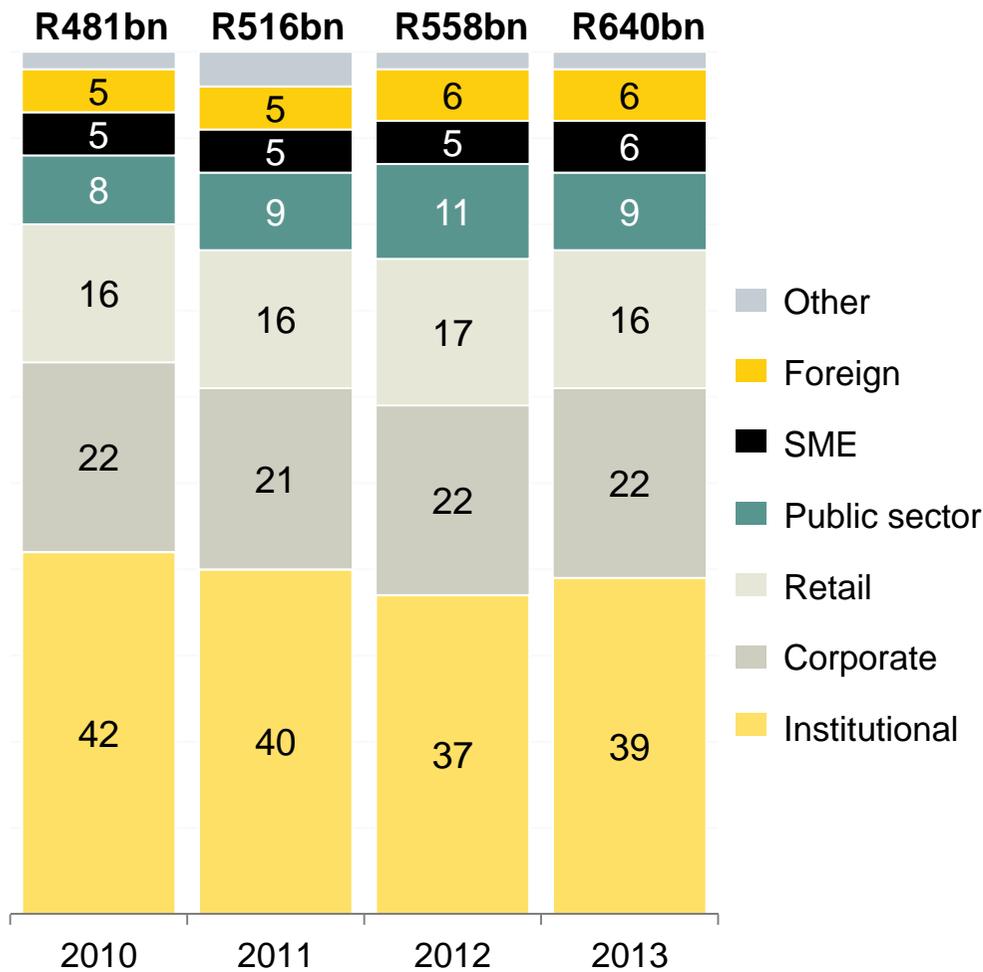
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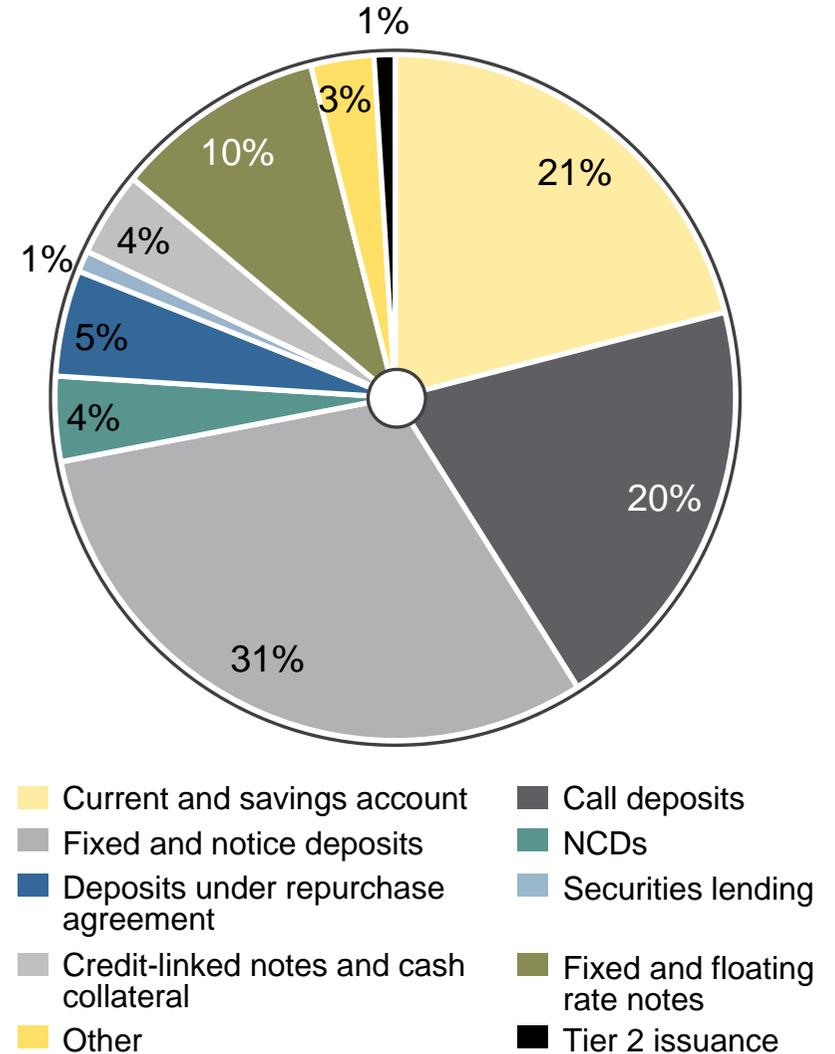


Strong focus on building a diversified funding base

Sources of funding

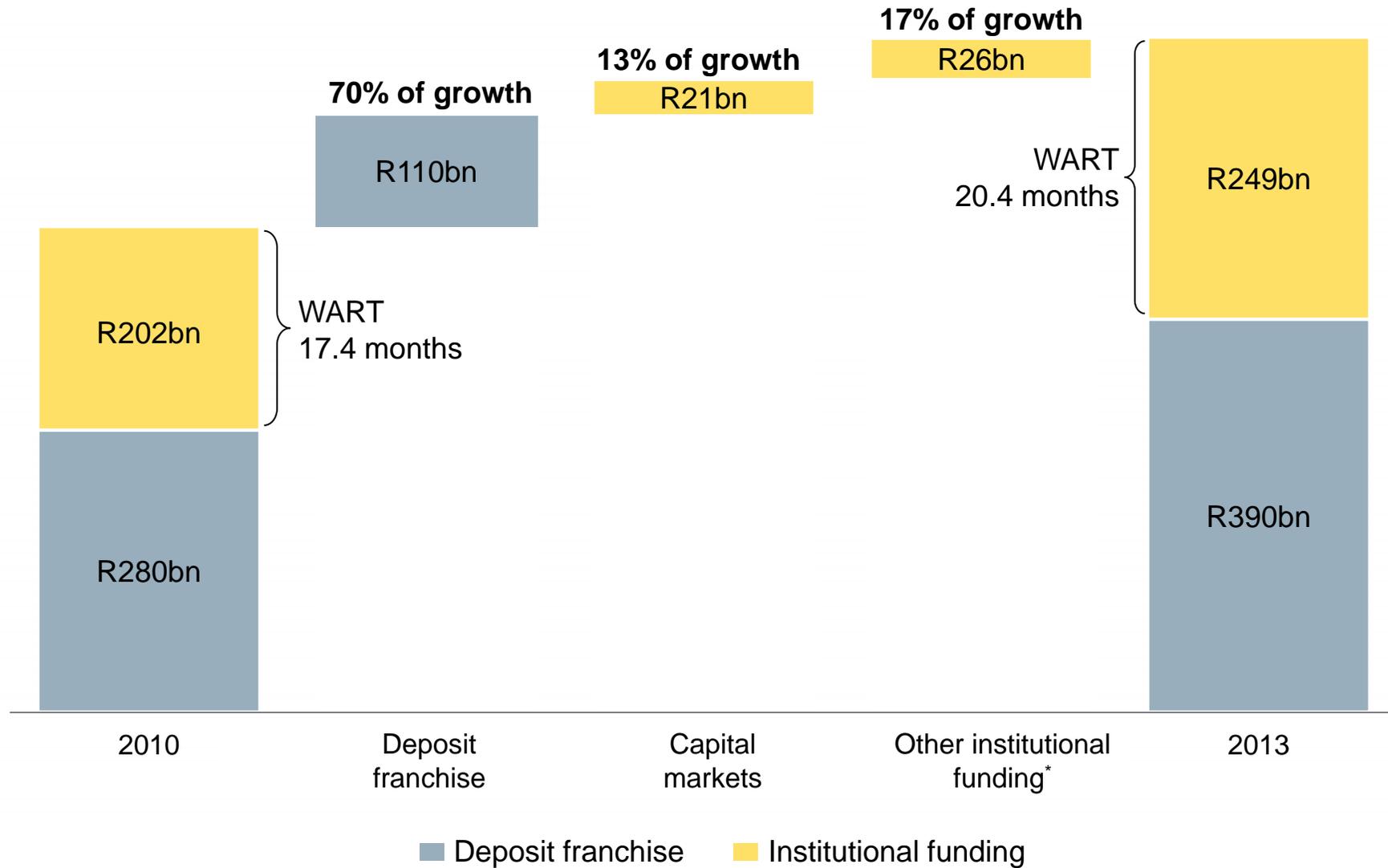


Funding instruments





83% of liability growth attributed to better source and term



* Includes NCD, structured funding and other deposits.

WART = Weighted average remaining term of institutional funding.

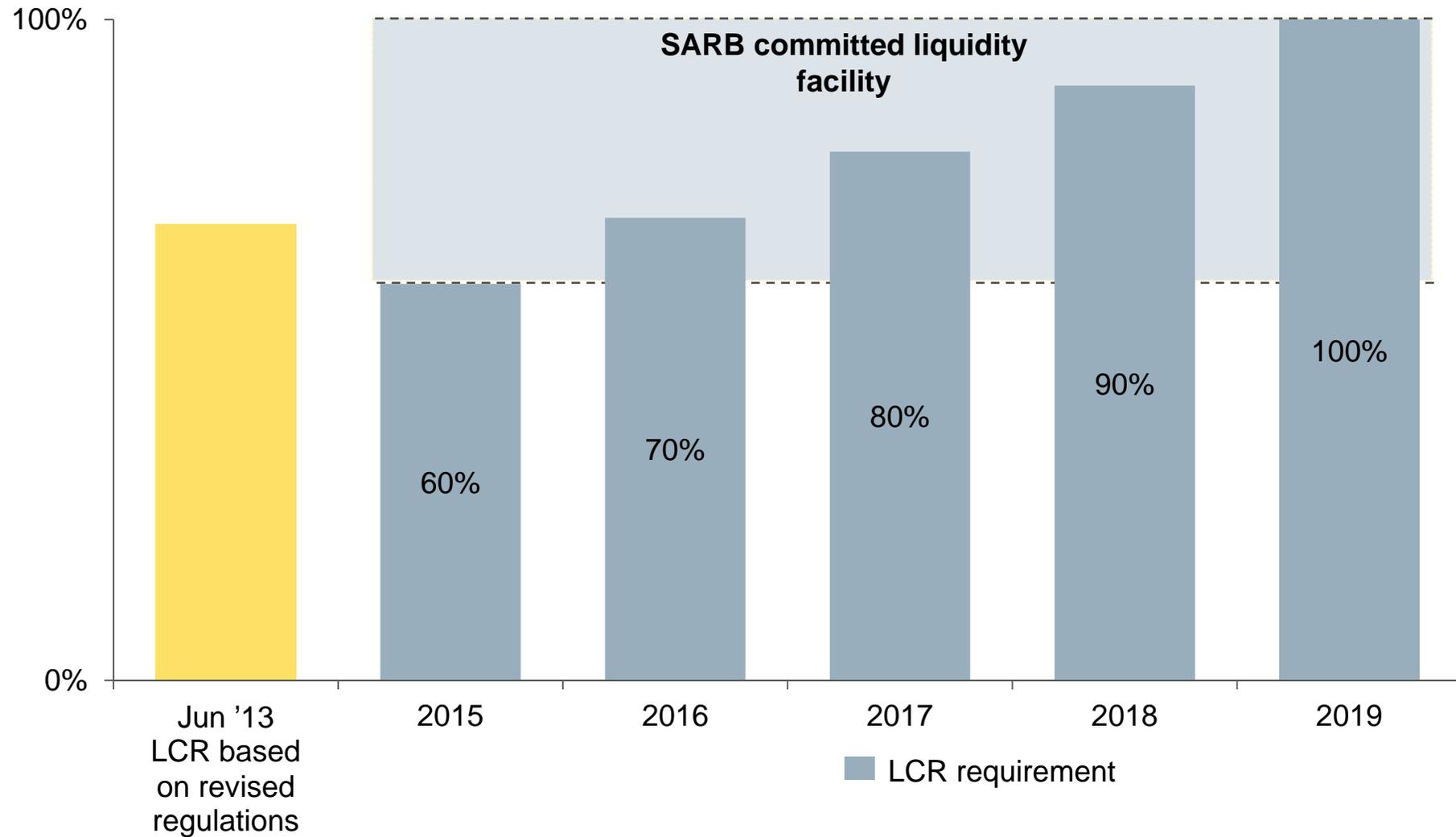


Basel III update

- During January 2013 the Basel Committee reaffirmed the LCR as an essential component of the Basel III reforms
 - Phased-in approach – extended timeframe for full compliance to 2019 from 2015
 - Minimum requirement = 60% at 1 Jan 2015, 10% incremental step ups each year to 2019
 - Expansion of eligible collateral to include level 2A and 2B with qualifying criteria
 - Ratings now refer to national scale ratings for liquidity risk in that local currency
- On 2 August 2013, SARB released *Guidance Note 6 of 2013*
 - Confirms maximum facility size to be set at 40% of high quality liquid assets
 - Eligible collateral for facility
 - Listed debt securities (minimum A- national scale credit rating)
 - Listed equities on the main board of the JSE
 - Notes of self-securitised eligible residential mortgages
 - Selection of on-balance sheet ring-fenced assets
- NSFR – Expectations for updated measure to be released by Basel Committee in 2014



Revised LCR regulations improve Bank's position and already meet 2015 requirement



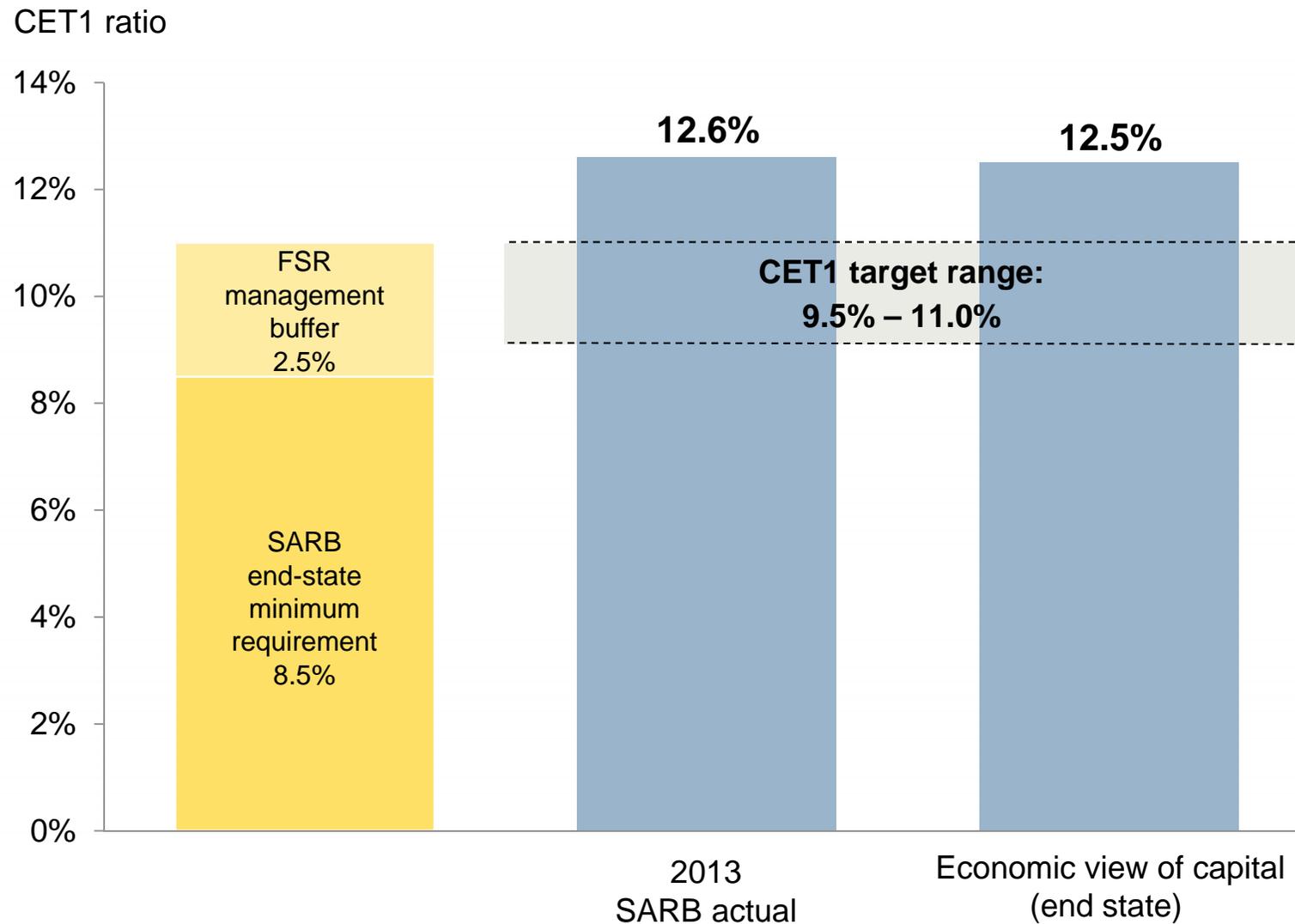


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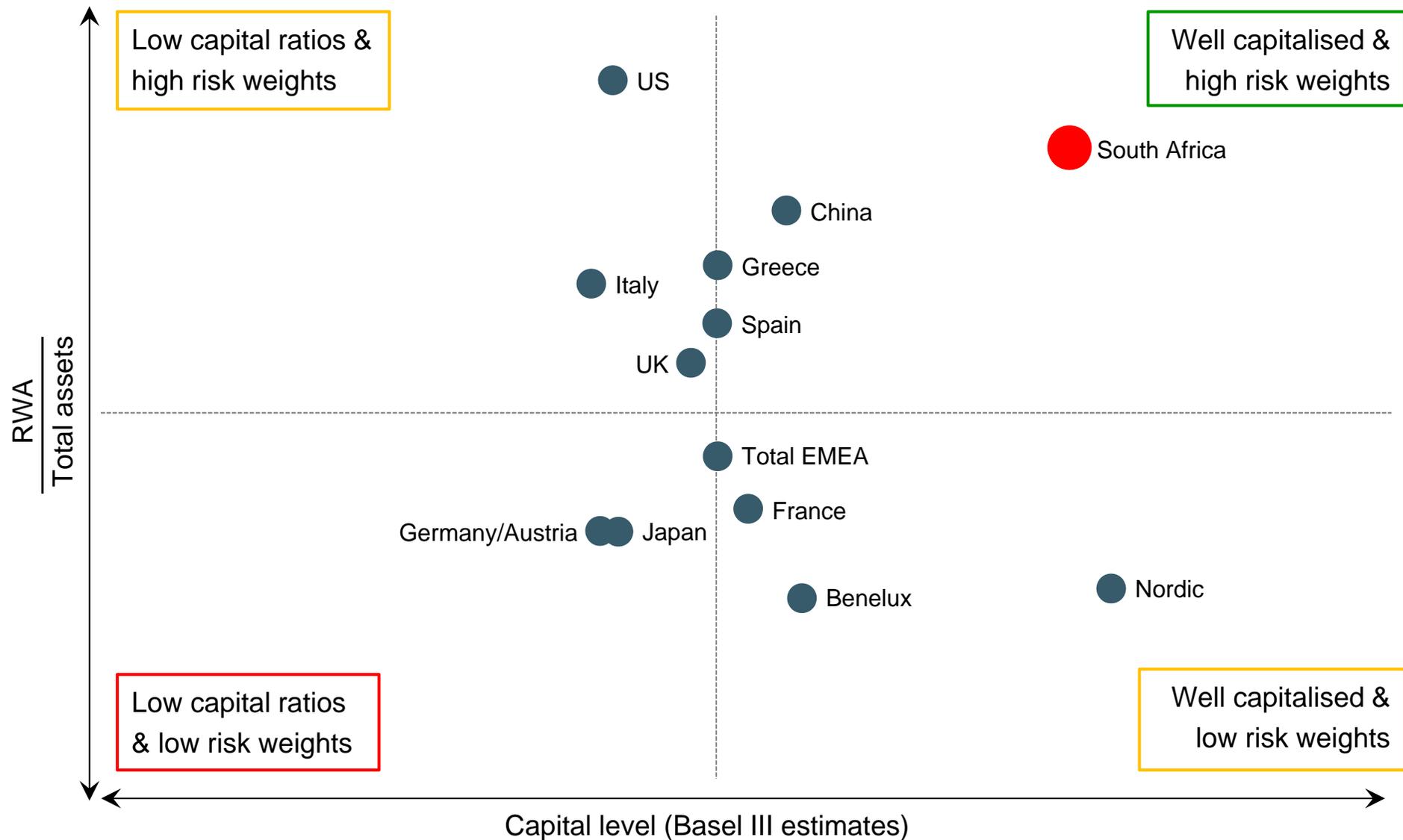


CET1 ratio reflects strong capitalisation





South African banking sector conservative in RWA and level of capital





CET₁ challenges given Basel III approach to minorities

- The reality
 - Subsidiaries' in-country minimum higher than SARB minimum capital requirement
 - Local shareholding requirement
- Basel III rule and consequence
 - Limited inclusion of minorities where a bank-regulated subsidiary carries capital in excess of SARB minimum requirement (example FNB Botswana Limited)
 - No inclusion of minorities held in an entity other than a bank (example FNB Namibia Holdings Limited, even though consolidated supervision applied to bank controlling company)
- FirstRand's response
 - All entities within the Group – continue to apply core principles
 - Appropriate capitalisation on a stand-alone basis
 - Ensure treatment of majority and minority interests prudently sound
 - Ongoing education of investors around anomalies in Basel III consolidated CET₁ ratio



Agenda

- Overview of South Africa's
 - Flow of funds
 - Financial market infrastructure
 - Banking sector
- FirstRand Bank
 - Balance sheet strength
 - Funding and liquidity
 - Capital position
 - International funding and capital plans

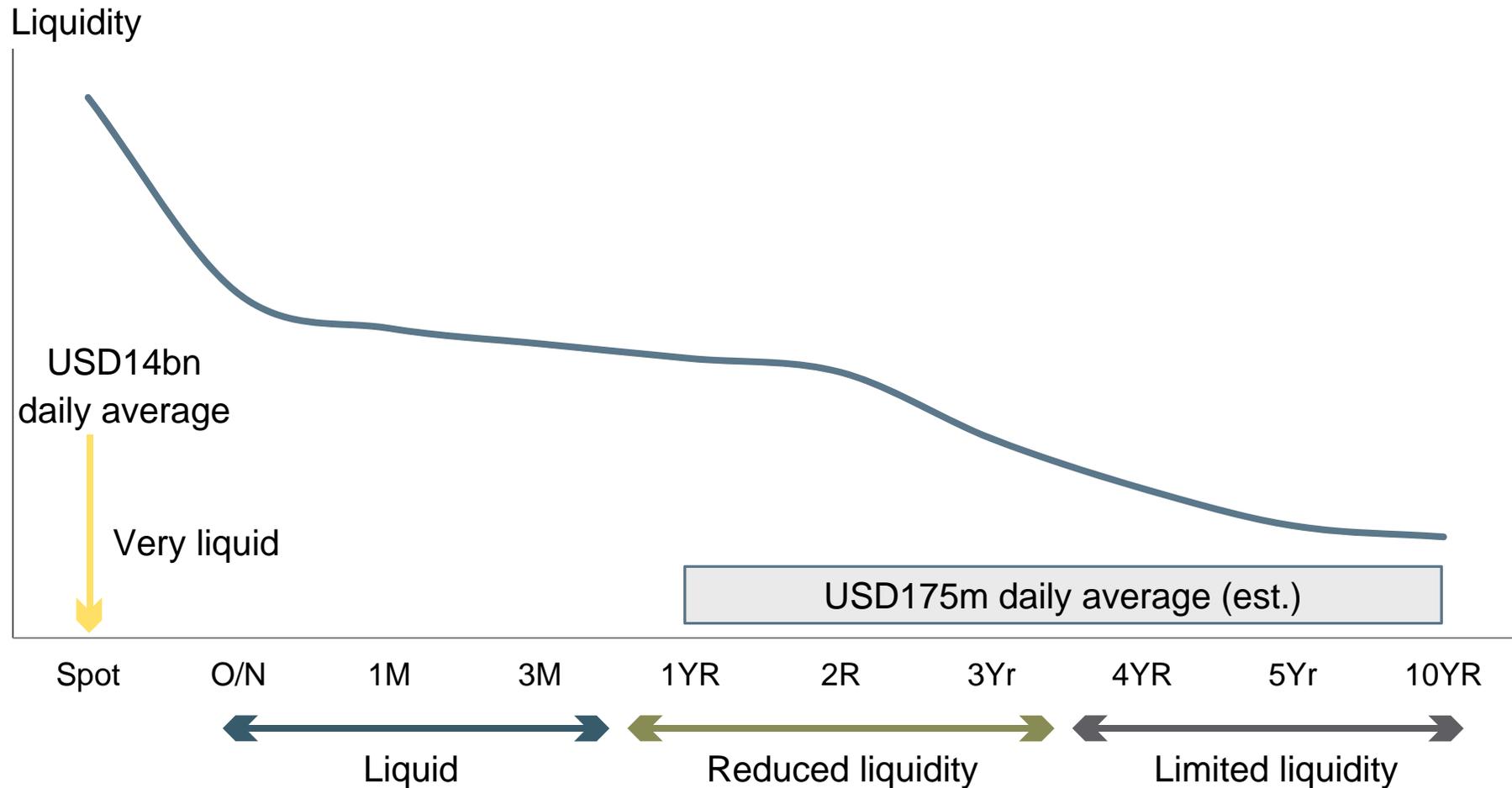


FirstRand's philosophy on foreign currency external debt

- Framework for the management of external debt takes into account sources of sovereign risk:
 - Unsustainable debt path (solvency) crisis
 - Liquidity crisis
 - Exchange rate and macroeconomic crisis
 - We consider the external debt of all South African entities...
 - Private and public sector
 - Financial institutions
 - ...as all these entities utilise the South African system's capacity
 - Confidence and export receipt
- Therefore FirstRand places internal constraints that are more stringent than the macro prudential limit



Conceptual liquidity in FX market



Daily average spot USDZAR turnover is estimated as US\$14bn
BIS Triennial Central Bank Survey, 2010



Reasons for swap based funding

- Reduced credit costs in funding
 - A currency swap is a net transaction, subject to ISDA
 - Offset results in reduced credit risk
 - Usually under CSA, zero threshold becoming more common
 - You do not have to pay sovereign credit spread
 - By giving funders the opportunity to frequently reassess and reprice you – the cost charged is much less
 - Results in increased liquidity risk
- Swap market is more liquid than term funding market
- Interbank funded not capital market based
 - Less lead times
 - No programs and extensive documentation



International funding activities

- **Syndicated loans**
 - Stanchart arranged \$215m maturing Jan 2014
 - Commerzbank arranged \$200m maturing Dec 2014
- **DFI facilities**
 - DEG €85m & \$55m maturing Nov 2017
 - DEG €45m & E35m maturing Jun 2019
 - EIB €50m maturing Dec 2025
 - EIB €62m maturing Sep 2032
 - Pursuing opportunities with IFC and AfDB
- **Bilateral facilities**
 - Several bilateral facilities in place with GCC and Asian banks
 - EUR, USD, AUD, INR
- **EMTN program**
 - Reg S
 - USD 500 million 5-year bond due 2016
 - Private placements
 - African currencies BWP, ZMK, NGN settled in USD/EUR
- **MotoNovo Finance**
 - Turbo ABS securitisation programme
 - 3 Successful issues – with significant spread compression for the Aaa notes from 180 to 60 over 3 years
 - Further issuances to follow
- **Tier 2 capital**
 - Awaits final guidance from the SARB on loss absorbency requirements for capital instruments



FIRSTSTRAND