

# 2010

Debt investor presentation



FIRSTRAND

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London, 26 March 2010

## Overview of the key macro trends impacting FirstRand



**FIRSTRAND**

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Jaco van der Walt

# Executive summary

- Global
  - Global recovery is underway
  - Severe imbalances remain
- Macros for international strategy
  - Sub-Saharan Africa to outperform global growth
  - Healthy fiscal positions of Sub-Saharan African countries
  - Sub-Saharan Africa benefits from increased trade with, and investment from, Asia
- South Africa
  - GDP recovering
  - Inflation to return to the target
  - Policy stimulus to be removed gradually
  - Nominal GDP to grow below average
  - Household sector recovering but risks remain
  - Corporate sector tentatively optimistic
  - Property prices have stabilised
  - Advances growth to lag economic activity

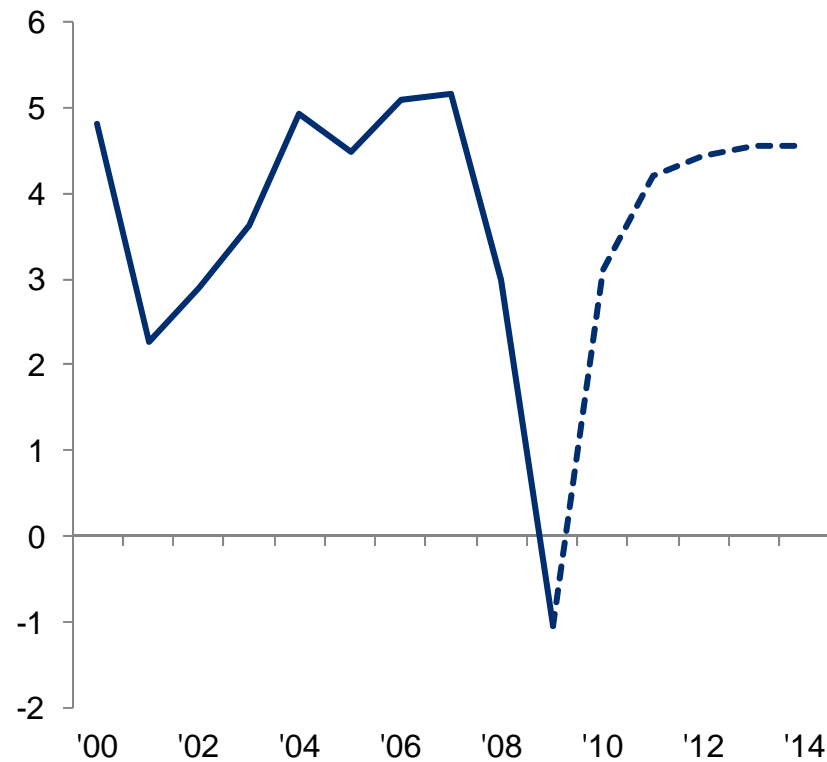


# Global outlook



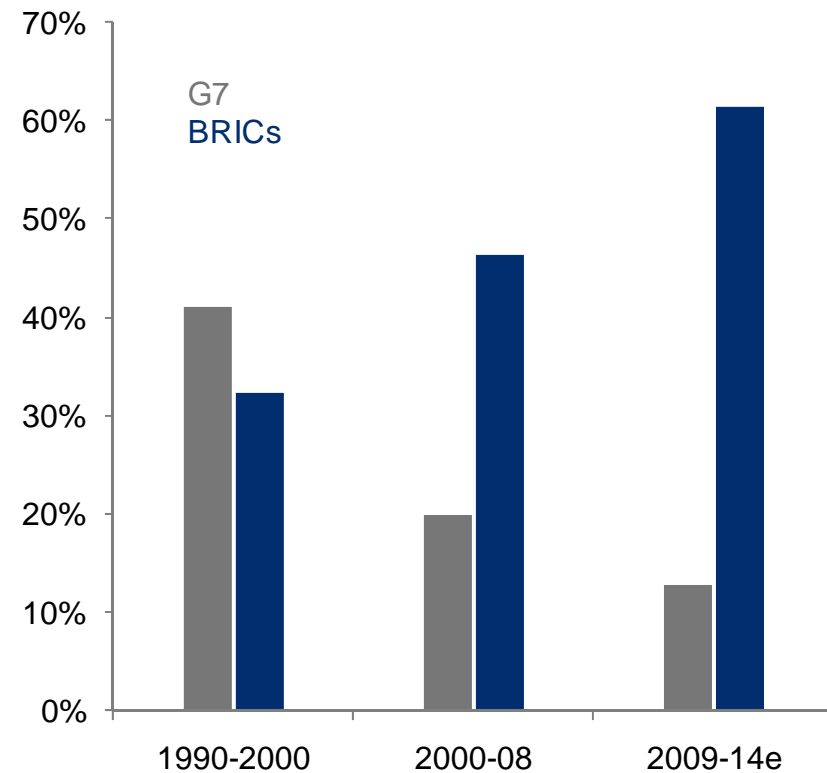
# Global recovery – driven by EMs

Global GDP Growth  
y/y%



Sources: IMF (historical data), FirstRand (forecast)

Contribution to Global GDP Growth



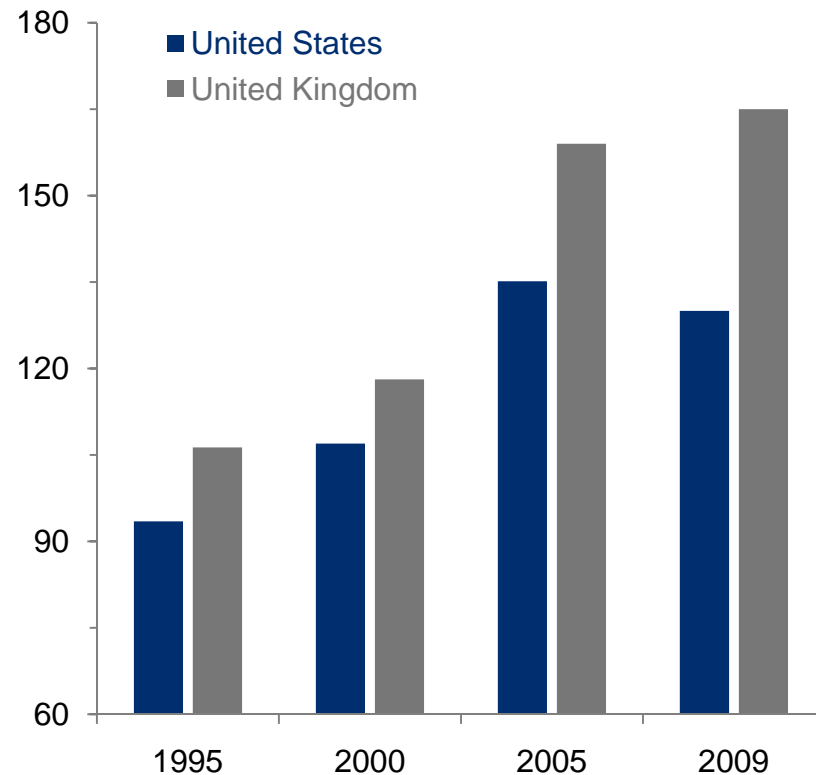
Source: IMF



# Imbalances remain

## Household debt still high

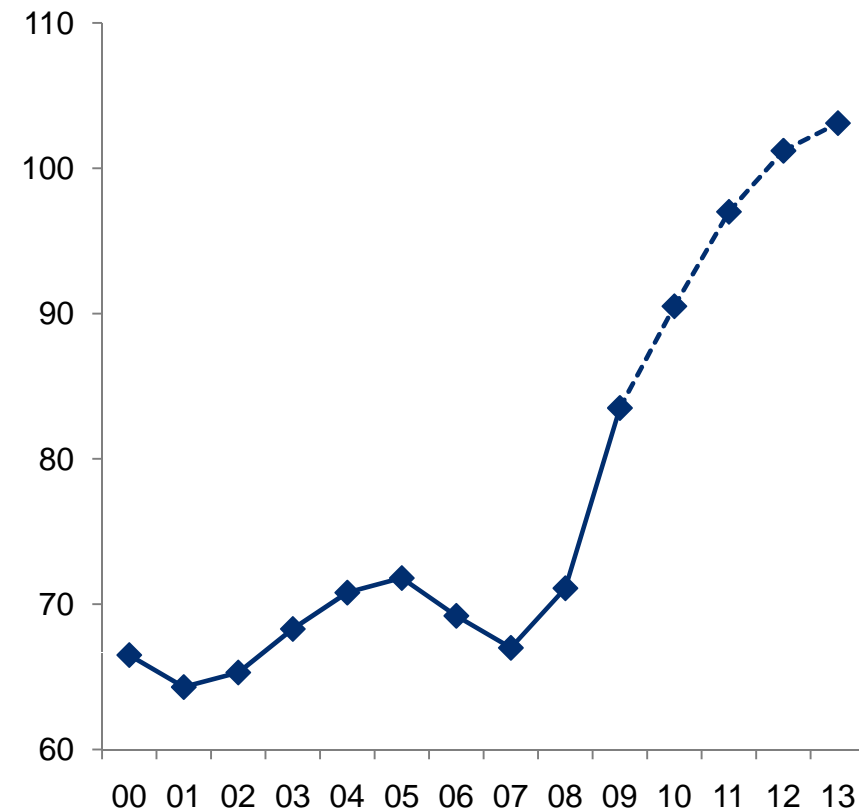
% disposable  
income



Source: OECD

## G7 public debt increasing

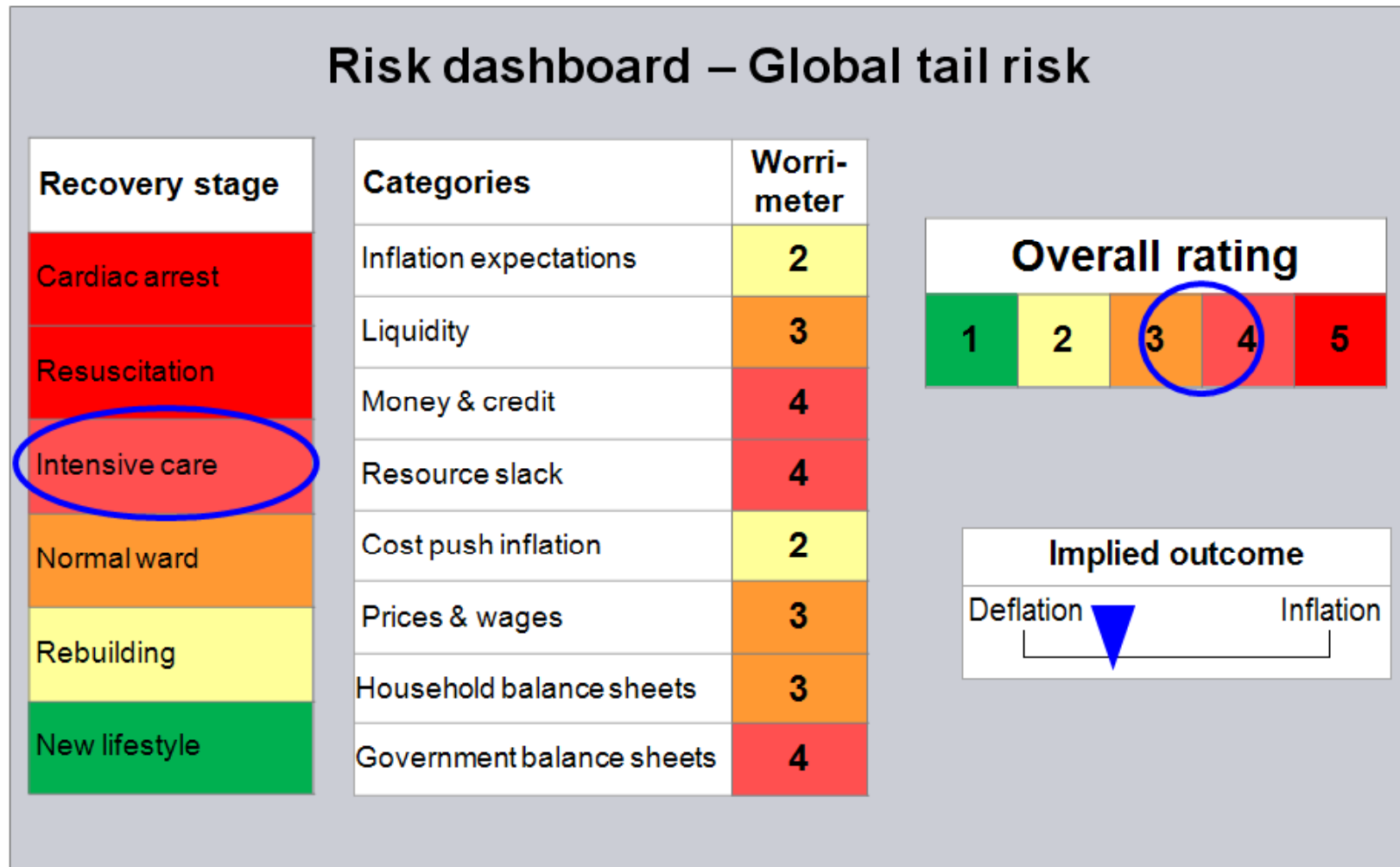
% GDP



Source: EIU



# Risk monitor shows concern for tail risk



# Macros for international strategy



# Targeting growth opportunities

High growth*	China	8.2
	India	6.6
	Brazil	4.6
	Russia	4.5

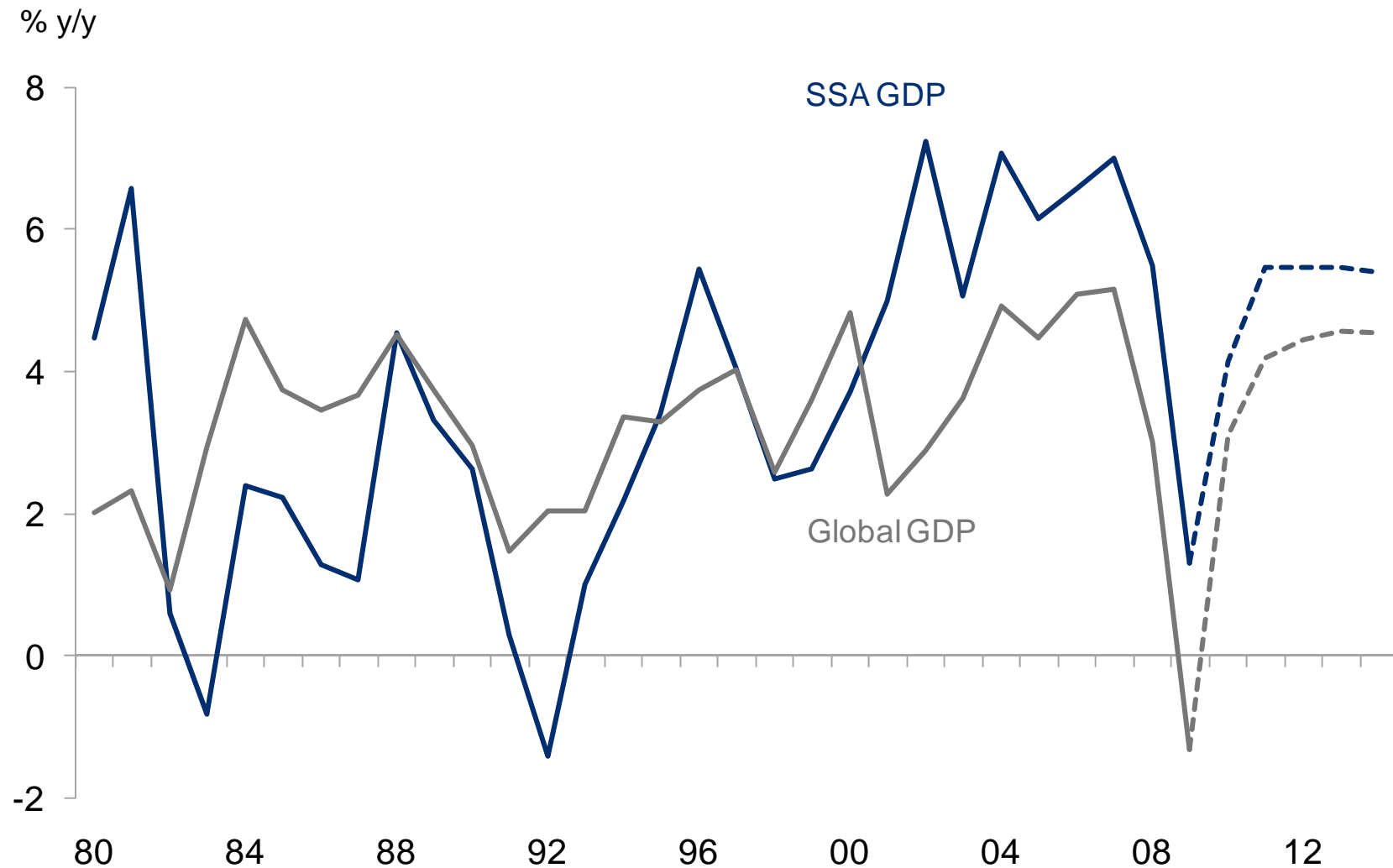
Medium growth	Nigeria	5.8
	Egypt	5.3
	Indonesia	5.2
	Turkey	5.1
	Poland	4.5
	South Africa	4.1

Low growth	Australia	2.3
	US	2.2
	UK	2.1
	Germany	1.5
	Japan	1.1

Note: Figures represent GDP growth forecasts for 2010-2019  
 Source: Goldman Sachs



# Sub-Saharan Africa to outperform global growth



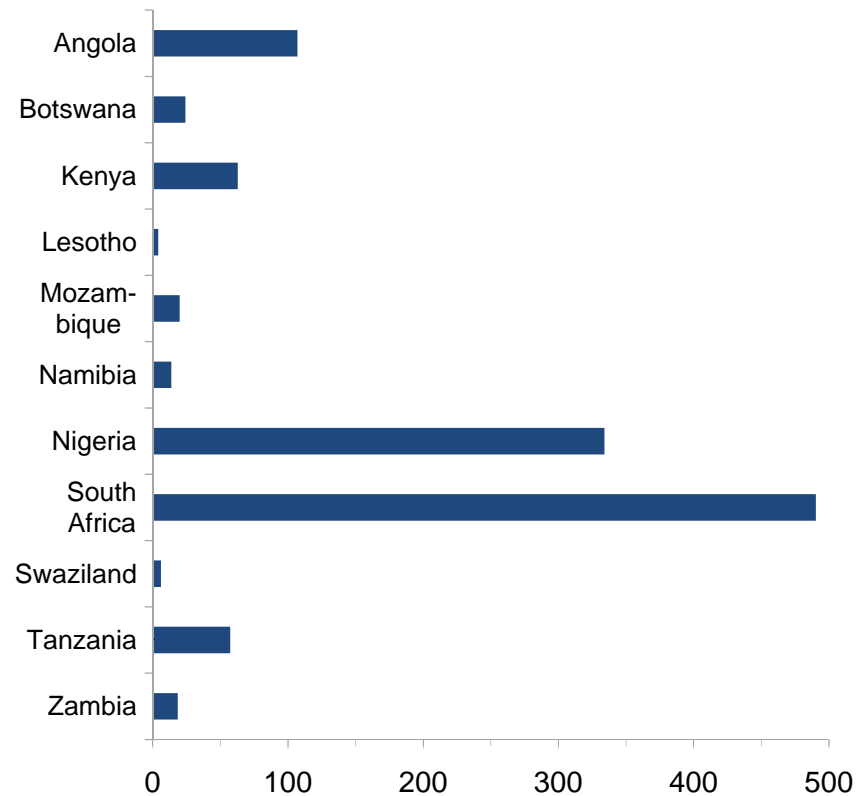
Source: IMF



# Sub Saharan Africa in context

## GDP

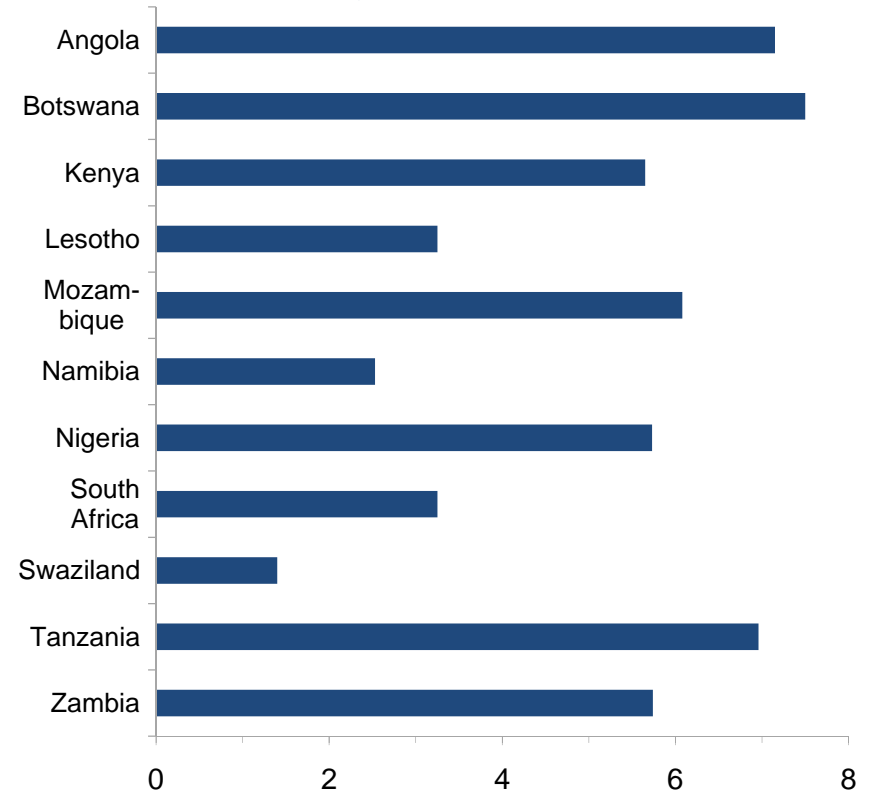
GDP (2009 PPP USD billions)



Source: IMF

## Growth rates

Average 5 year forecast



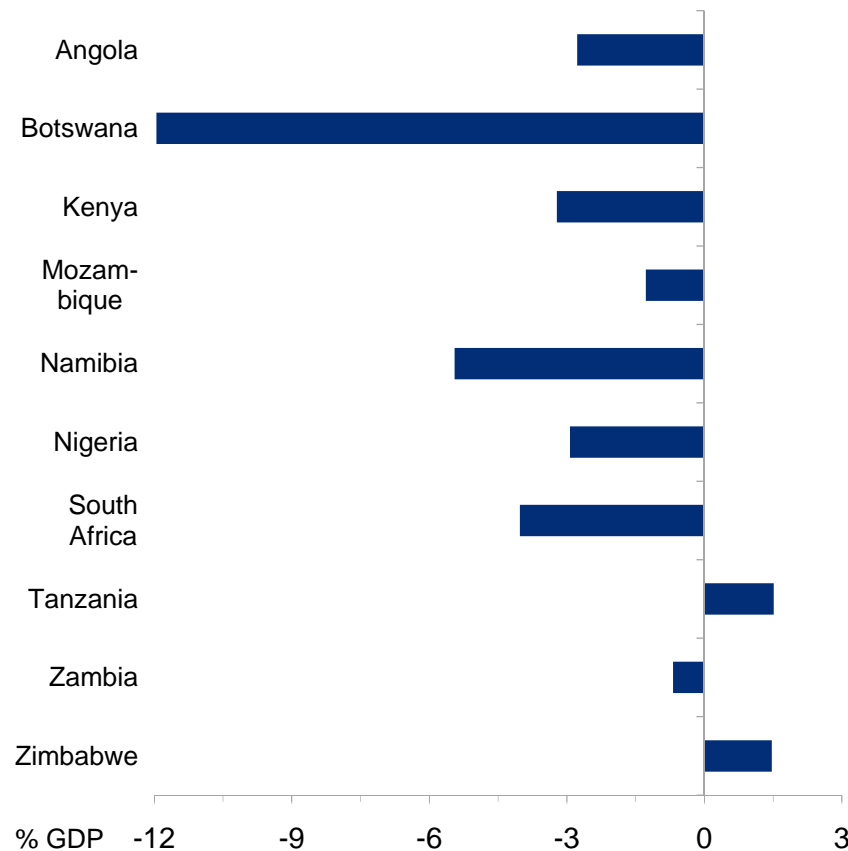
Source: IMF



# SSA cyclical growth drivers

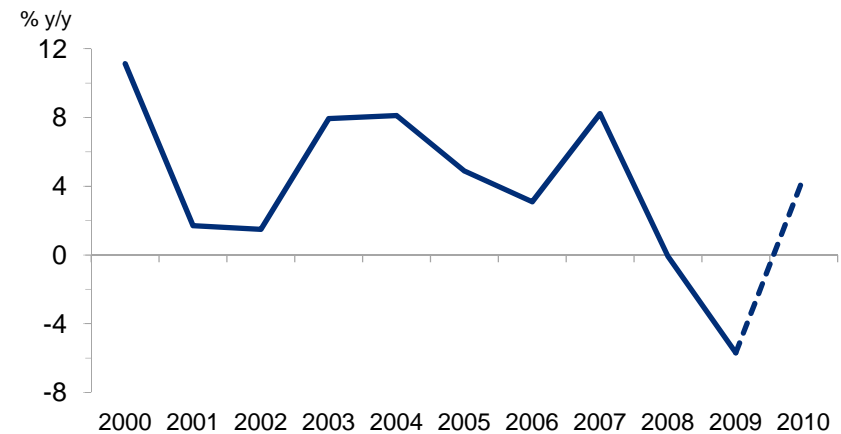
## Fiscal stimulus swing

Change in fiscal deficit/surplus  
(2008-11 ave - 2004-07 ave)



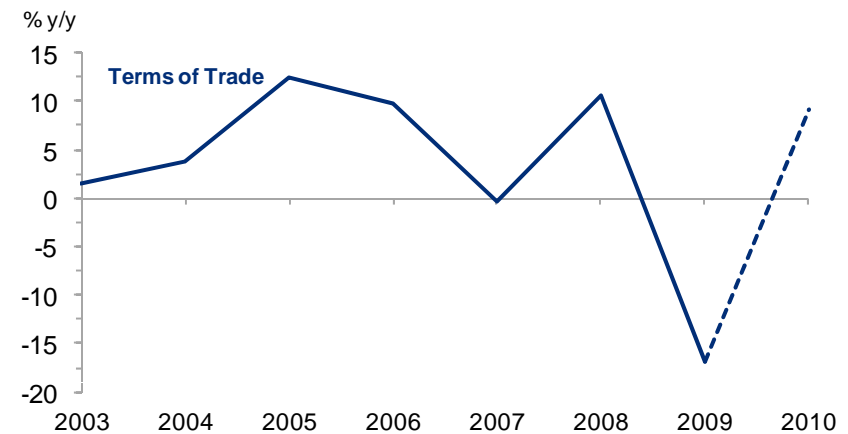
Sources: RMB FICC Research and EIU

## Export volumes



Source: IMF

## Terms of trade



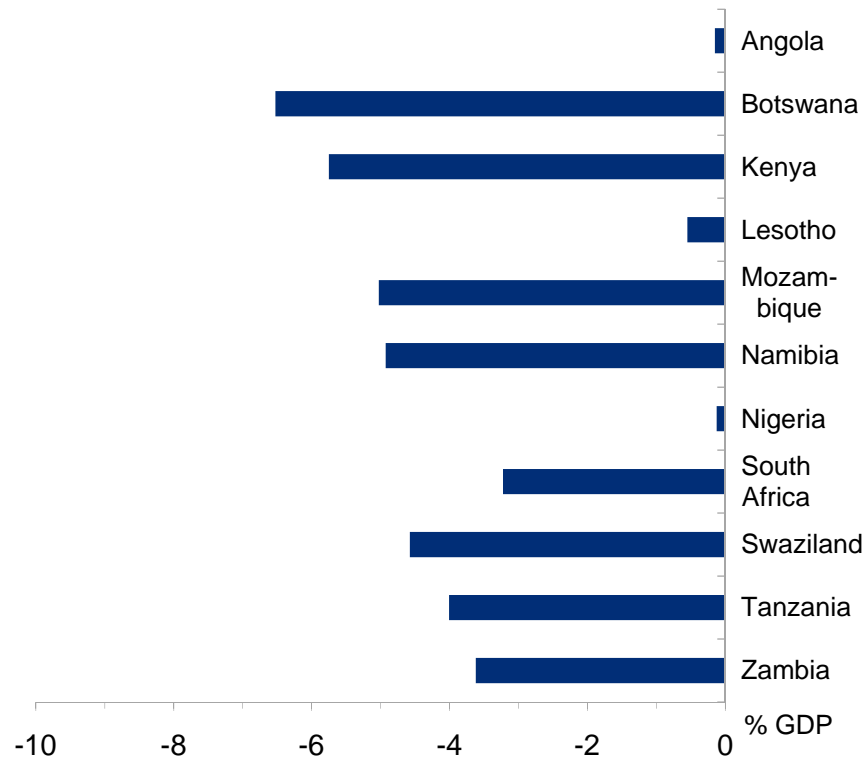
Source: IMF



# SSA fiscal balances remain healthy

## Fiscal deficits

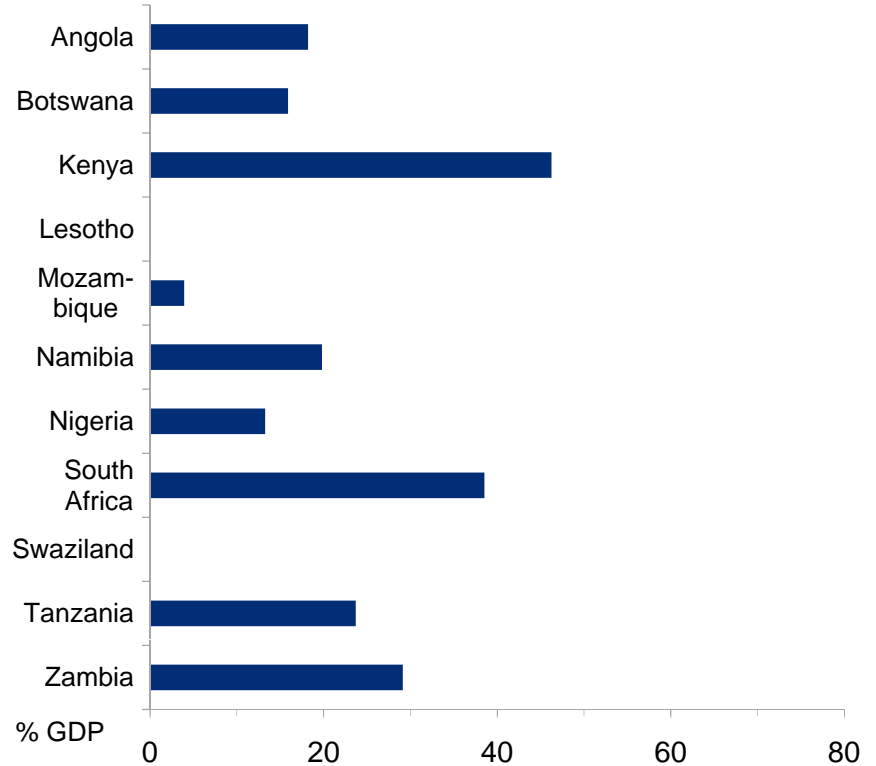
2008-2011 Average



Source: RMB FiCC Research and EIU

## Public debt

2008-2011 Average

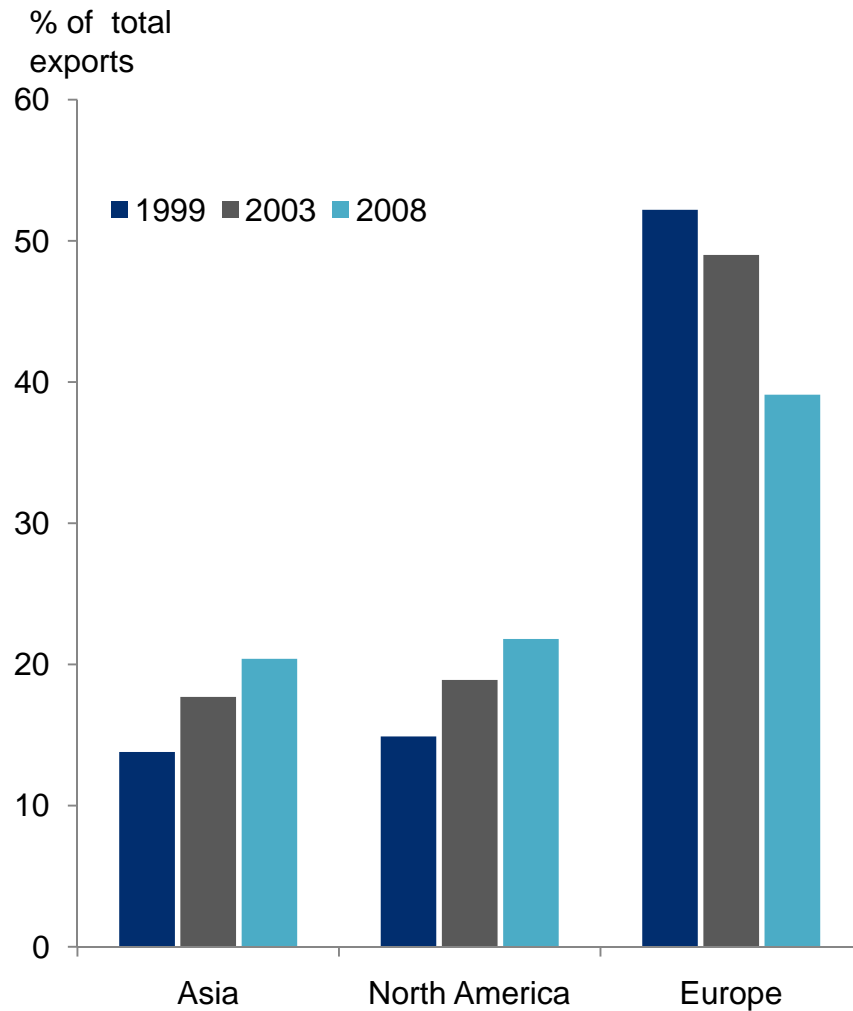


Source: EIU



# Exploiting trade and investment linkages

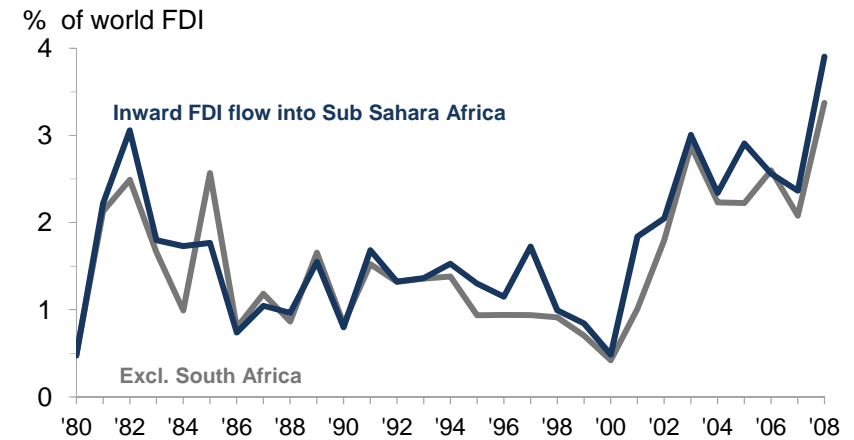
## Export destinations



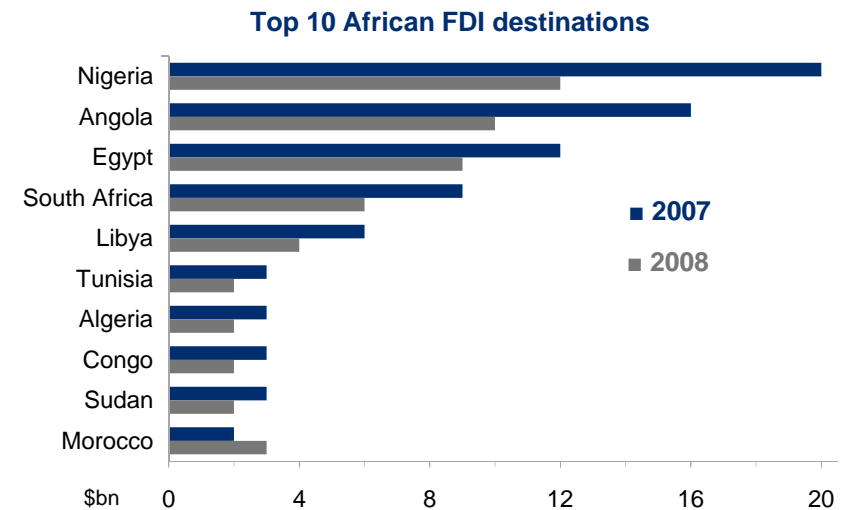
Source: WTO



## Foreign direct investment



Source: UNCTAD



Source: World Investment Report 2009

# South African economic outlook



# Impact of the global financial crisis on SA

- No direct impact on the banking sector
- Impact on real economy via the usual channels
- Impact on the banking sector via the real economy
- No government support required for banking sector
- Orthodox policy stimulus to counter recession
- SA GDP to return towards trend growth

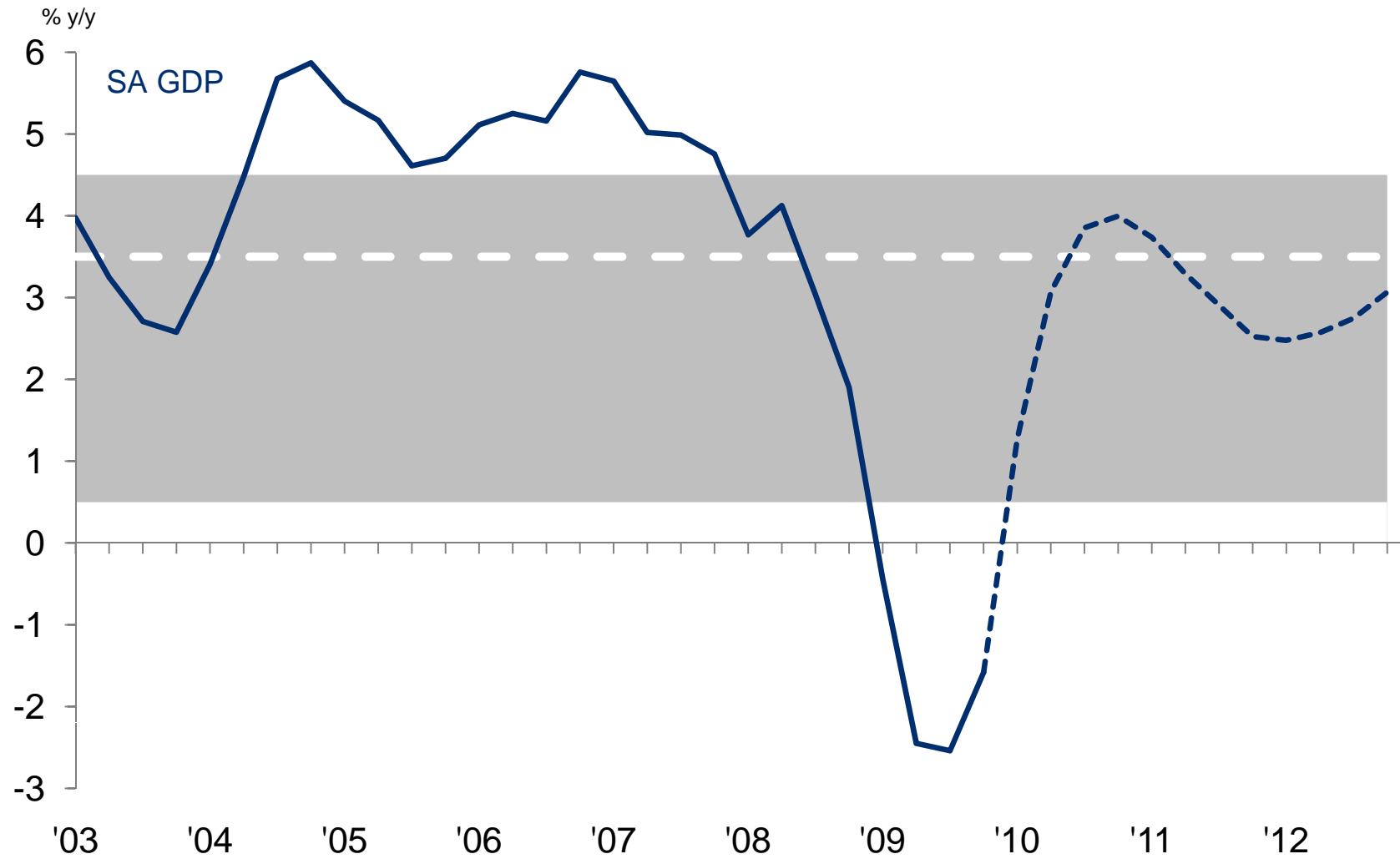


# SA imbalances improving

<i>Series</i>	<i>Metric</i>	Before the crisis (2004-07 Ave)	Latest
Credit extension	%y/y	19%	-1.0%
House price growth	%y/y	21%	6.0%
Current account deficit	% GDP	-4.8%	-2.8%
Government budget	% GDP	0.4%	-7.2%



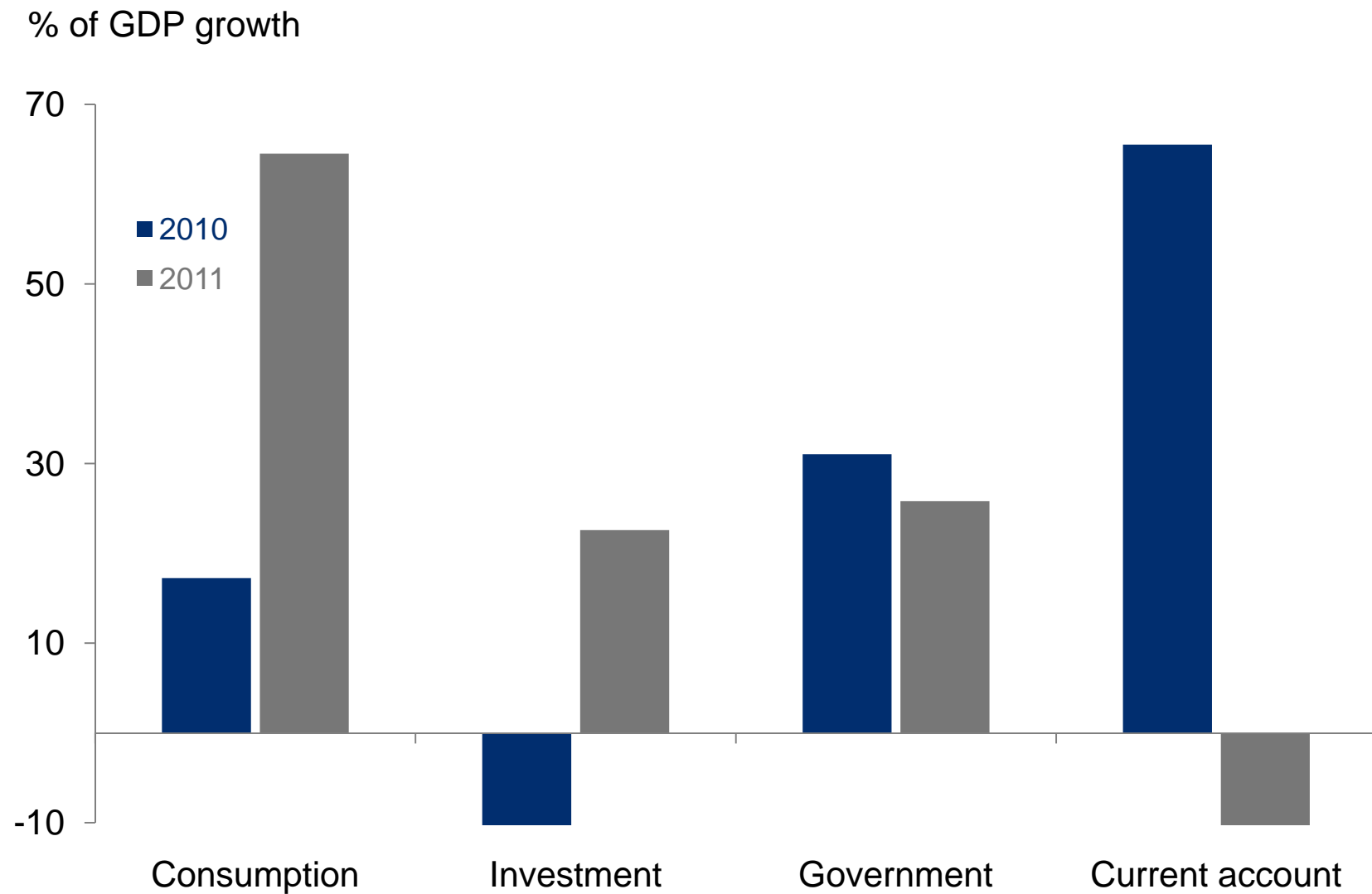
# SA returning to the growth highway



Source: SARB, FirstRand



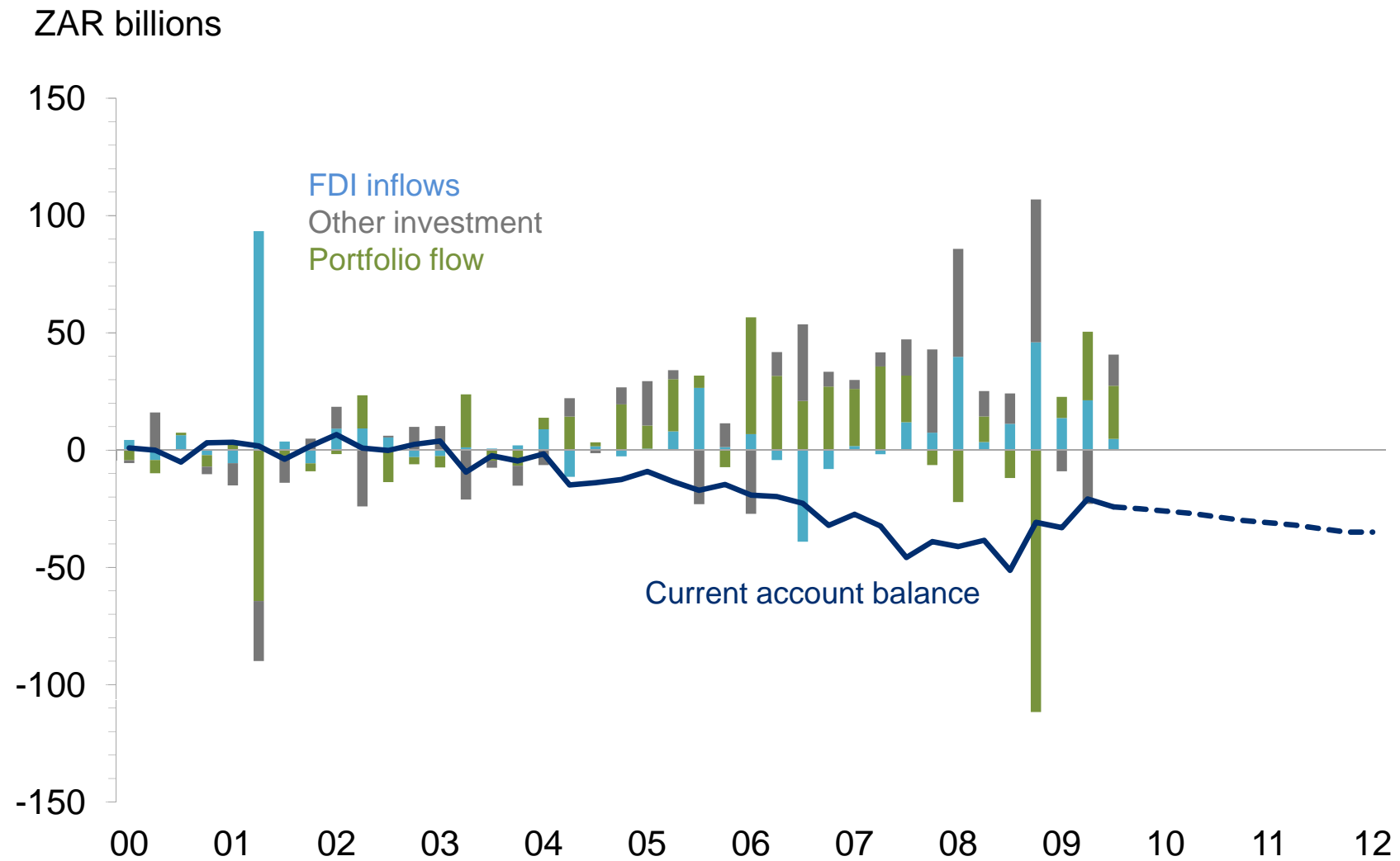
# SA domestic demand reviving 2011



Source: SARB



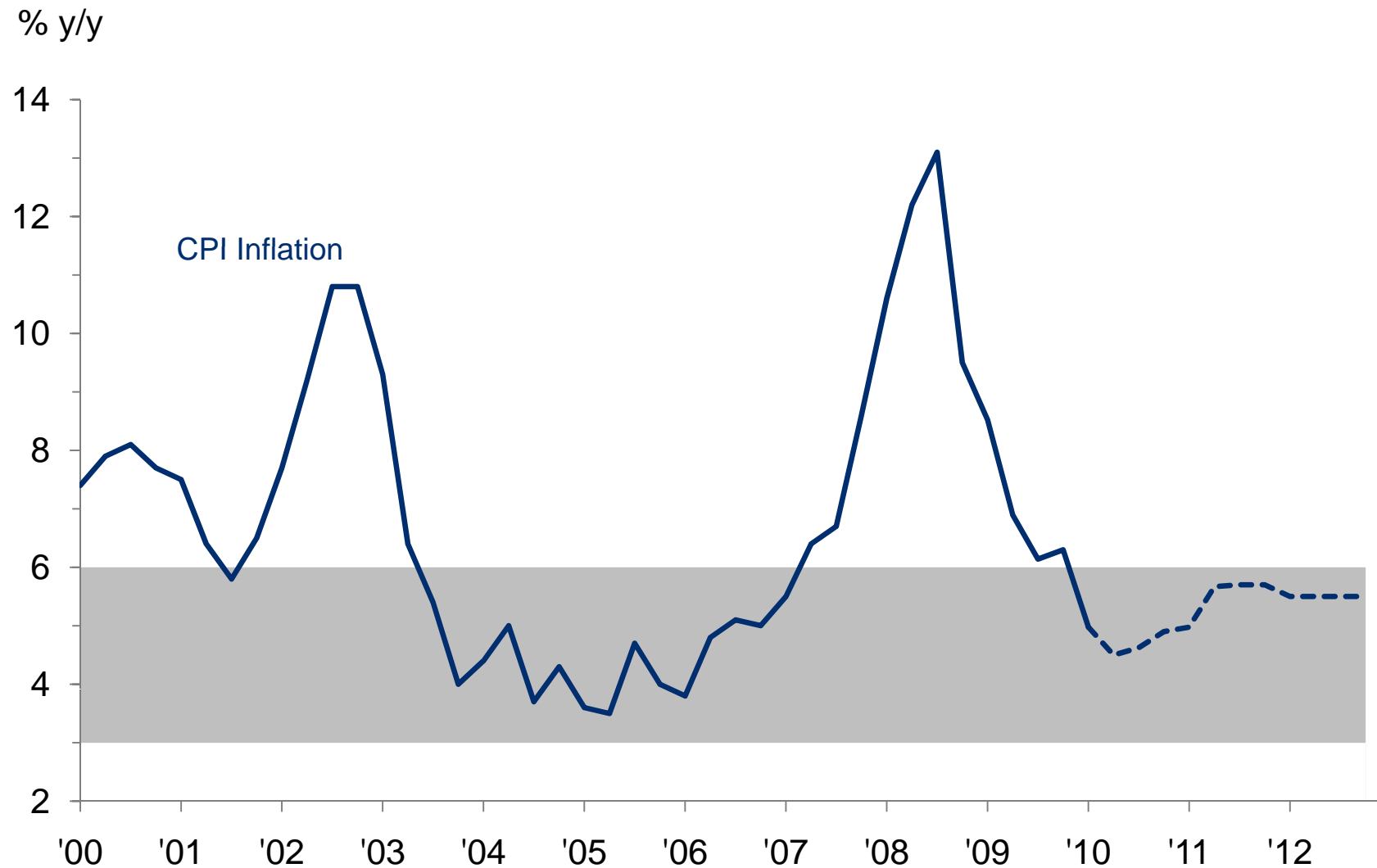
# Current account at better levels



Sources: SARB, FirstRand



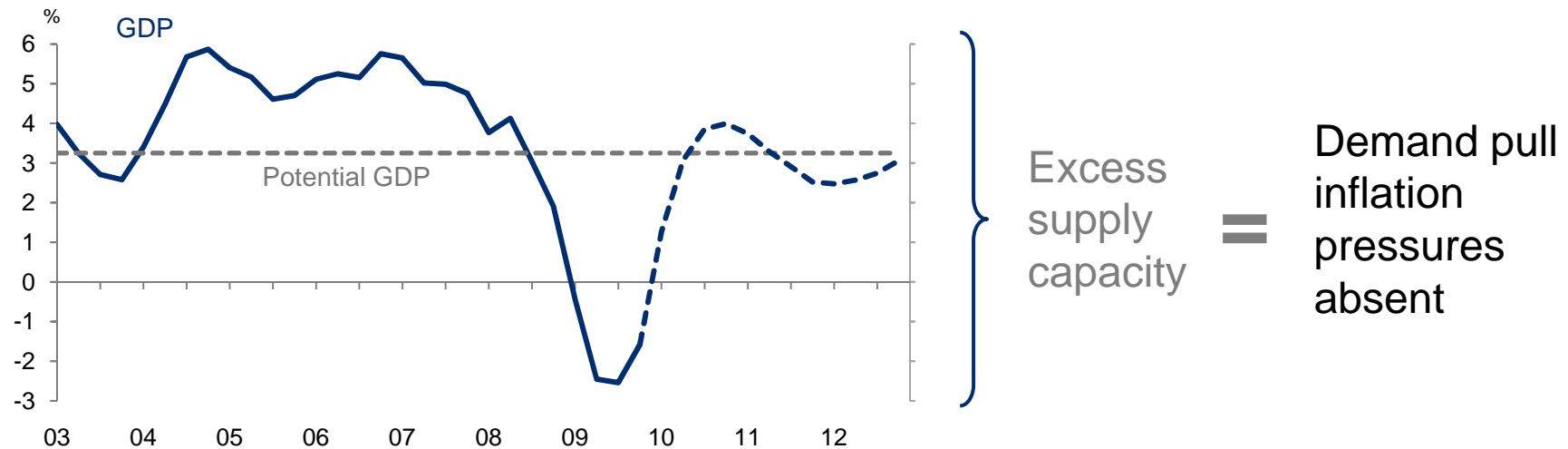
# SA inflation returning to the target



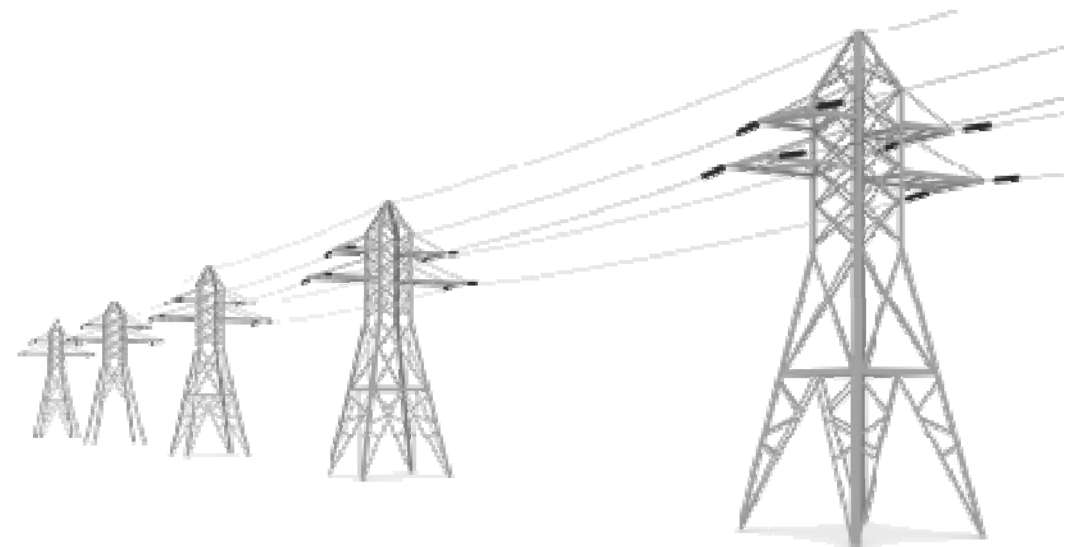
Sources: SARB, FirstRand



# The MPC's inflation dilemma

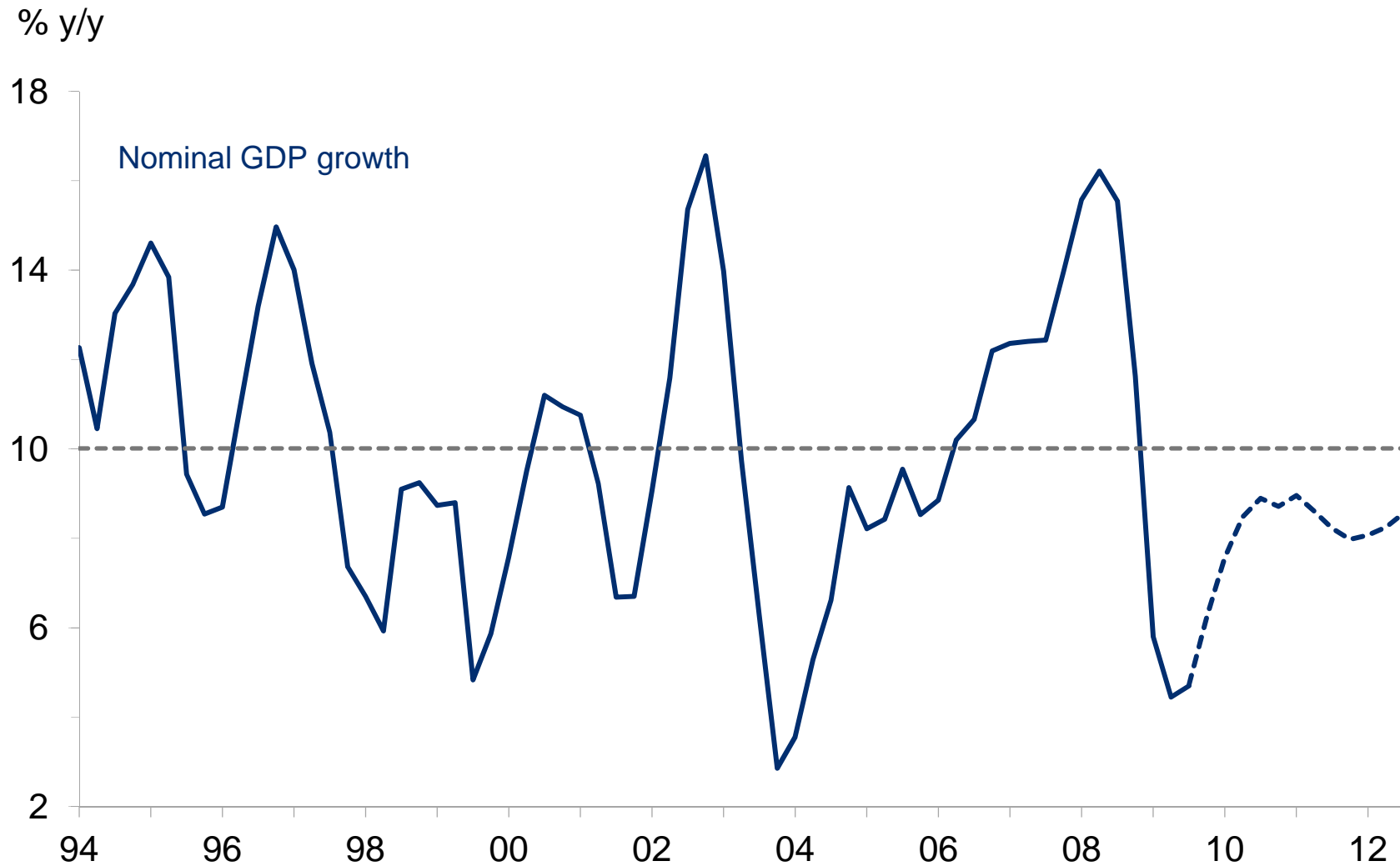


- But cost-push pressures:
  - Eskom
  - Wage pressures
  - Food prices by year-end





# SA nominal GDP growth below average



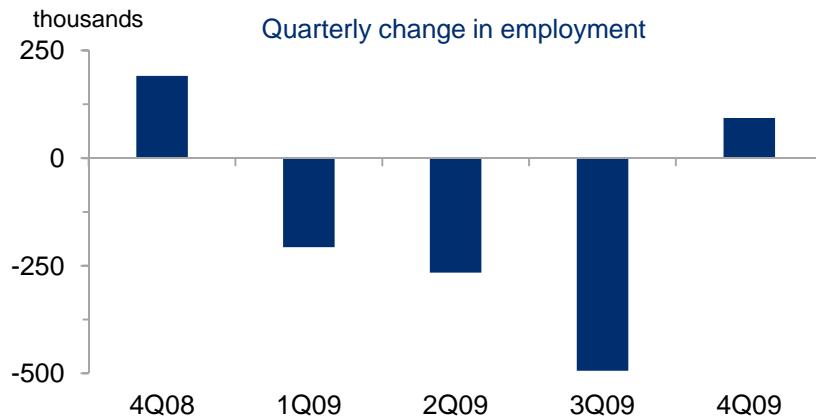
Sources: SARB, FirstRand

Note: Nominal GDP growth  $\approx$  GDP growth + CPI inflation



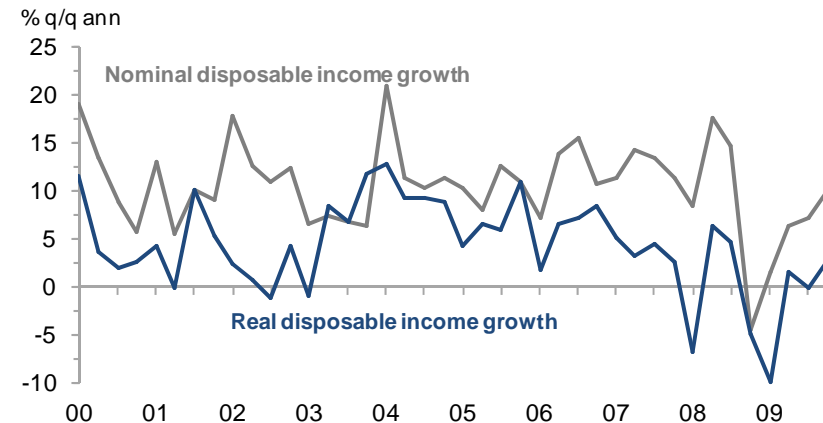
# SA household income recovering slowly

## Employment stabilising



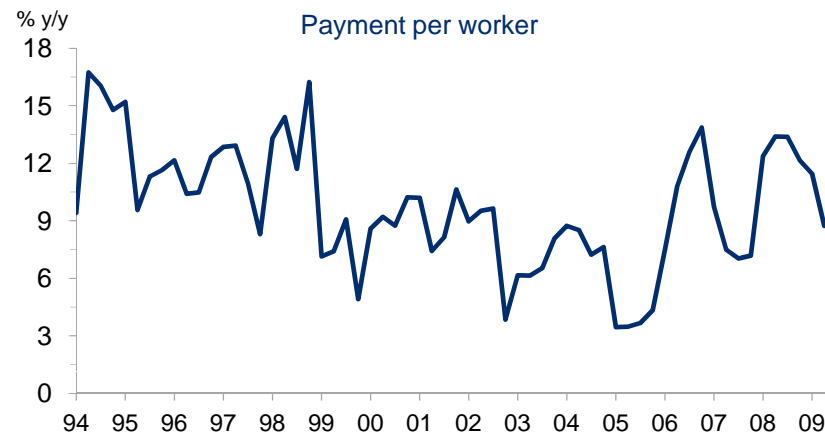
Source: Stats SA

## Disposable income recovering



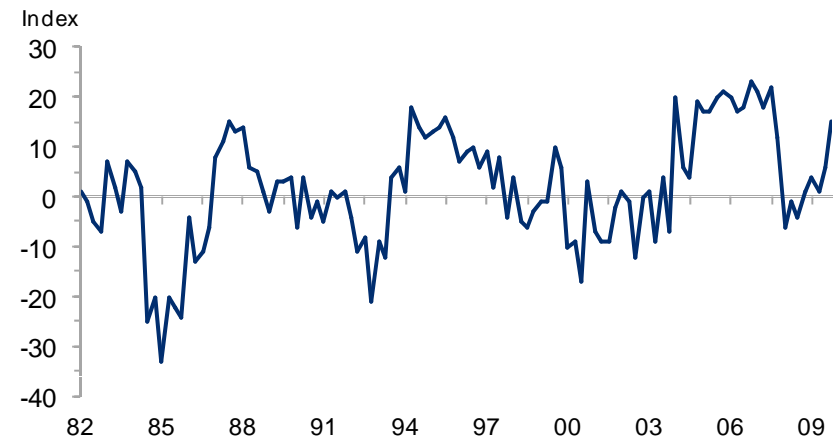
Sources: Bloomberg, FirstRand

## Wage per worker at average



Sources: INet Bridge, FirstRand

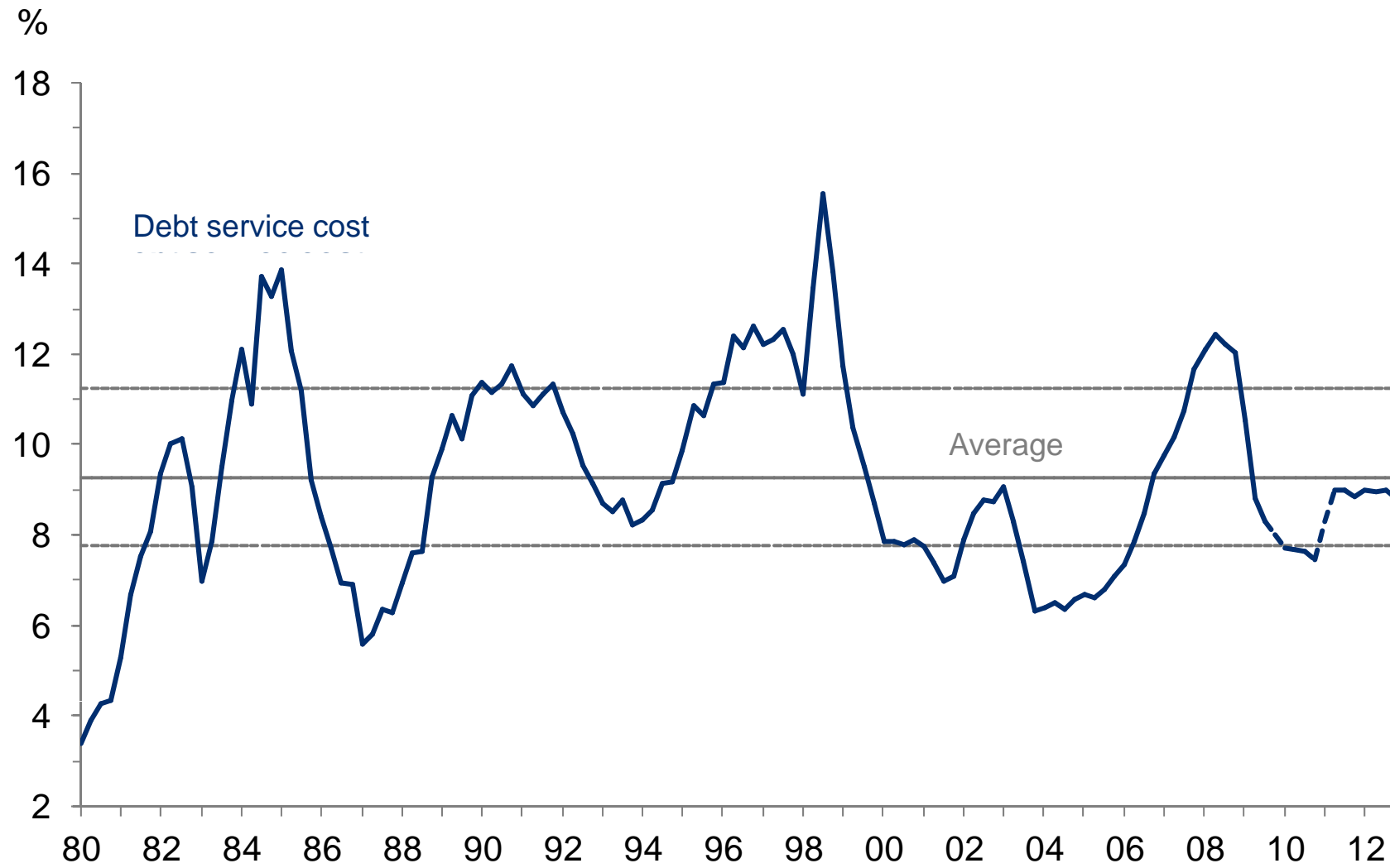
## Consumer confidence in positive territory



Sources: Bloomberg, FirstRand



# Household debt to remain affordable



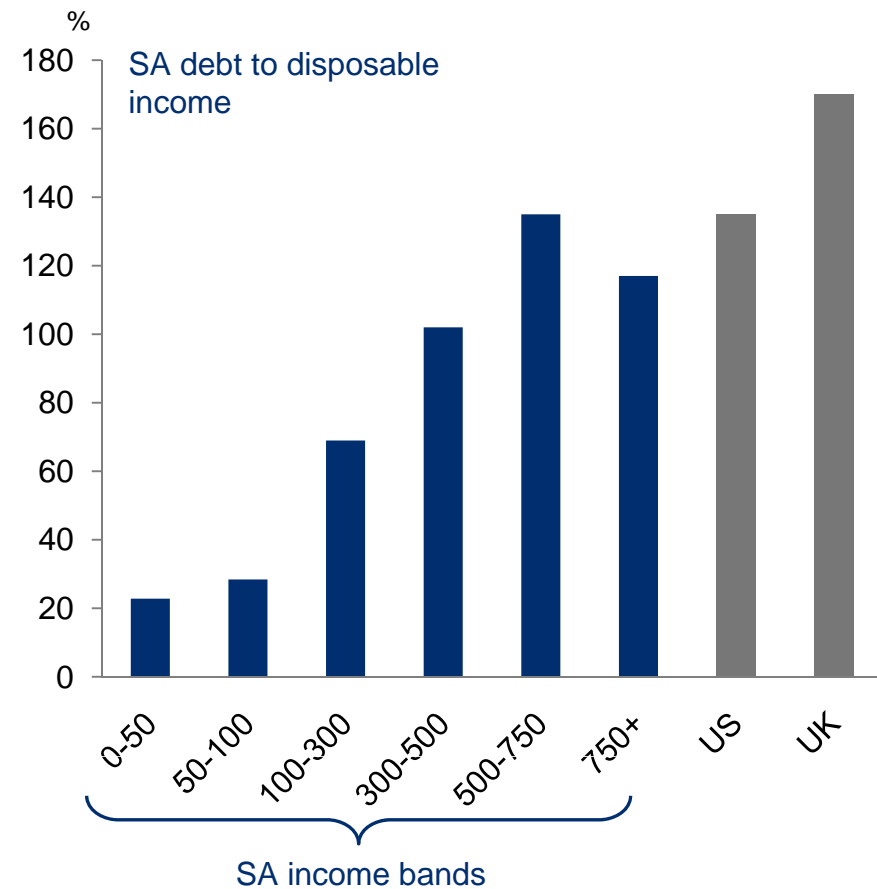
Sources: SARB, FirstRand



# Opportunities to rebalance across bands



Source: SARB

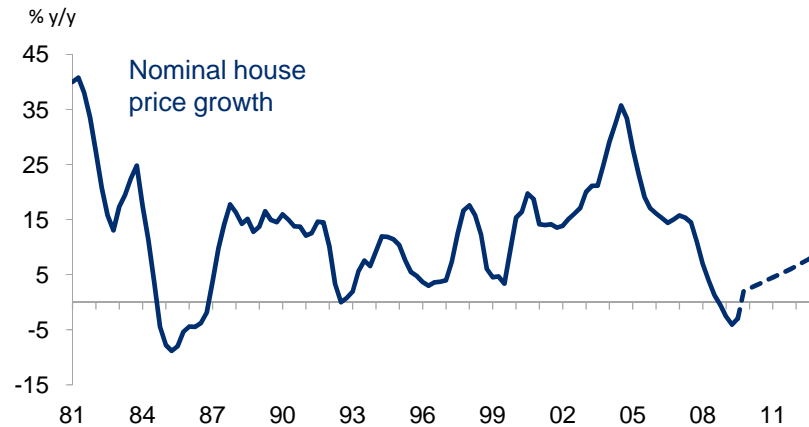


Sources: BMR Unisa, FirstRand



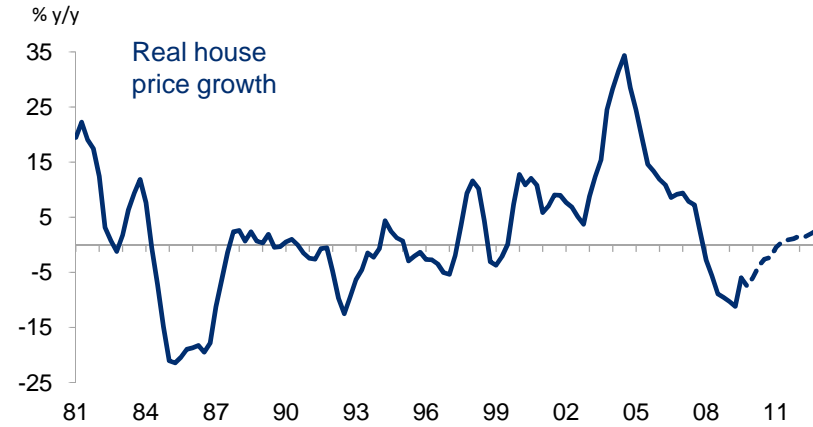
# House prices have stabilised

## Recovery in house price growth...



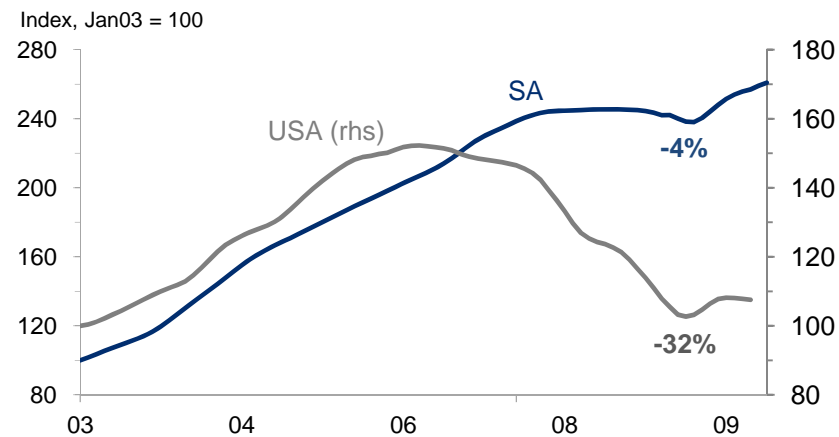
Sources: INet Bridge, FirstRand

## ...but gains are below inflation



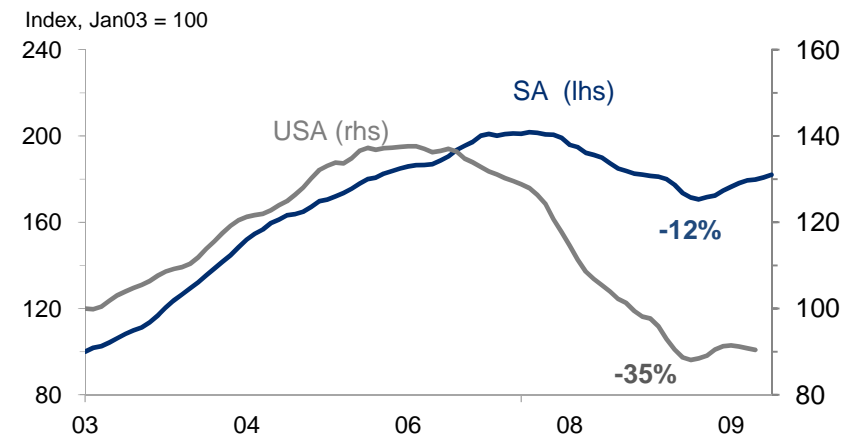
Sources: INet Bridge, FirstRand

## Nominal peak to trough falls



Source: Bloomberg, FirstRand

## Real peak to trough falls

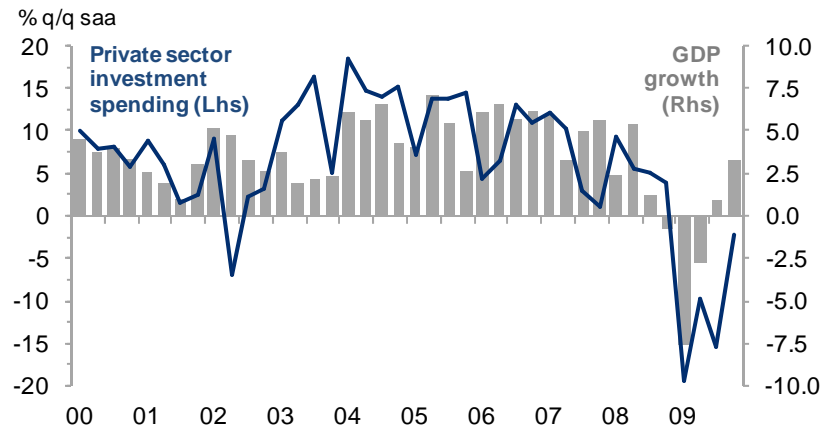


Source: Bloomberg, FirstRand



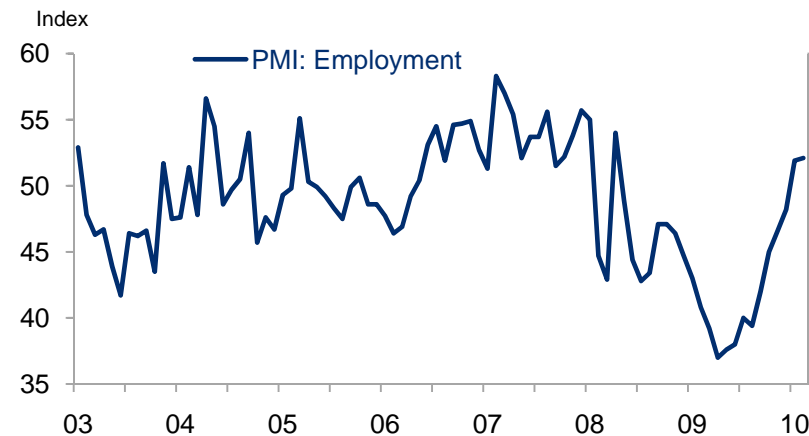
# Corporate SA tentatively optimistic

## Investment



Sources: SARB, FirstRand

## Employment



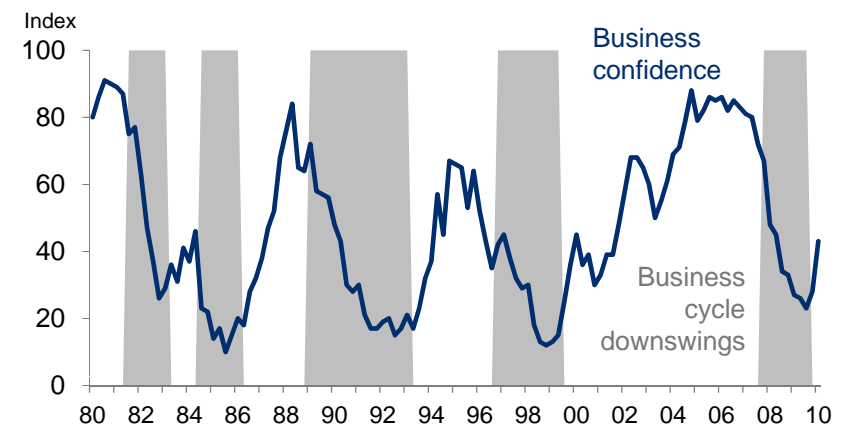
Source: SARB

## Corporate credit growth



Sources: SARB, FirstRand

## Business confidence

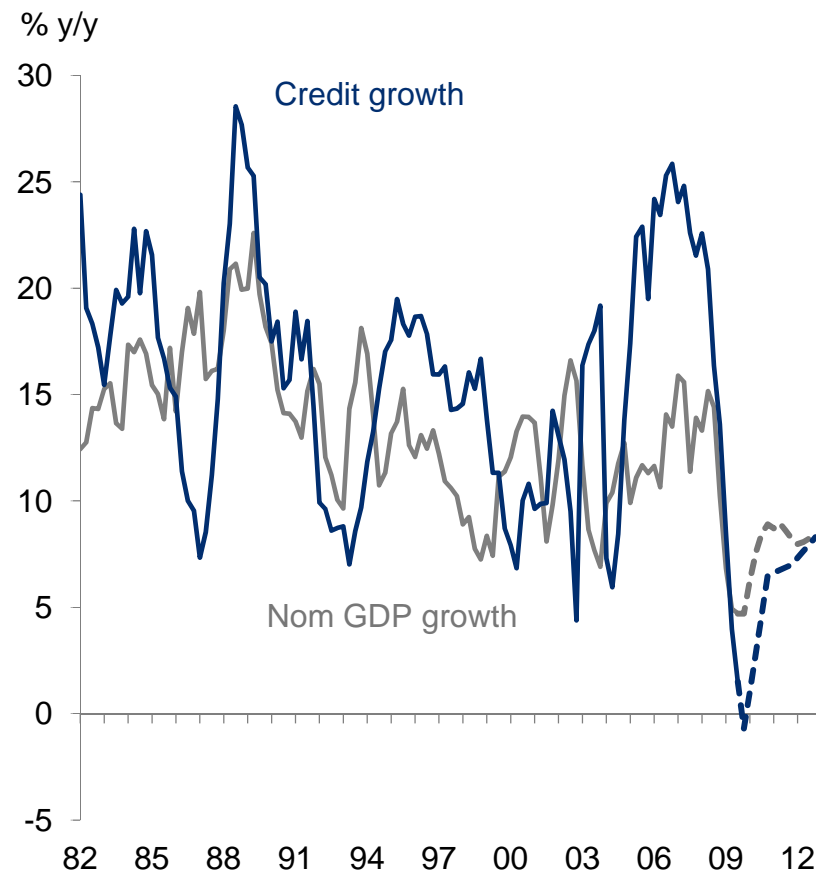


Sources: INet Bridge, SARB, FirstRand



# Advances growth to lag economic activity

## Private sector credit



Sources: SARB, FirstRand

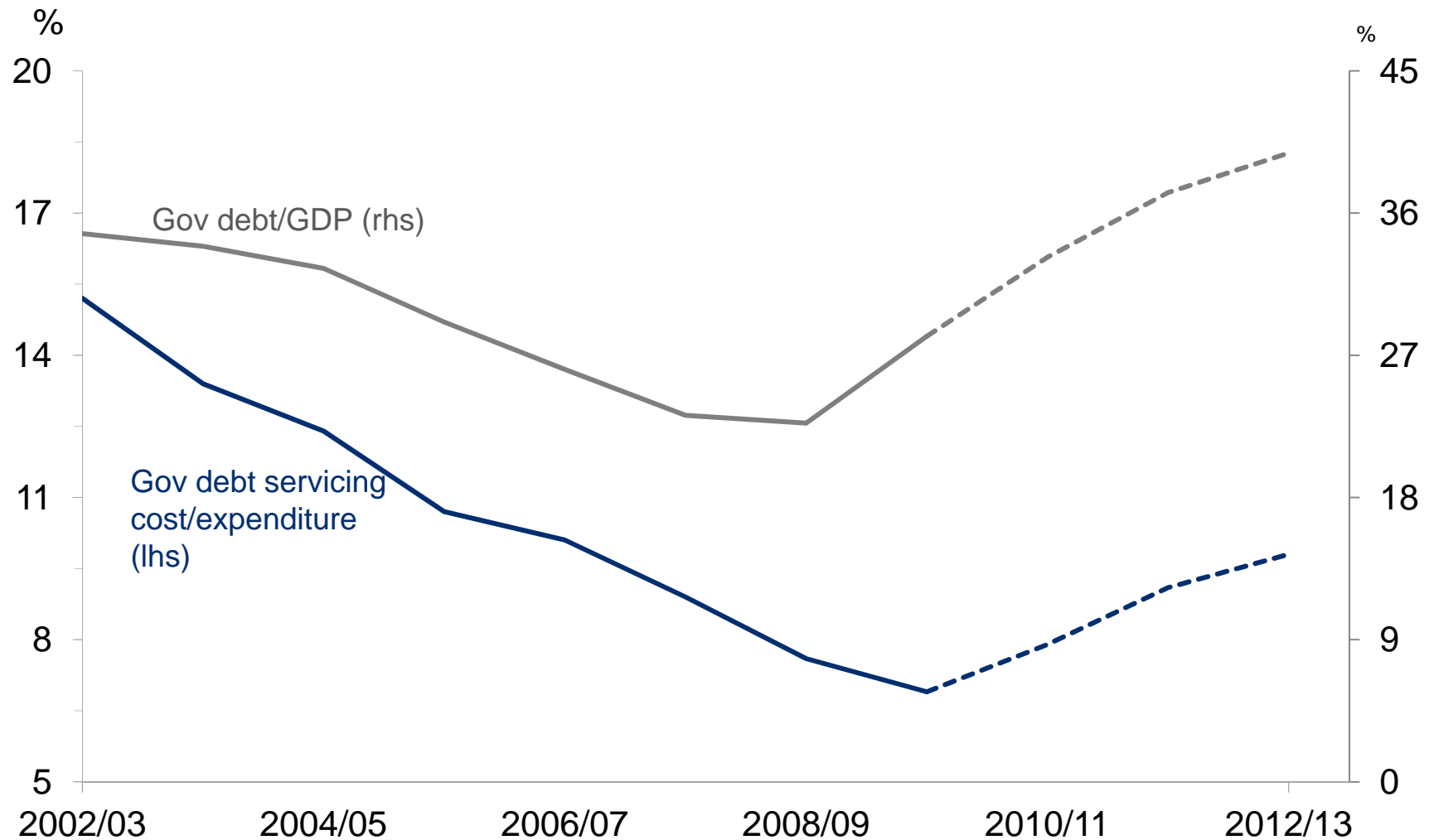
## Private sector credit / GDP



Source: SARB, FirstRand



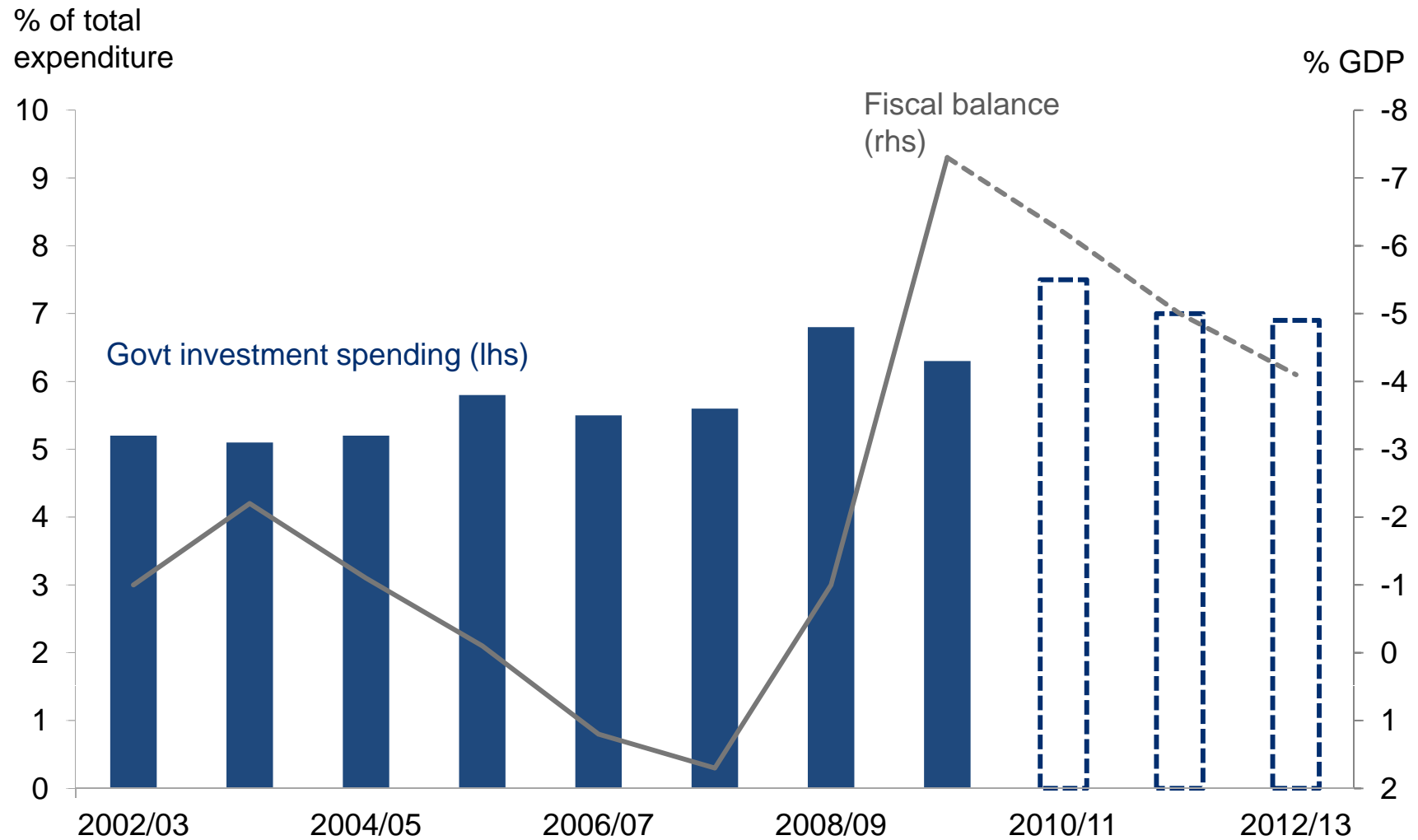
# SA government debt servicing cost still manageable



Sources: National Treasury, FirstRand



# SA fiscal stimulus to counter recession



Sources: National Treasury, FirstRand



# Appendix



# South Africa fact sheet

Population (millions)	49.1
Labour force (millions)	17.1
Employed (millions)	13.8
Unemployment rate	24.3%
Nominal GDP (ZAR billions)	2,431
Nominal GDP (USD billions)	324
GDP per capita (ZAR)	36 951
GDP per capita (USD)	4 926
Budget deficit	7.3%
Government debt to GDP ratio	28.2%
External government debt to GDP ratio	3.8%
External bank debt to GDP ratio	3.2%
Foreign exchange reserves (USD billions)	32.3
Current account deficit (% GDP)	3.2%
Inflation	6.2%
Sovereign debt rating	BBB+ (S&P); BBB+ (Fitch); A3 (Moody's)



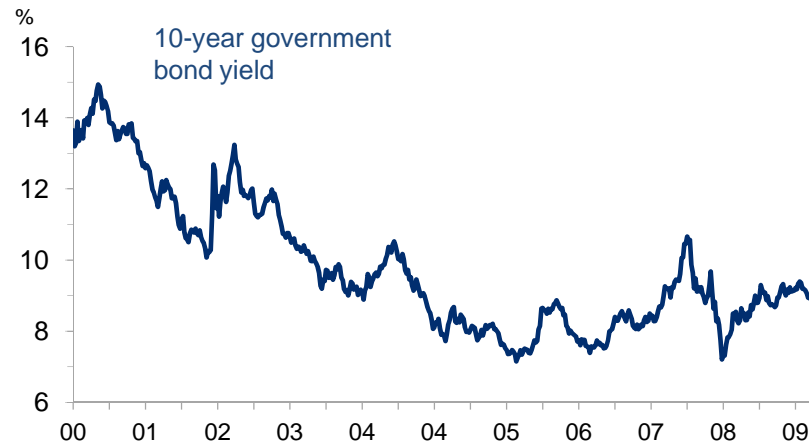
# SA GDP fact sheet

GDP growth (y/y)	-1.4%
GDP growth (q/q annualised)	3.2%
Nominal GDP growth (y/y)	6.9%
Nominal GDP growth (q/q annualised)	2.4%
Savings (% GDP)	17%
Investment (% GDP)	25%
Consumption (% GDP)	62%
Government spending to GDP ratio	21%
Remuneration to employees (% GDP)	47%
Gross operating surplus (% GDP)	42%
Mining (% GDP)	9%
Manufacturing (% GDP)	14%
Construction (% GDP)	3%
Wholesale and retail trade (% GDP)	13%
Finance and real estate (% GDP)	19%



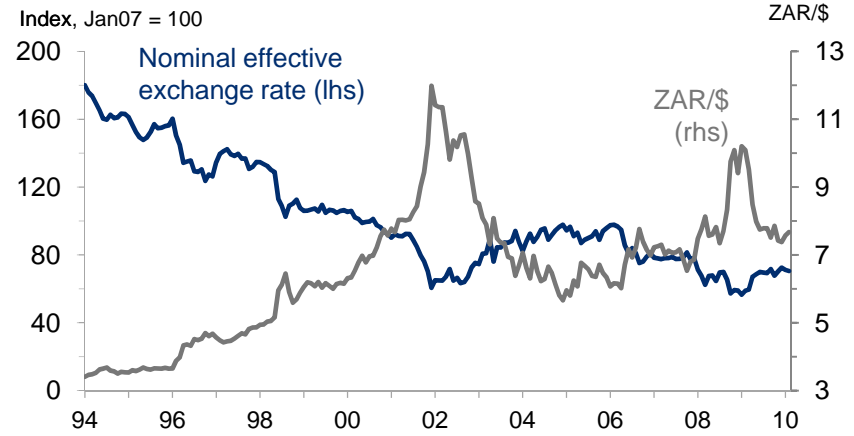
# Financial market summary

## 2yr – 10yr rates



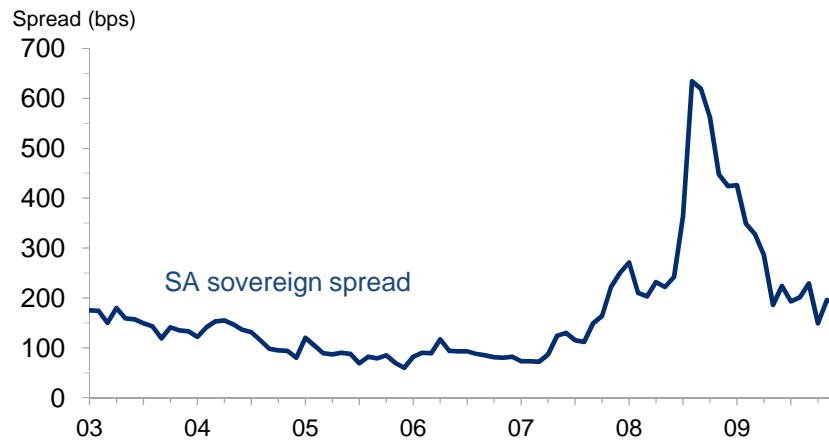
Sources: Bloomberg, FirstRand

## Rand & NEER



Source: Bloomberg,

## Sovereign spread



Sources: Bloomberg, FirstRand

## Equity market



Sources: Bloomberg, FirstRand



# Overview of FirstRand: Structure, results & strategy

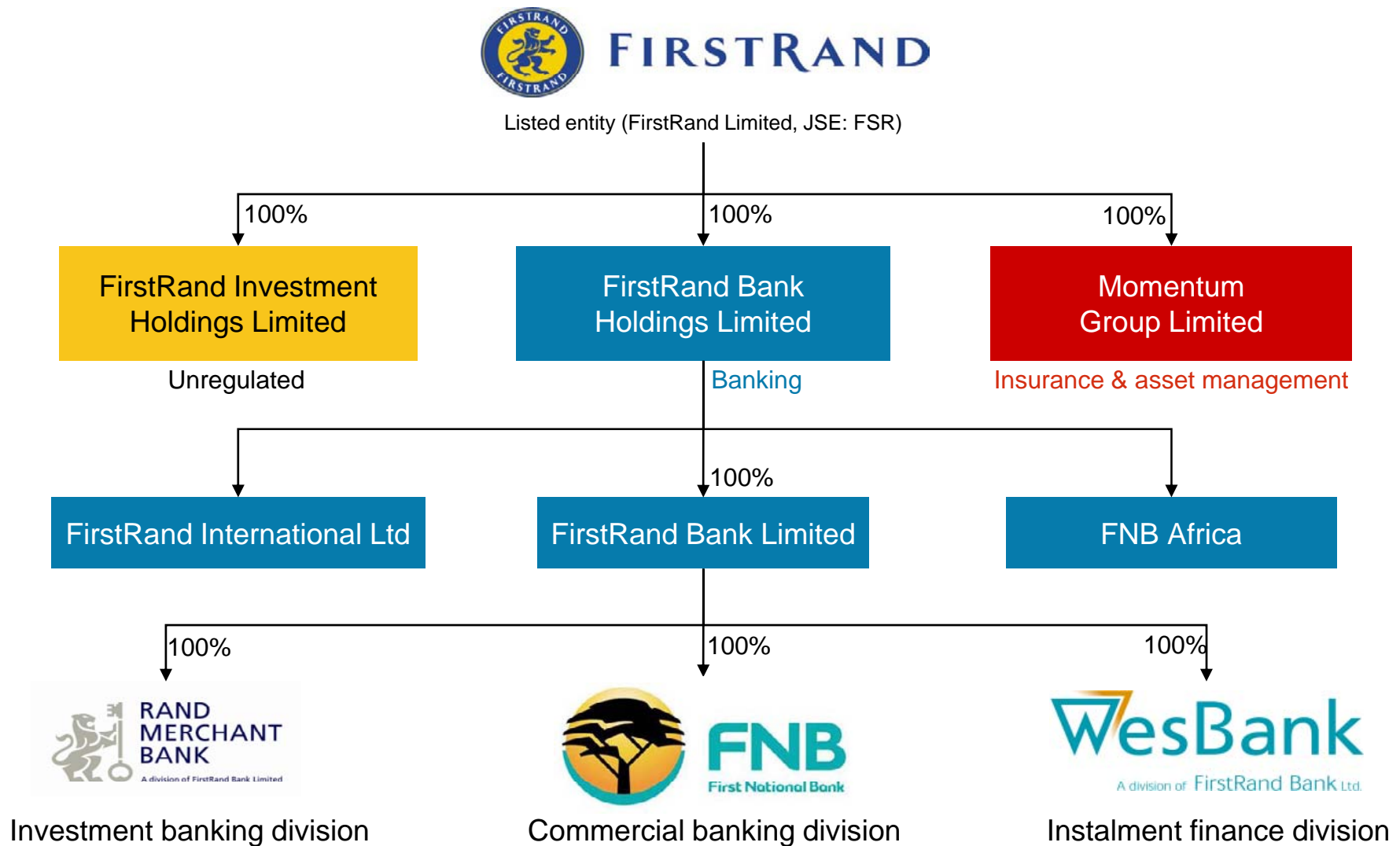


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# Current structure



# Proposed structure

Consolidated supervision



**FIRSTRAND**

Bank controlling company, listed entity (FirstRand Limited, JSE: FSR)

**FirstRand  
Bank**



**FirstRand  
Africa**

FNB Botswana  
FNB Namibia  
FNB Swaziland  
FNB Lesotho  
FNB Mozambique  
FNB Zambia

**FirstRand  
Other**

Non-banking activities:  
- FR International  
- OUTsurance  
- Other

**Momentum  
Group**

Insurance &  
asset management



## Financial review



**FIRSTRAND**

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# Macro remains challenging

- Weak GDP growth
- Continuing job losses
- Lower interest rates
- High levels of consumer leverage, but some de-risking taking place
- Corporate sector cautious about recovery
- Recovery in equity markets



# High-level impact on performance

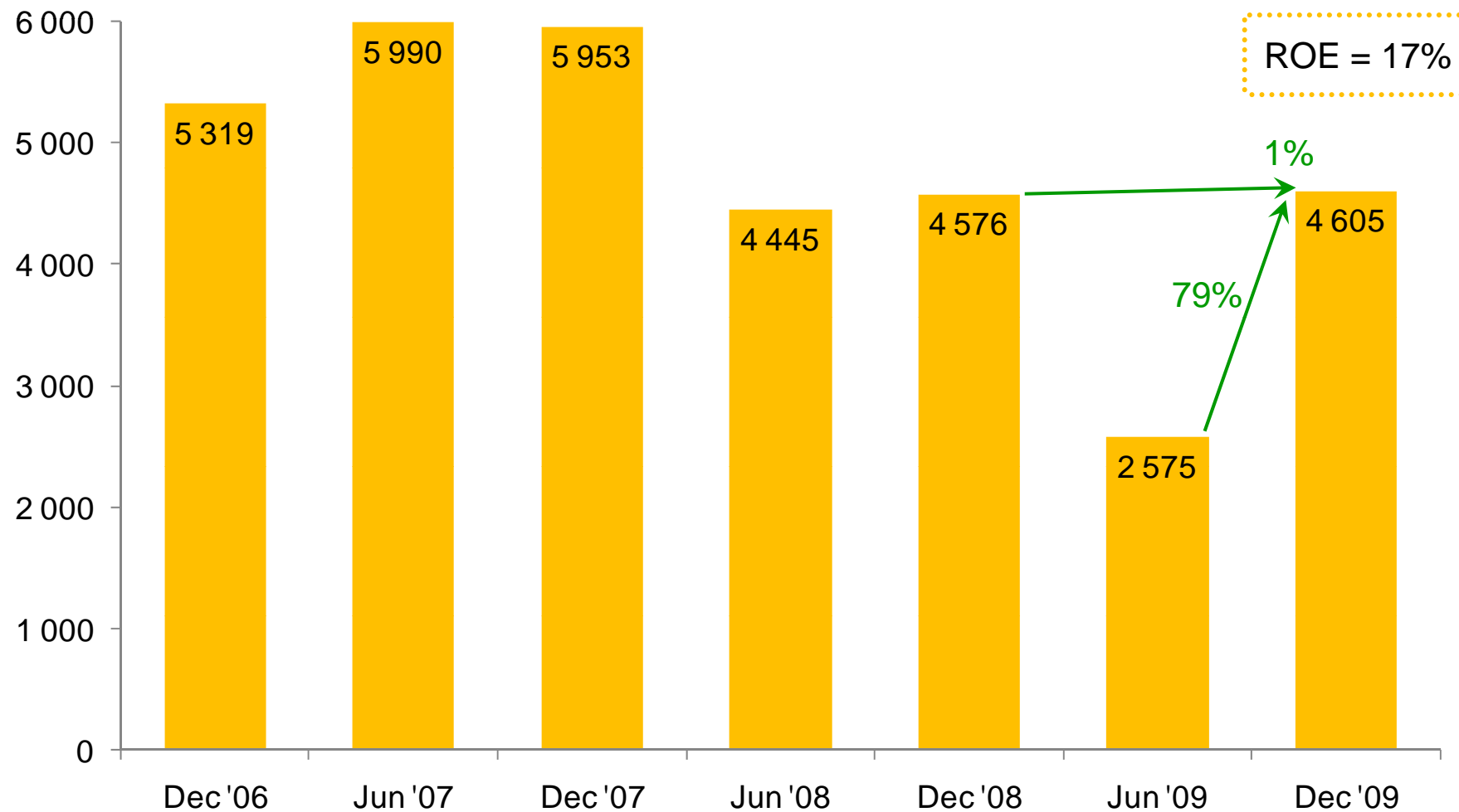
- Negative balance sheet growth
- Lower growth in transaction volumes
- Negative endowment effect
- + Reduction in retail bad debts
- + Level of losses from legacy portfolios reducing
- + Increase in fees earned on investment business



# Despite challenges, profitability improving

Normalised earnings\*

R millions



\* December 2006 to December 2007 normalised earnings exclude contributions from Discovery



# Franchises show mixed performance year-on-year, but trend positive

Profit before tax R millions	6 months to Dec '09	6 months to Jun '09	Change (6m/6m)	6 months to Dec '08	Change (y/y)
FNB	2 895	2 185	▲ 32%	2 875	▲ 1%
FNB Africa	643	564	▲ 14%	658	▼ (2%)
RMB	1 403	151	▲ >100%	1 904	▼ (26%)
WesBank*	470	244	▲ 93%	168	▲ >100%
OUTsurance	216	213	▲ 1%	227	▼ (5%)
Momentum**	850	909	▼ (6%)	740	▲ 15%

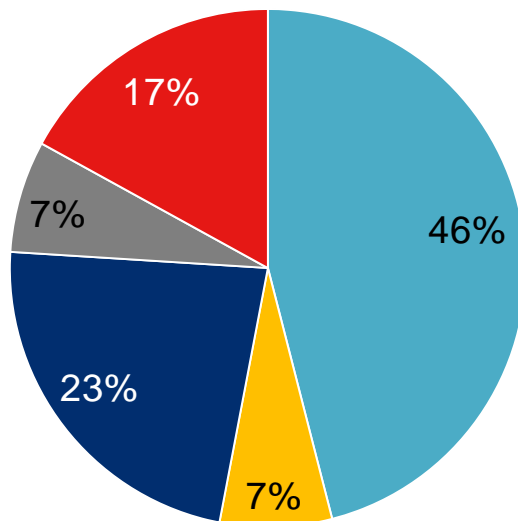
\* Normalised profit before tax (i.e. excl. loss on sale of Motor One and goodwill impairments)

\*\* Figures shown for Momentum are normalised earnings (not PBT)



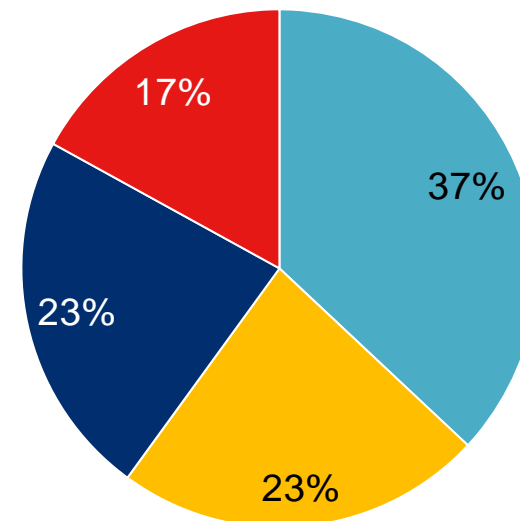
# Earnings diversification

By franchise



- FNB
- FNB Africa
- RMB
- WesBank
- Momentum

By segment



- Retail
- Corporate
- Investment banking
- Insurance



# Banking Group key financial ratios

	Dec '09	Dec '08	Change
Normalised earnings (R millions)	4 038	4 149	▼ (3%)
Return on equity (%)	17	18	▼
Return on assets (%)	1.26	1.23	▲
Credit loss ratio (%)	1.51	1.64	▼
Cost to income ratio – normalised (%)	55.5	52.9	▲
Tier 1 capital ratio* (%)	12.7	11.3	▲
Interest margin – normalised (%)	5.02	5.17	▼
Advances** (R billions)	458	442	▲ 4%

\* Ratio calculated for FRBH including unappropriated profits



# Diversification ratios (interest vs non-interest)

	Current	Current adjusted for endowment
Interest	40%	48%
Non-interest	60%	52%

NIR composition	Current
Client activities	90%
Investment/risk (secondary markets)	10%

Composition of NIR from client activities	Current
Transactional income (commercial and retail banking)	70%
Interest spread on corporate lending activities in RMB (fair value accounted)	12%



# Net interest income



# Bad debt unwind drives recovery in retail NII after impairments

Net interest income after bad debts R millions	Dec '09	Dec '08	Change	
HomeLoans	(138)	(705)	▼ (80%)	Bad debt decrease
WesBank	779	109	▲ >100%	
Card	92	(18)	▲ (>100%)	
FNB Africa	745	736	▲ 1%	Endowment
Other consumer banking	853	1 013	▼ (16%)	
Mass	262	458	▼ (43%)	
Wealth*	313	302	▲ 4%	Advances growth
FNB other and support	(80)	24	▼ (>100%)	
<b>Retail net interest income after bad debts</b>	<b>2 826</b>	<b>1 919</b>	<b>▲ 47%</b>	

\* Wealth NII driven by advances growth after increase in bad debts



# Corporate and commercial net interest income reflects endowment

Net interest income after bad debts R millions	Dec '09	Dec '08	Change	
FNB Commercial	1 191	1 761	▼ (32%)	Endowment decrease
FNB Corporate	313	212	▲ 48%	
RMB	5	(113)	▲ (>100%)	Bad debt increase
WesBank	42	332	▼ (87%)	
Corporate net interest income after bad debts*	1 551	2 192	▼ (29%)	

\* Excluding Corporate Centre



# Margin hit by endowment, but partly offset by asset pricing

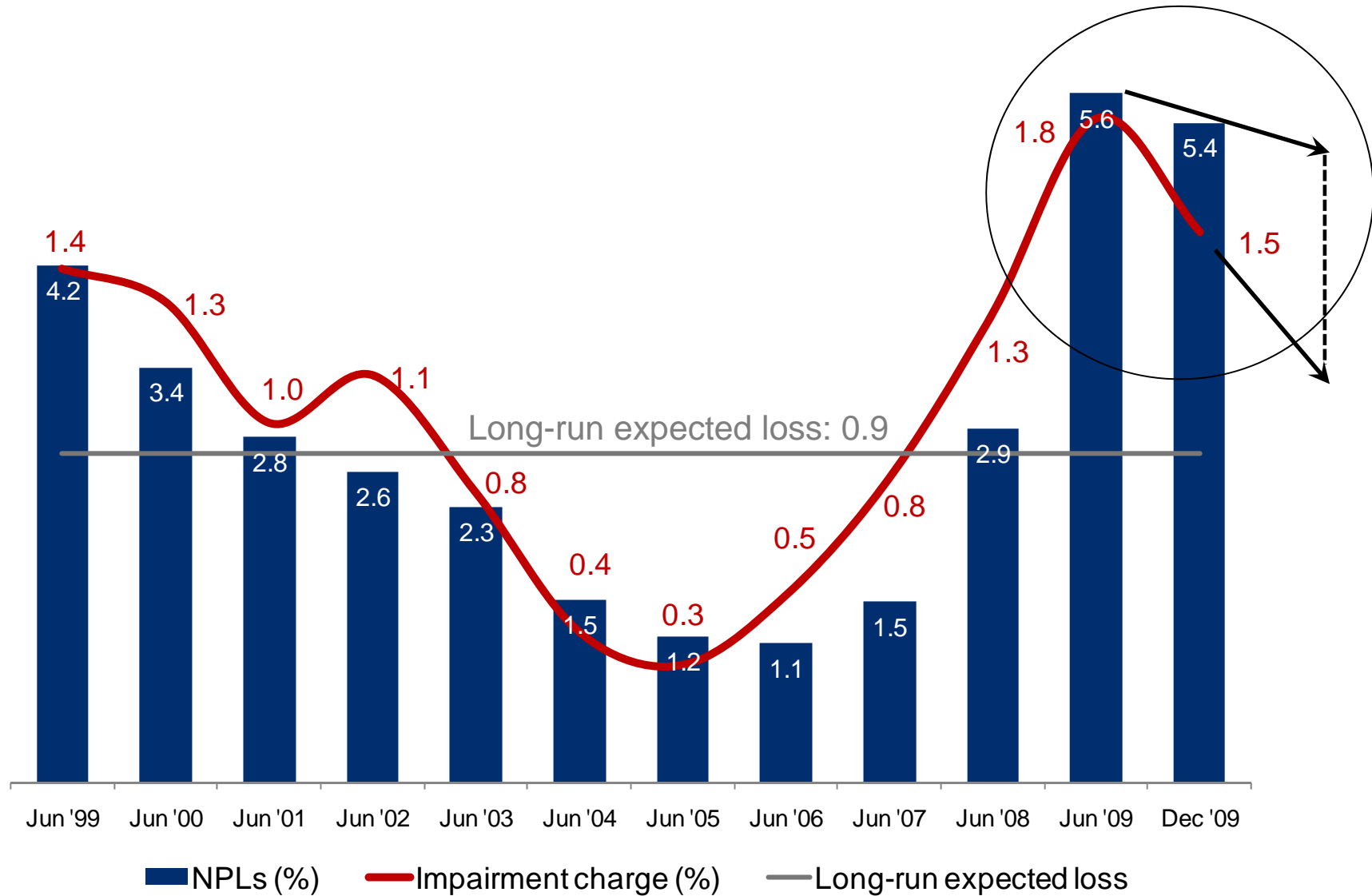
Percentage of average interest-earning banking assets	%
<b>Dec '08 normalised</b>	<b>5.17</b>
Asset price movement	0.50
Capital and deposit endowment effect	(0.91)
Retail deposit pricing	(0.04)
Wholesale liquidity pricing	(0.05)
BSM hedges	0.35
<b>Dec '09 normalised</b>	<b>5.02</b>



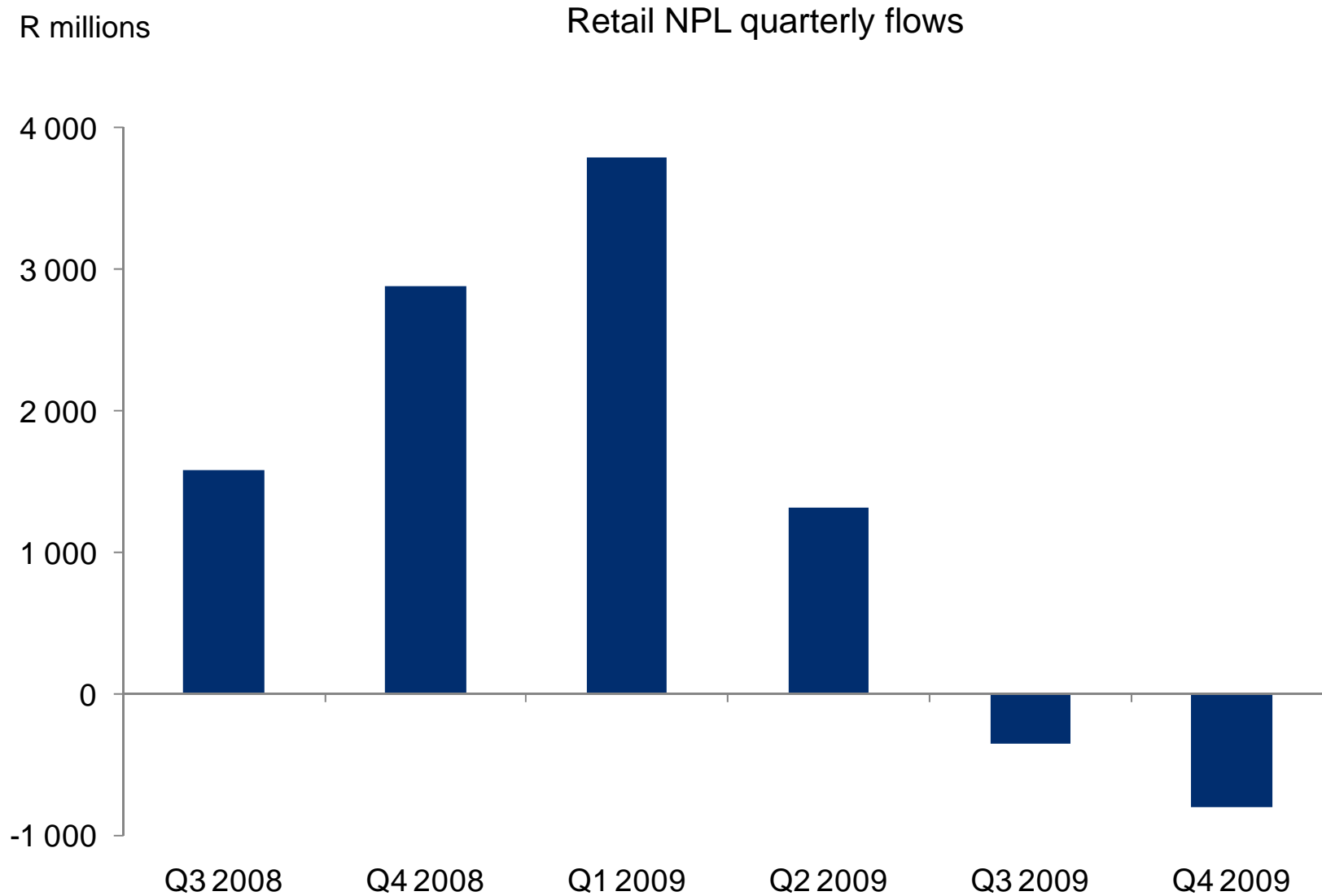
# Bad debts



# Bad debts have peaked, but NPLs sticky



# Retail NPL flows decline



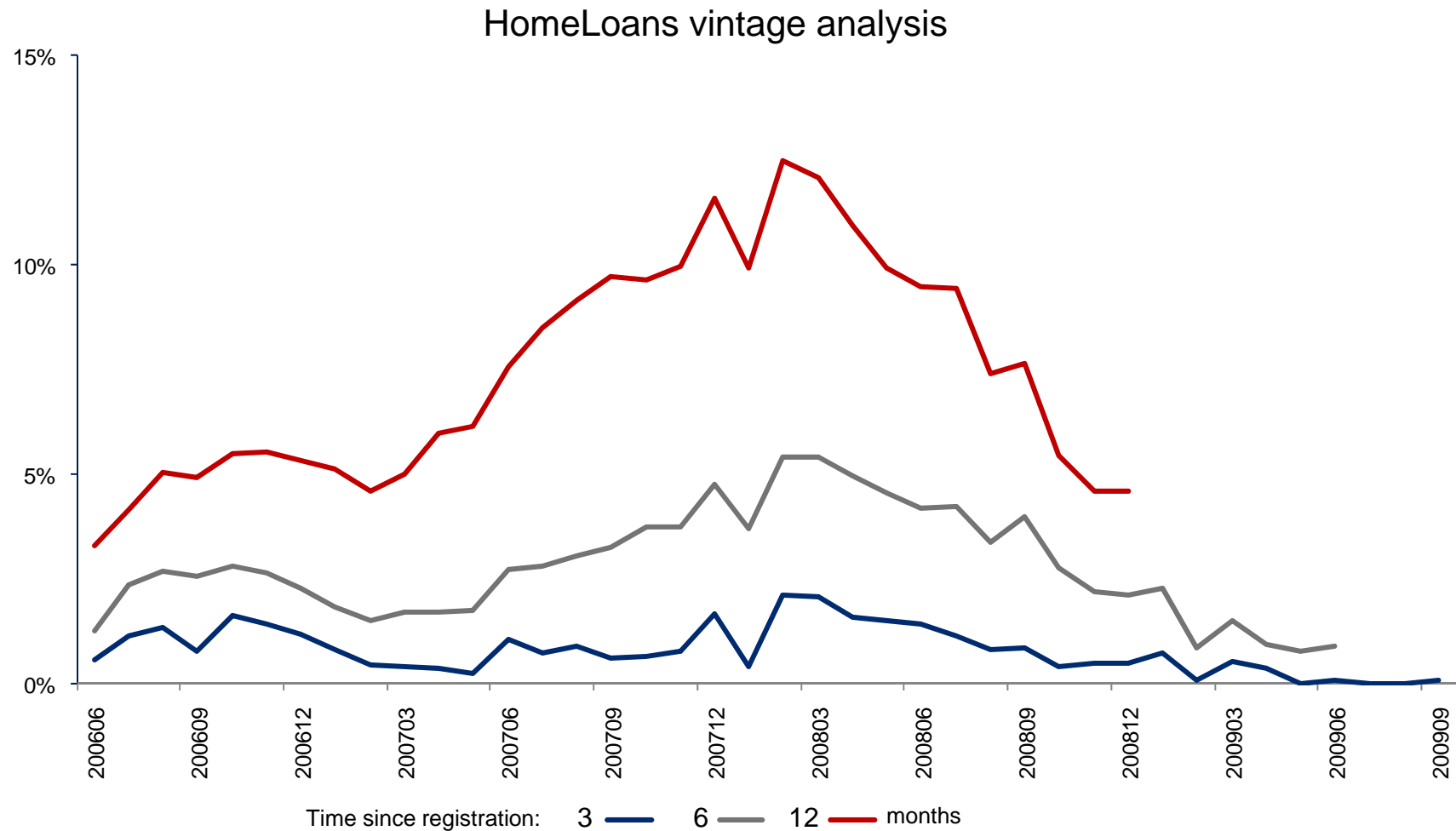
# All retail lending books improving and corporate more robust than expected

Bad debts Percentage of average advances	6 months to Dec '09	6 months to Jun '09	6 months to Dec '08
Retail	2.08	2.97	2.63
- Residential mortgages	1.17	1.77	1.48
- Credit card	8.14	12.51	9.77
- Vehicle and asset finance (SA)	2.12	2.54	2.96
Wholesale*	0.71	0.90	0.67
Total bad debt ratio	1.51	1.99	1.64

\* Includes WesBank Business and Corporate



# HomeLoans' new credit origination strategies improving quality of business written



# Non interest revenue



# NIR driven by organic growth and turnaround

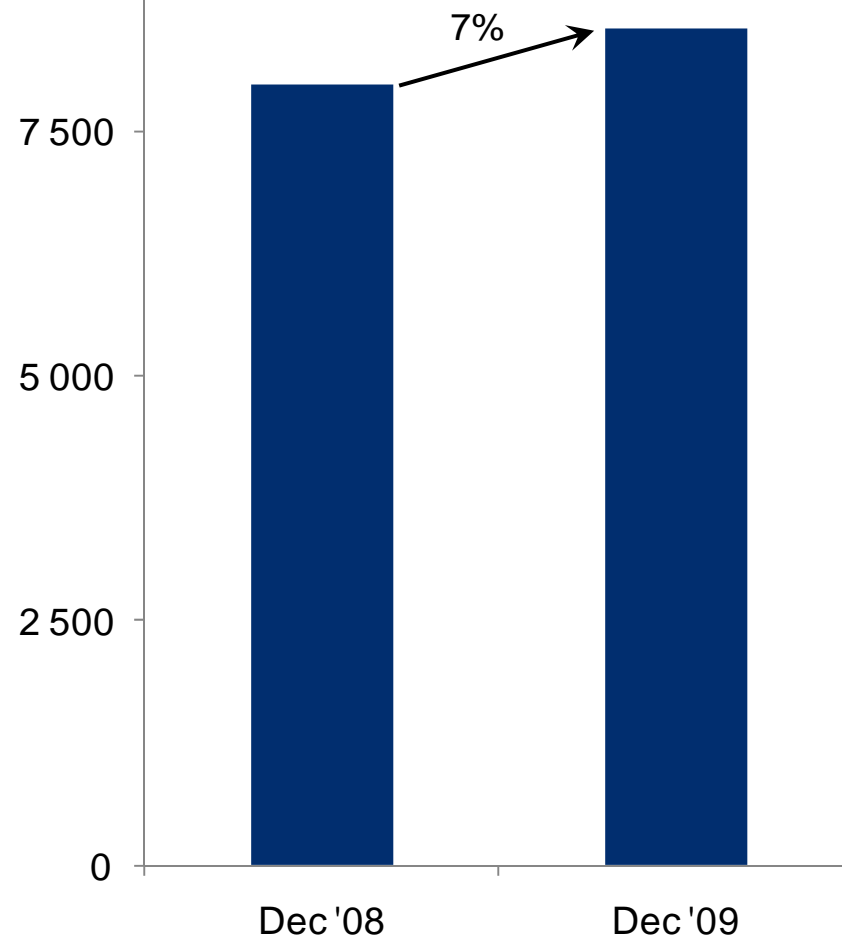
R millions	Dec '09	Dec '08	Change
Client activities/primary markets	11 493	10 964	▲ 5%
- Transactional income	8 555	7 964	▲ 7%
- Annuity fair value income	1 469	1 343	▲ 9%
- Operational associates income	422	434	▼ (3%)
- Other primary income	1 047	1 223	▼ (14%)
Investment/risk activities/secondary markets	1 044	(44)	▲ (>100%)
- Fair value risk income	439	(767)	▲ (>100%)
- Private equity	(4)	1 313	▼ (>100%)
- Other investment income*	609	(590)	▲ (>100%)
<b>Total normalised non interest revenue **</b>	<b>12 537</b>	<b>10 920</b>	<b>▲ 15%</b>

\* Revenue earned on assets held against employee liabilities, the RMB Resources portfolio, and other

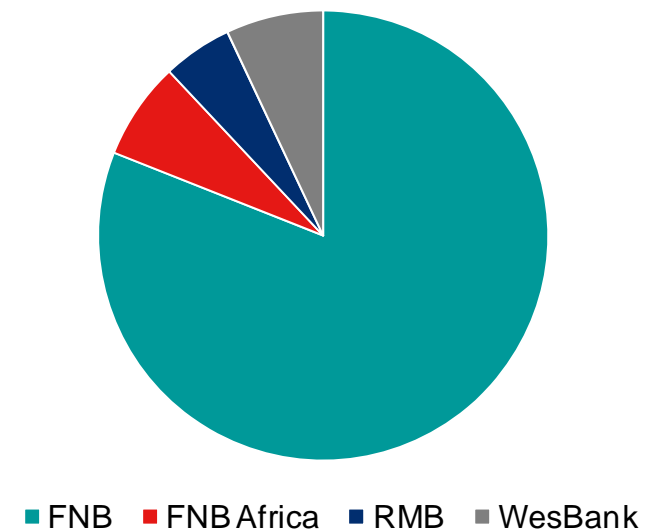


# Reasonable growth in transactional volumes despite tough conditions

Transactional revenue  
R millions



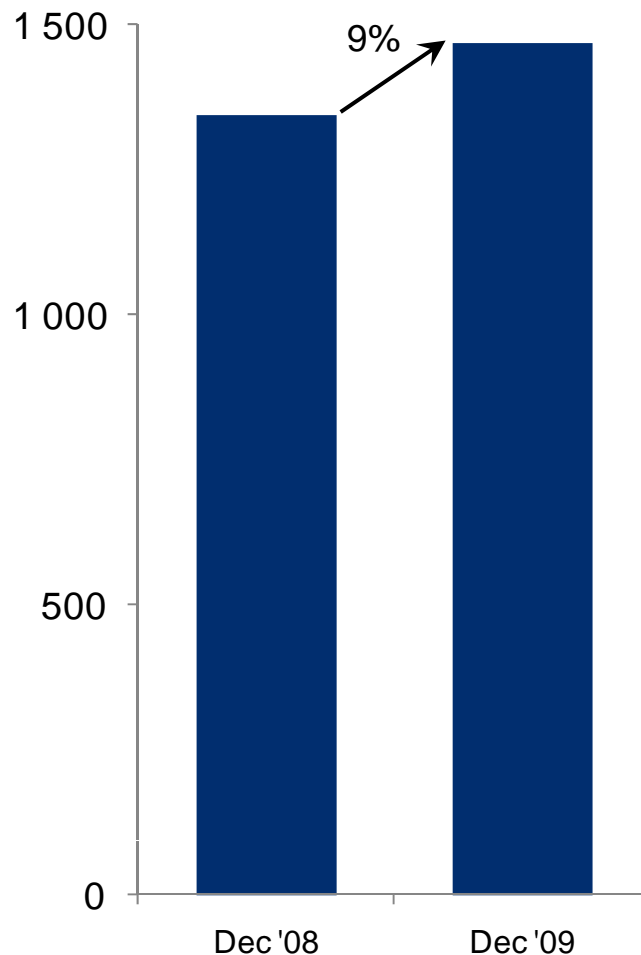
2009 breakdown by franchise\*



\* Excluding Corporate Centre

# Sustained performance from lending business dampened by lower market activity

Fair value annuity revenue  
R millions

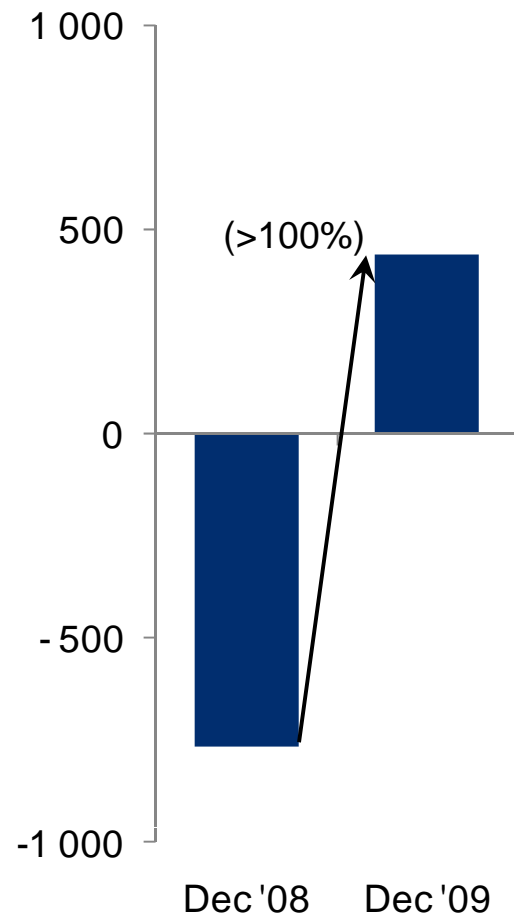


R millions	Dec '09	Dec '08	Change
Annuity	1 469	1 343	▲ 9%
- Lending	1 092	868	▲ 26%
- Client flows	377	475	▼ (21%)
Client flows	377	475	▼ (21%)
- Forex	209	286	▼ (27%)
- Debt	128	148	▼ (14%)
- Equity	40	41	▼ (2%)



# Turnaround in risk income

Fair value risk  
R millions



R millions	Dec '09	Dec '08	Change
Risk	439	(767)	▲ (>100%)
- Equities	127	(1 101)	▲ (>100%)
- Commodities	22	91	▼ (76%)
- Interest rates	226	384	▼ (41%)
- Credit	35	(336)	▲ (>100%)
- Forex	29	195	▼ (85%)



# Private equity reflecting current cycle

R millions	Dec '09	Dec '08	Change
Annuity income	229	431	▼ (47%)
Realisations and impairments	(233)	882	▼ (>100%)
Total private equity income	(4)	1 313	▼ (>100%)

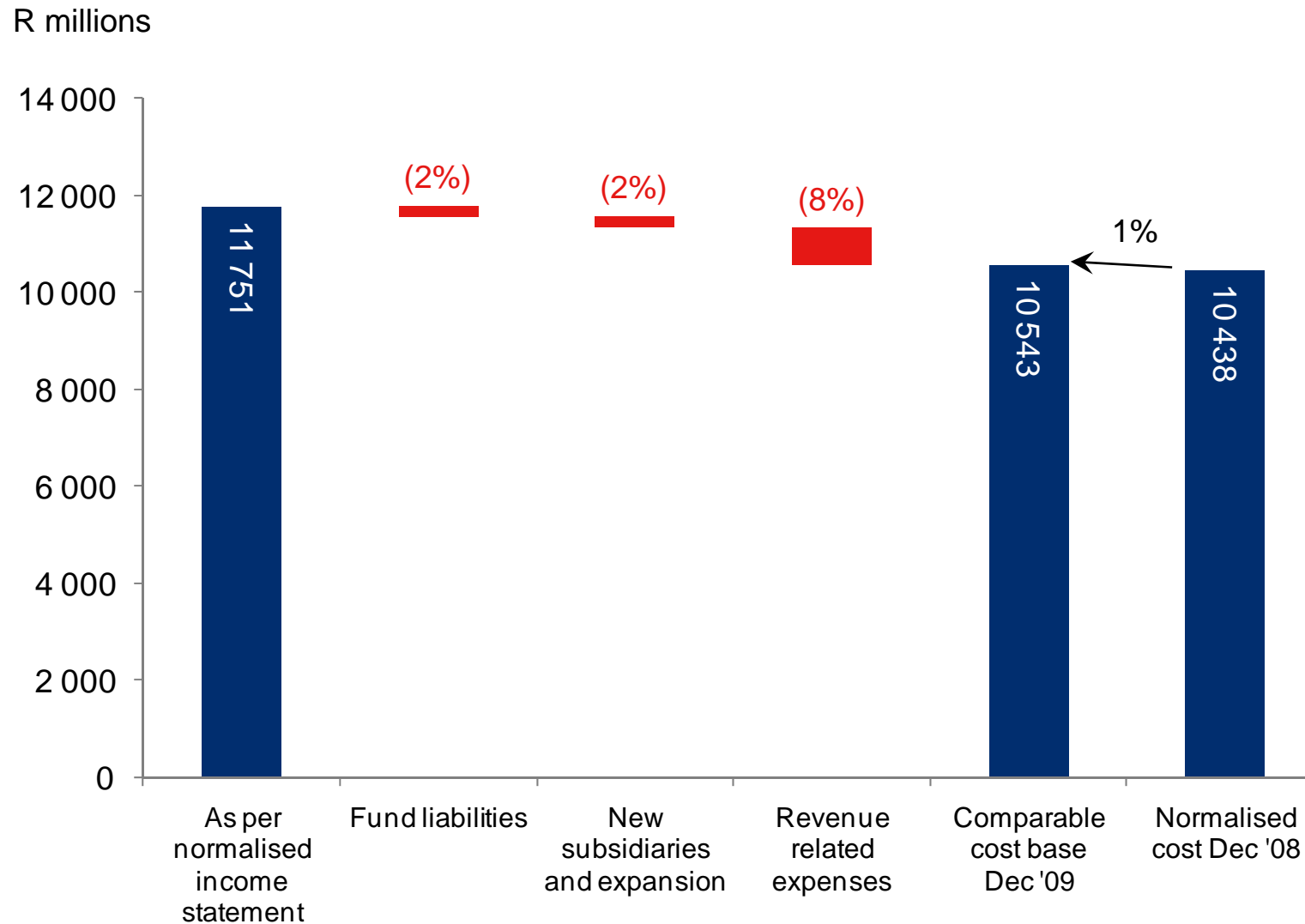
Unrealised profits at R1.5 billion (Dec '08: R1 billion)



# Costs



# Normalised cost growth below inflation

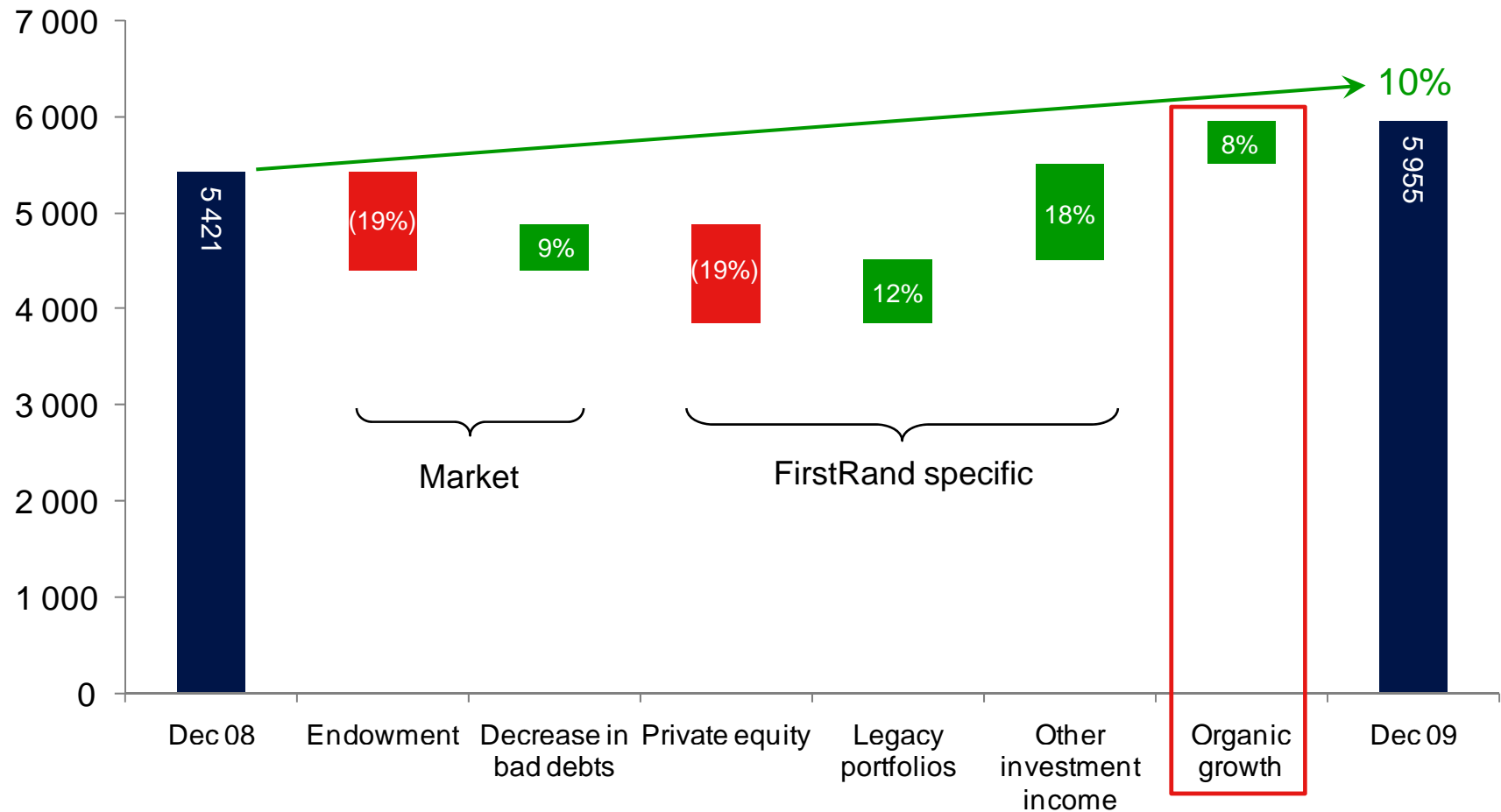


# Results in a nutshell



# Operational performance reflects underlying franchise strength

Profit before tax  
R millions

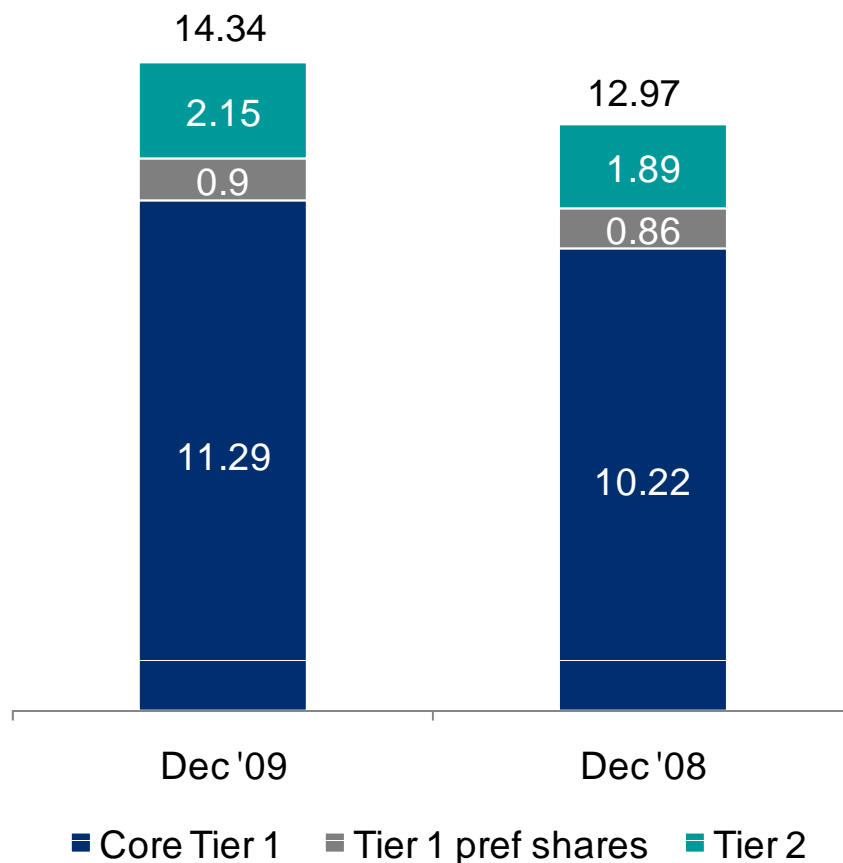


# Capital



# Banking Group's capital position remains robust

FRBH capital adequacy (%)



FRBH	Tier 1%	Total %
Capital adequacy ratio	12.19	14.34
Regulatory minimum	7.00	9.50*
Target	10.00	12.00 – 13.50

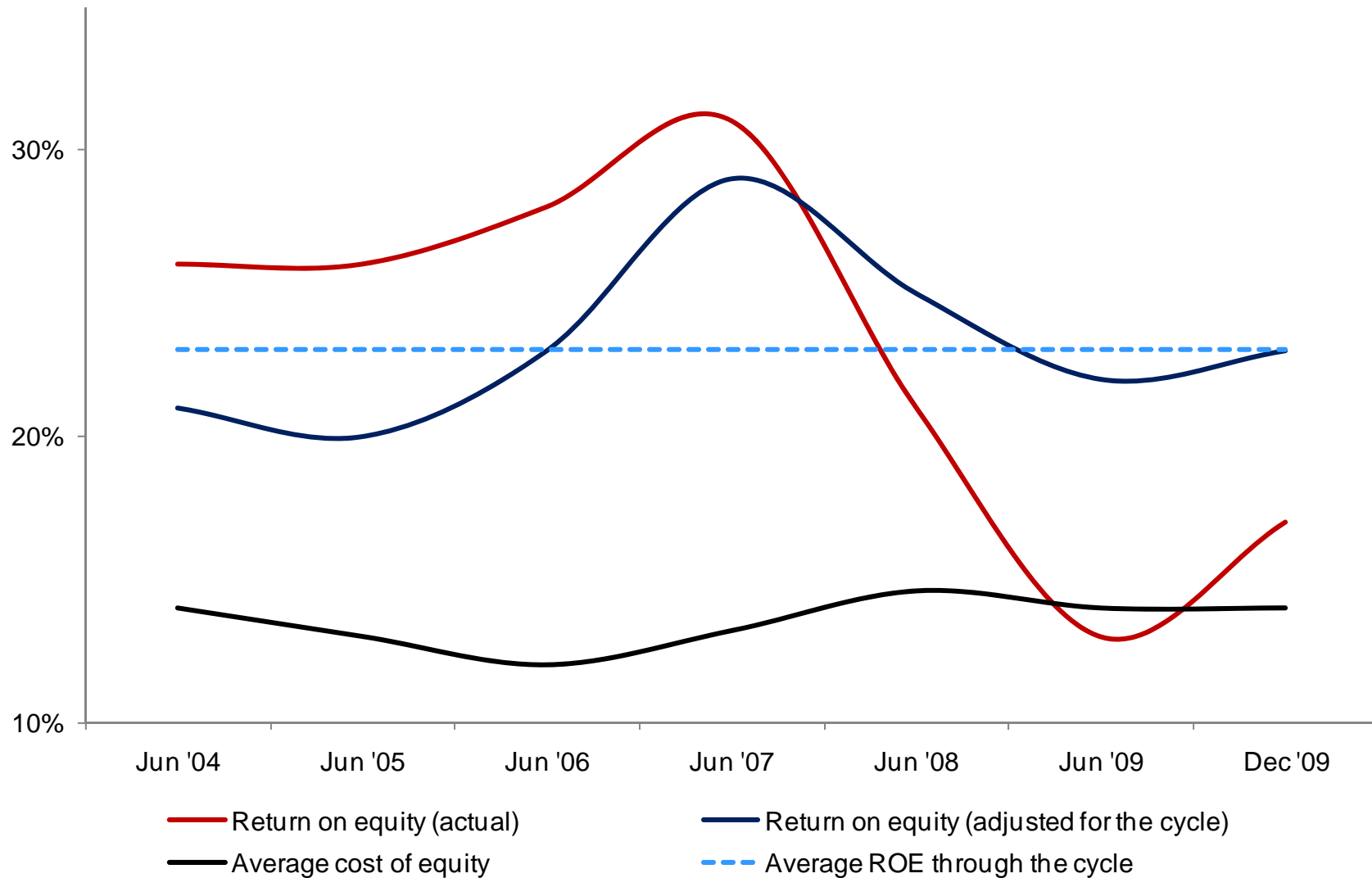
FRB	Tier 1%	Total %
Capital adequacy ratio	10.55	12.83
Regulatory minimum	7.00	9.50*
Target	9.50	11.50 – 13.00

\* Excludes bank-specific (Pillar 2b) add-on

\*\* Ratios exclude unappropriated profits of R1.6bn and R1.7bn for FRB and FRBH respectively



# Banking ROEs continue to recover



# Strategy



**FIRSTRAND**

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Johan Burger

# Strategy & growth opportunities

- SADC strategies
- Rest of Africa strategies



# FirstRand's refocused strategy (South Africa)

- Group's portfolio already has
  - Diverse revenue streams
  - Strong operating franchises
  - Asset origination and distribution capabilities
  - Building blocks for access to profit pools in SA financial services
    - Increase organic growth opportunities that currently exist between franchises
    - Expand into other profit pools in financial services



# Opportunities in retail space

- Leverage off FNB's continued investment in footprint and innovation
  - Utilising telecommunications and cellphone platforms
  - Growing electronic customer channels
- Mass segment a key area of growth for FNB
  - Easy Plan
- Continued focus on deposit franchise
- WesBank's further alliance opportunities



# Opportunities in the corporate and investment banking space

- Integrate CIB approach to grow in corporate space
  - Aligned FNB Corporate with RMB and integrated client coverage team
  - Enhanced service offering
  - Improve our share of revenues across corporate and investment banking activities



# Strategy & growth opportunities

- SADC strategies
- Rest of Africa strategies



# Update on international strategy

- Operate in markets that strengthen the Group's position as a leading African financial services group – key growth markets are:
  - Nigeria
    - Staffing Nigeria rep office
    - Investigating acquisition opportunities
  - Zambia
  - Tanzania
    - Awaiting regulatory approval
  - Angola
    - Received regulatory approval for rep office
- Focus on Africa and key African-Asian corridors
  - CCB co-operation resulted in deal flow
  - India platform gains traction
- Increased focus on leveraging existing African platforms



# FirstRand rebalancing its portfolio

- Retail vs corporate (CIB alignment)
- Retail portfolio (mass vs consumer segments)
- SADC vs rest of Africa
- Client franchises vs secondary market businesses
- Asset pools vs savings pools
- Bottom-up strategies vs top-down strategies

Maintain sound financial position



# FirstRand growth prospects

- Short term recovery story
  - Unwind of the cycle will positively impact earnings to 2011
  - Reducing negative impact of legacy portfolios
- Medium term
  - Subdued GDP recovery expected to put pressure on top line growth
  - Continued focus on unlocking synergies and managing costs
- Long term
  - Delivery on domestic and international strategy
  - Regulatory changes coming, but impact uncertain



## Capital management

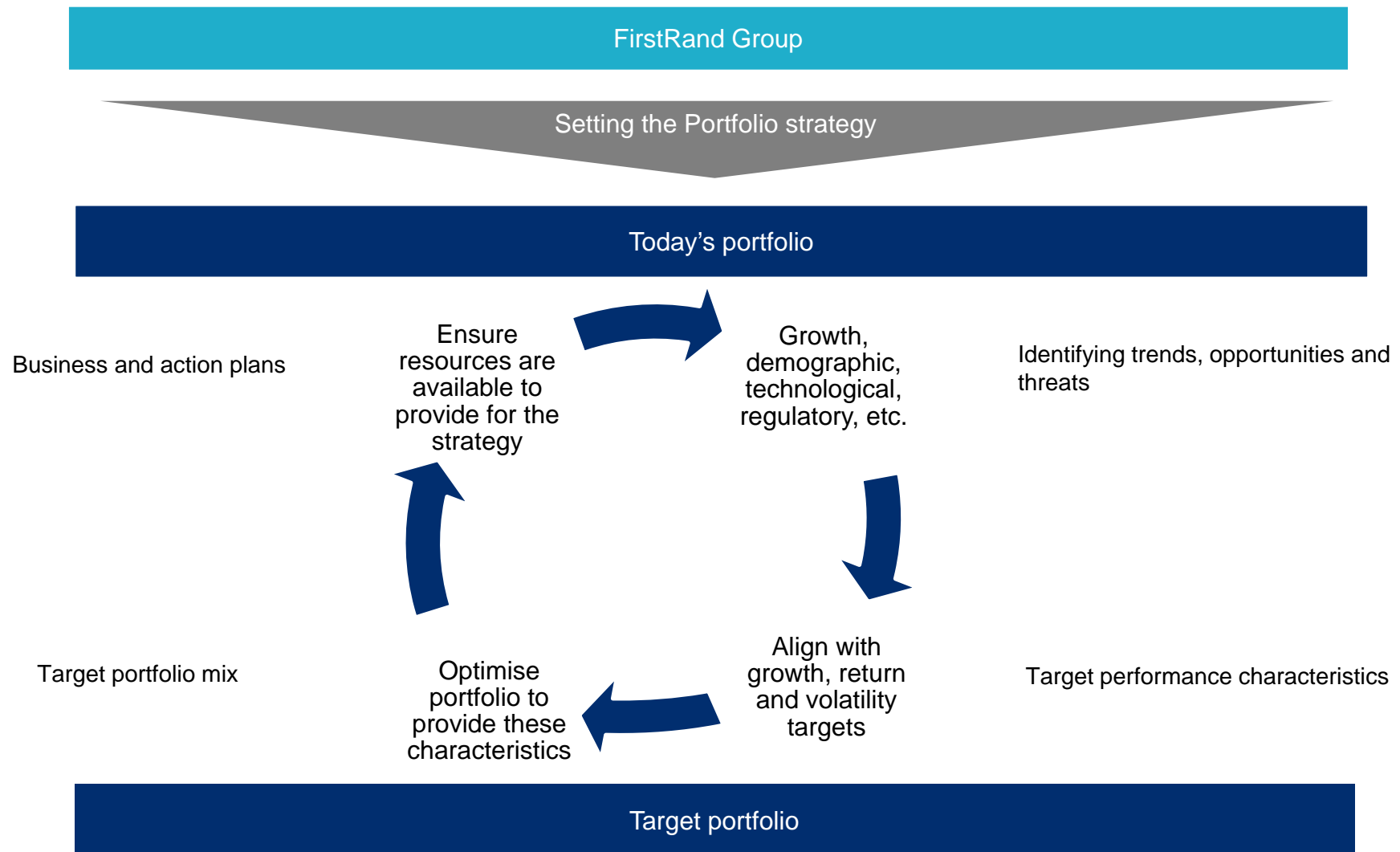


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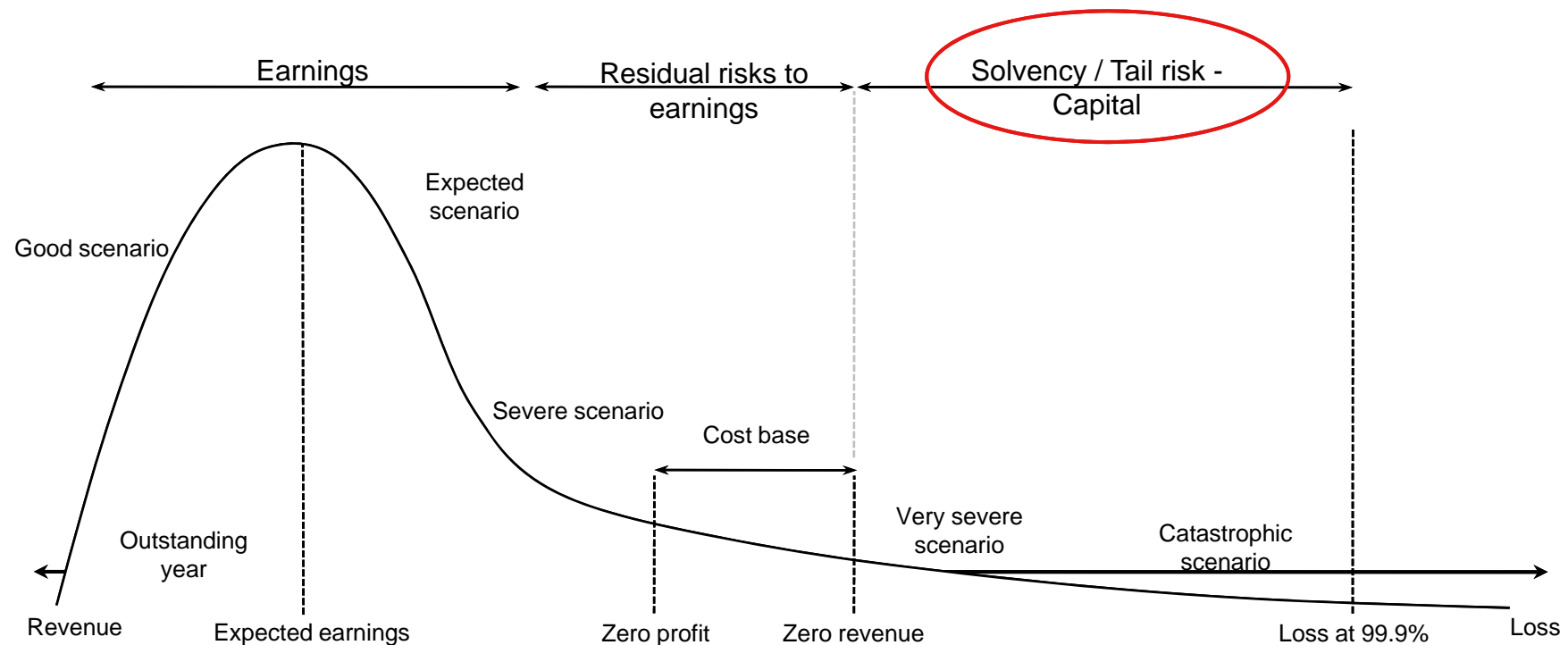
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Samantha Balsdon

# Providing resources to back the Group's strategy



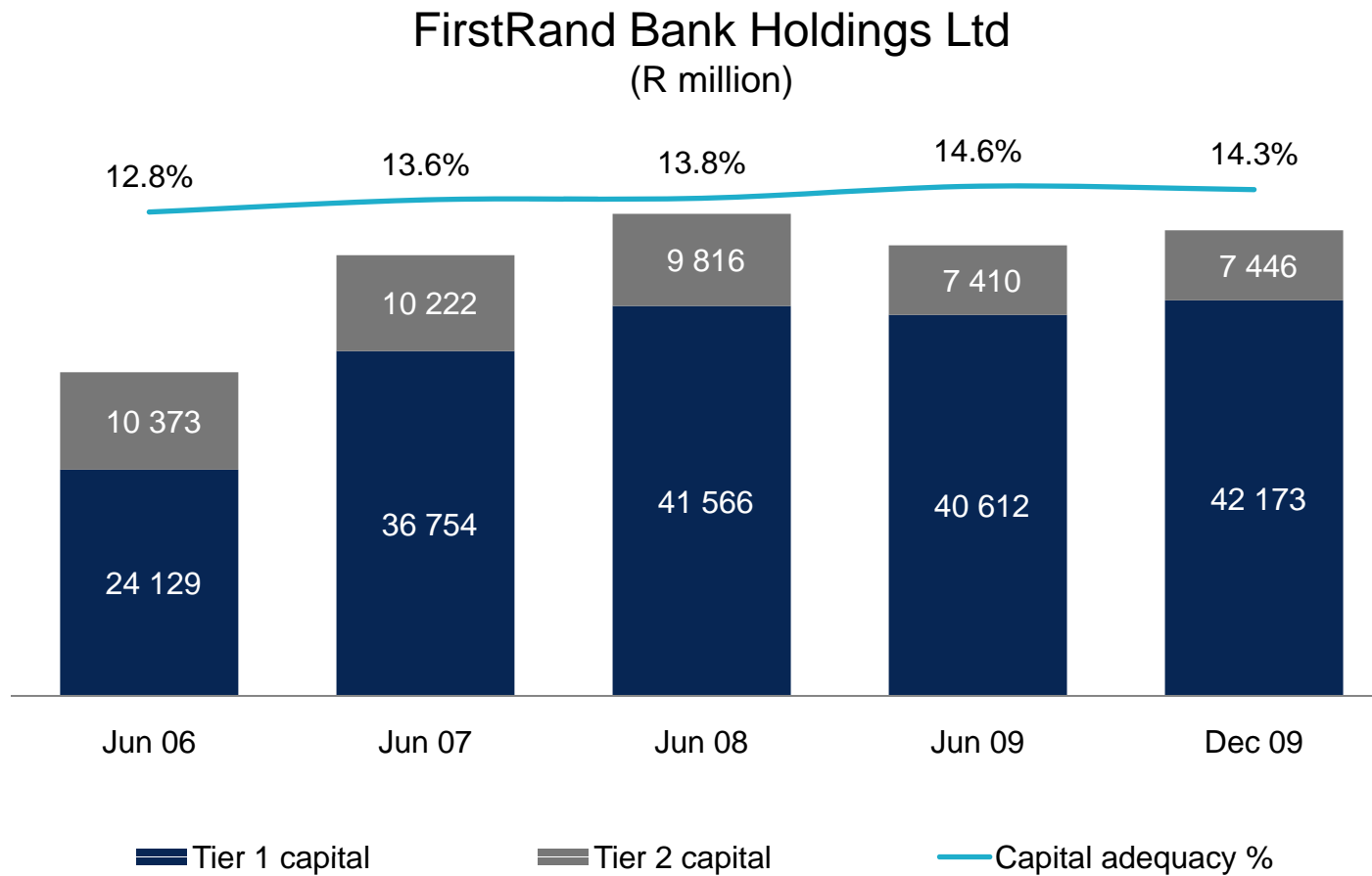
# Contextualising capital strategy



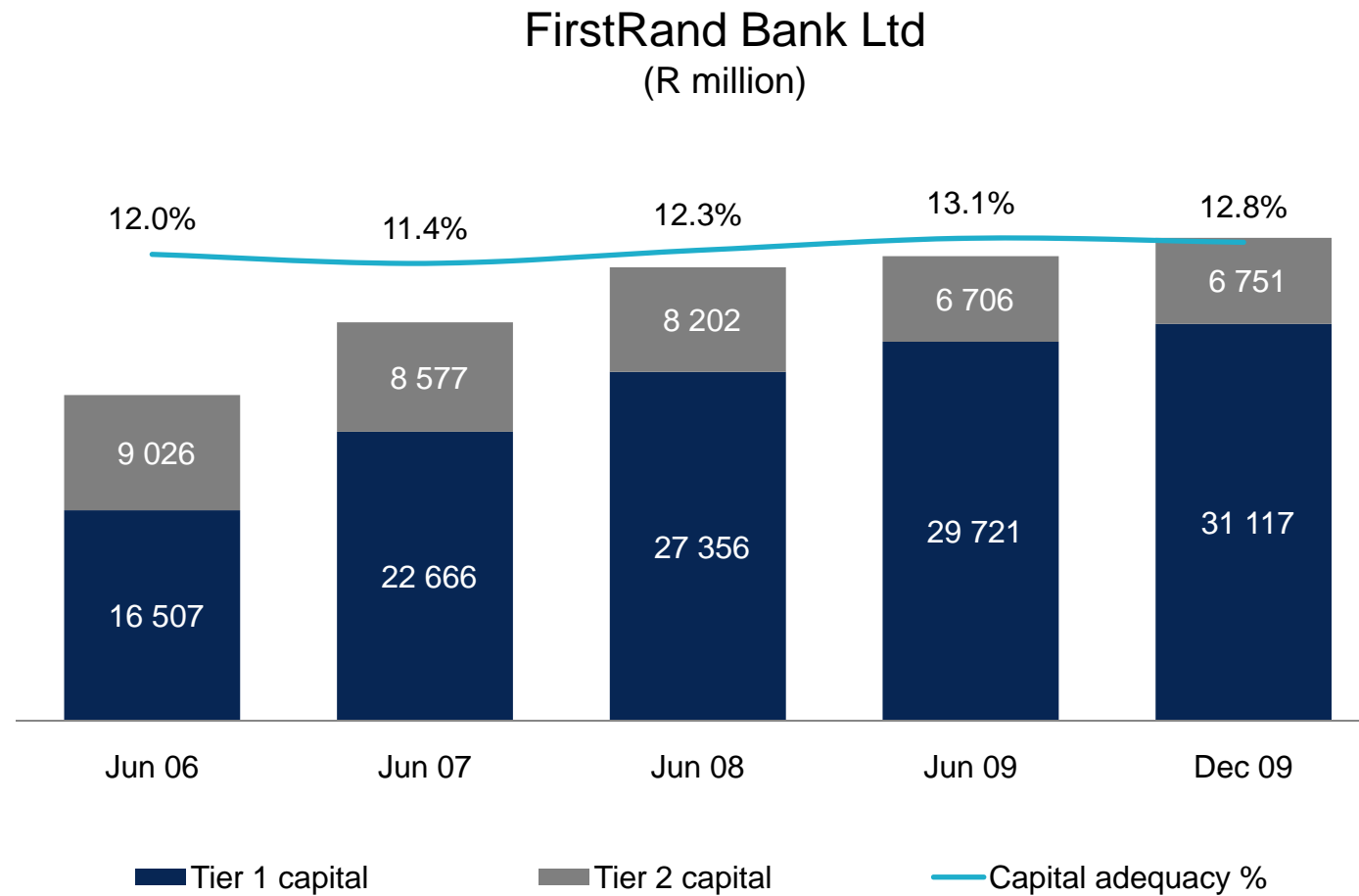
Earnings	Residual Risks	Capital
<ul style="list-style-type: none"> <li>Operating businesses seek to maximise returns within acceptable earnings volatility constraints</li> </ul>	<ul style="list-style-type: none"> <li>Group functions manage and mitigate these where economically feasible</li> <li>"Tail risk to earnings resilience/sustainability"</li> </ul>	<ul style="list-style-type: none"> <li>Capital as buffer against catastrophic outcomes</li> </ul>
<ul style="list-style-type: none"> <li>Earnings act as the first buffer against losses and financial underperformance</li> </ul>		



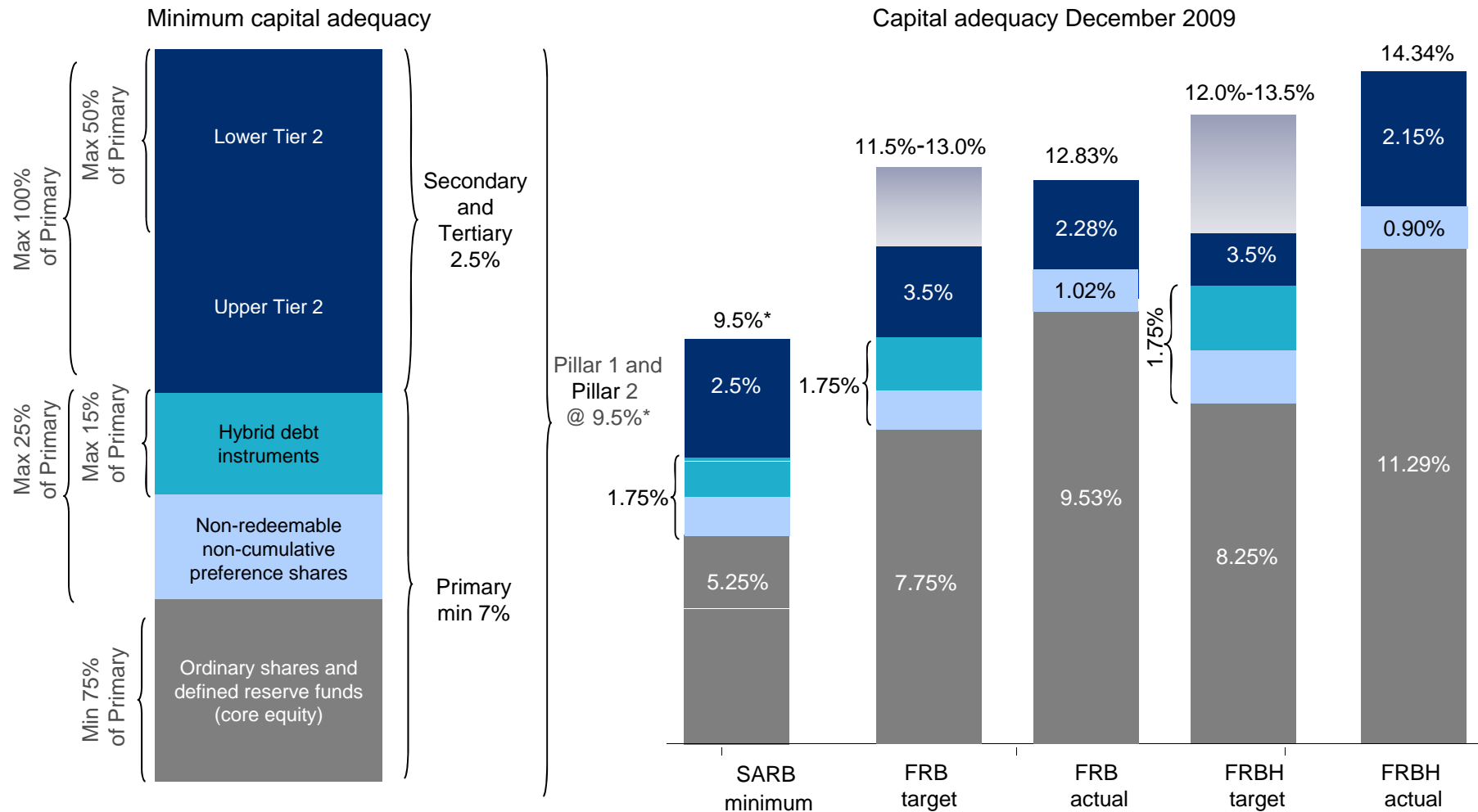
# Strengthening capital position over time



# A similar picture for the bank



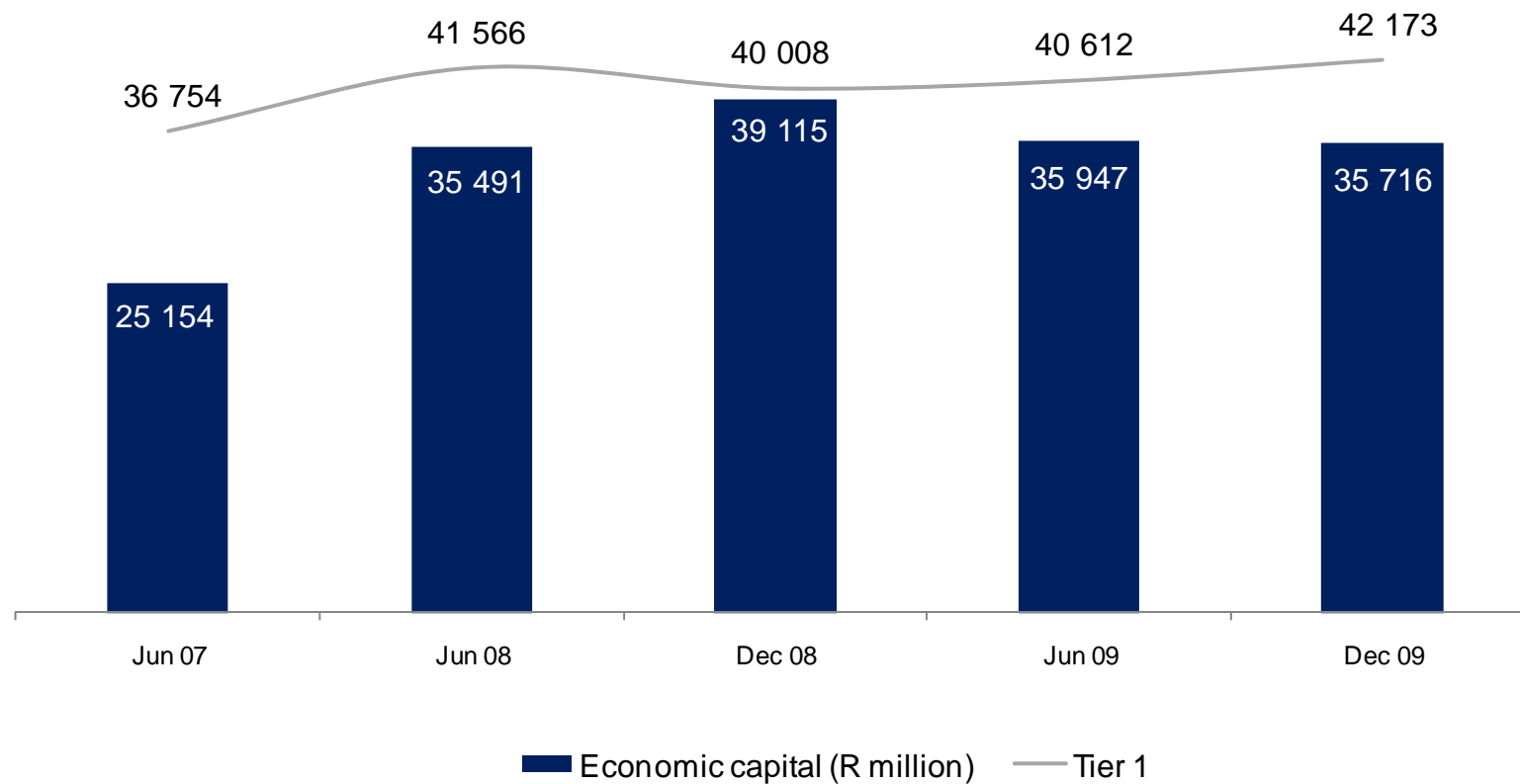
# Capital levels exceed targets and quality is good



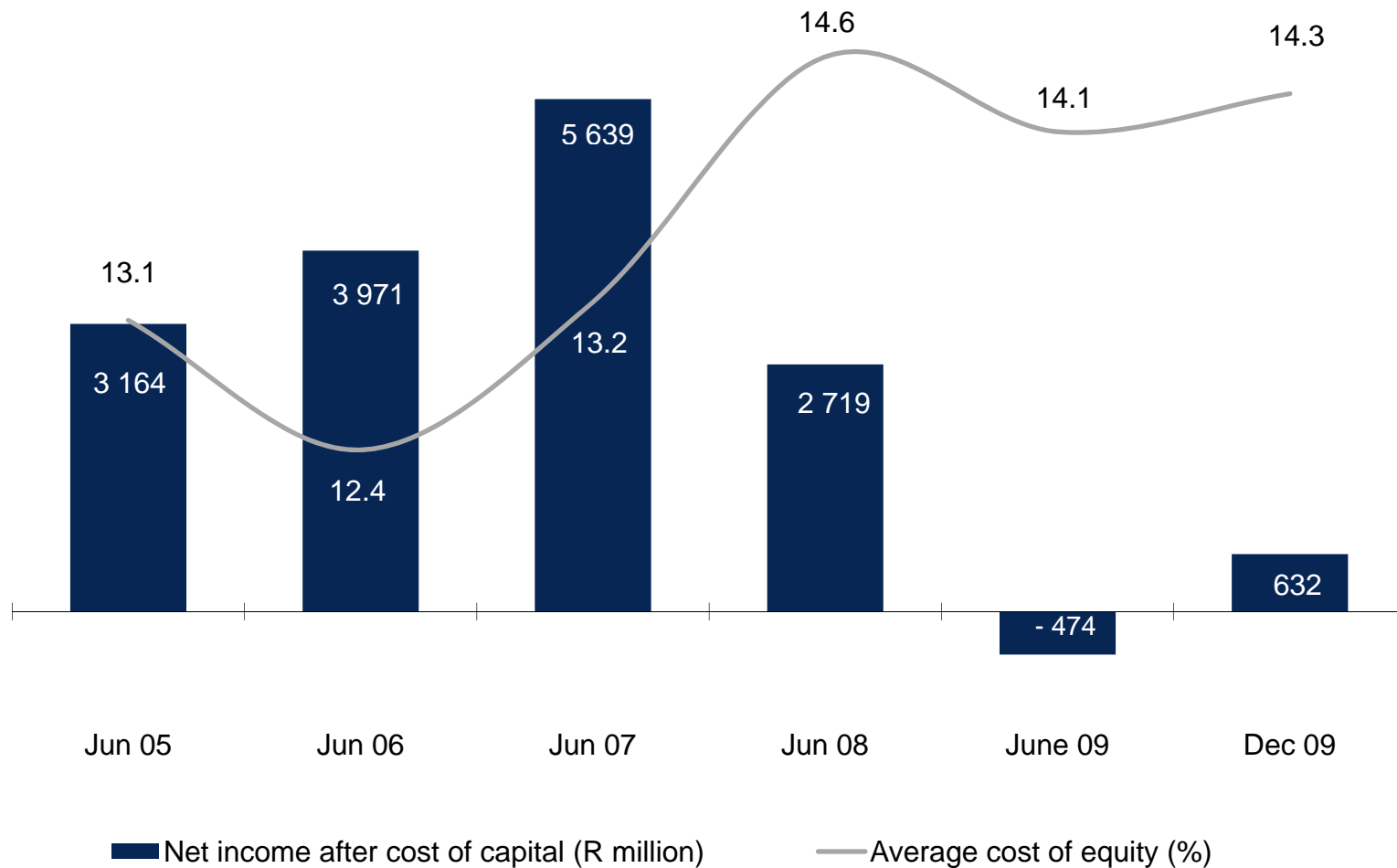
\* Excludes Pillar 2b add-on



# The Group backs economic capital with Tier 1



# Economic profit returns to positive territory



# Key conclusions on capital

- Capital levels are strong and the outlook for capital generation is robust
- Continue to focus on quality loss absorbing capital
- Capital is available to back the current strategy and expansion initiatives
- “Basel III” proposals are attainable if implemented in current form
- Regulatory changes will lead to continued pressure on ROEs



# Funding and liquidity management



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Andries du Toit

# Agenda

- Funding and liquidity management philosophy
- Funding & liquidity risk management
  - FirstRand's strategy
  - Macro factors impacting funding
  - FirstRand's risk profile
  - Regulatory impact
- FirstRand's response to the challenges of funding and liquidity



## Funding and liquidity management philosophy



# Funding & liquidity risk management philosophy

- Liquidity risk is the risk that the bank will not be able to meet all payment obligations as liabilities fall due (normally a consequential risk)
  - Funding liquidity risk
  - Market liquidity risk
- Context
  - FirstRand Limited's board principles and limits
  - South African banking and exchange control system
  - Moral Hazard risk
  - Subsidiaries within FirstRand Group
  - Highest rated South African banking group
- This is managed as part of Group Treasury



# Liquidity risk management philosophy



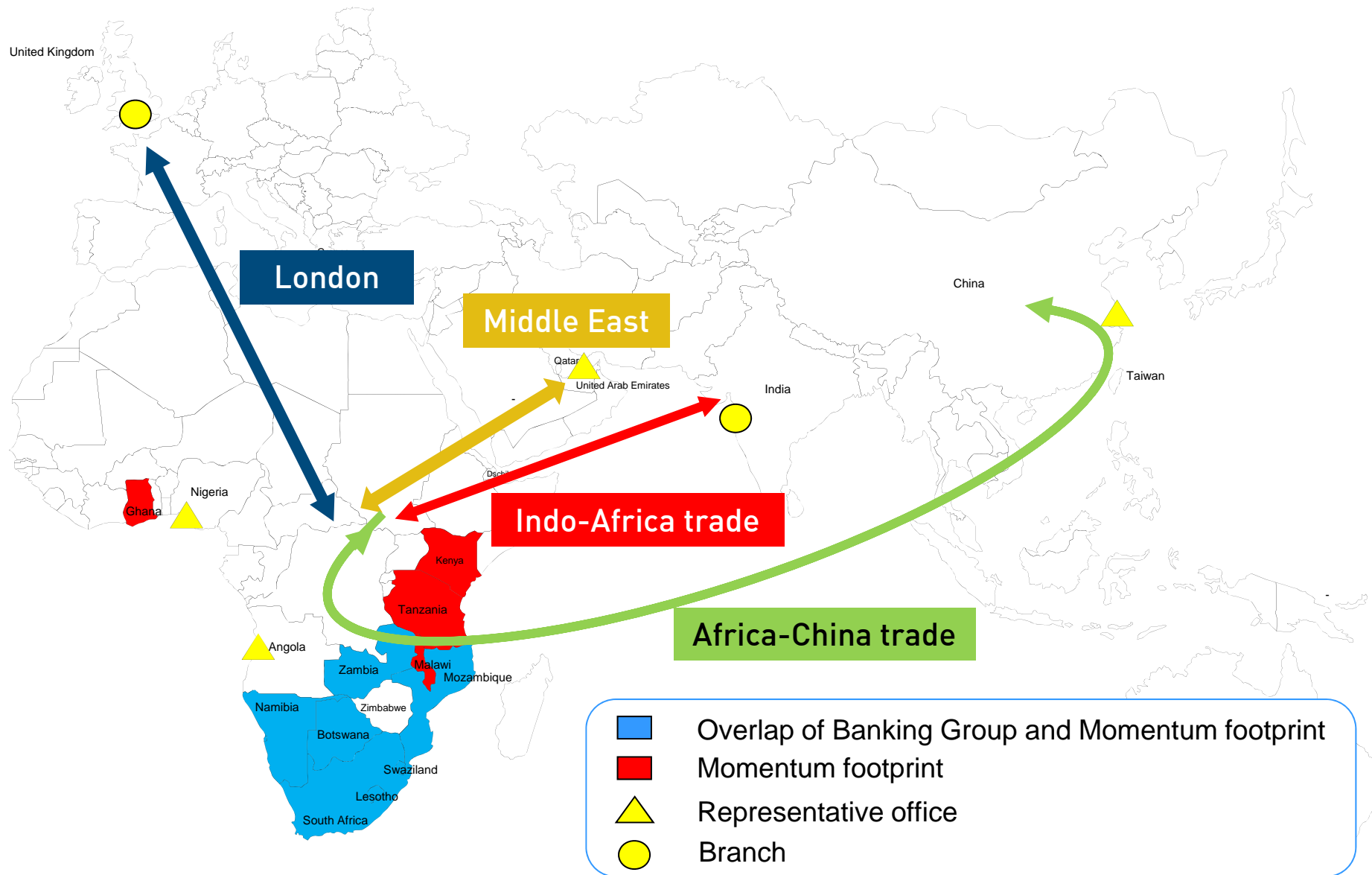
- Continuous funding and liquidity cycle
- Forward Looking
- Integrated across
  - Macro economic environment
  - All business units
  - All financial risk disciplines
  - Financial markets outlook
- Ensure compliance with
  - Internal risk appetite
  - Regulatory requirements
  - Rating agencies requirements
- Output
  - Efficient, diversified, flexible funding
  - Built upon strong relationship

# Funding & liquidity management

## FirstRand's strategy



# Funding platforms to support international strategy



# Funding & liquidity management

## Macro factors impacting funding



# South Africa's ratings by World Economic Forum

Category	Rankings
Financial market sophistication	5 <sup>th</sup>
Regulations of securities exchange	2 <sup>nd</sup>
Strength of auditing and reporting standards	1 <sup>st</sup>
Private monitoring of the banking industry	1 <sup>st</sup>
Efficiency of corporate boards	2 <sup>nd</sup>
Quality of math and science education	55 <sup>th</sup>
Brain drain and ease of hiring foreign labour	53 <sup>rd</sup>
External debt to GDP (developing economies)	9 <sup>th</sup>
Non-performing bank loans to total loans	27 <sup>th</sup>
Securitisation to GDP	24 <sup>th</sup>
Change in real effective exchange rate	53 <sup>rd</sup>
Banking system stability financial strengths indicator	19 <sup>th</sup>
Risk of sovereign debt crises (Foreign currency)	33 <sup>rd</sup>



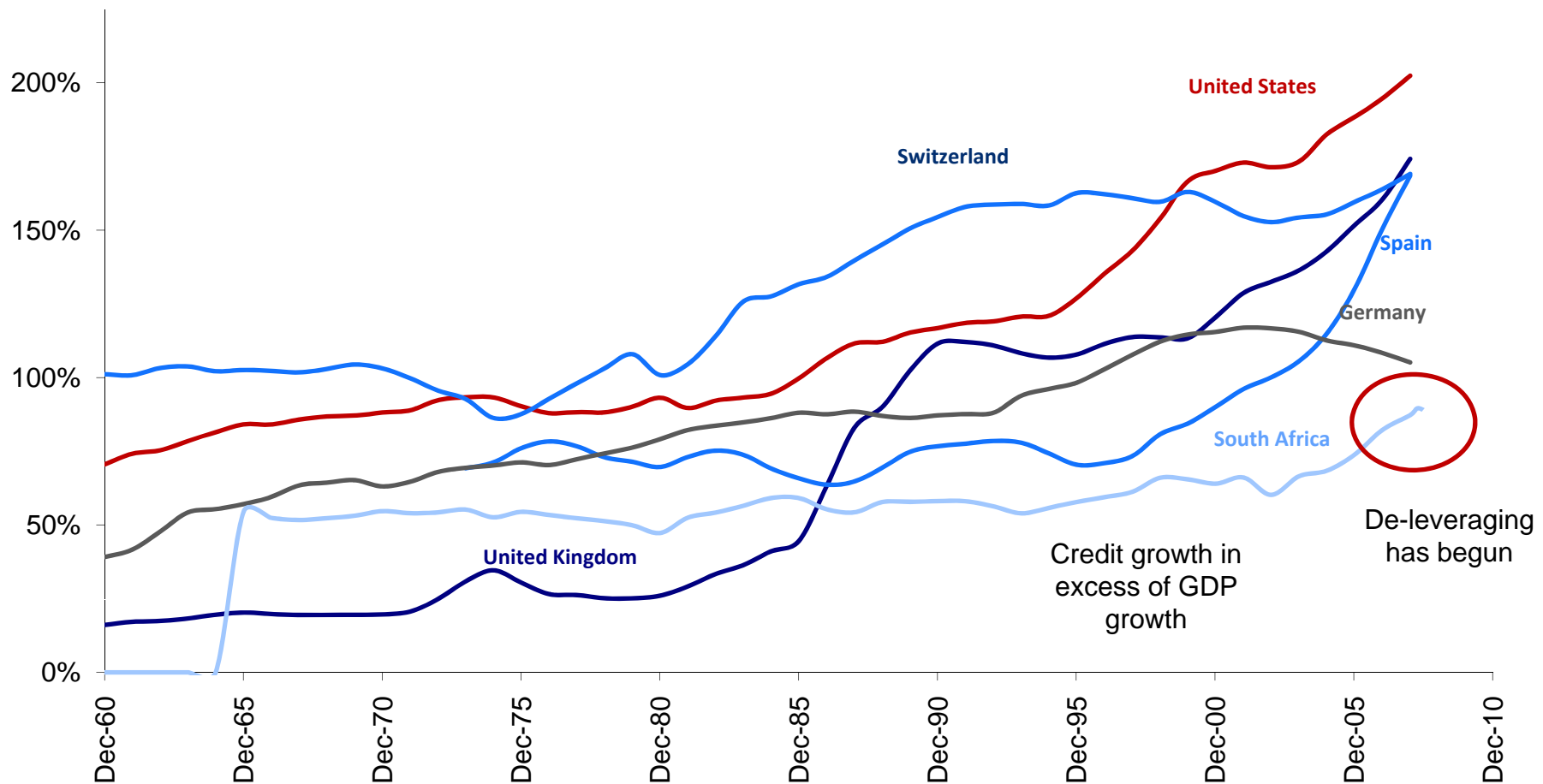
COMMITTED TO  
IMPROVING THE STATE  
OF THE WORLD

Source: World Economic Forum, *The Financial Development Report 2009*, 55 Countries



# Growing balance sheets in excess of income

Private Credit to GDP

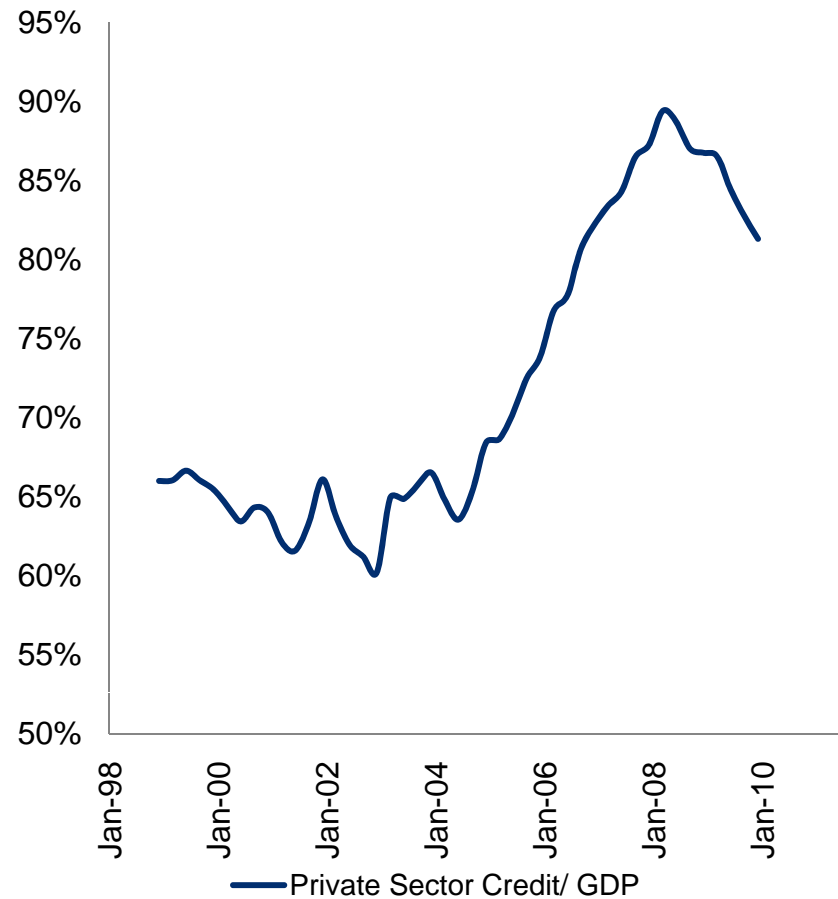


Source: World Bank Data

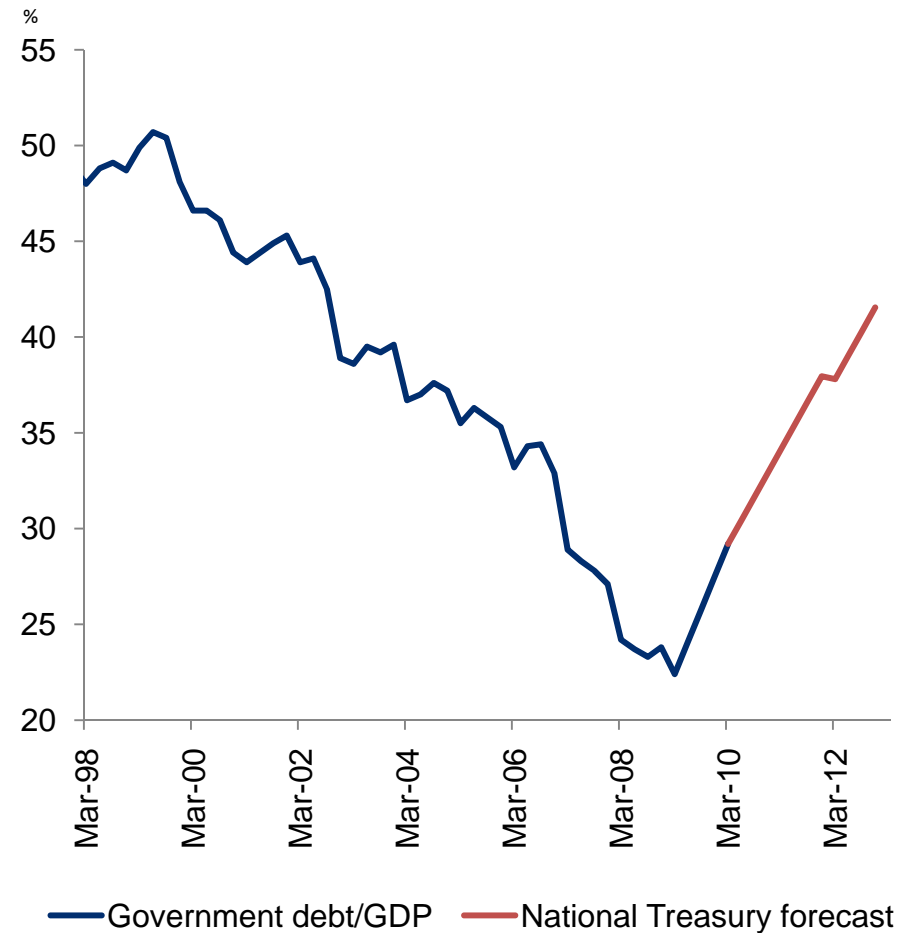


# Funding pressures – shift from households to public sector

Private credit/GDP ratio



Government debt/GDP ratio

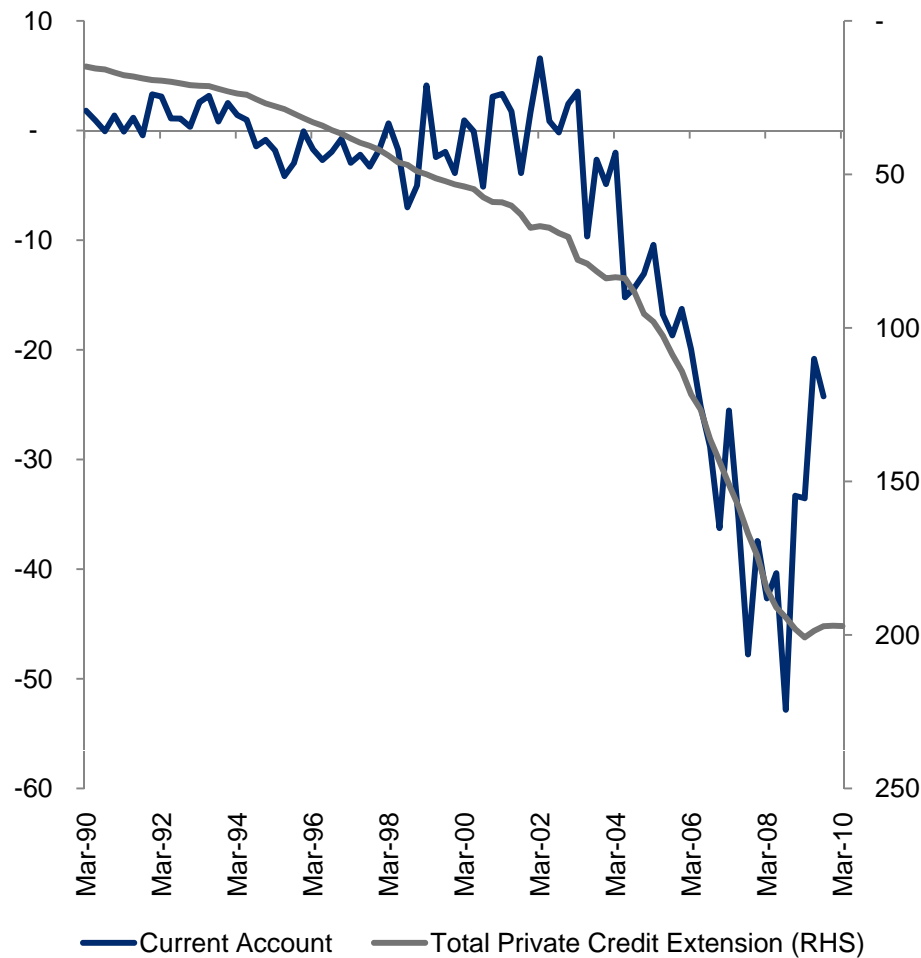


Source: iNet Data Service

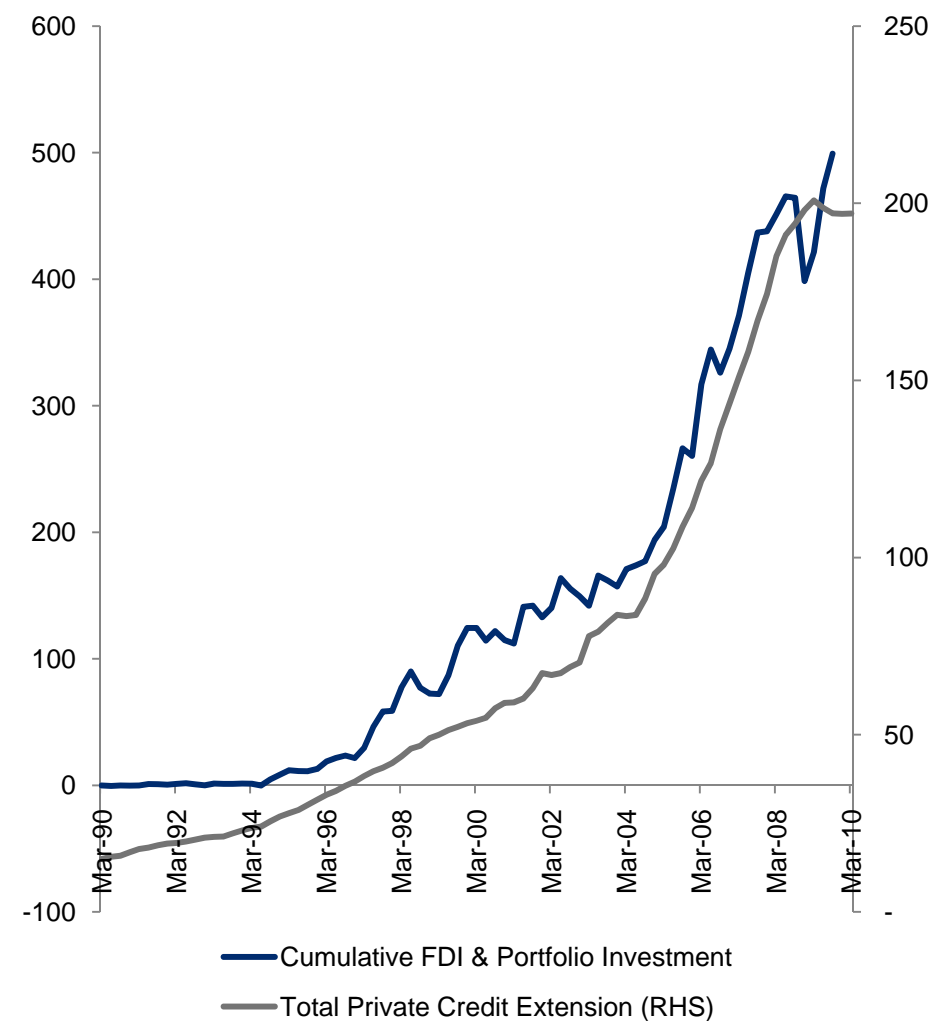


# SA Banks monetised foreign liquidity

## Current account deficit & PCE



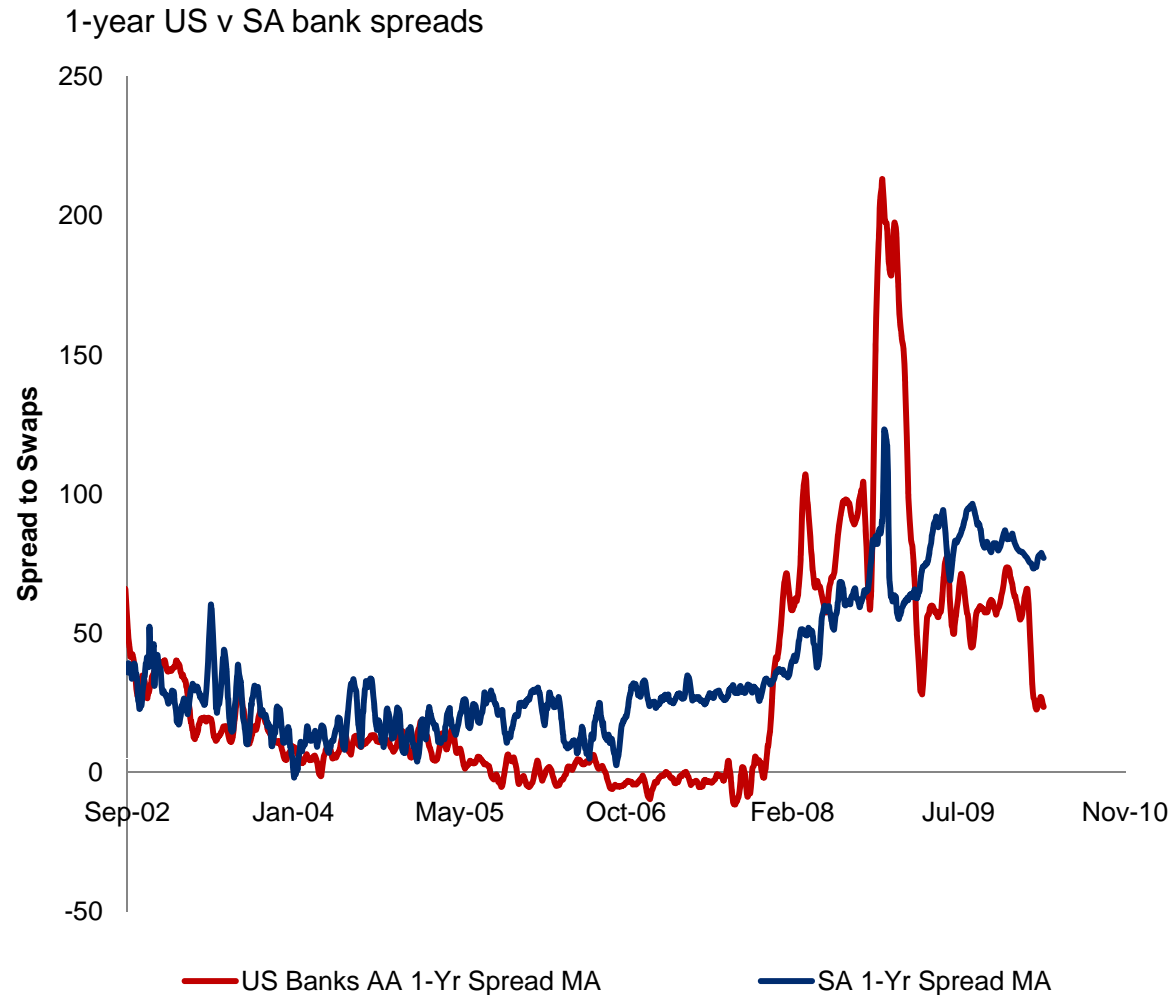
## Foreign investment & PCE



Source: iNet Data Service



# Comparing SA to international 1-year funding spreads

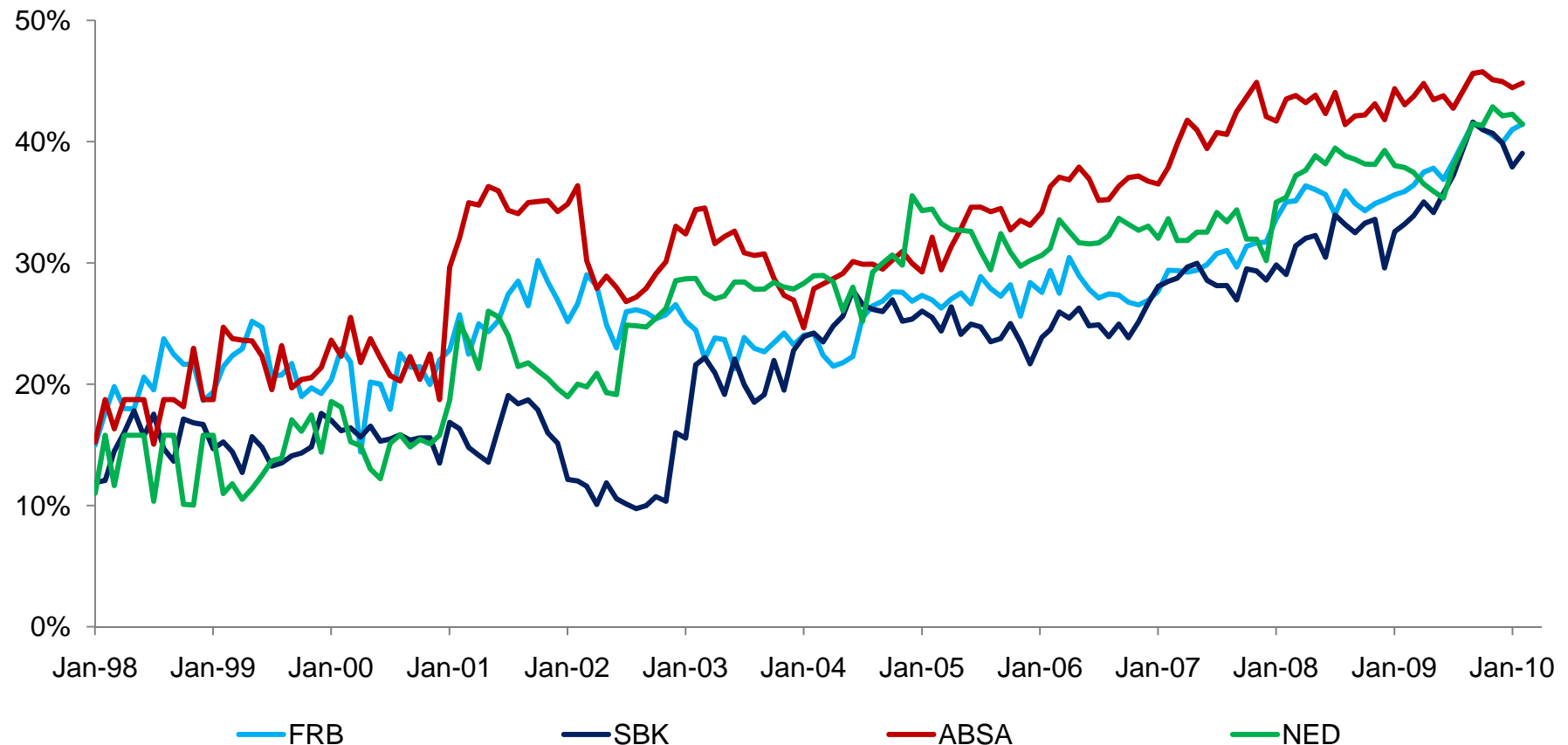


- Comparing the 1-year bank funding spreads to mid-swaps in SA vs the US
- Spreads in the US initially widened more severely than in SA, however the US spreads have also contracted more aggressively
- This highlights a divergence in funding pressure between ZAR and USD liquidity
- Internationally central banks have been providing excessive liquidity in the short end, while in SA the central bank and national treasury have in fact drained liquidity

Source: Bloomberg & iNet Data Service



# Increased reliance on institutional funding



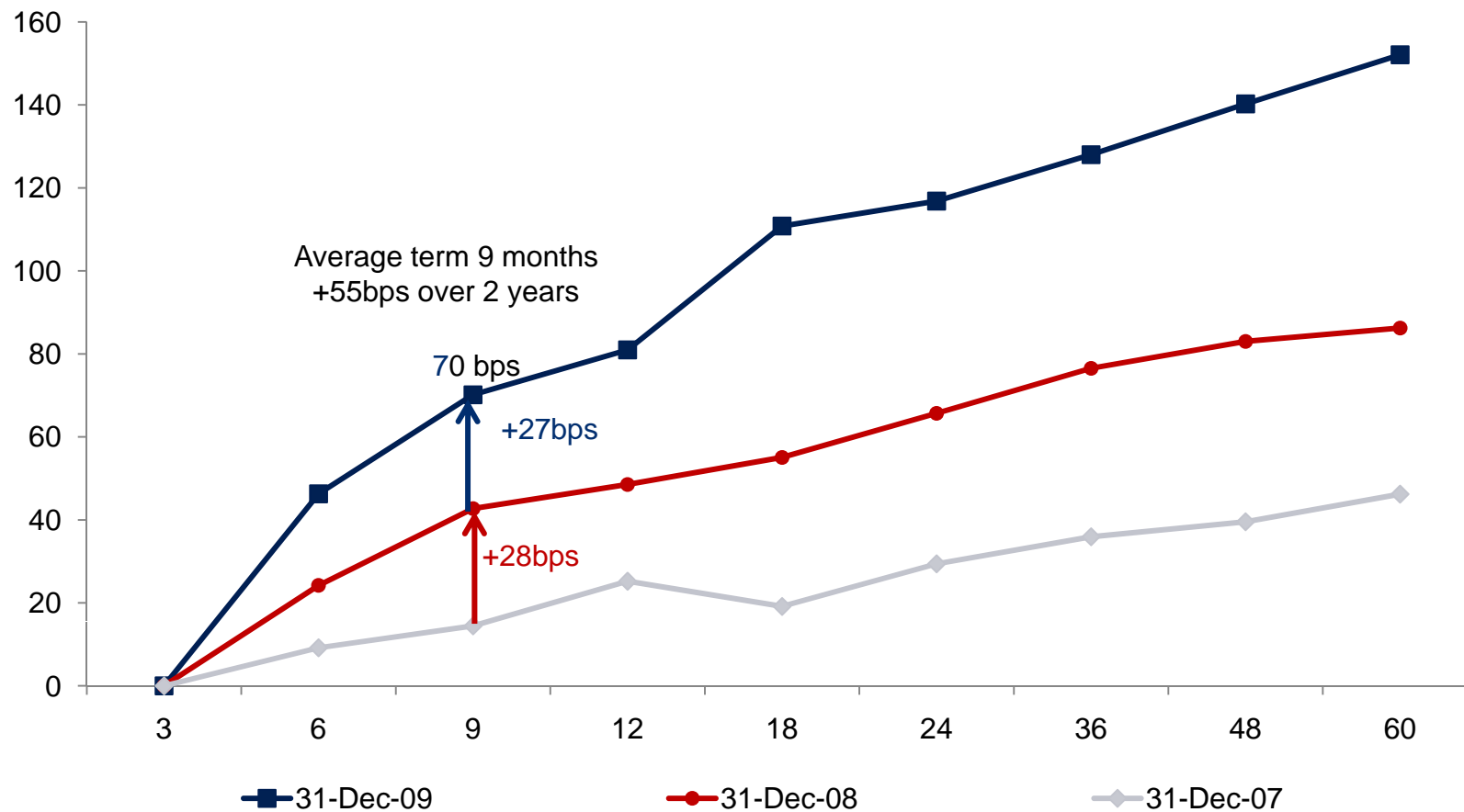
The SA banking system has increasingly been funded in the institutional market

Source: SARB BA returns, Dec 2009



# Funding more expensive across the term structure

Liquidity premium curve spread to mid swaps



Source: FirstRand Financial Market Research



# Funding & liquidity management

## FirstRand's risk profile

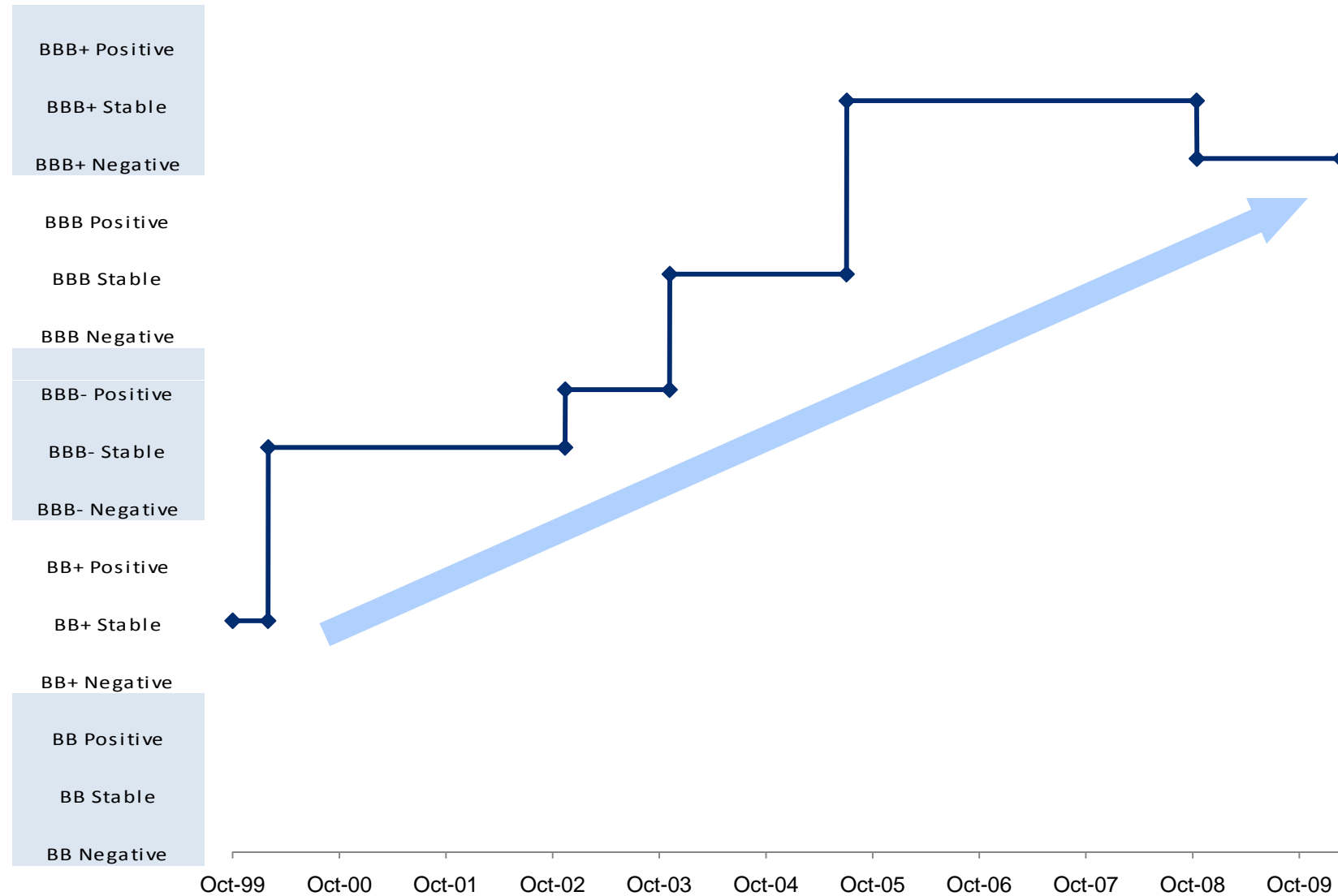


# FirstRand Bank Limited's external ratings

	Standard & Poor's	Moody's	Fitch Ratings
FOREIGN CURRENCY			
Long term/Outlook	BBB+/Negative	A3/Stable	BBB+/Negative
Short term	A-2	P-2	F2
LOCAL CURRENCY			
Long term/Outlook	BBB+/Negative	A2/Stable	BBB+/Negative
Short term	A-2	P-1	-
NATIONAL			
Long term/Outlook	-	Aa2.za/Stable	AA(zaf)/Negative
Short term	-	P-1.za	F1+(zaf)



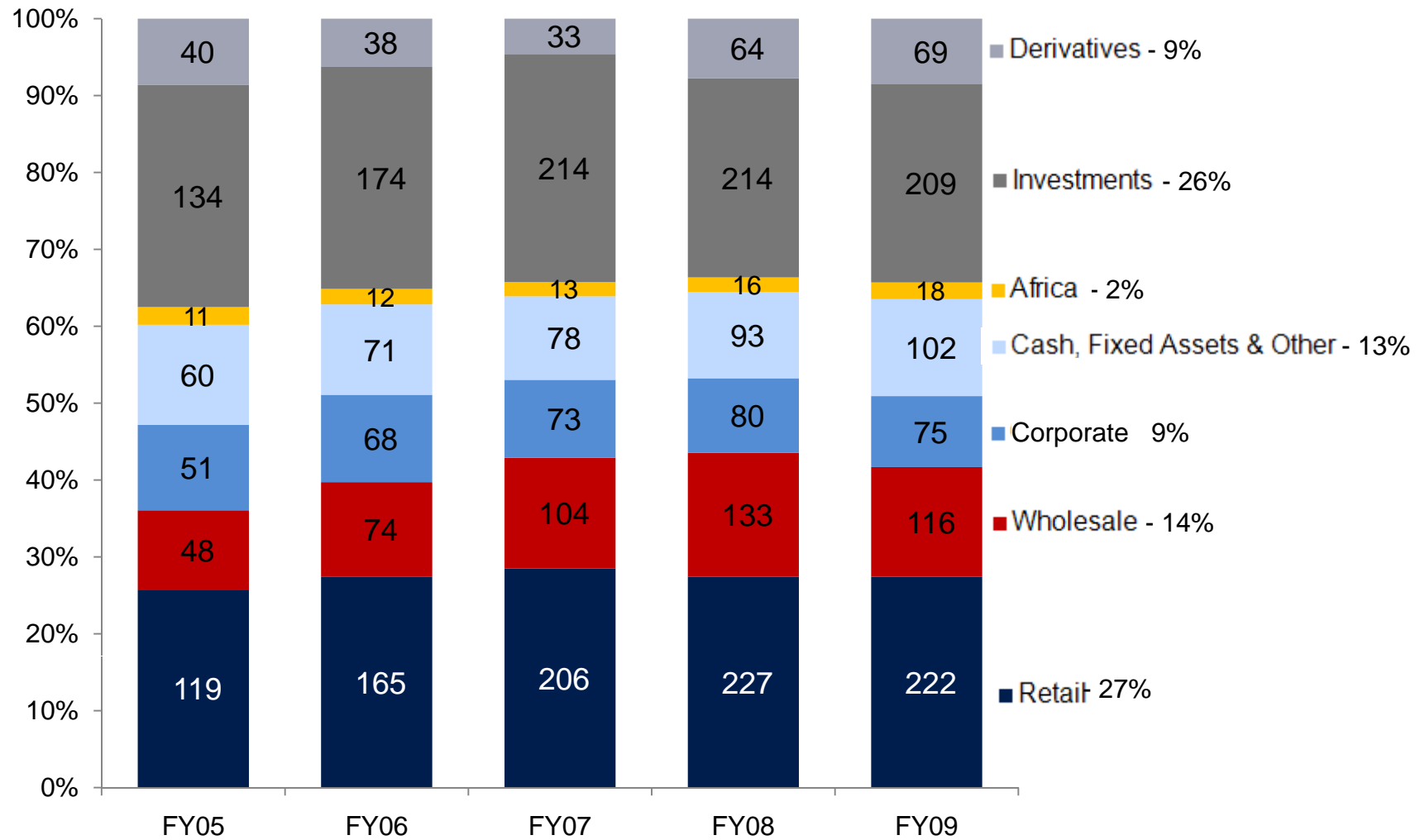
# FirstRand Bank Limited's external ratings history



Source: S&P: International rating scale



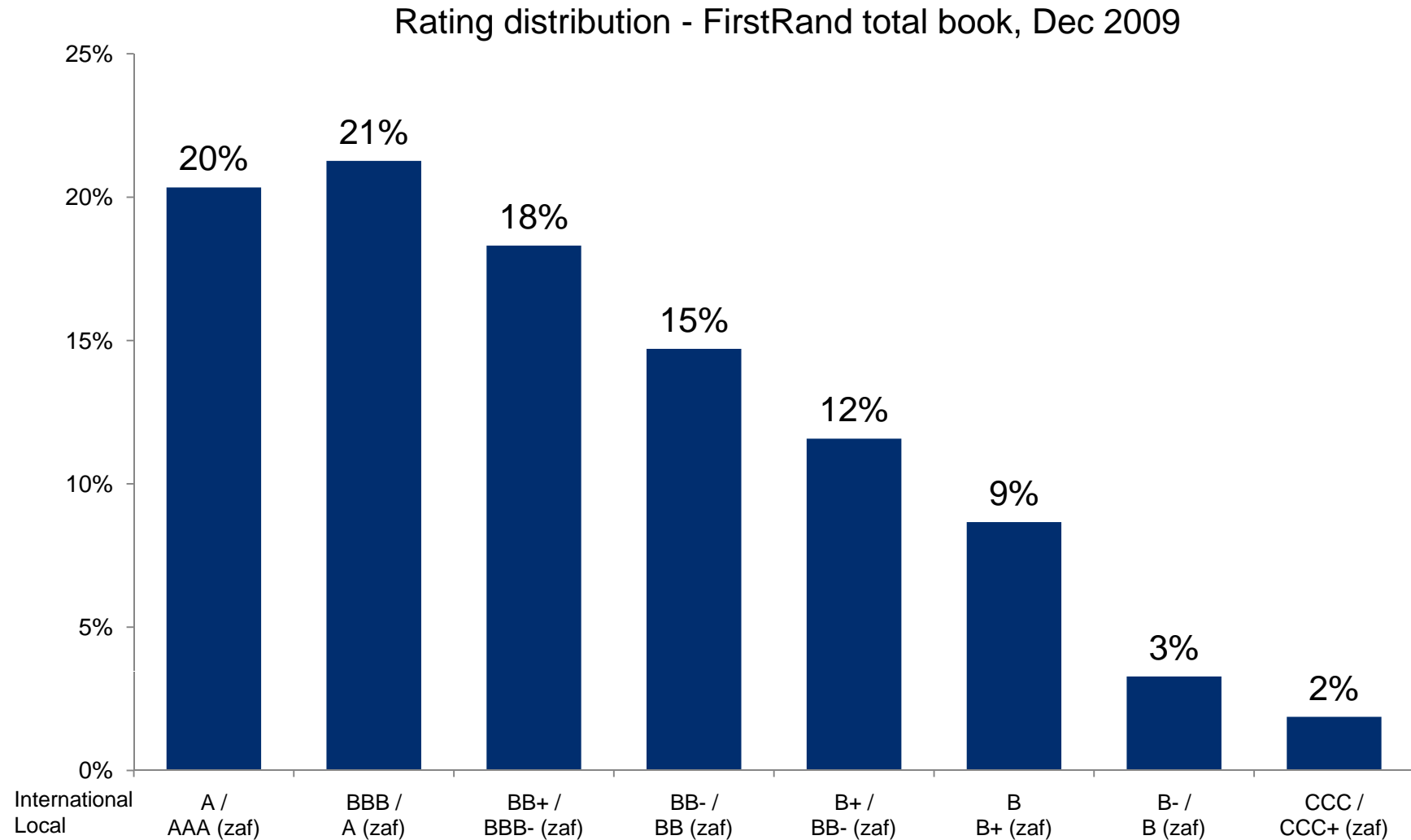
# FirstRand's diversified asset profile



Source: FirstRand shareholder circulars



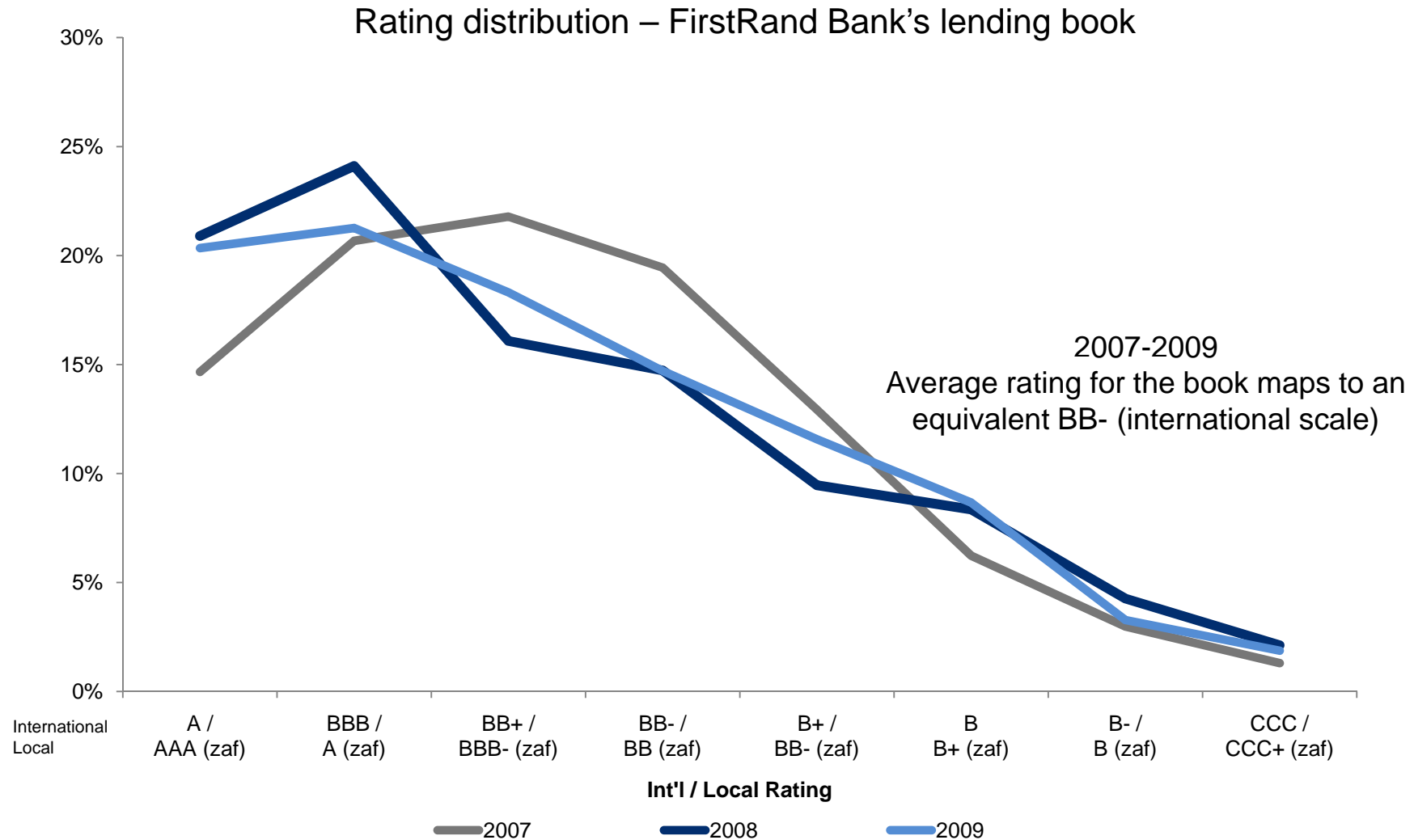
# FirstRand's advances rating distribution



Source: FirstRand annual report & FRBH Pillar III disclosures



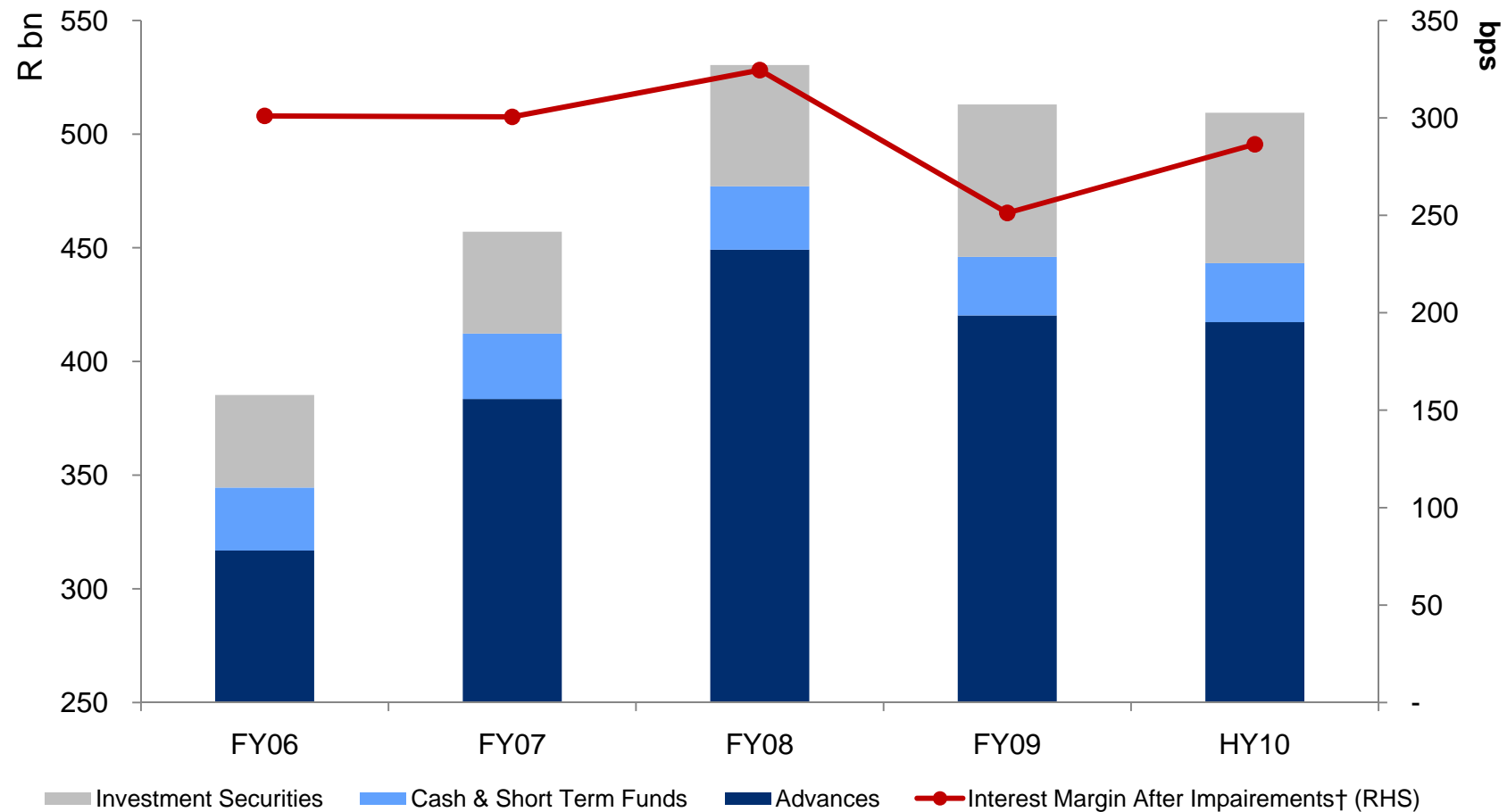
# FirstRand's advances show an improving rating distribution



Source: FirstRand annual report & FRBH Pillar III disclosures



# Stable debt margin after credit impairments

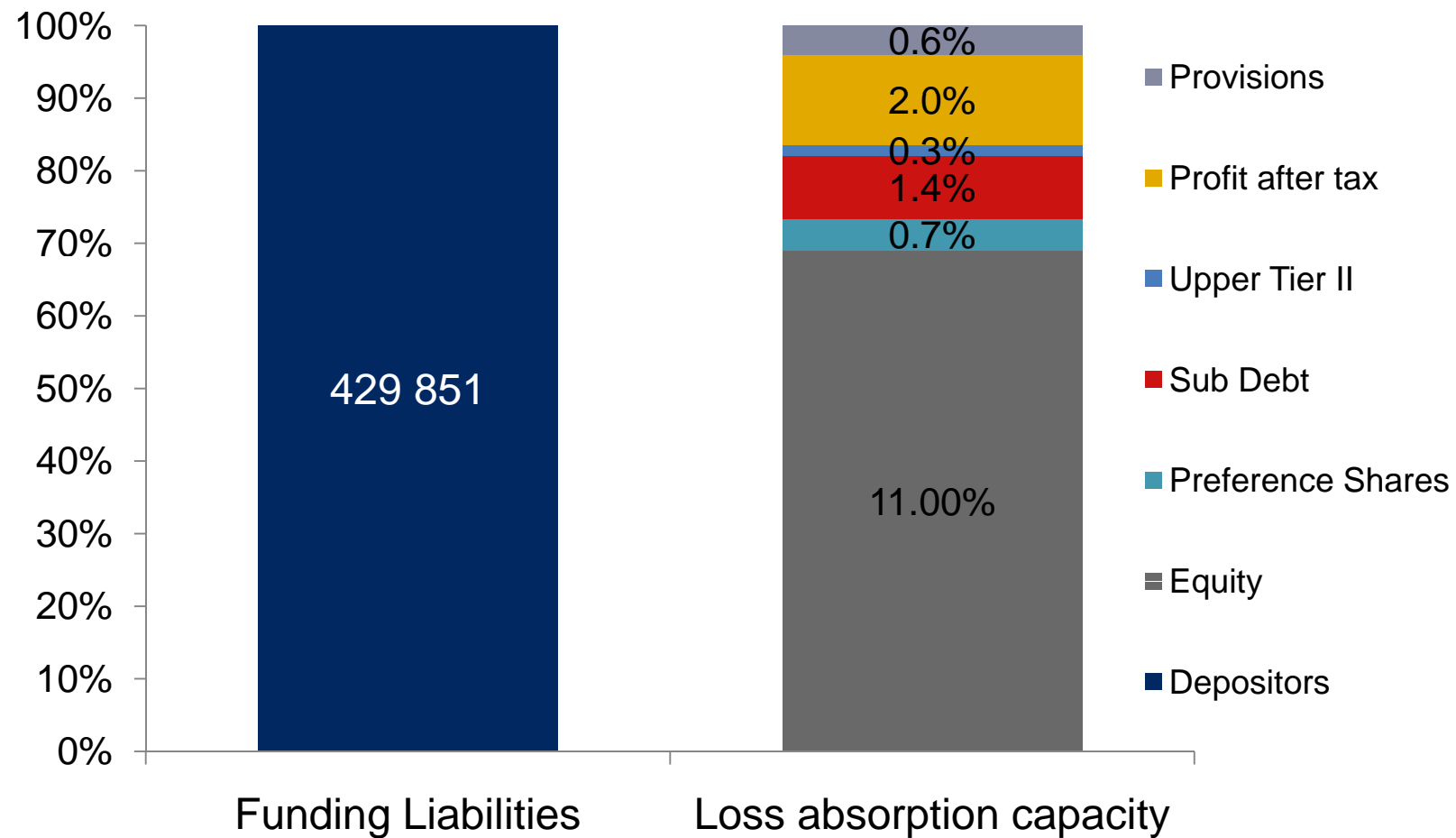


† 
$$\frac{\text{Net interest income} + \text{debt annuity income} + \text{income from investment securities} - \text{impairment charge}}{\text{Advances} + \text{investment securities} + \text{cash and short term funds}}$$

Source: FirstRand shareholder circulars



# Strong credit enhancement for senior debt investors



Equates to a 16% "first loss protection"  
(For a BBB+ rating in a CDO, rating agencies require 8.5% first loss protection)



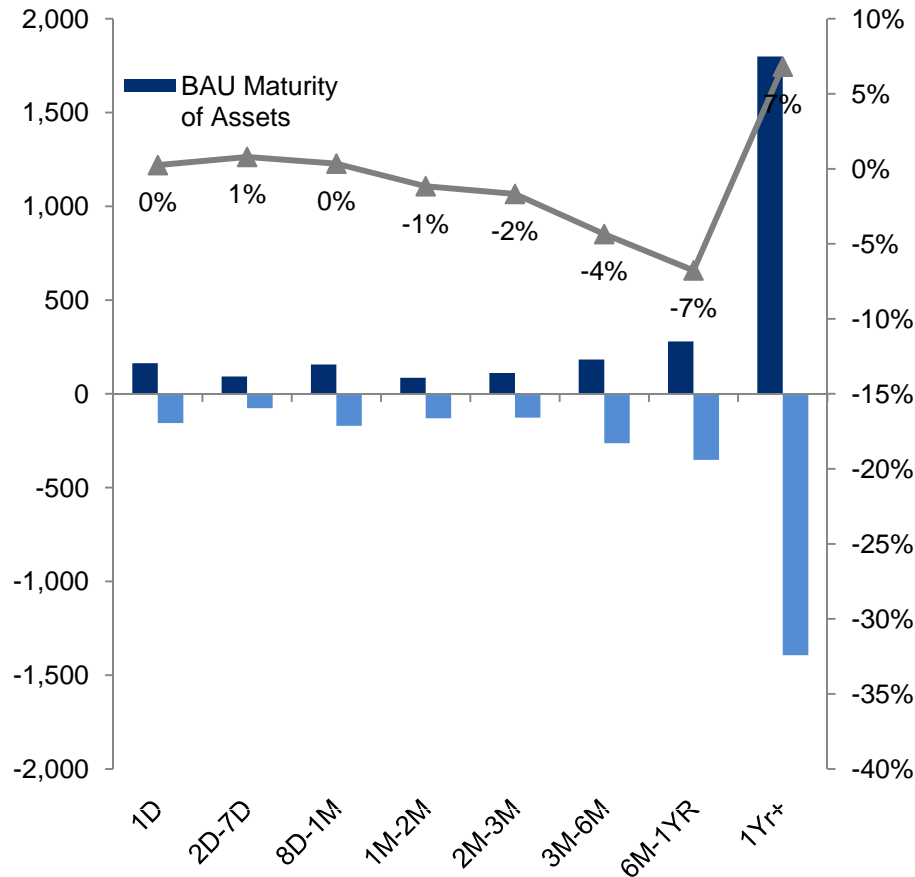
# Funding & liquidity management

## Regulatory impact



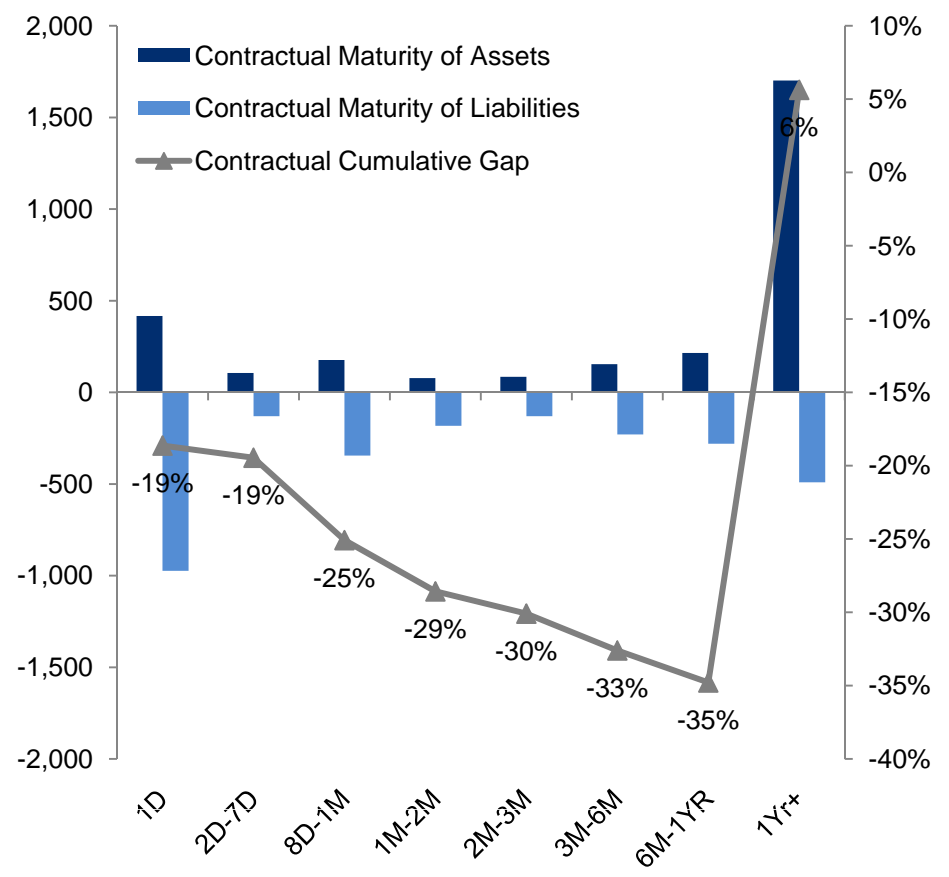
# SA banking liquidity gap

## Business as usual gap



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

## Contractual maturity gap



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

Source: SARB BA Returns, Dec 2009



# External influences on funding strategy

- Basel II focused largely on credit risk
  - Misdirected the attention of banks and regulators to focus mostly on credit risk
  - Bank failures have proved to be as a result of **liquidity risk**
  - No sensible amount of capital can protect a bank from a liquidity event
- Bank for International Settlement (BIS)
  - Principles for Sound Liquidity Risk Management and Supervision, August 2008
  - **International framework for liquidity risk measurement, standards and monitoring, December 2009**
- Financial Services Authority (FSA)
  - PS 09/16: Strengthening Liquidity Standards, October 2009
- IMF
  - Report on SA Banking System, September 2009
- South African Reserve Bank
- Exchange control prudential limit approach



# Basel III – new liquidity rules

- Liquidity Coverage Ratios (LCR)
  - Addresses **short-term** liquidity risk and cash management
  - Banks must hold high-quality liquid assets sufficient to cover
    - all net cash outflows
    - over a 30-day period
    - under an **acute liquidity stress scenario** (combined idiosyncratic and systemic shock)
  - Enhancement of statutory liquid asset and cash reserve requirement as risk specific (where statutory liquid assets and cash reserve are based on balance sheet size)
- Net Stable Funding Ratio (NSFR)
  - **Long-term** focus addressing the **structural liquidity risk** of the balance sheet
  - Ratio requires that assets maturing after 1 year be funded with “stable” funding
  - “Stable” funding takes into account the stability of funding over a year during an **extended firm-specific stress scenario** (decline in profitability or solvency, potential downgrade, event affecting reputation/credit quality)



# Basel III – Impact of new liquidity rules

- Latest research by the BIS suggests enhancements to theory of the role banks in the transmission mechanism of monetary policy
  - Original theory suggests deposits constitute the stock of loanable funds, acting as the driving force of bank lending<sup>†</sup>
  - Broadening to incorporate non-deposit funding
- In its current form the BIS proposal will have a material impact on the South African banking industry:
  - Structural reform required:
    - Contractual savings structure
    - The low savings rate
    - South Africa economic development
  - The financial impact is too early assess as the process is still in
    - Quantitative impact study
    - Discussion forum
    - Information gathering



# Macro-prudential limit approach to exchange control

- Macro-prudential limit of 25% of bank's total liabilities
  - (Excluding shareholders equity)
  - Applies to SA Authorised Dealers (banks),
  - Not SA corporates or other sectors
- Banks may acquire foreign assets directly from their SA balance sheet, or indirectly through foreign subsidiaries / branches
  - Excludes foreign direct investment and intra-group bank exposures
- Effective 1 March 2010



## FirstRand's response

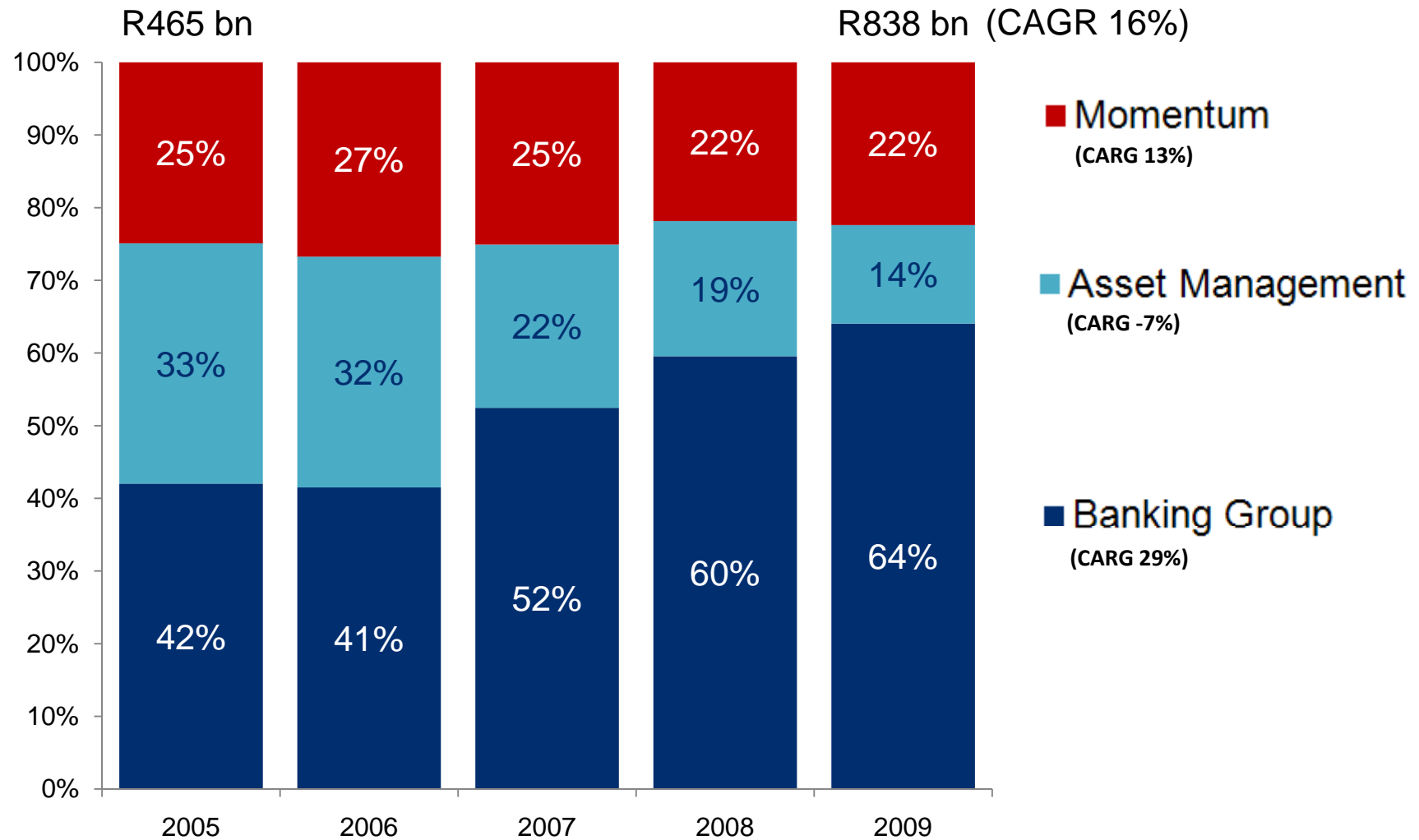


# Create efficient, flexible and diversified funding platforms

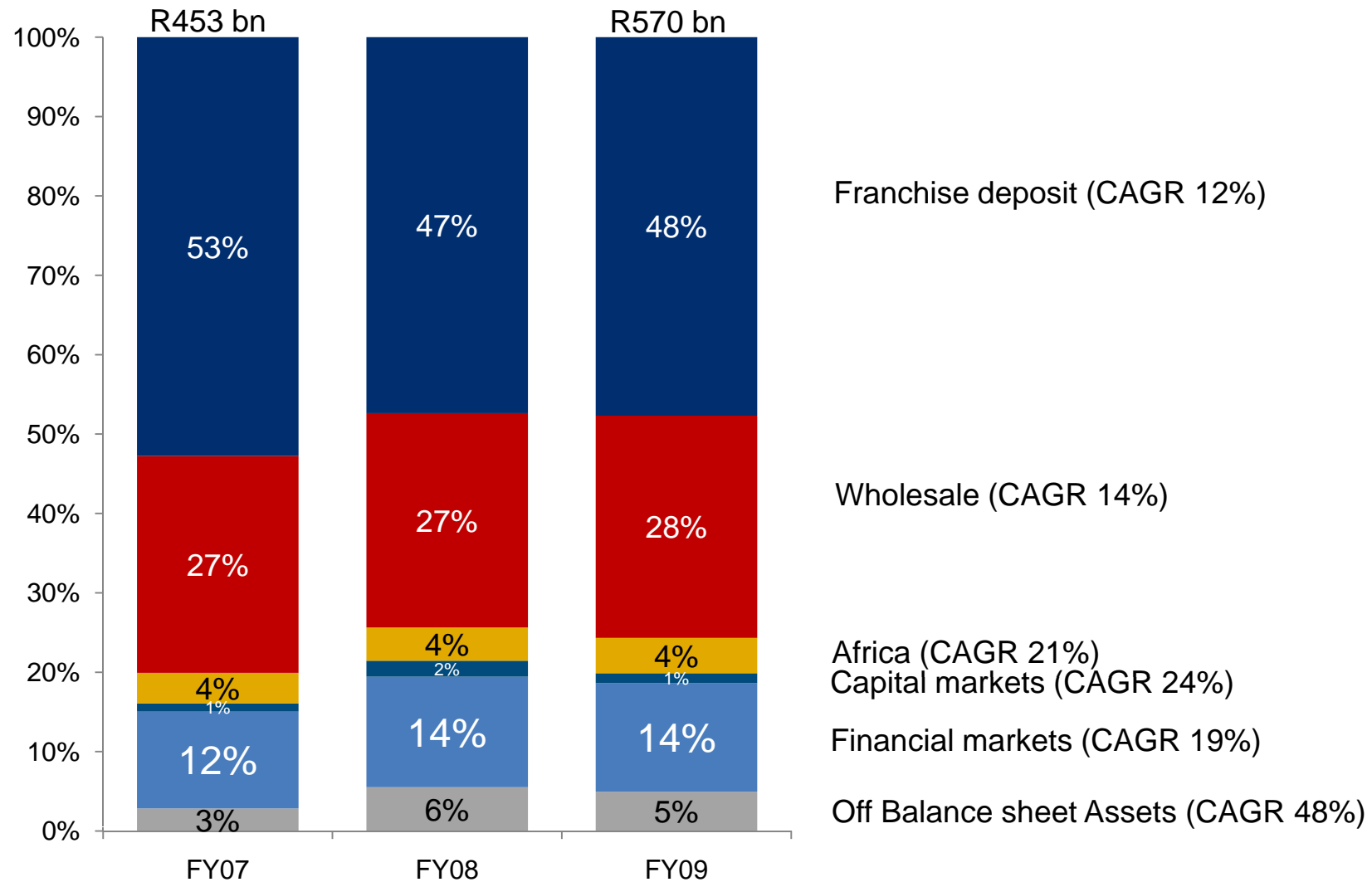
Regulated platforms (licenced)	FirstRand Bank, (branches: London, India), African banking platform, Momentum, OUTsurance, RMB Morgan Stanley Exchanges (LSE, JSE, BESA)
Unregulated entities* (un-licenced)	FirstRand Investment Holdings Private equity
Off-balance sheet	Securitisations, conduits / risk transformation platform Bi-lateral (Carlyle)
Own funds	Private equity (Ethos) FirstRand structured investments, e.g. RMB / Westport
3 <sup>rd</sup> party platforms	Traditional <ul style="list-style-type: none"> <li>• RMBAM</li> <li>• FNB Wealth</li> </ul> Alternative <ul style="list-style-type: none"> <li>• FSI</li> </ul>



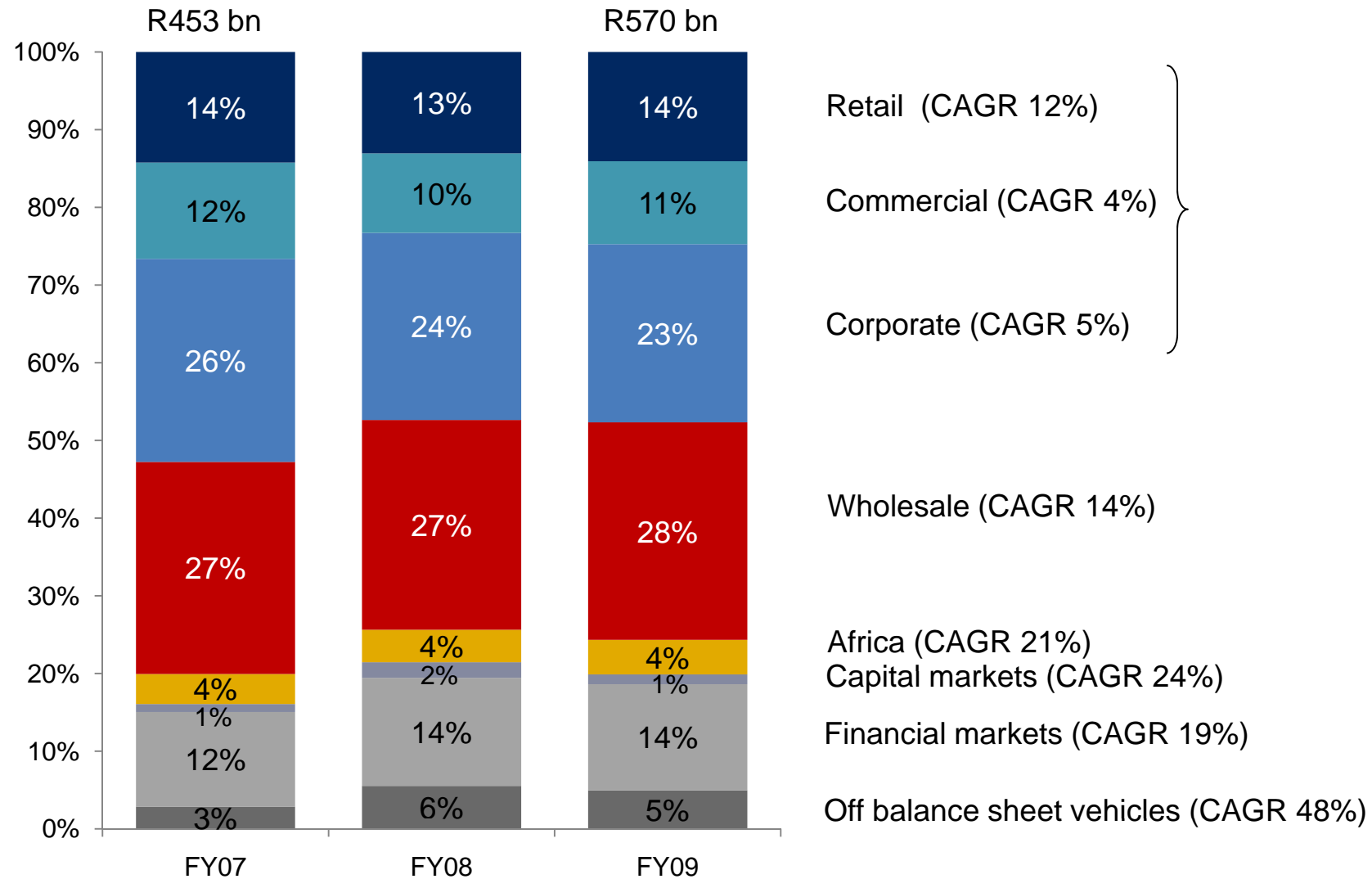
# Funding assets under management



# Diversified funding sources



# Retail and corporate funding strategy key

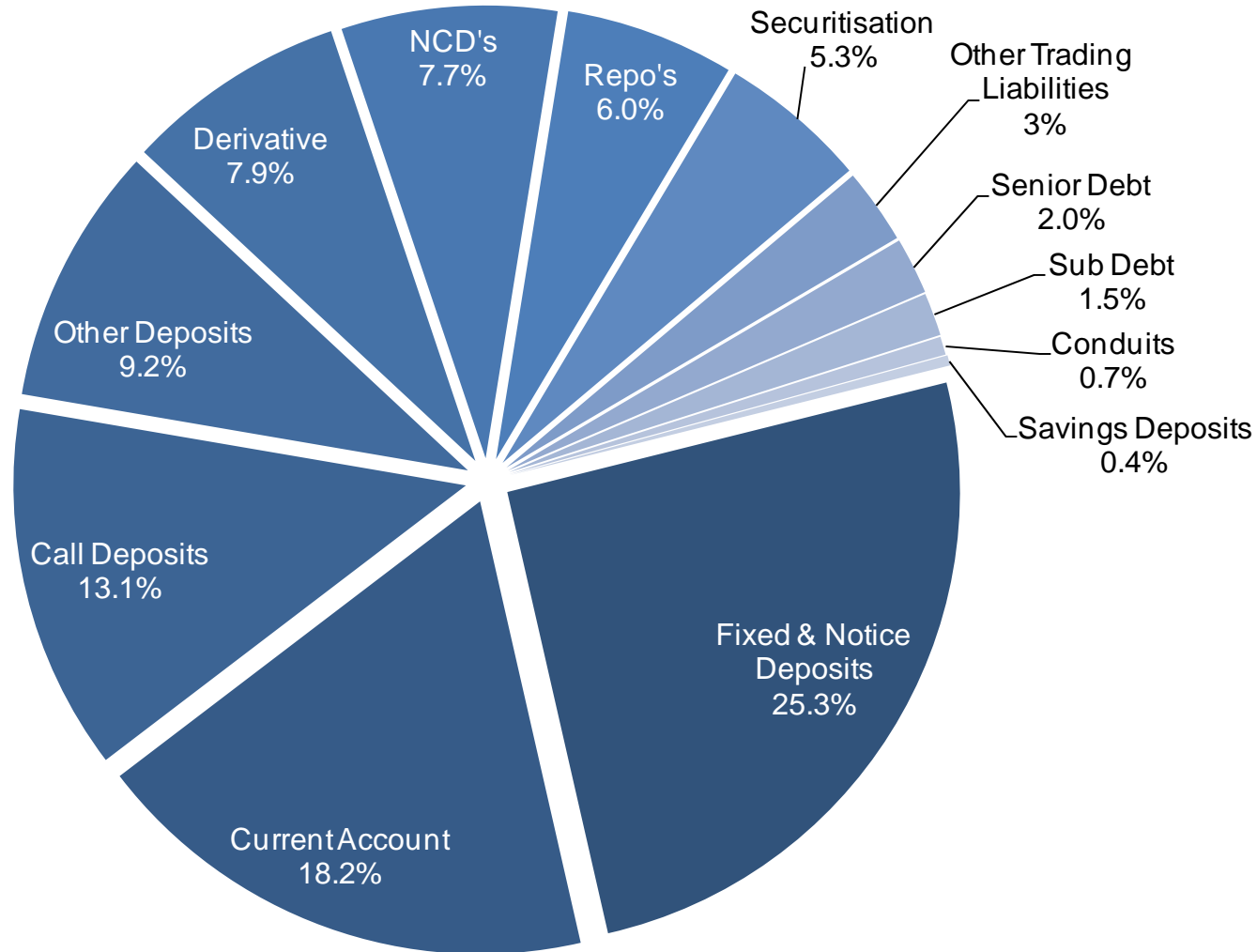


# Funding strategy

- Deposit franchise
  - Aggressive client acquisition and retention strategies
  - New product and channel development
- Wholesale market
  - Extending the term
  - Diversify new sources
- Africa
  - Aggressive expansion into new markets
  - Enhancing existing deposit franchises
- Capital markets
  - Local and international market issuance programs to diversify
- Off-balance sheet vehicles
  - Continue existing funding platforms



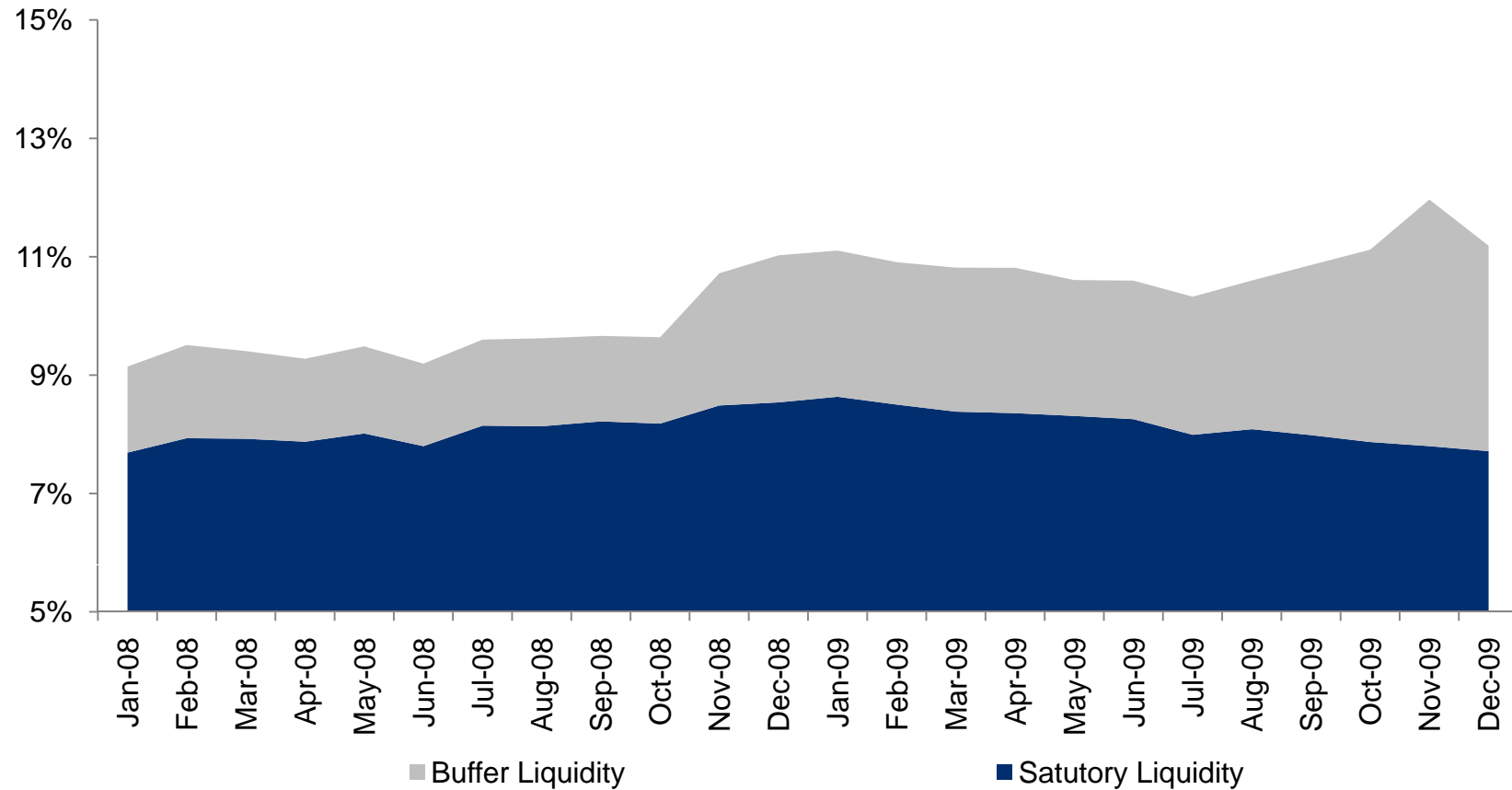
# Diversified portfolio of funding instruments



Sources: SARB BA 100 return & FirstRand Limited annual report



# Creating appropriate liquidity buffers



Increased liquidity buffers by R7bn

*Note: SARB liquid assets definition is very narrow, above consists of government securities of SA & G7*

*Source: SARB BA returns, Dec 2009*



# In summary

- Integrated funding & liquidity framework
  - Aim to be in excess of minimum requirements of SARB, FSA & Basel II Minimum Liquidity standards (2009)
  - Strong management in building deposit franchises in retail, commercial and corporate segment
- Strong African deposit raising franchises
  - South Africa, Namibia, Botswana, Swaziland, Lesotho, Mozambique
- Enter new African markets
  - Zambia, Angola, Tanzania, Nigeria
- International platforms to secure long term multicurrency funding
  - London branch
  - Europe Medium Term Note program (LSE)
  - Middle East and Asia platforms
- Currently the group has excess foreign currency funding to be deployed towards markets and businesses within the FirstRand overall group strategy
- Basel III
  - Support initiative to strengthen the international liquidity risk standards
  - Cost of compliance may reduce economic growth
  - SA would require structural reform with respect to the supply side of funds
  - A pragmatic approach should be adopted by all parties



# Appendix



# FirstRand Bank Limited's external ratings

FirstRand Bank Limited	Moody's Investor Service
<b>Foreign currency counterparty credit rating</b>	
Long term	A3
Short term	P-2
Outlook	Stable
<b>Local currency counterparty credit rating</b>	
Long term	A2
Short term	P-1
Outlook	Stable
<b>National scale bank deposit ratings</b>	
Long term issuer default rating	Aa2.za
Short term issuer default rating	P-1.za
Outlook	Stable
<b>Bank Financial Strength Rating</b>	C-
Outlook	Stable

FirstRand Bank Limited	Fitch Ratings
<b>Foreign Currency</b>	
Long term issuer default rating	BBB+
Short term issuer default rating	F2
Outlook	Negative
<b>Local currency</b>	
Long term issuer default rating	BBB+
Outlook	Negative
<b>National</b>	
Long term rating	AA(zaf)
Short term rating	F1+(zaf)
Outlook	Negative
Individual rating	C
<b>Support rating</b>	2
<b>Support rating floor</b>	BBB-

FirstRand Bank Limited	Standard & Poor's
<b>Foreign currency counterparty credit rating</b>	
Long term	BBB+
Short term	A-2
Outlook	Negative
<b>Local currency counterparty credit rating</b>	
Long term	BBB+
Short term	A-2
Outlook	Negative

Source: Moody's Investors Service, Fitch Ratings, Standard & Poor's





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