

# 2010

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Optimising return on capital in  
a challenging new landscape

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**UBS Conference, 21 October 2010**

Johan Burger, COO & CFO



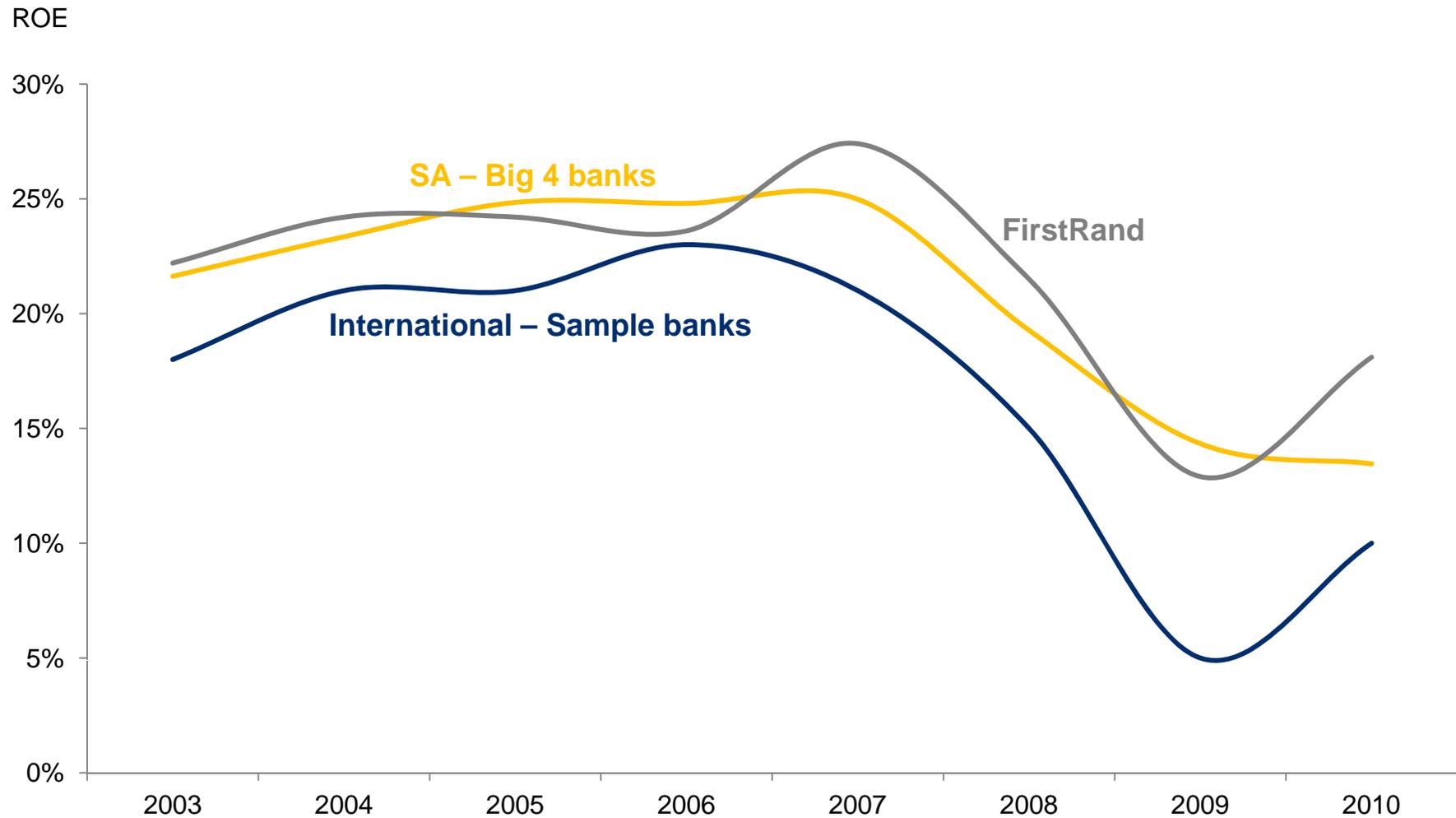
**FIRSTRAND**

# Agenda

- Comparing international and local ROEs
- The capital landscape is changing
- Management actions
- Conclusion



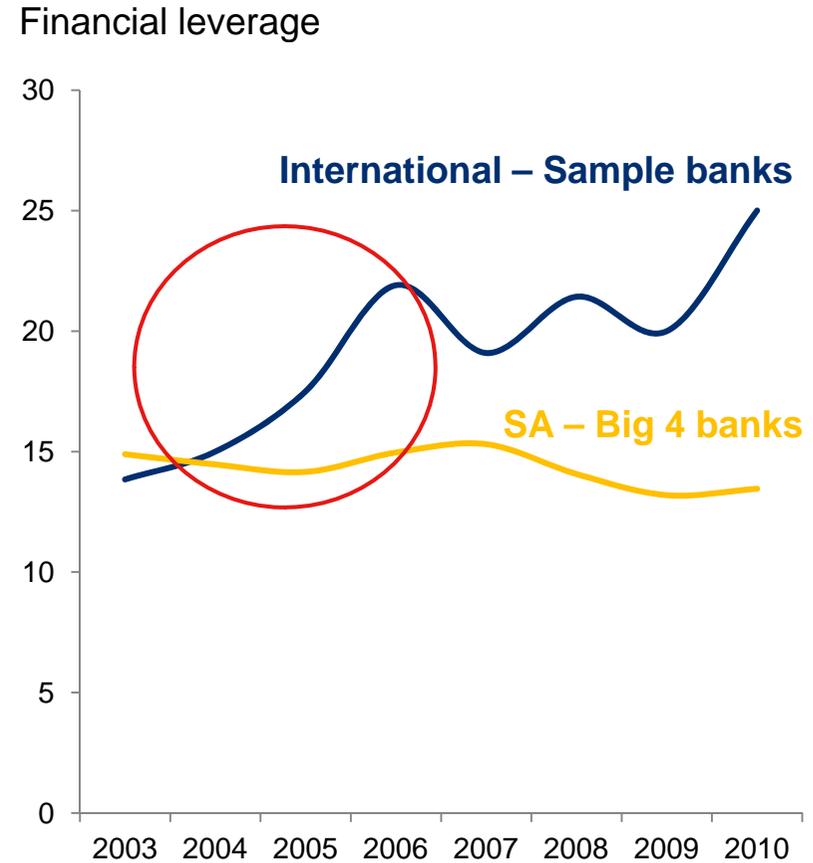
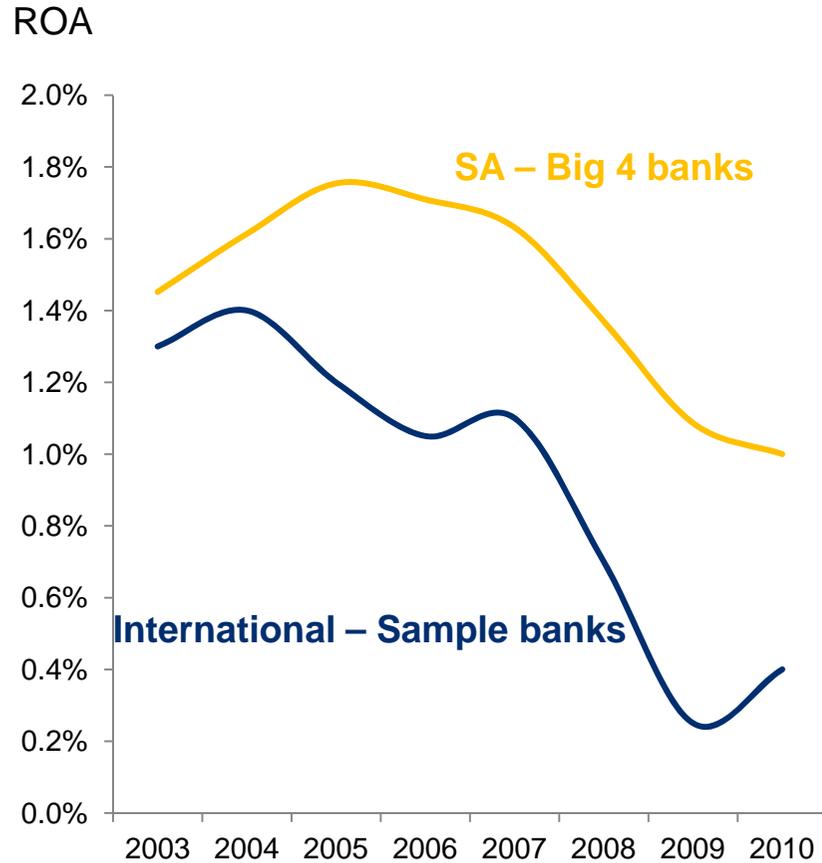
# SA and international banks – ROEs appear similar



Sources: UBS Research, ECB, Bloomberg



# However, vastly different ROAs and leverage



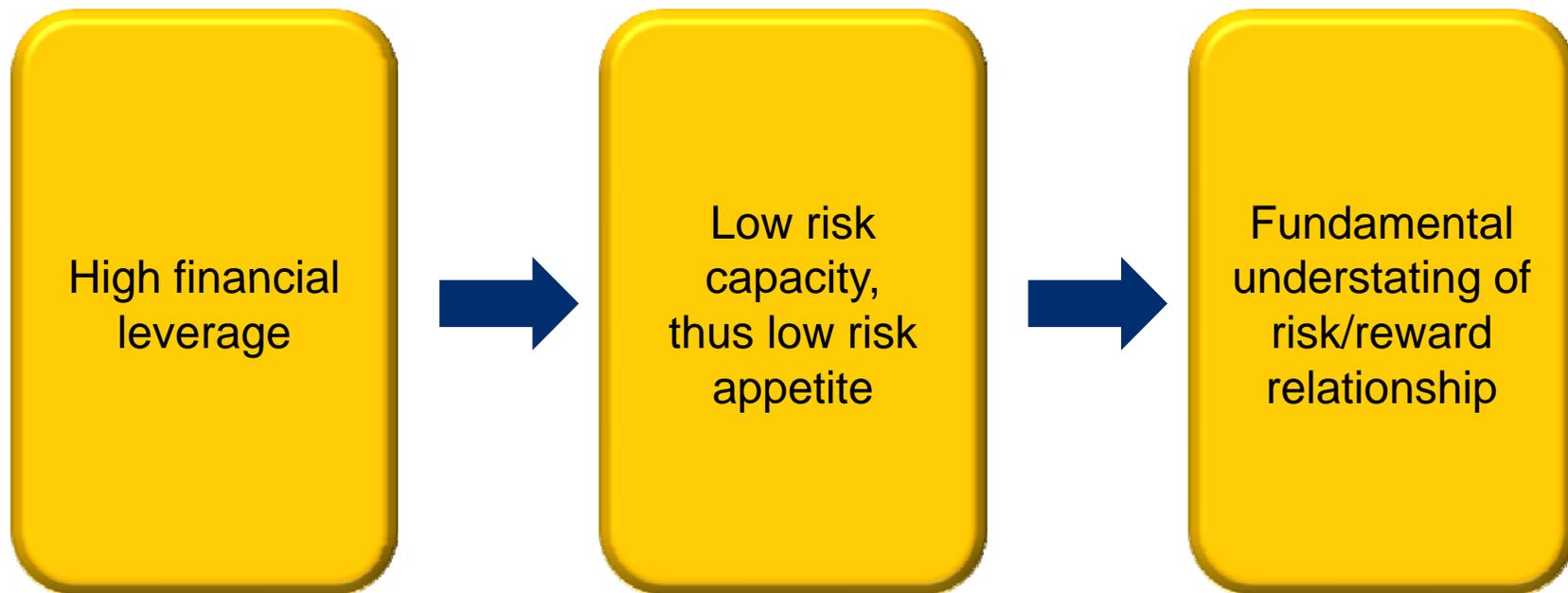
# Understanding the relationship between ROA and ROE

		ROA			ROE
		0.5%	1.0%	1.5%	
Leverage (equity multiplier)	10:1	5.0%	10.0%	<b>15.0%</b>	
	15:1	7.5%	<b>15.0%</b>	22.5%	
	20:1	10.0%	20.0%	30.0%	
	30:1	<b>15.0%</b>	30.0%	45.0%	

- ROE should not be viewed in isolation
  - Function of both ROA and leverage
  - Does not encapsulate cost of risk, risk concentration, risk appetite and volatility
- ROA is considered a more reliable performance indicator
- Banks with highest ROAs proved to be more resilient during the crisis, as balance sheets were not overstretched



# Understand the relationship between leverage and risk



Protect sustainable ROA



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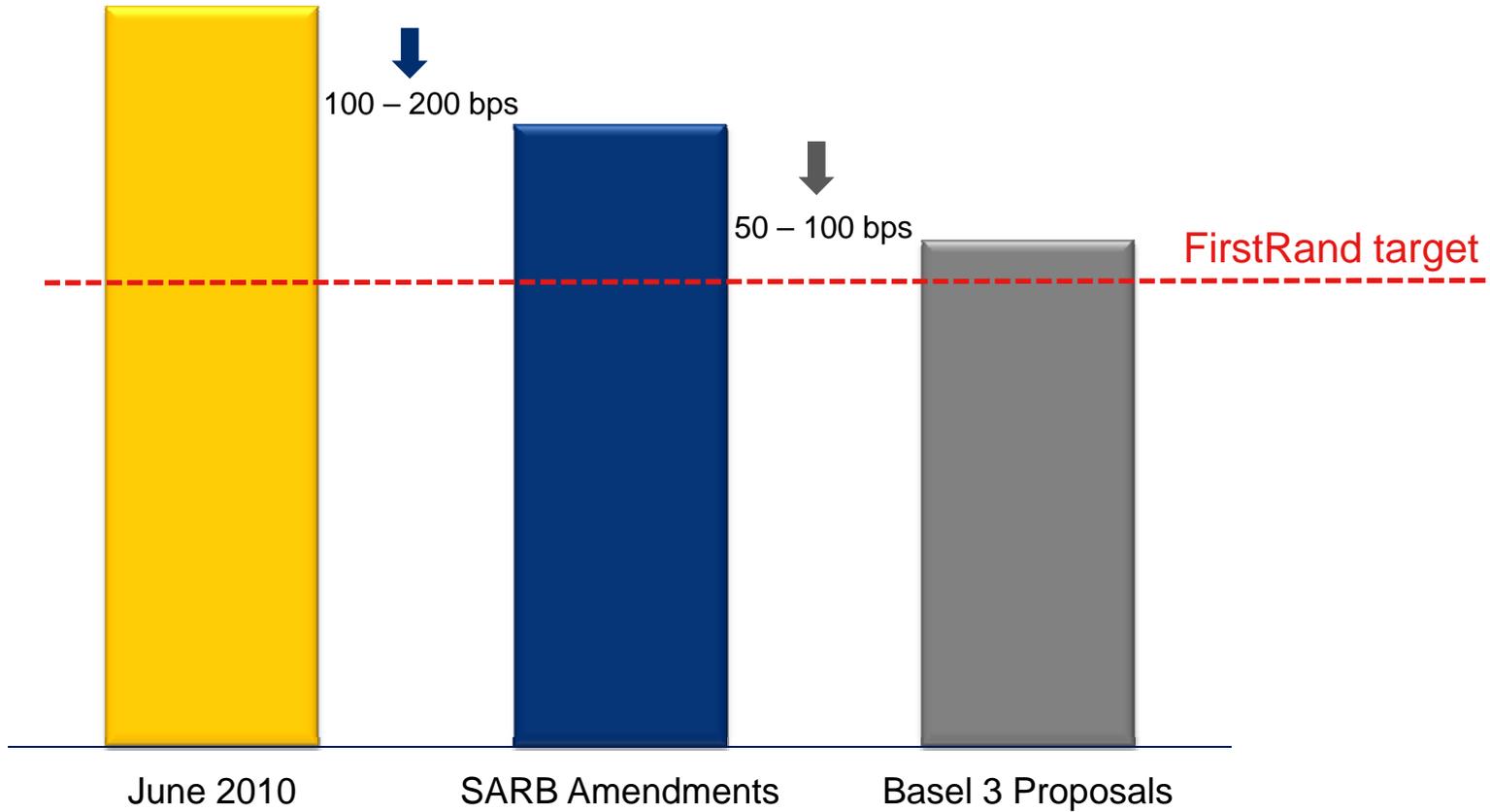


# Comprehensive regulatory response

- Strengthened risk coverage - enforce a more stringent calculation of risk weighted assets
  - Credit risk
  - Market risk
- Improve the quality and level of capital - additional buffers to be held
  - Increase core capital
    - Reduce the inclusion of minorities on a consolidated basis
    - Move deductions previously taken against Tier 2 to Core Tier 1
    - Phase out Tier 2 instruments that are not considered to be loss-absorbing
- Introduce a leverage ratio to supplement the capital framework



# FSR remains adequately capitalised...



FirstRand would re-visit target levels given more stringent capital definitions



## ...and complies with finalised Basel III proposals

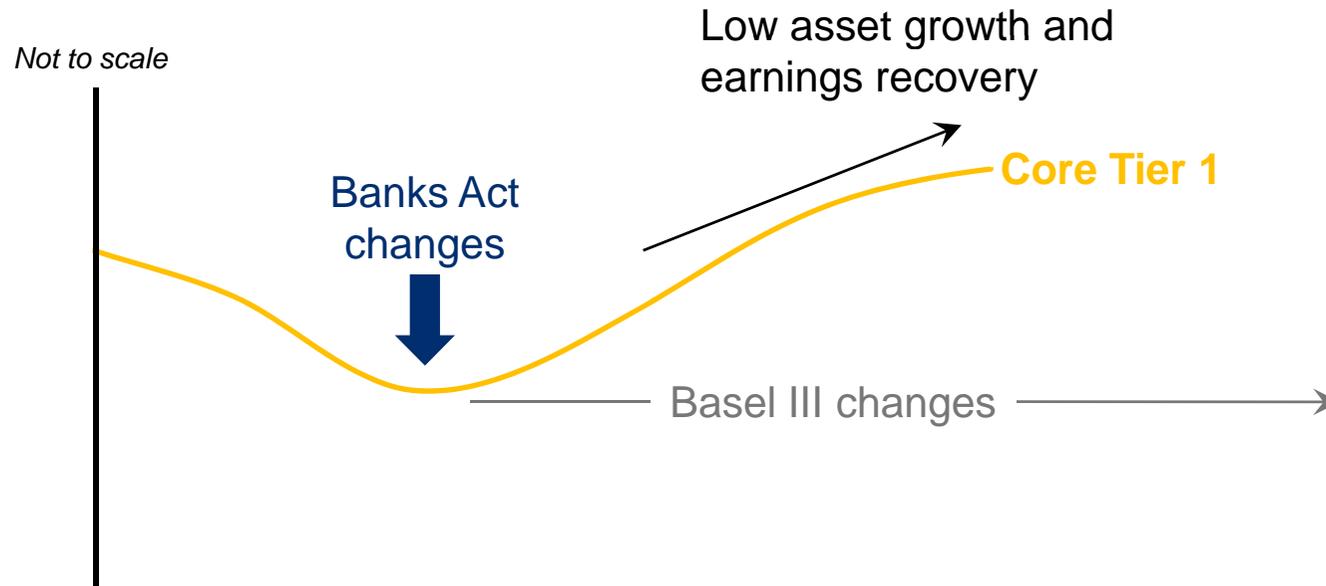
%	Basel III*	SARB current	FirstRand targets	FRBH 30 Jun '10 actual
Core Tier 1	7.0	5.25	9.0	12.6
Tier 1	8.5	7.0	10.5	13.5
Total CAR	10.5	9.75	12.0 – 13.5	15.6

\* Includes capital preservation buffer

- No indication from SARB whether requirement will be different to Basel proposal
- Emerging markets are still expected to be capitalised at higher levels



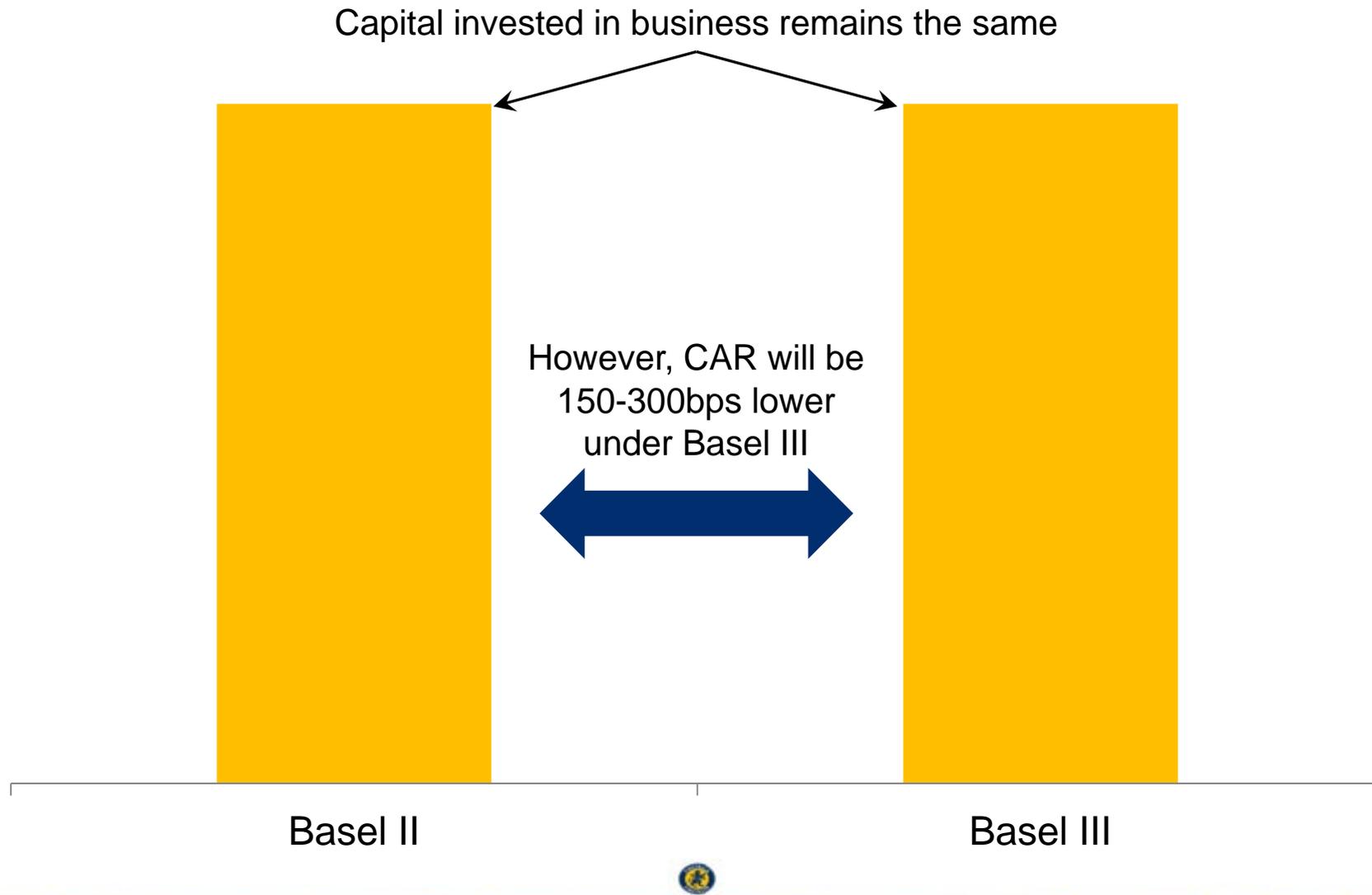
# Excess capital – dispelling the myth



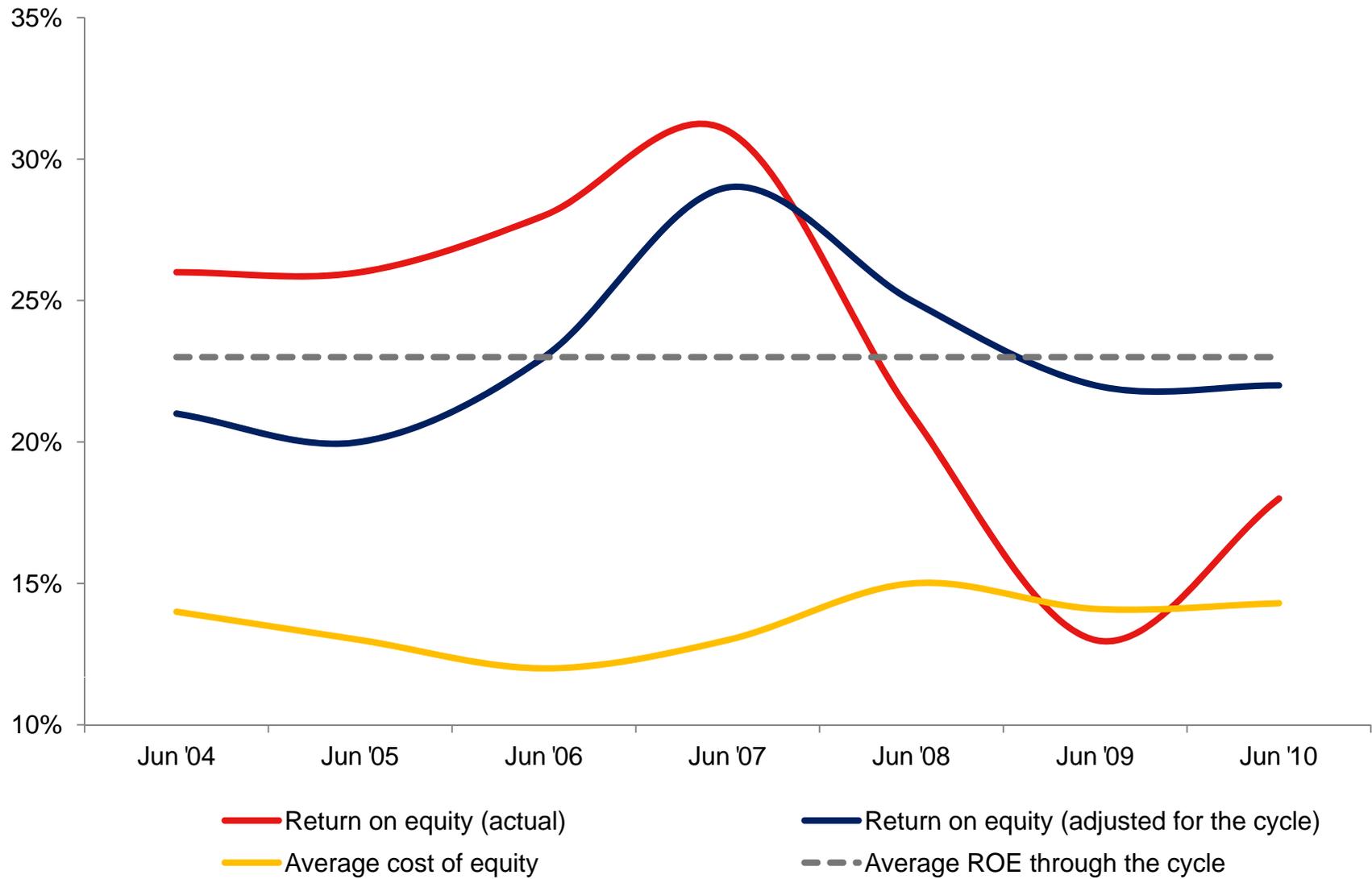
- FirstRand takes a 3-year view on capital
- Uncertainties remain
  - Pace of expansion
  - Recovery of SA
  - Regulation



# Sustainable ROE a function of recovery and specific management actions



# ROEs already showing recovery



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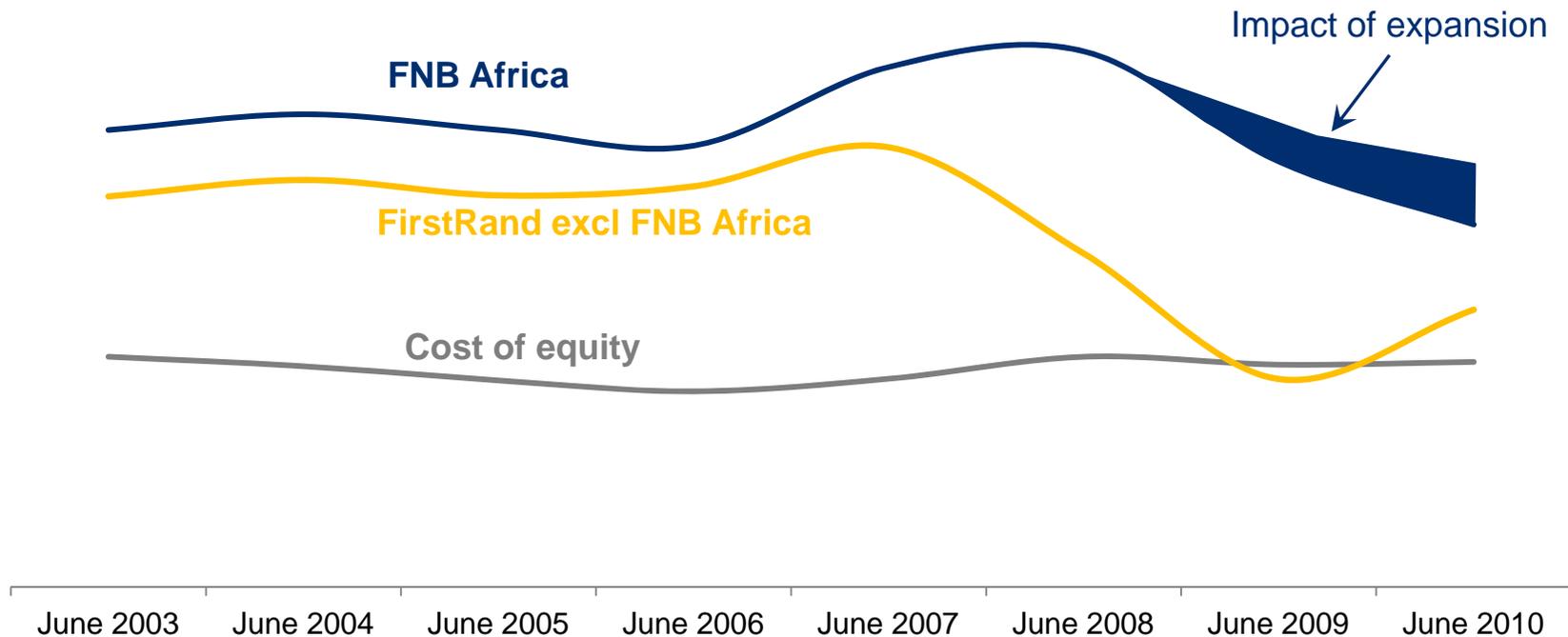


# No fundamental change to FirstRand's capital strategy

- All entities continue to be appropriately capitalised on a standalone basis
- Manage businesses on the principle that economic risk is backed with Tier 1
- Continue to deploy capital to businesses that meet the required return
  - Strategic investments that breakeven within an appropriate period
  - Businesses required to meet minimum hurdle rates
- If no alternative investment or deployment, capital will be returned to shareholders
- Consider new capital requirements in current pricing
- NIACC drives performance management process



# Deployment of capital to Africa less than 1% impact on ROE



Future expansion initiatives will have marginal drag on short-term ROE, but will provide longer term uplift

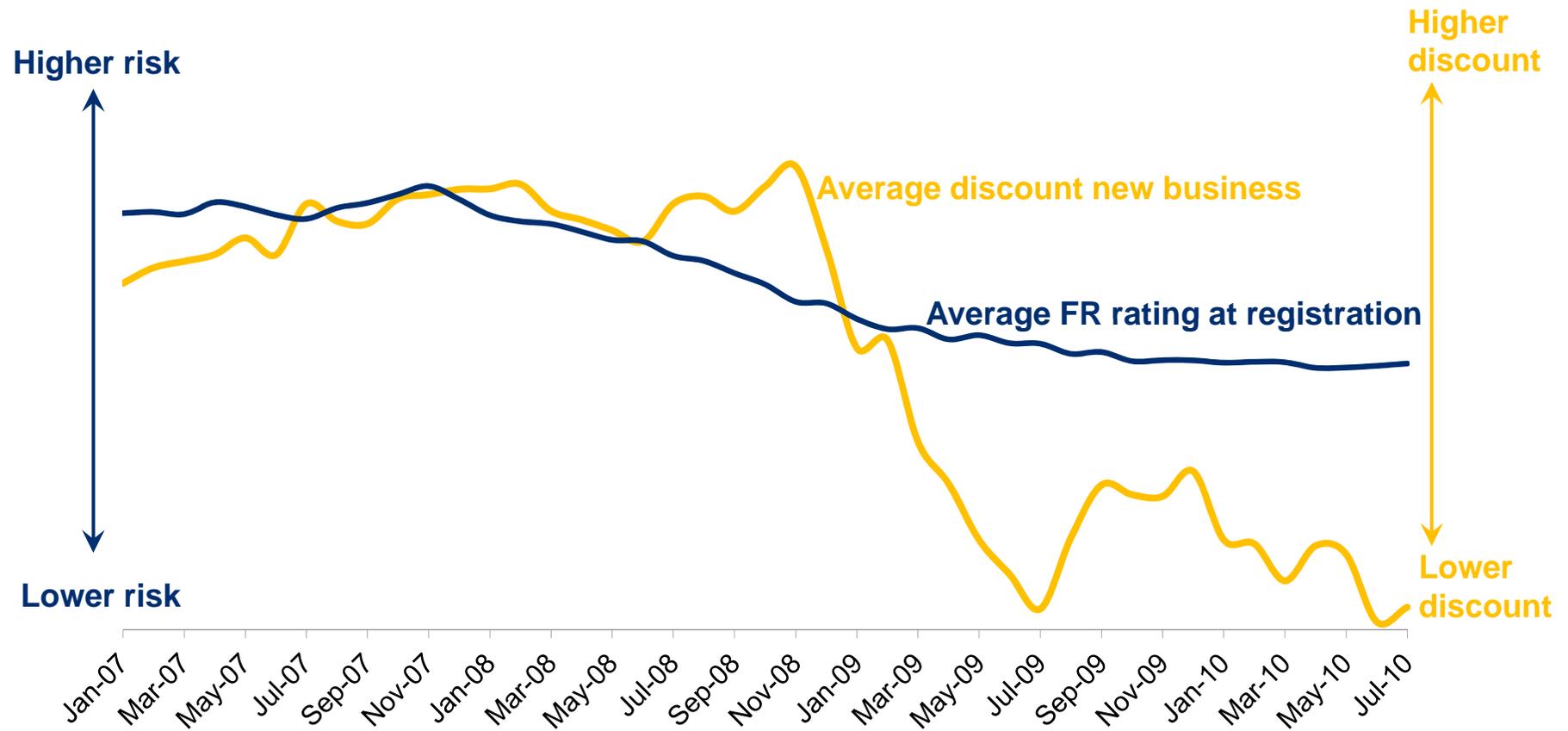


# Specific actions to optimise portfolio

- Adjust pricing



# HomeLoans reduced discount to Prime and decreased risk rating



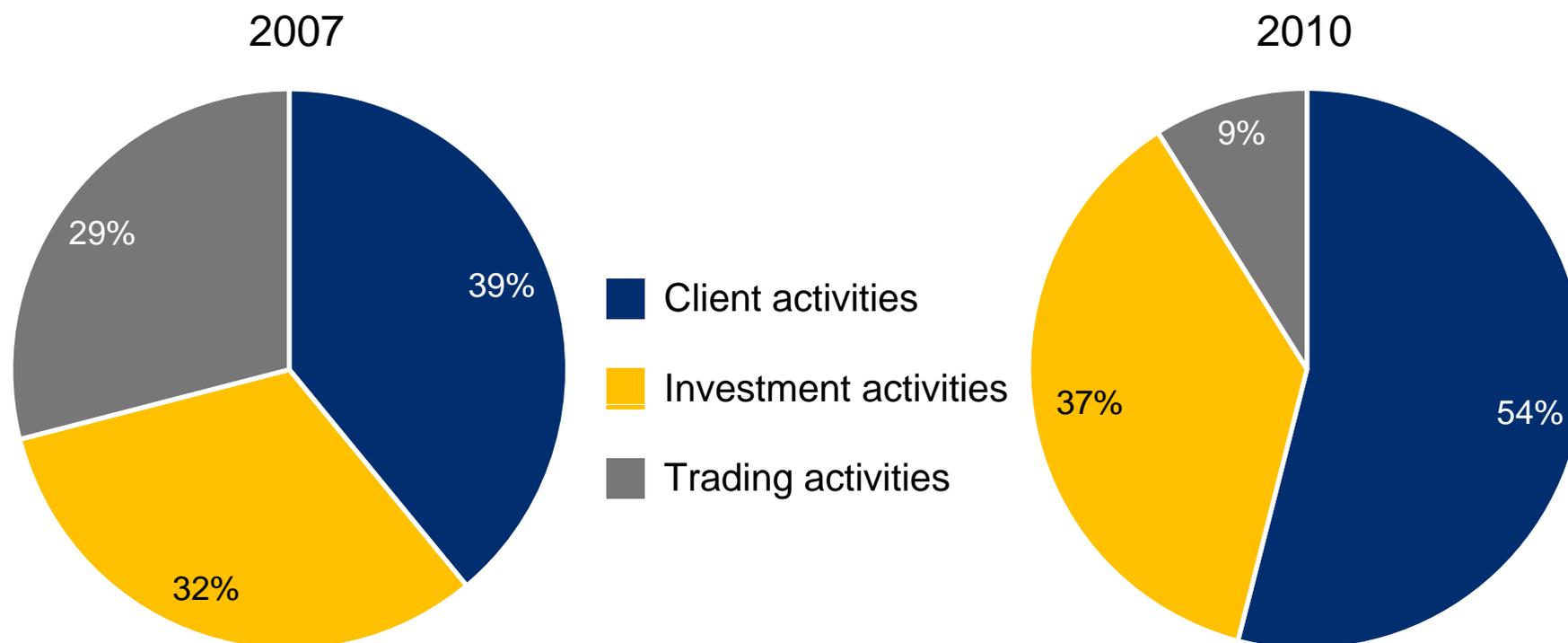
# Specific actions to optimise portfolio

- Adjust pricing
- Grow risk income from current levels



# Grow risk income but remain within refined risk appetite

## RMB revenue



Based on gross revenue

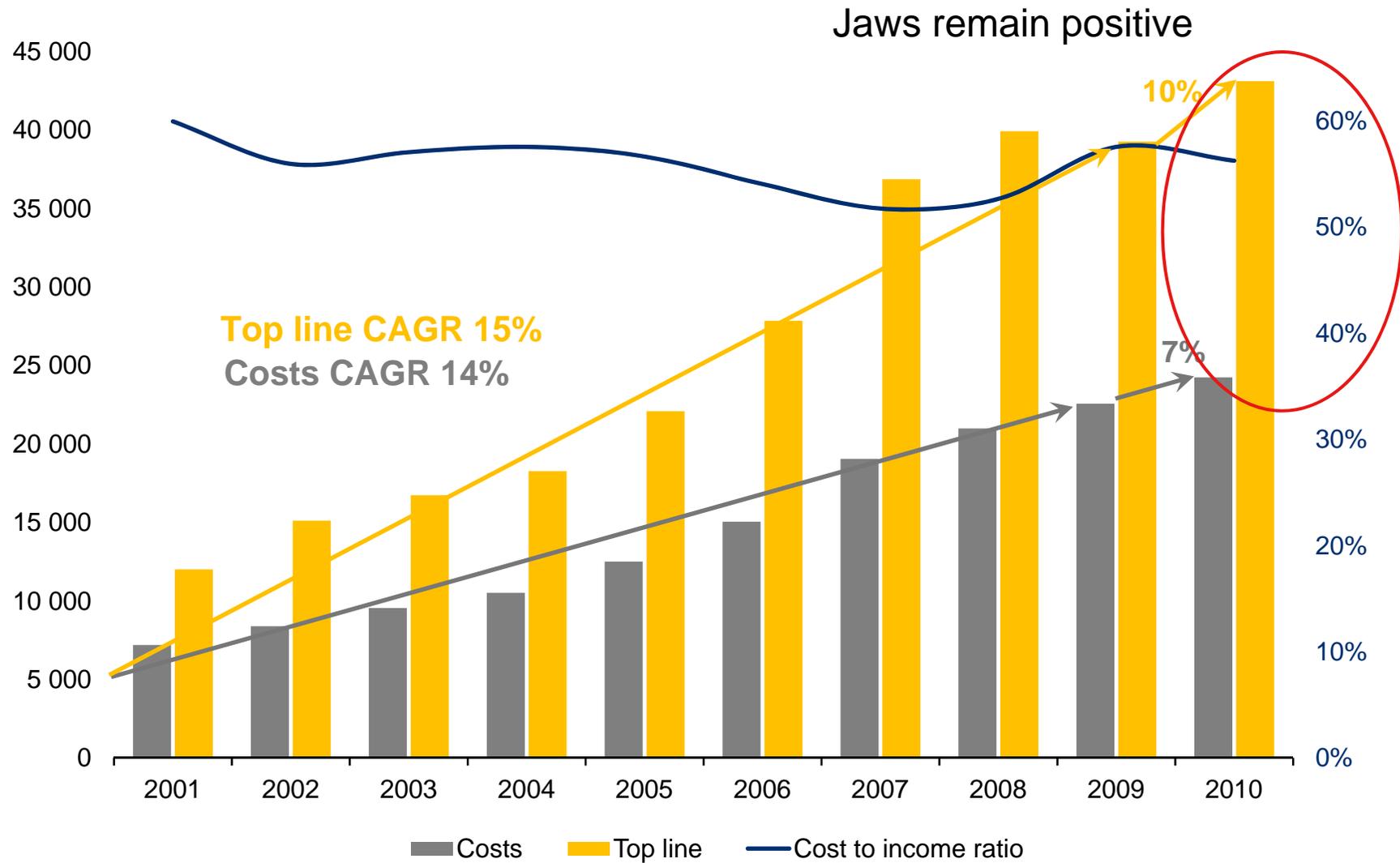


# Specific actions to optimise portfolio

- Adjust pricing
- Grow risk income from current levels
- Manage costs and improve efficiencies



# Still room for improvement in operational leverage



Note: Top line and costs are calculated on a normalised basis



# Specific actions to optimise portfolio

- Adjust pricing
- Grow risk income from current levels
- Manage costs and improve efficiencies
- Target growth in activities where currently under represented



# FirstRand under-represented in many SA retail segments

- Mass segment strategies
  - Cellphone banking
    - More than doubled customer base in FY10 (from 950k to 1.95 million)
  - FNB EasyPlan
    - 15 branches at 30 June 2010
    - Target 100 branches in 2011
- Wealth segment
  - Acquisition of BJM private clients business



# FirstRand under-represented in many SA corporate segments

- Corporate and Investment Banking
  - CIB and coverage units formed
- FICC strategy
  - Focus on client flows
- Wholesale credit focus
  - Adjusted prudential limits
  - Increased appetite for investment-grade defensive counters



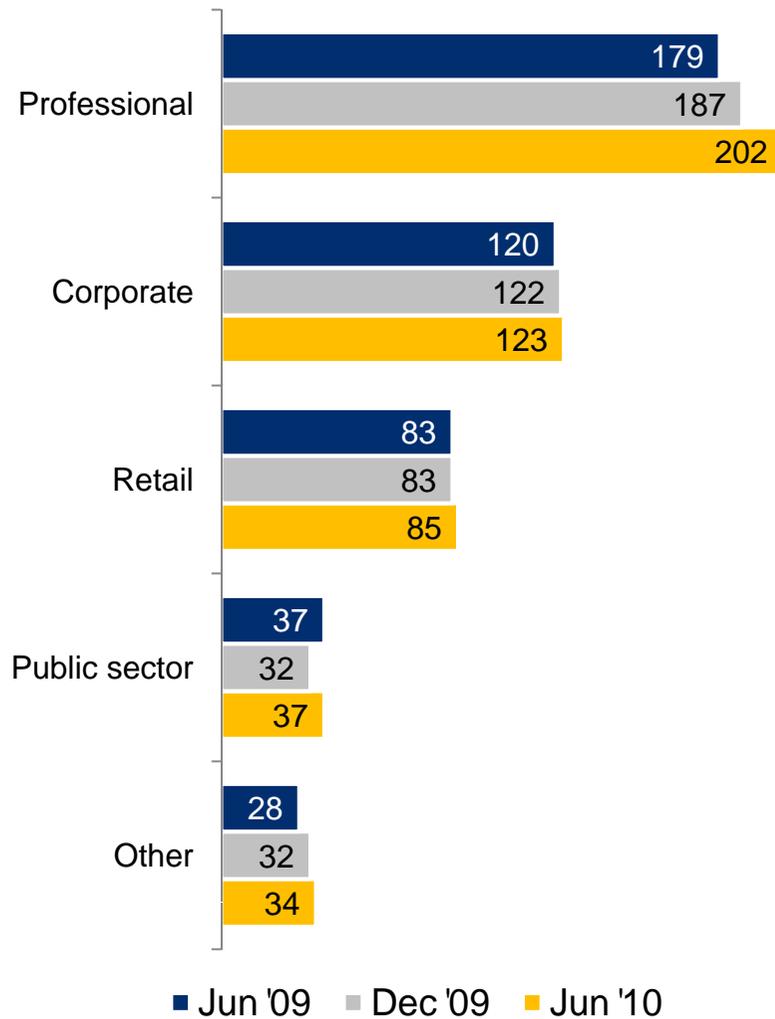
# Specific actions to optimise portfolio

- Adjust pricing
- Grow risk income from current levels
- Manage costs and improve efficiencies
- Target growth in activities where currently under represented
- Optimise funding strategy (deposit franchise and liquidity)

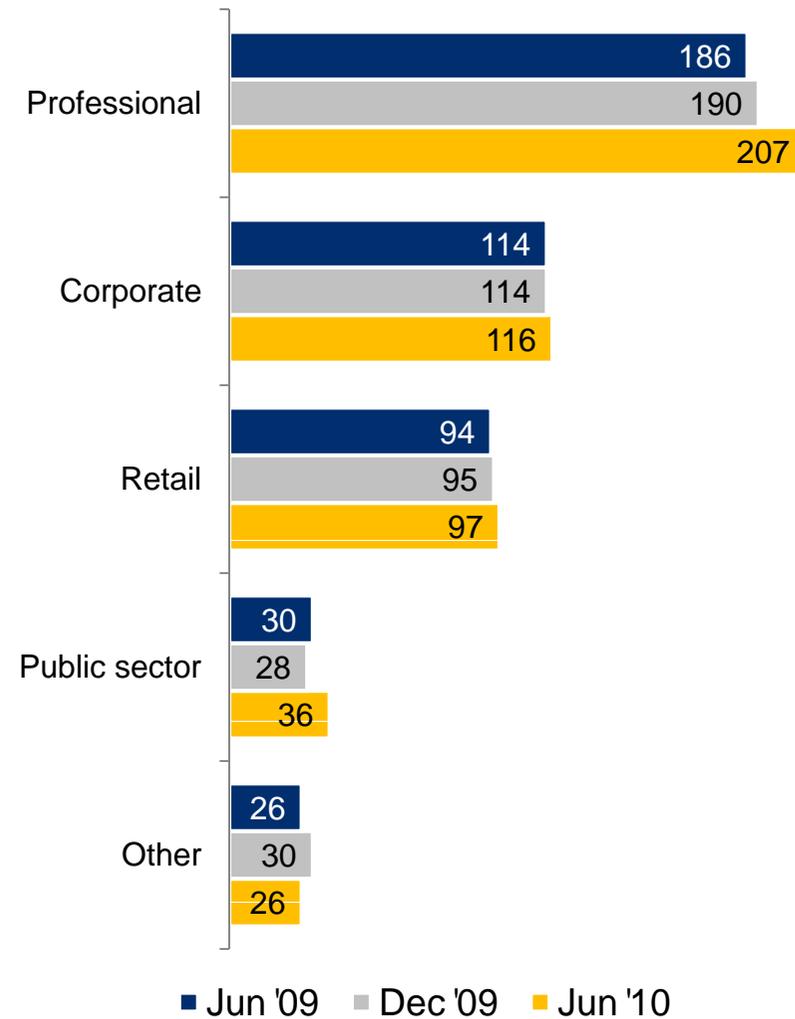


# Focus on growing deposit franchise

## FirstRand Bank



## Peer comparison

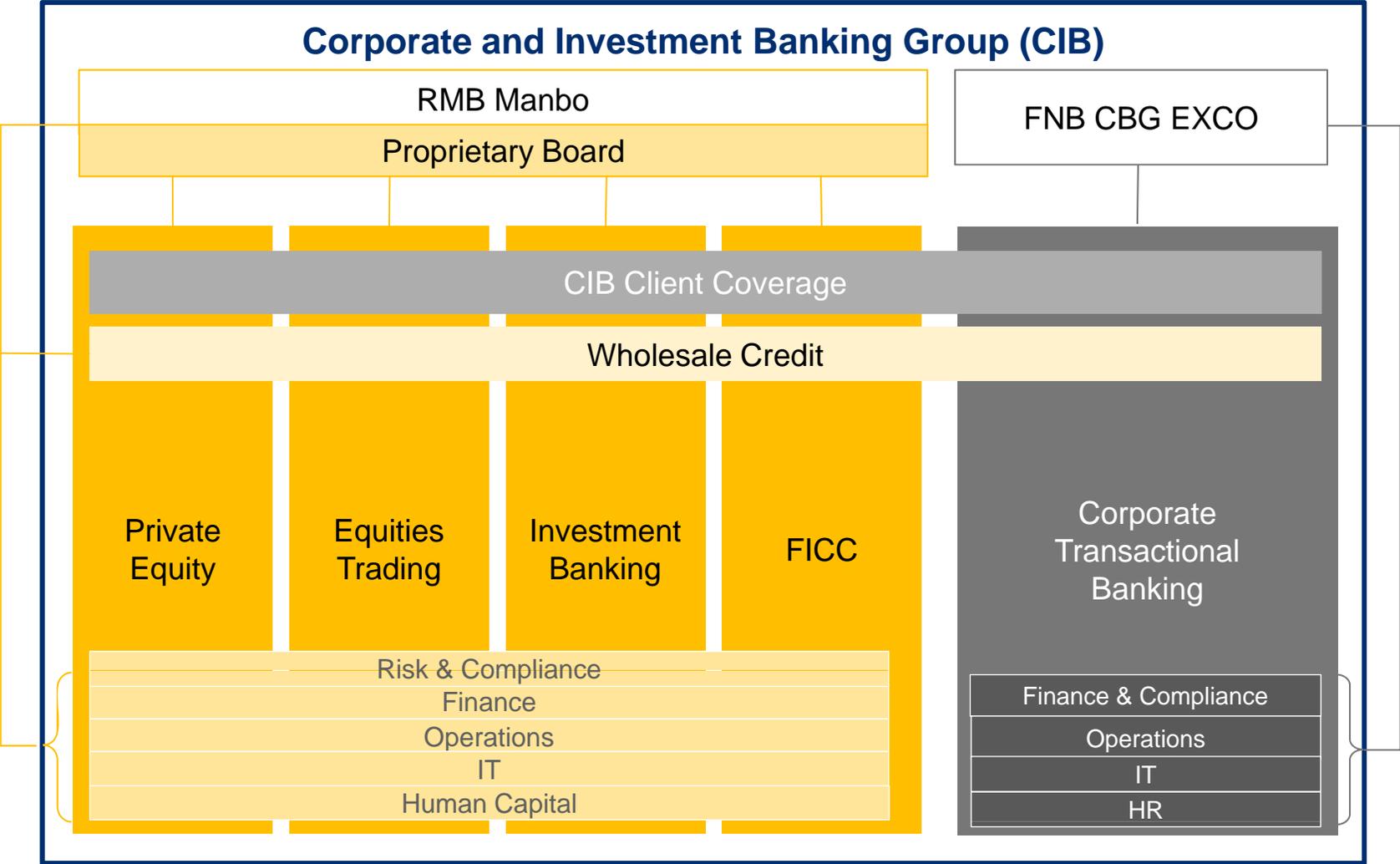


# Specific actions to optimise portfolio

- Adjust pricing
- Grow risk income from current levels
- Manage costs and improve efficiencies
- Target growth in activities where currently under represented
- Optimise funding strategy (deposit franchise and liquidity)
- Align business models (for example CIB)



# CIB will drive growth in corporate segments



# Specific actions to optimise portfolio

- Adjust pricing
- Grow risk income from current levels
- Manage costs and improve efficiencies
- Target growth in activities where currently under represented
- Optimise funding strategy (deposit franchise and liquidity)
- Align business models (for example CIB)
- Drive geographic diversification



# Geographical diversification is not impacting ROE

FirstRand portfolio	ROE	Earnings contribution
South Africa	18%	89%
FNB Africa	23%	7%
International		4%
Total	18%	100%



# “Original thinking” can provide additional uplift

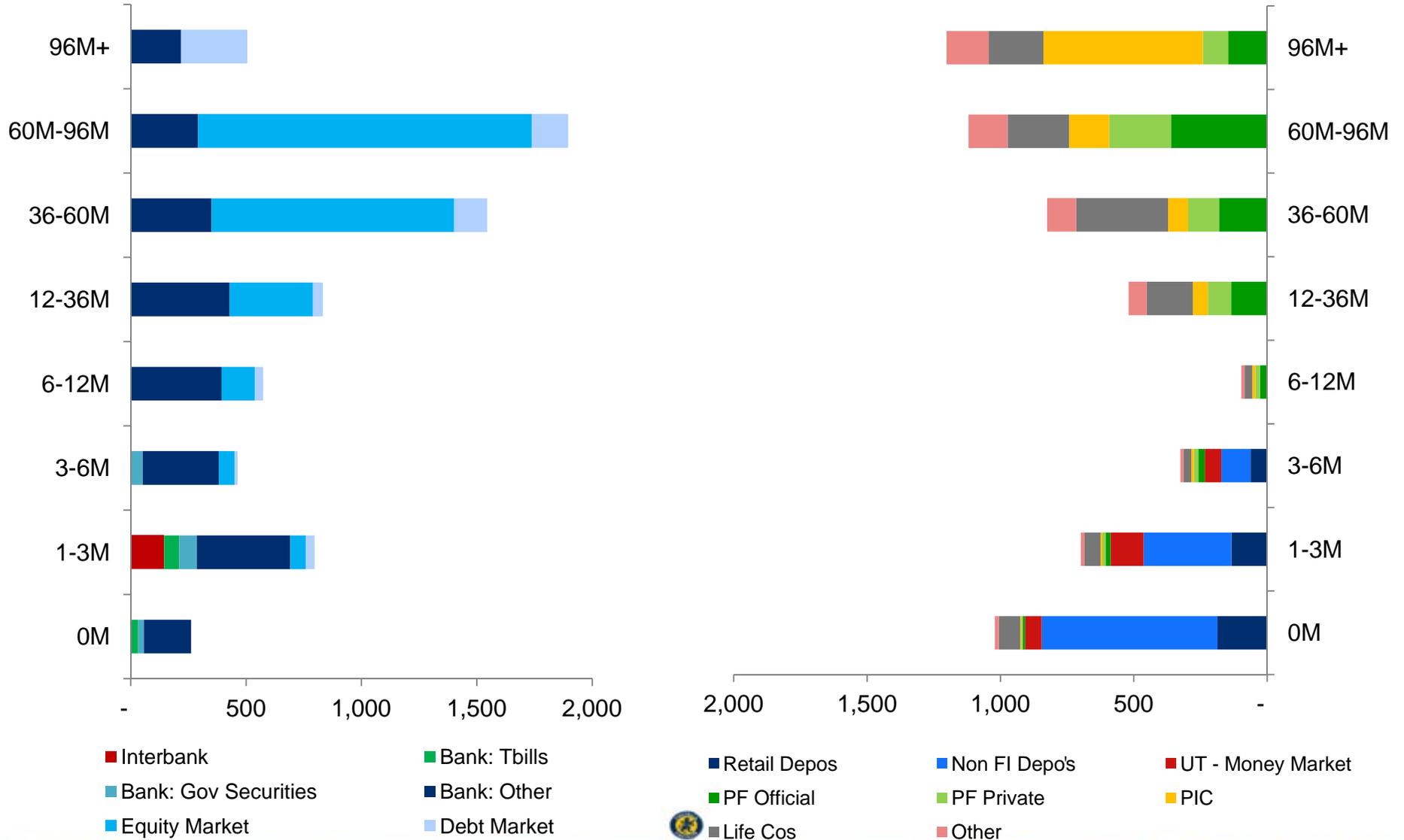
- Innovation
  - eWallet
    - Launched in October 2009
    - 222 539 Wallets at September 2010
  - PayPal
  - FNB Connect
  - ADTs
- Banks need to re-think distribution platforms
- Understand ROEs of different businesses/products



# SA Inc – no material mismatch

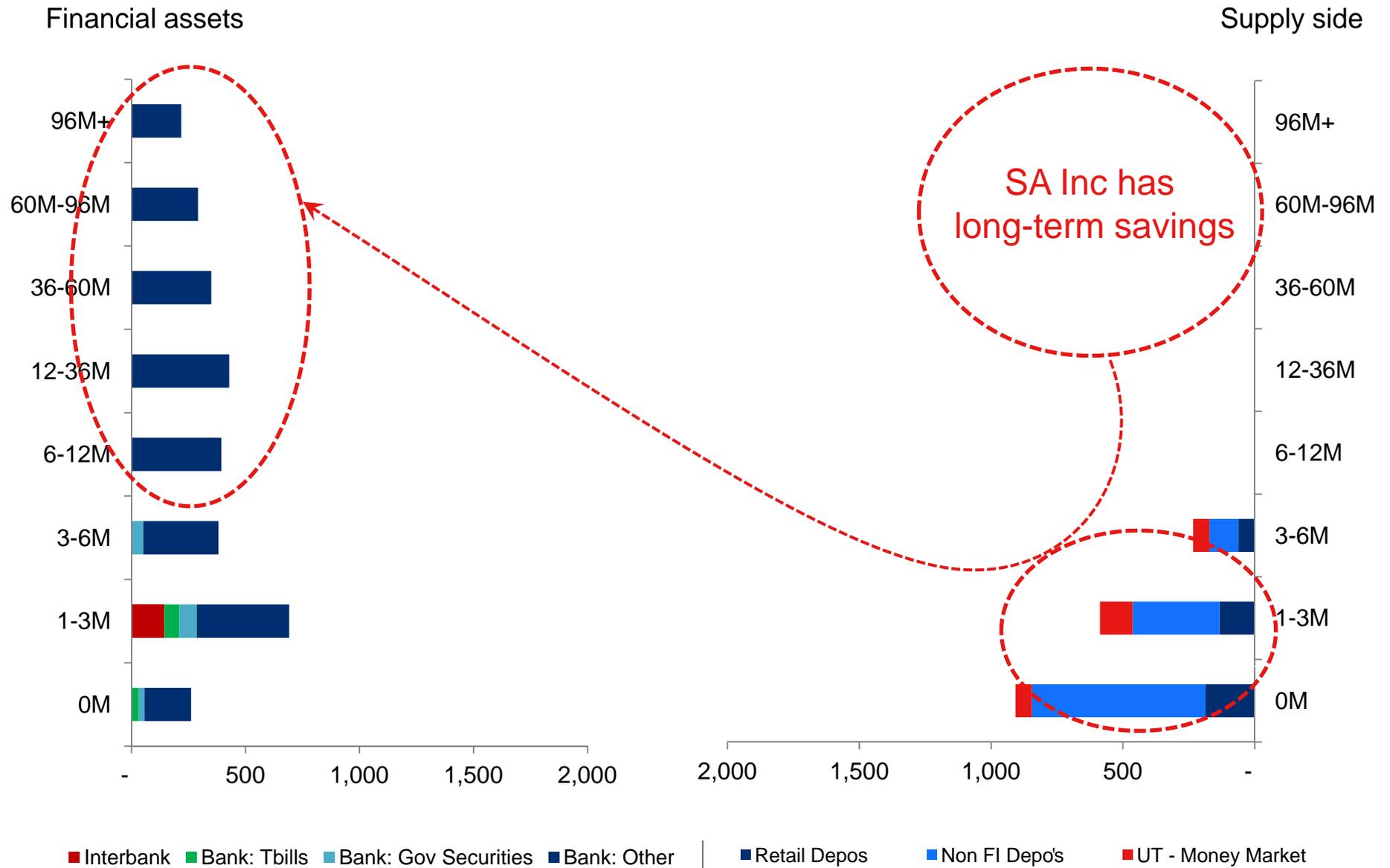
Financial assets

Supply side

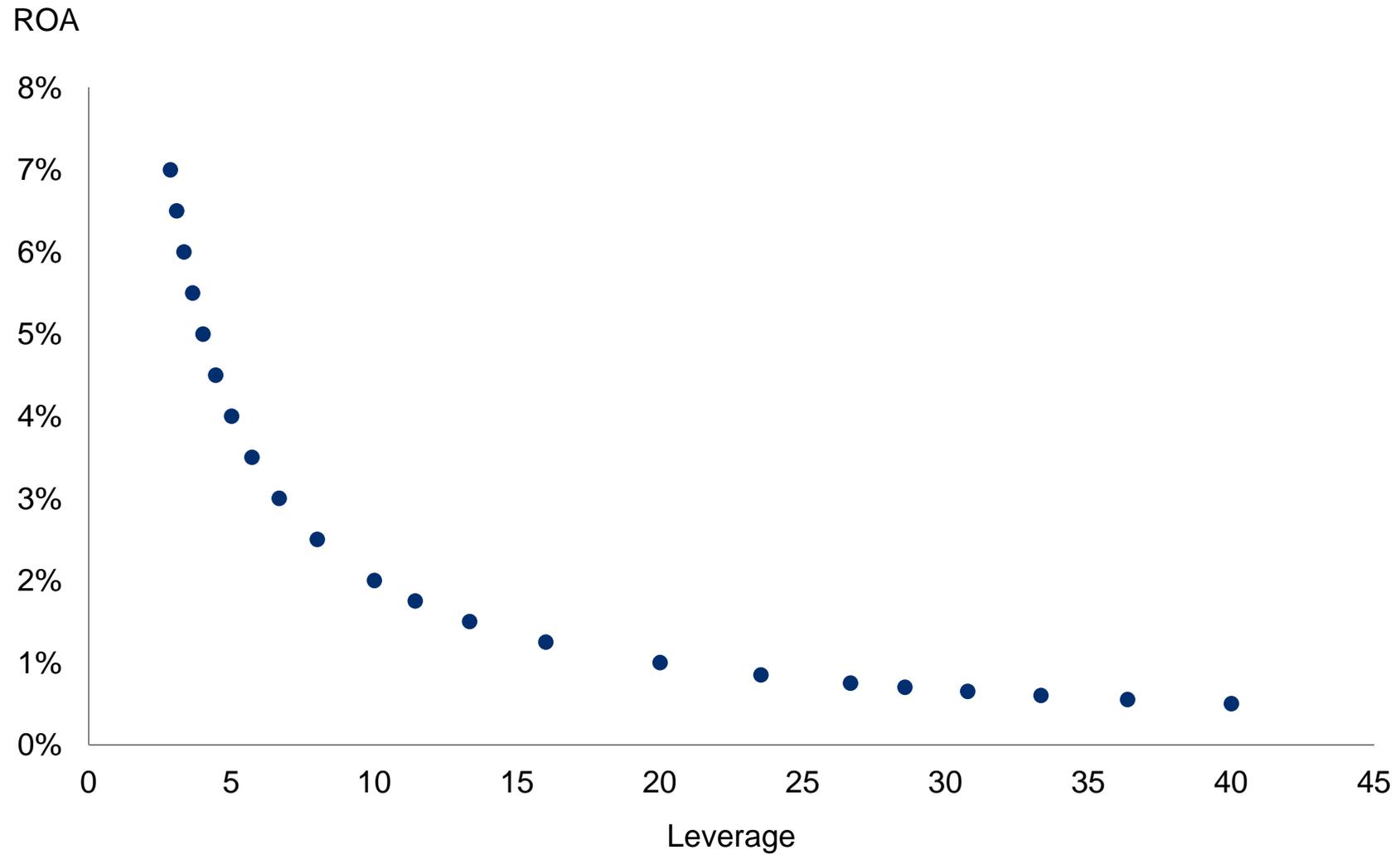


- Interbank
- Bank: Tbills
- Retail Depos
- Non FI Depo's
- UT - Money Market
- Bank: Gov Securities
- Bank: Other
- PF Official
- PF Private
- PIC
- Equity Market
- Debt Market
- Life Cos
- Other

# Banks need to re-think distribution platforms



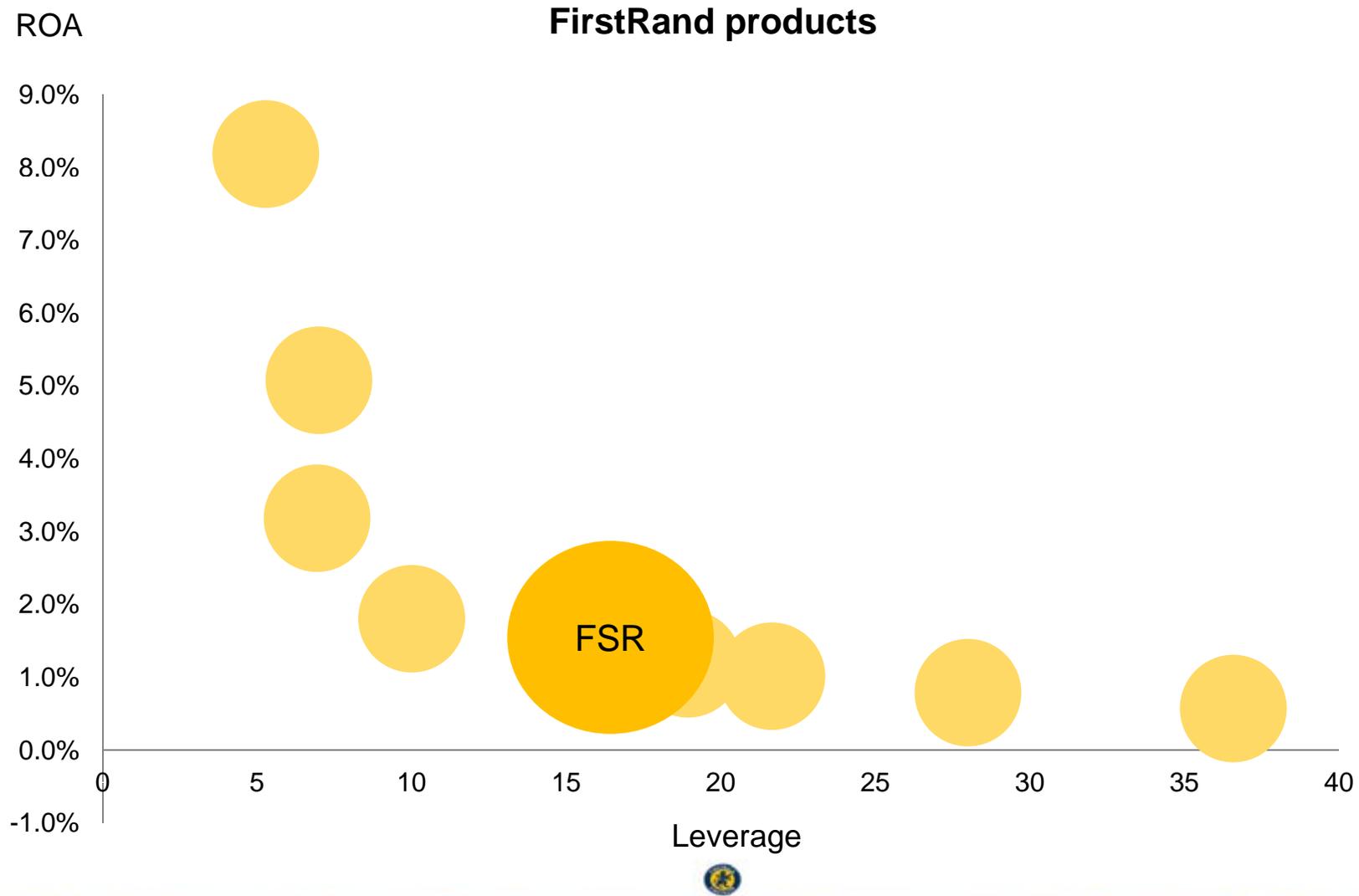
# What is the appropriate portfolio combination?



Note: The chart is for illustrative purposes only



# FirstRand's portfolio – the current ROA and leverage ratio



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# Conclusion

- SA banks' ROE: an ROA story, not a leverage story
- FirstRand already appropriately capitalised for Basel III
- Management taking appropriate actions
- 18-22% a sustainable ROE range

Retain balance between ROE and earnings growth

