

2009

Debt Investor Presentation



FIRSTRAND
Banking Group

November 2009

Agenda

- FirstRand and Group Treasury
- Funding & Liquidity Risk Management
- Capital Management



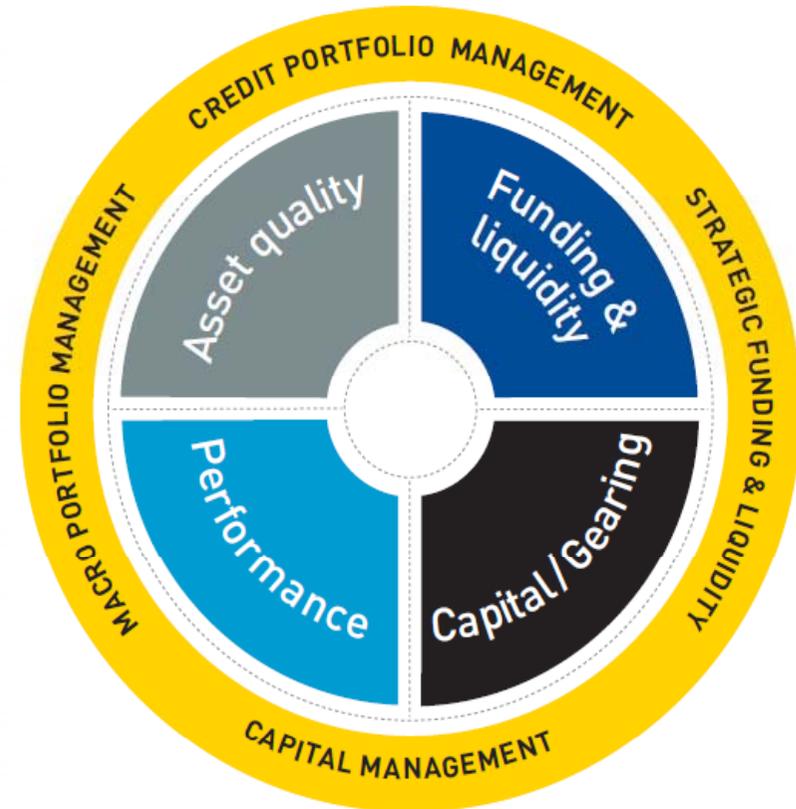
Agenda

- FirstRand and Group Treasury
- Funding & Liquidity Risk Management
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FirstRand's Balance Sheet Management

- Pillars of Balance Sheet Management
 - Capital Management
 - Capital planning
 - Capital allocations
 - Economic capital process
 - Credit Portfolio Management
 - Manage the credit portfolio from a macro economic perspective
 - Influences credit origination strategy
 - Macro Portfolio Management
 - Manage banking book interest rate risk
 - Devise and implement hedges to protect the groups balance sheet and earnings
 - Group Treasury
 - Funding & liquidity management
 - Manage the liquidity risk of the group
 - Devise and implement group's funding strategy
 - Multicurrency funds transfer pricing



Group Treasury

Group Treasury

Set Strategy, Risk Appetite & Framework

Centralised Treasury Functions

Funding & Liquidity Management

Exchange Control

Finance

Group Treasury Desk

Alternative Funding Strategies

Multi Currency Funds
Transfer Pricing

Treasury ALM

Strategic Relationship Management

African Subsidiaries

International Branches

Integrated Approach to Funding



Agenda

- FirstRand and Group Treasury
- **Funding & Liquidity Risk Management**
 - Funding and liquidity management philosophy
 - Macro economic influence on funding
 - External influence on funding
 - FirstRand's response
- Capital Management



Funding and liquidity management philosophy



Funding and liquidity management

- Liquidity risk is the risk that the bank will not be able to meet all payment obligations as liabilities fall due. In addition not able to realise assets when required to meet obligations (normally a consequential risk)
 - Funding liquidity risk – risk that the bank is unable to fund obligations when falling due, or meet collateral requirements, without impacting the normal course of business, its financial position or its reputation
 - Market liquidity risk – risk that the bank may be unable to meet its obligations due to market disruption or a lack of market liquidity
- Context
 - FirstRand Limited Board principles and limits
 - South African banking and exchange control system
- This is managed as part of Group Treasury



Banks are in the business of maturity transformation

Core Function of Banks in an Economy

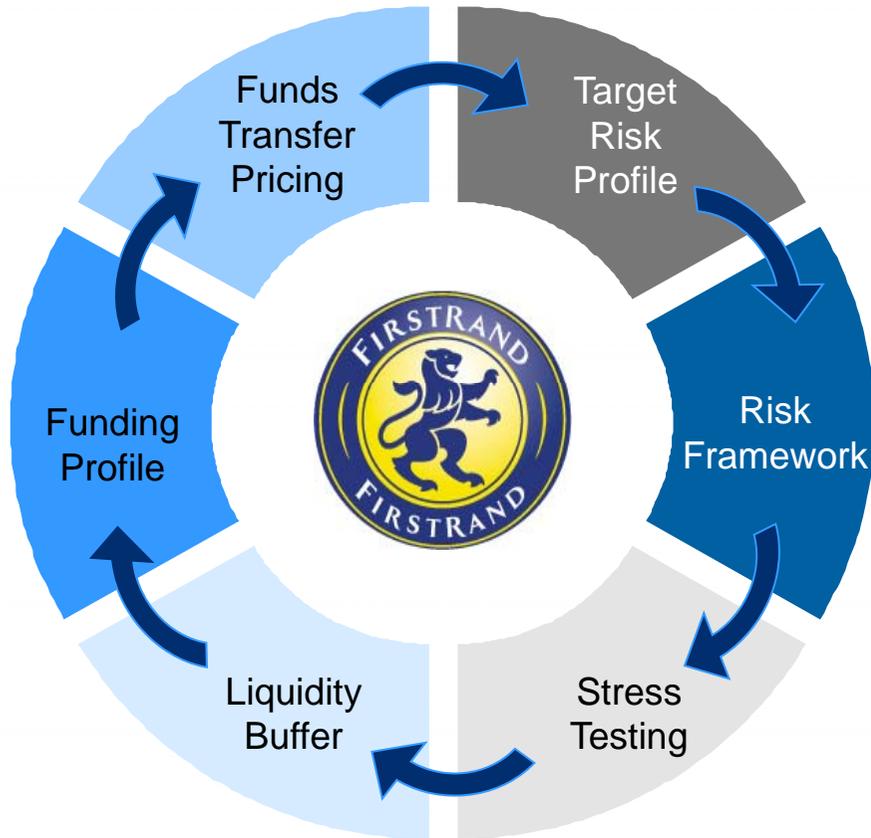
- Maturity transformation is the defining aspect of banking
 - Short term funded
 - Long term lender
- The resultant liquidity risk has to be managed
 - In the context of
 - Statutory liquidity requirements
 - Risk appetite
 - Cost
 - Competitiveness

Cost of Liquidity Risk

- There are costs incurred for running liquidity risk
 - Statutory
 - Cash reserves on deposit with the SARB
 - Carry cost of statutory liquid assets
 - Cost of term funding in order to meet statutory minimum liquidity gap
 - Board prudential limits
 - SA Inc's structural supply of money
 - Risk appetite
 - Cost of term funding in order to meet liquidity gap targets set by the Group



Liquidity risk management philosophy



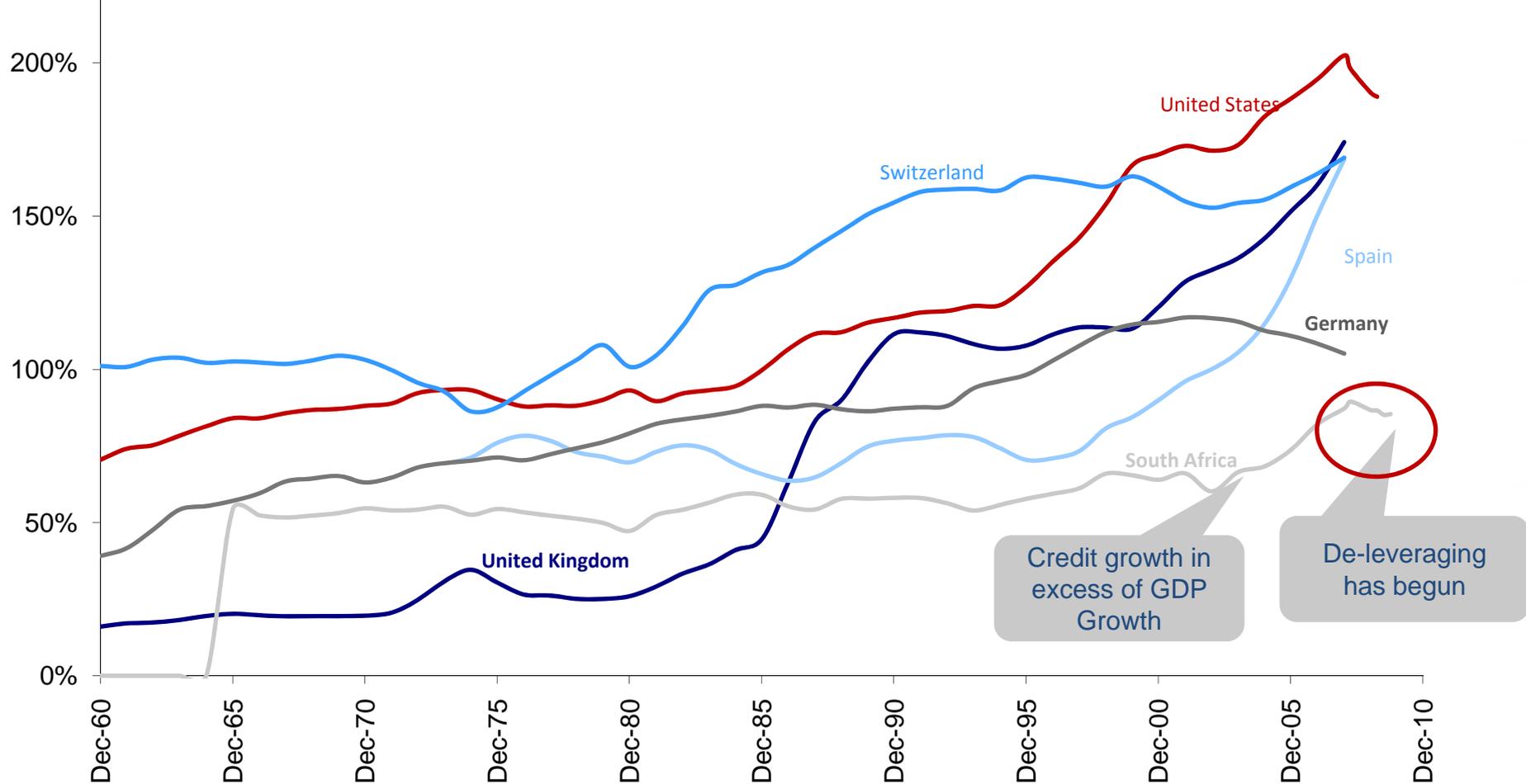
- Continuous funding and liquidity cycle
- Integrated across
 - All financial risk disciplines
 - Macro economic environment
 - All business units
 - Financial markets
 - Forward looking
 - Ensure compliance with
 - Internal risk appetite
 - Regulatory requirements

Macroeconomic influences on funding



Growing balance sheets in excess of income

Total Private Credit to GDP



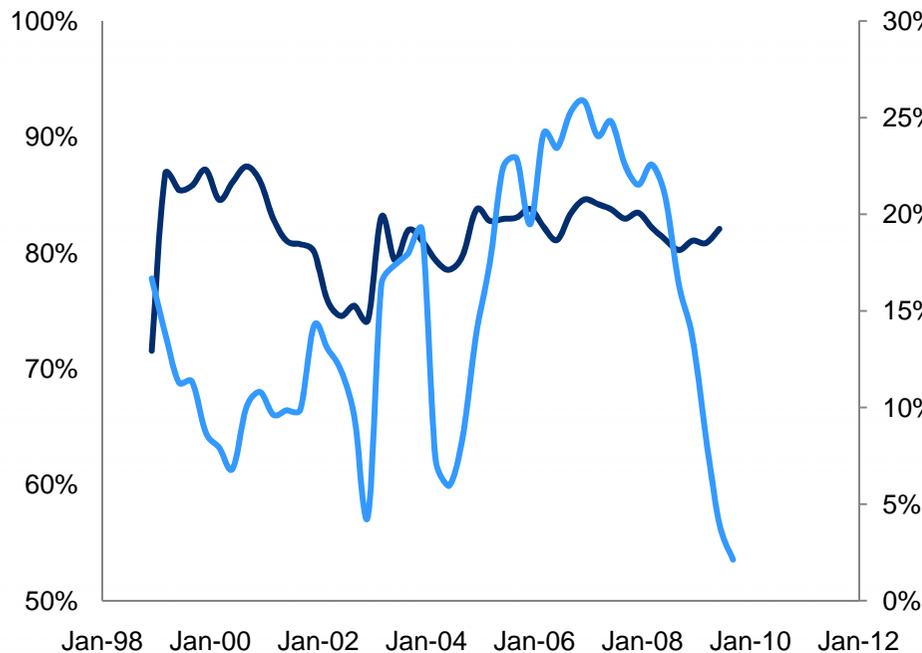
Source: World Bank 2007, Extended SA & US , Bloomberg , June-2009



2009

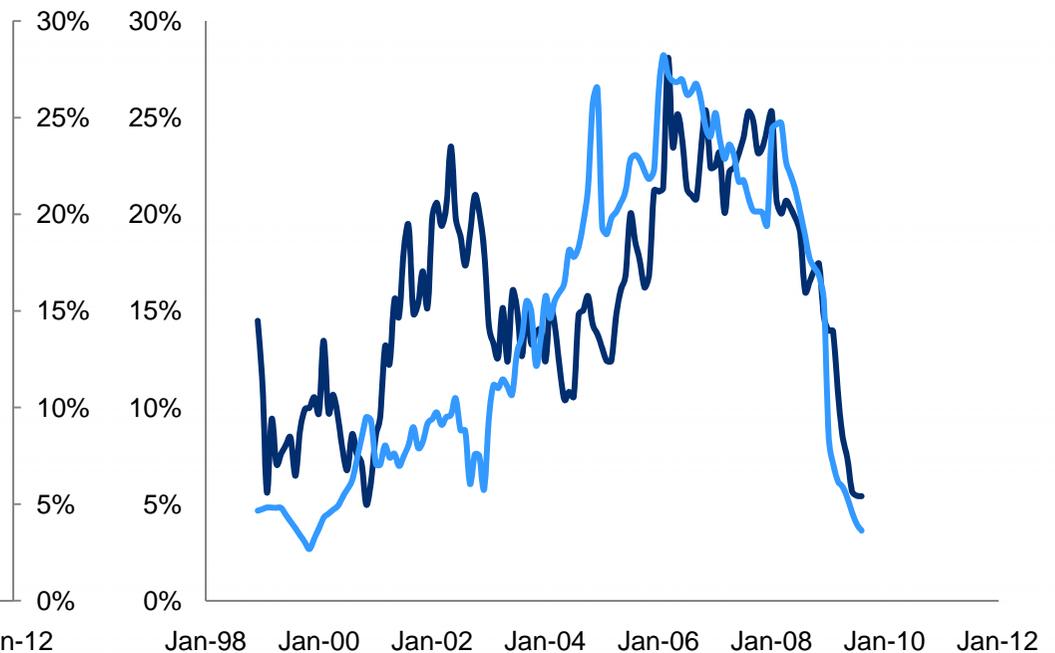
Credit extension supported M3

Credit extension & bank assets



— PCE/(Banking System Assets) — Total Private Sector Credit Y/Y

Money supply & credit extension



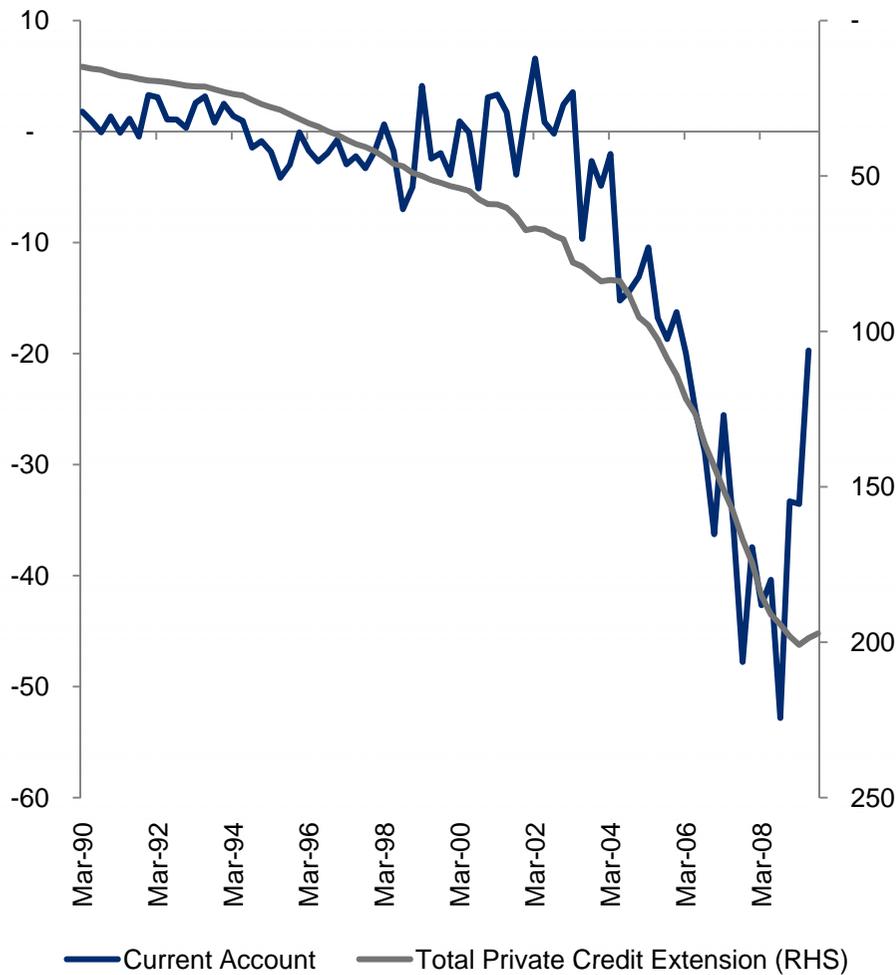
— M3 Y/Y — House Hold Credit Extension Y/Y

- 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.

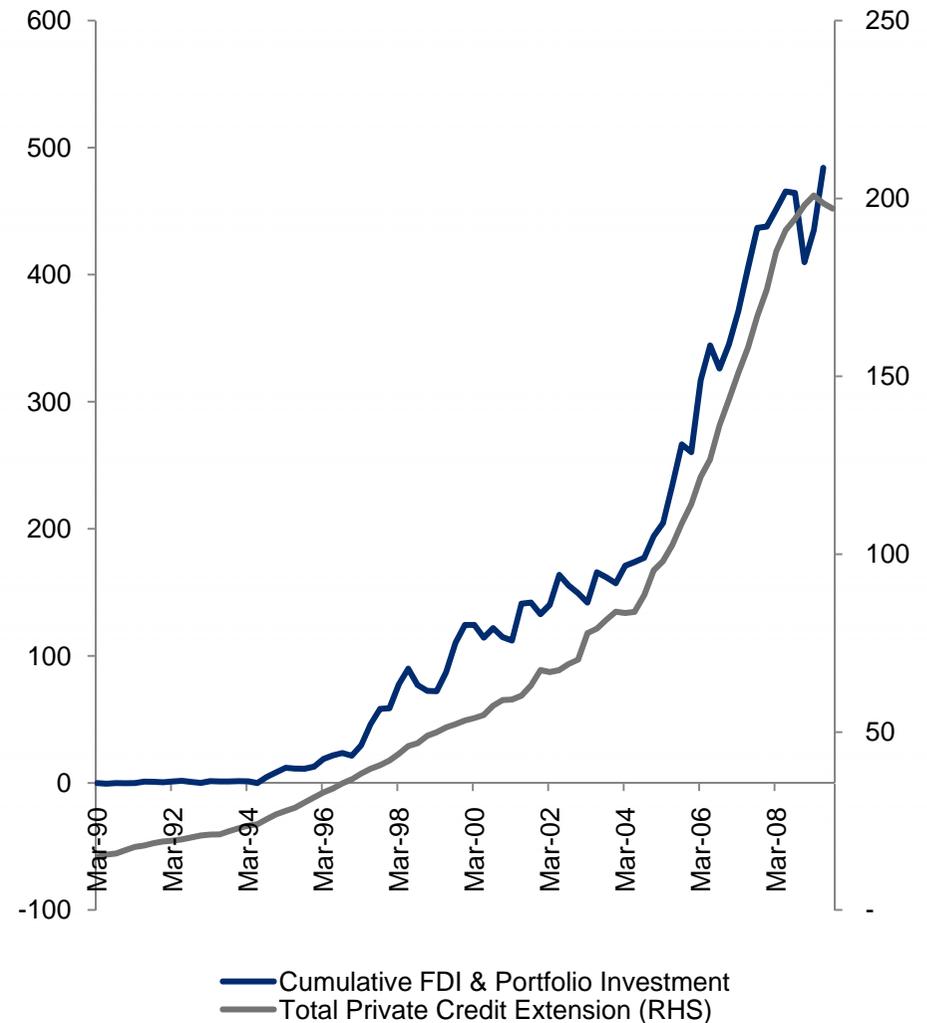
Source: iNet Data Service

Banks monetised foreign liquidity

Current account deficit & PCE

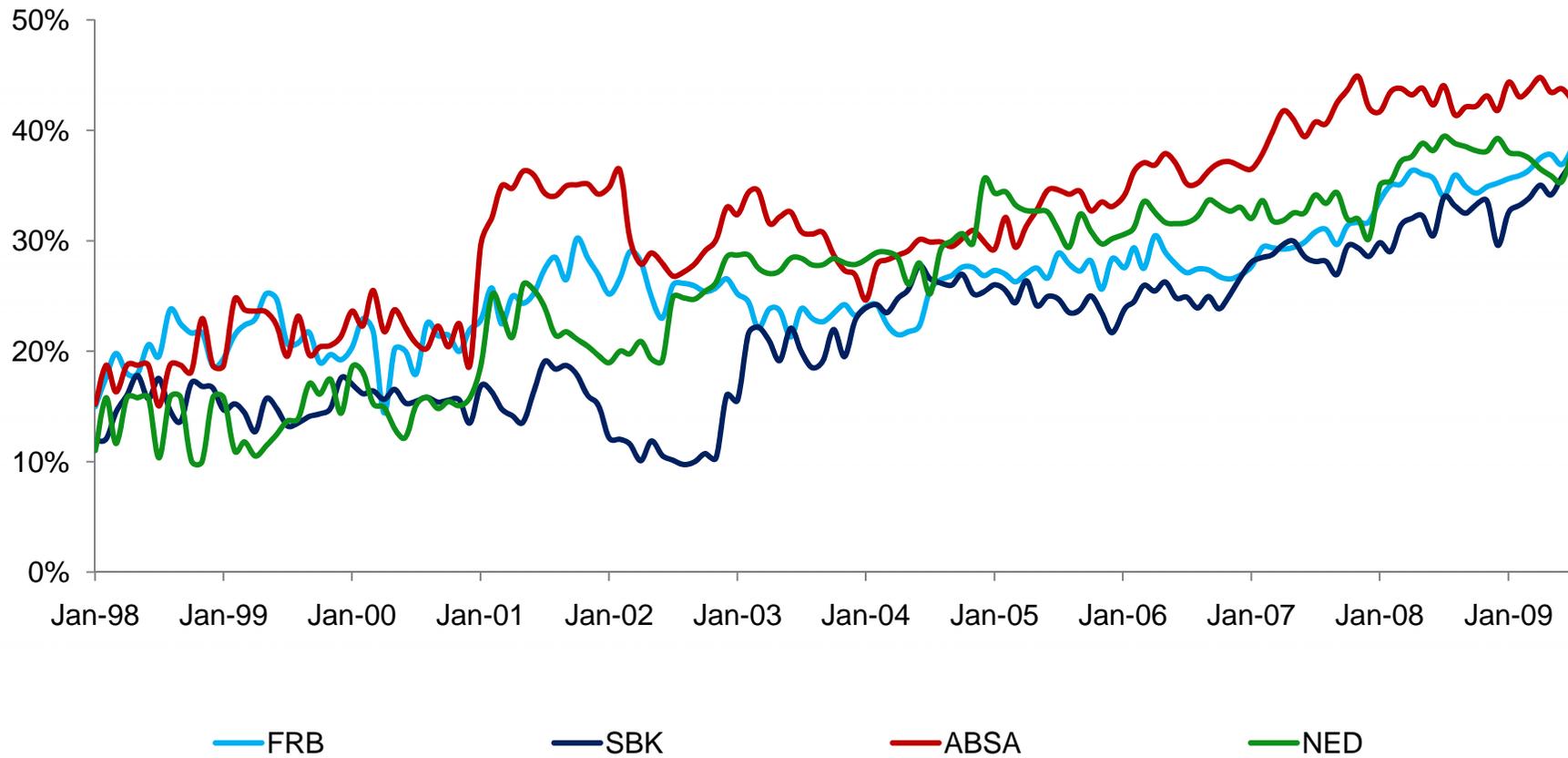


Foreign investment & PCE



Source: iNet Data Service

Increased reliance on professional funding

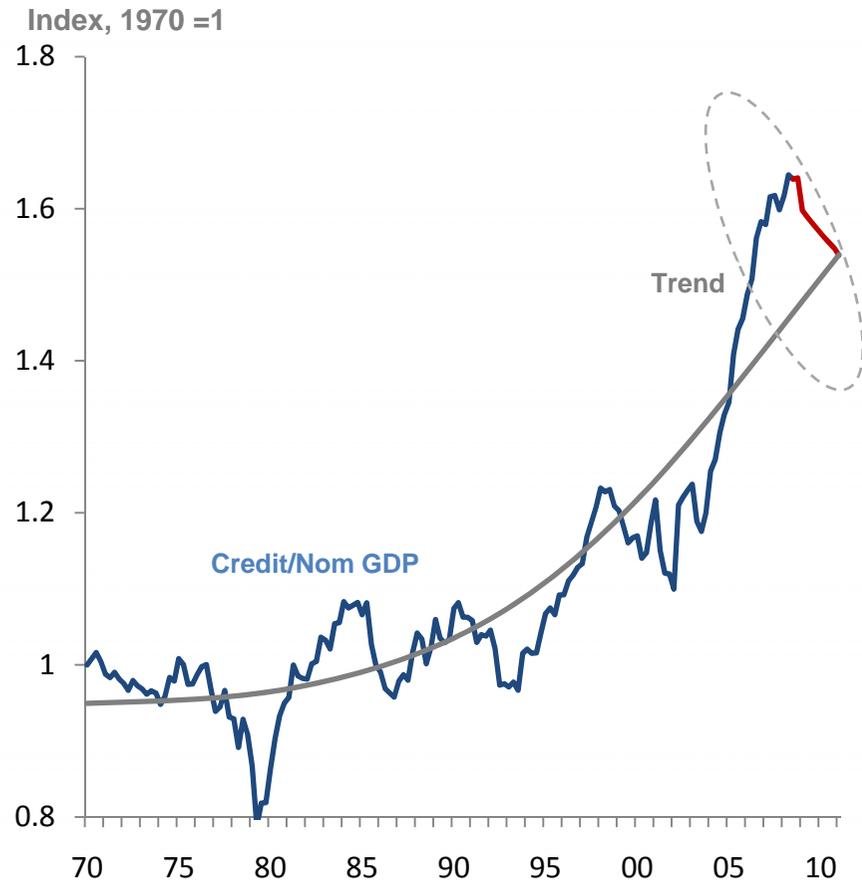


Source: SARB BA Returns

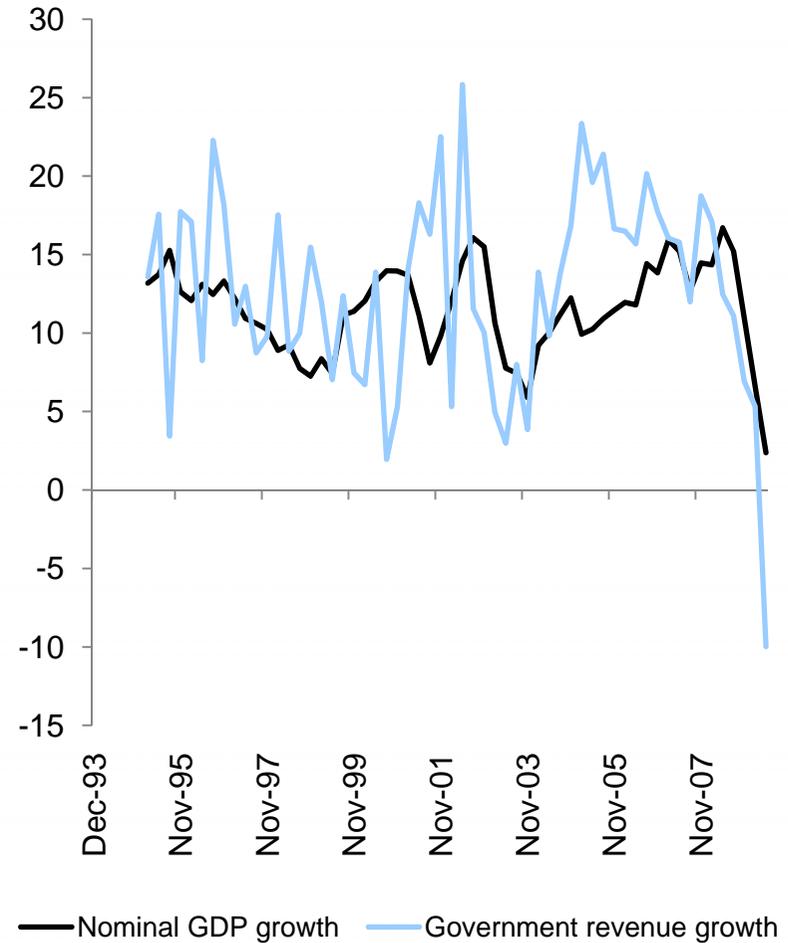


Funding pressures – demand for credit

Total Private Credit to GDP ratio

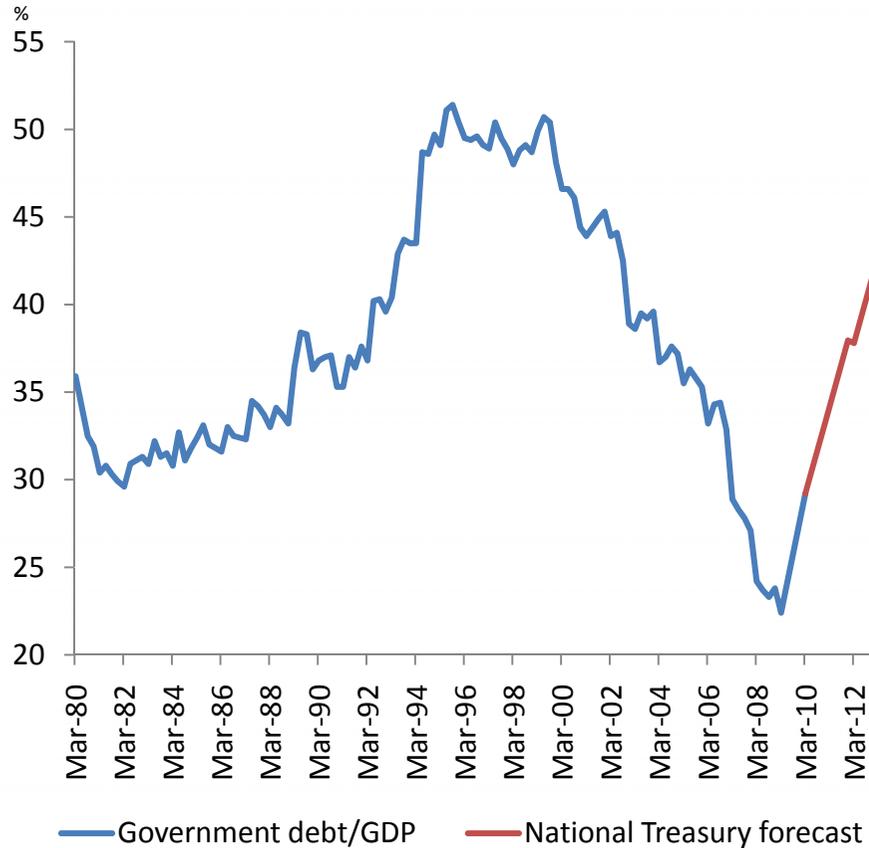


Nominal GDP vs government revenue y/y

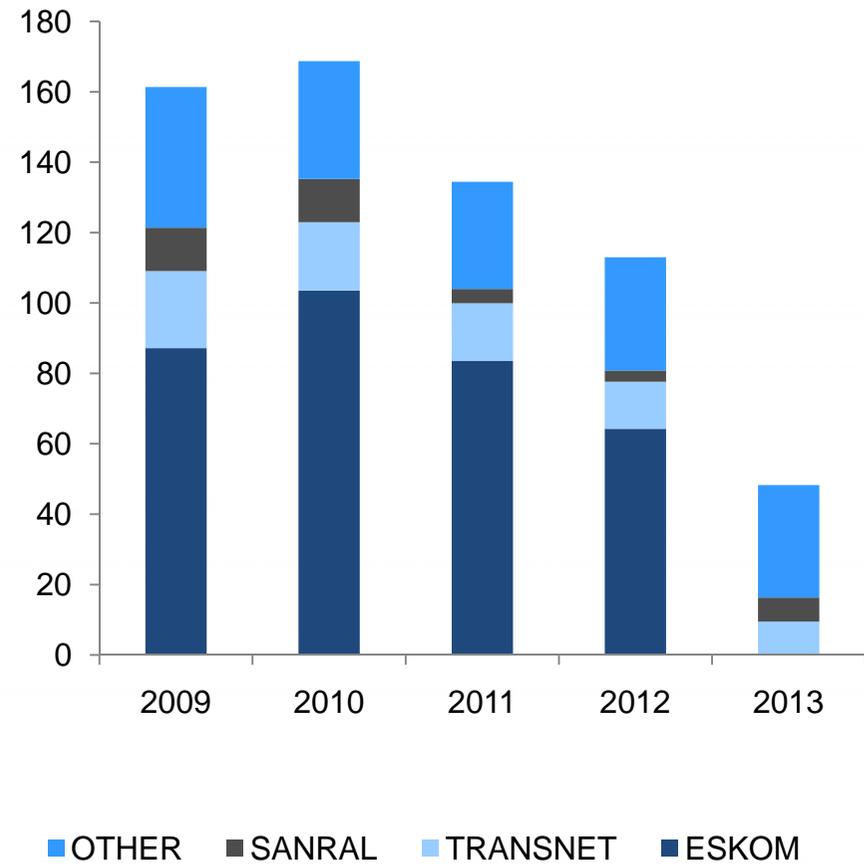


Funding pressures – government

Government debt/GDP ratio



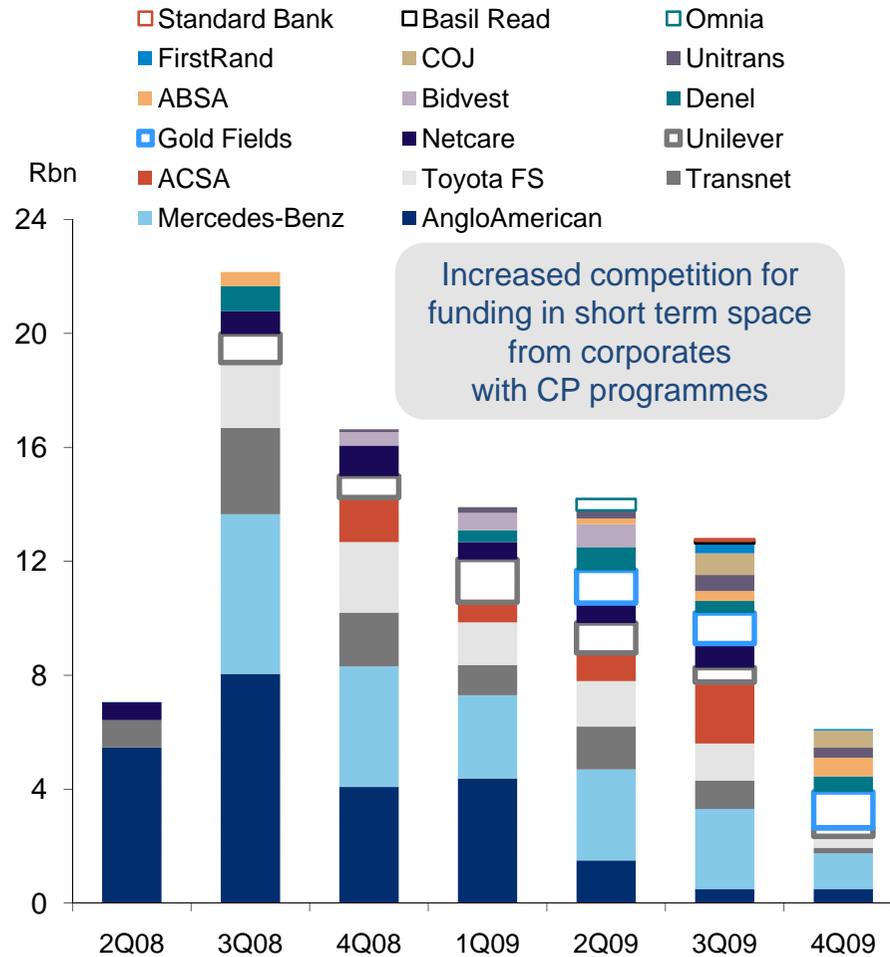
SOEs borrowing requirement



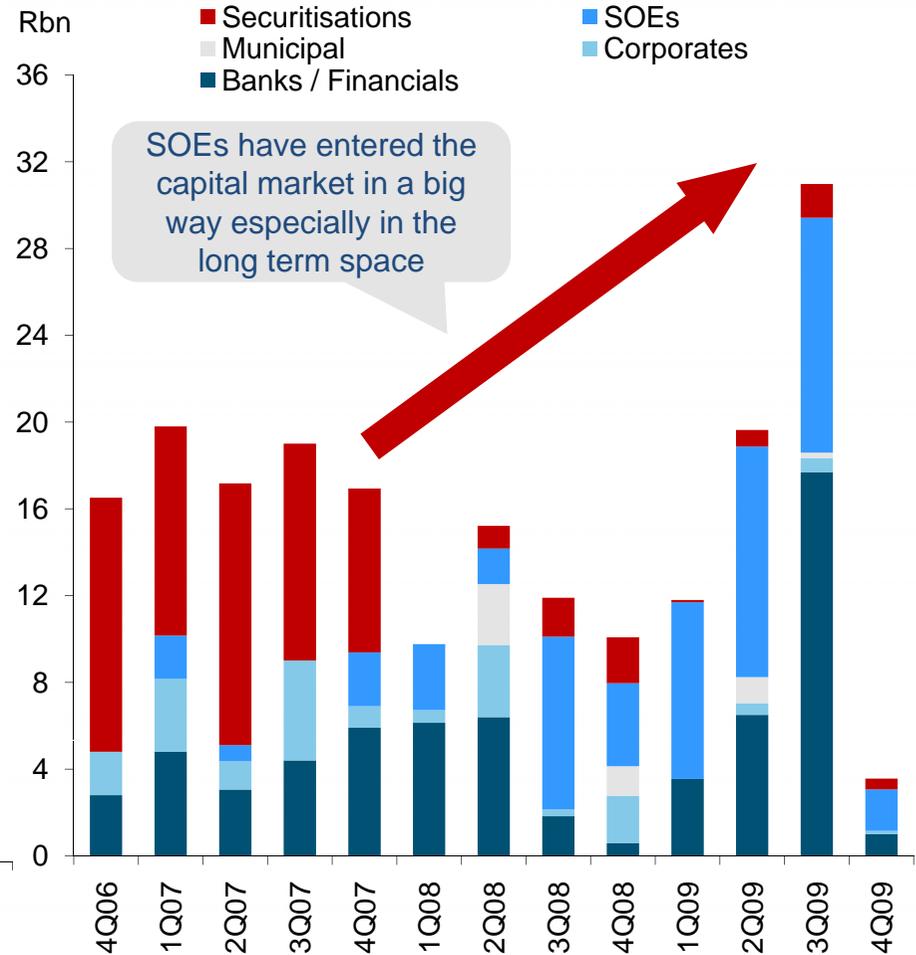
Source: iNet Data Service & National Treasury

The funding market

Array of issuers



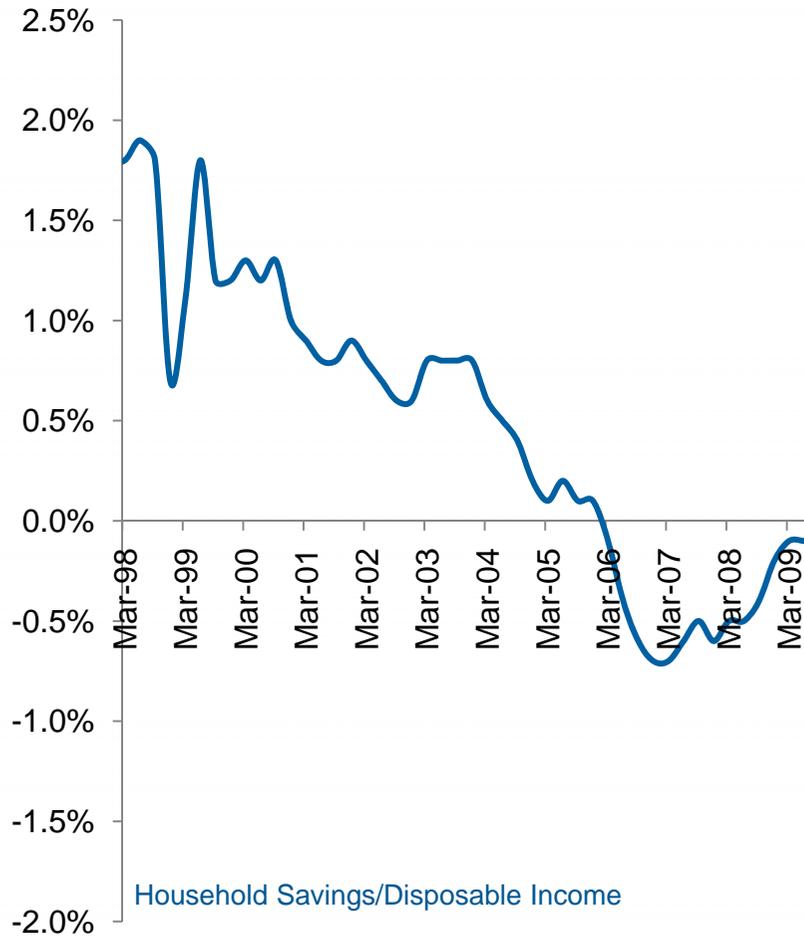
SOEs dominate term issuance



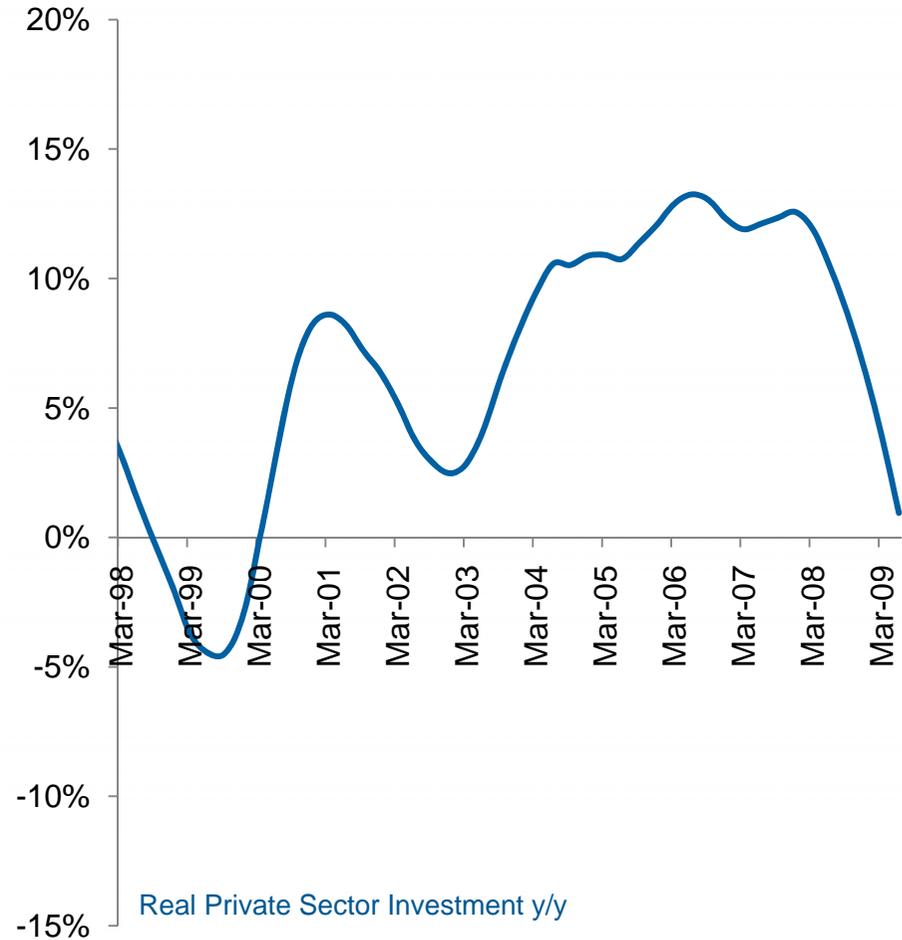
Source: RMB FICC Research, 30 September 2009

The private sector

Household savings

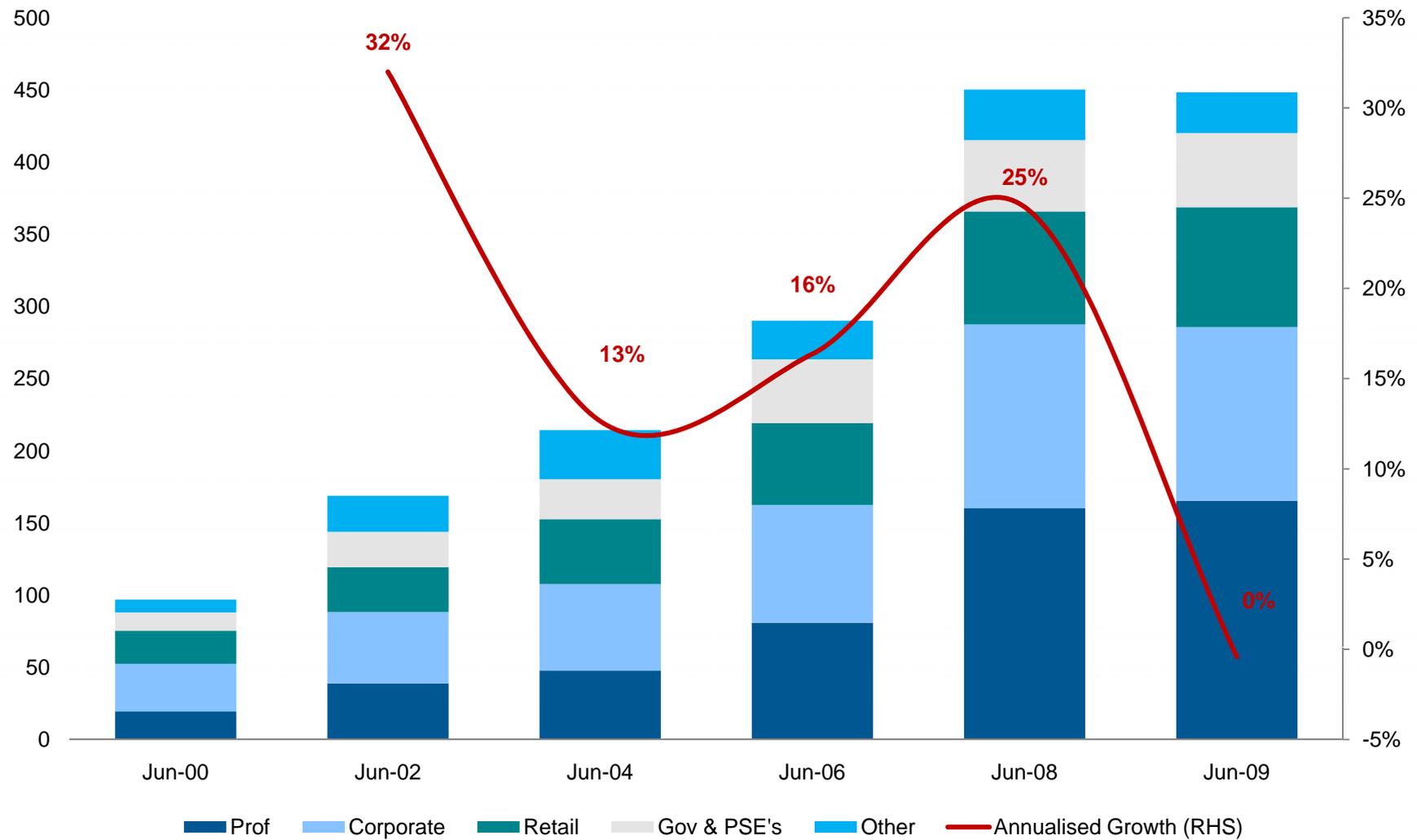


Private sector investment



Source: iNet Data Service

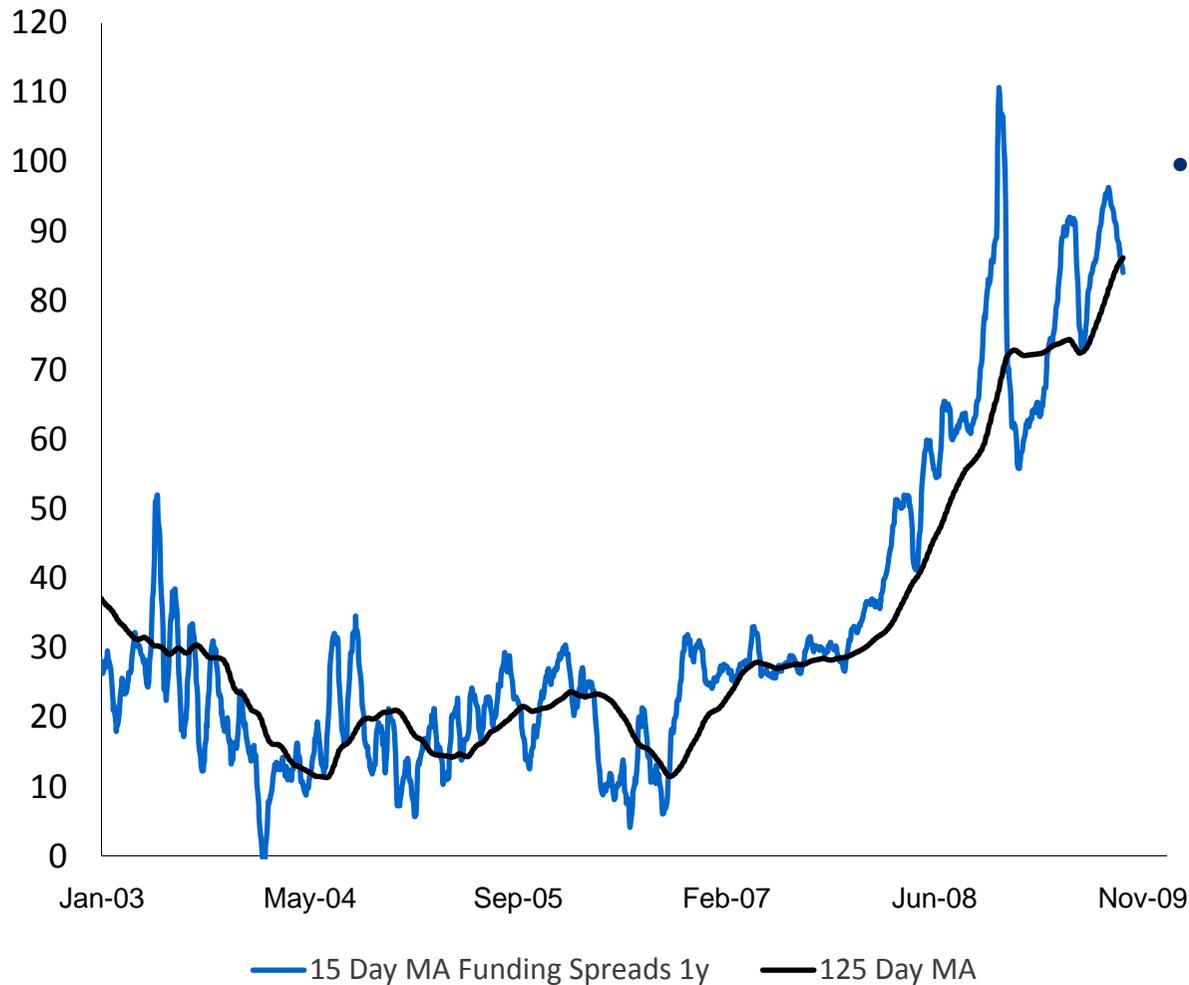
Funding base



Source: 31-Aug- 2009 SARB BA Returns

Long term SA banks 1-year funding spread

SA Banks 1-Year Funding Spreads



- Consider the 1-year NCD vs swap as a principal component in explaining the funding curve.
- 1 year funding spreads, were in the range 20-30 bps for 3 years from 2004 to 2007

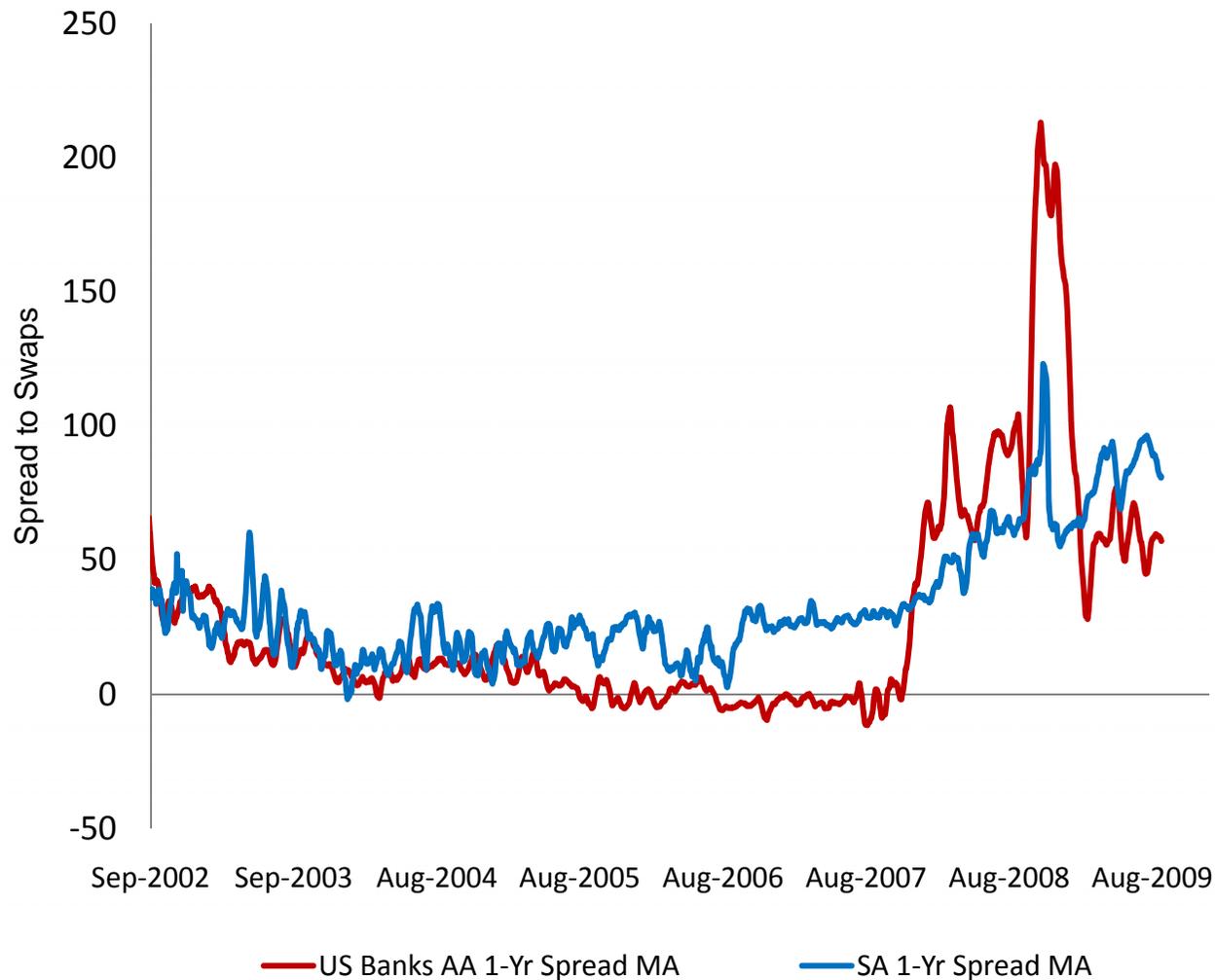
Source: iNet Date Service



2009

Comparing SA to US banks 1-year spreads

1-Yr US v SA Bank Spreads



- Comparing the US to SA 1-year bank funding spreads.
- US spreads widened more severely than in SA.
- US spreads have also narrowed more aggressively.
- This highlights a divergence in funding pressure.
- The US Fed is providing excessive liquidity in the short end, while in SA National Treasury is in fact competing for the liquidity.

Source: Moody's Investor Research & iNet Data Service



External influences



External influences on strategy

- Macro economy, SA Inc and financial markets
- Regulatory
 - Basel II focused largely on credit risk
 - Focused the attention of banks and regulators 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
 - Financial Services Authority (FSA)
 - PS 09/16: Strengthening Liquidity Standards, October 2009
 - IMF
 - Report on SA Banking System, September 2009
 - South African Reserve Bank
- Rating agencies
- Exchange control prudential requirements

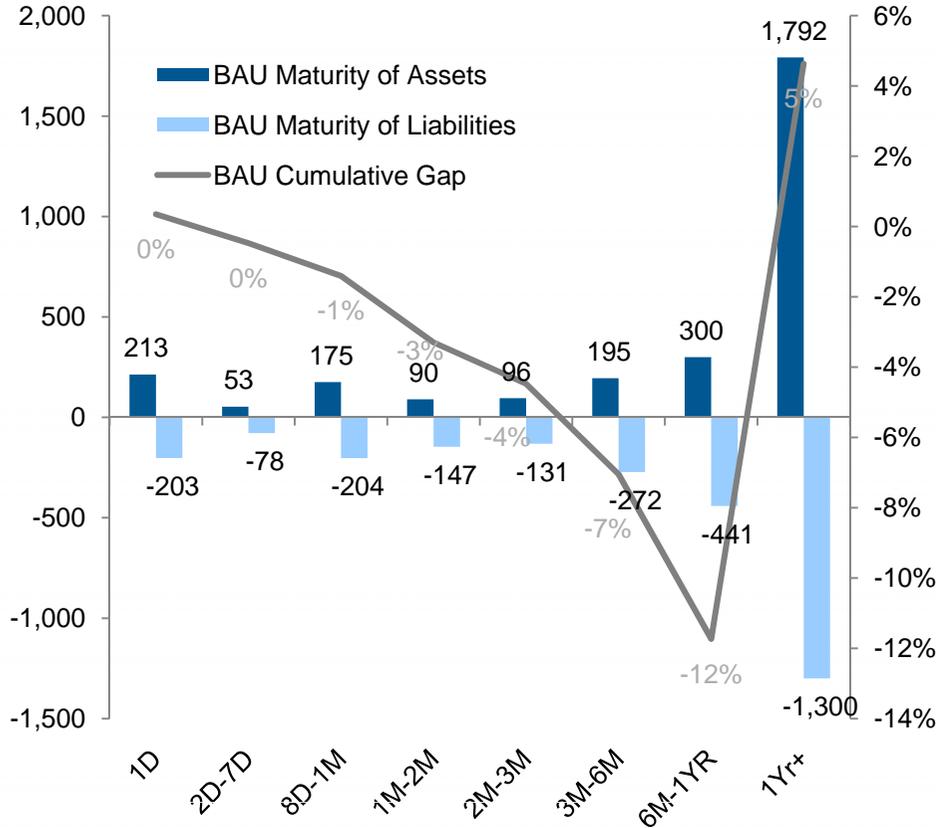


FirstRand's Response

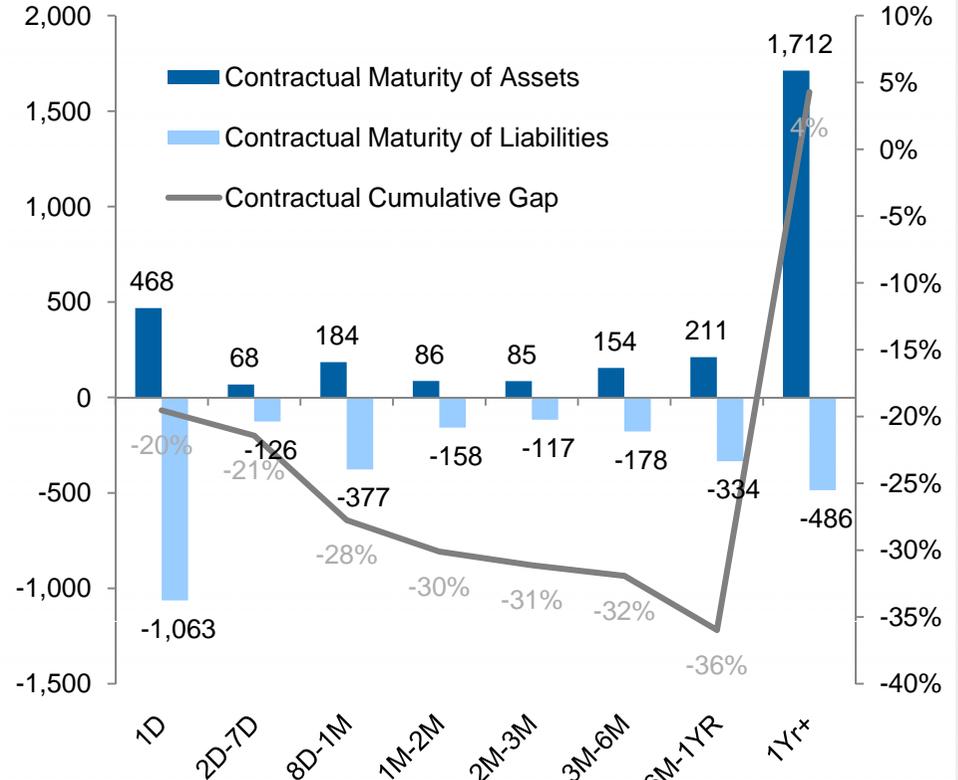


SA banking liquidity gap

Business as usual gap



Contractual maturity gap

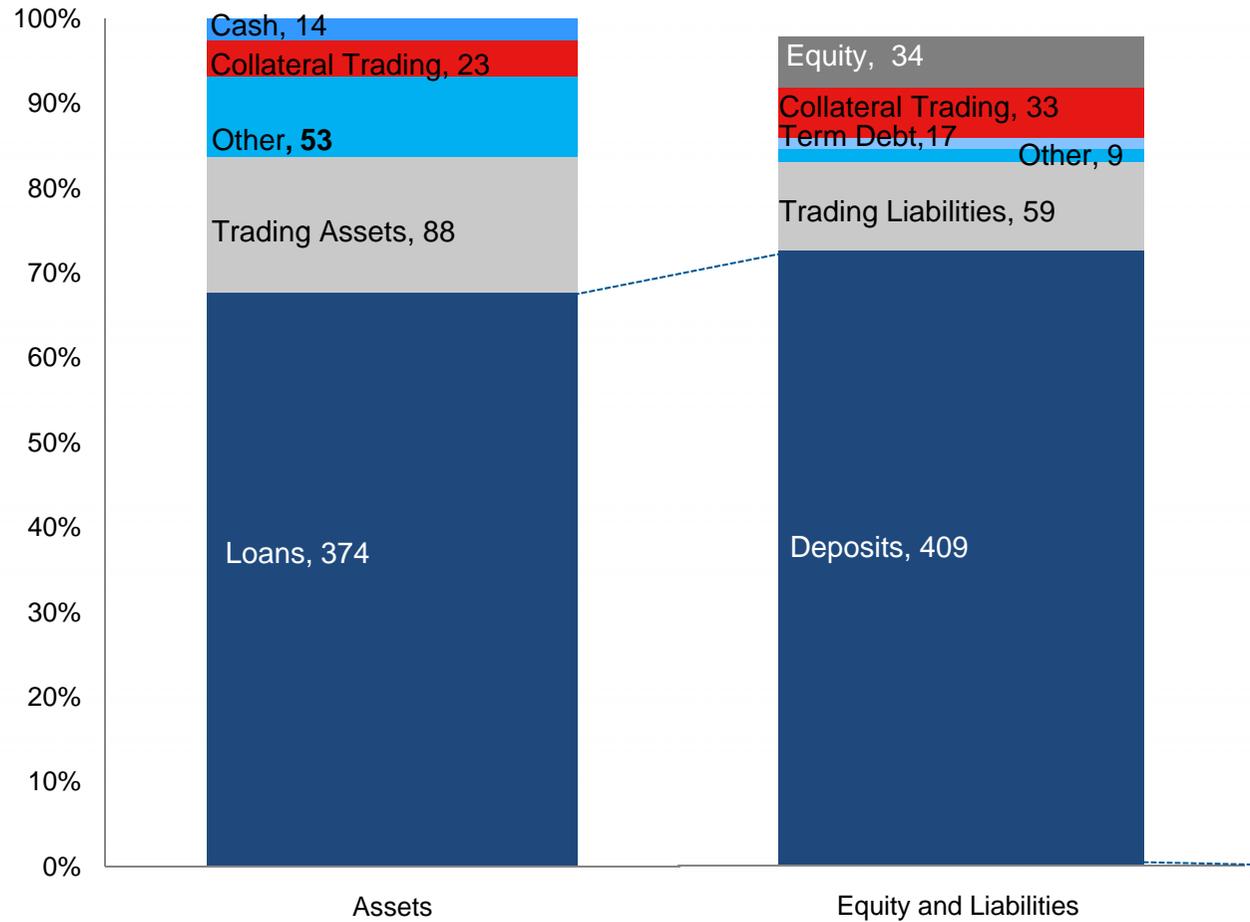


- Liquidity risk is largely managed on a business as usual (BAU) basis
- However under stressed conditions the BAU conditions no longer apply.

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

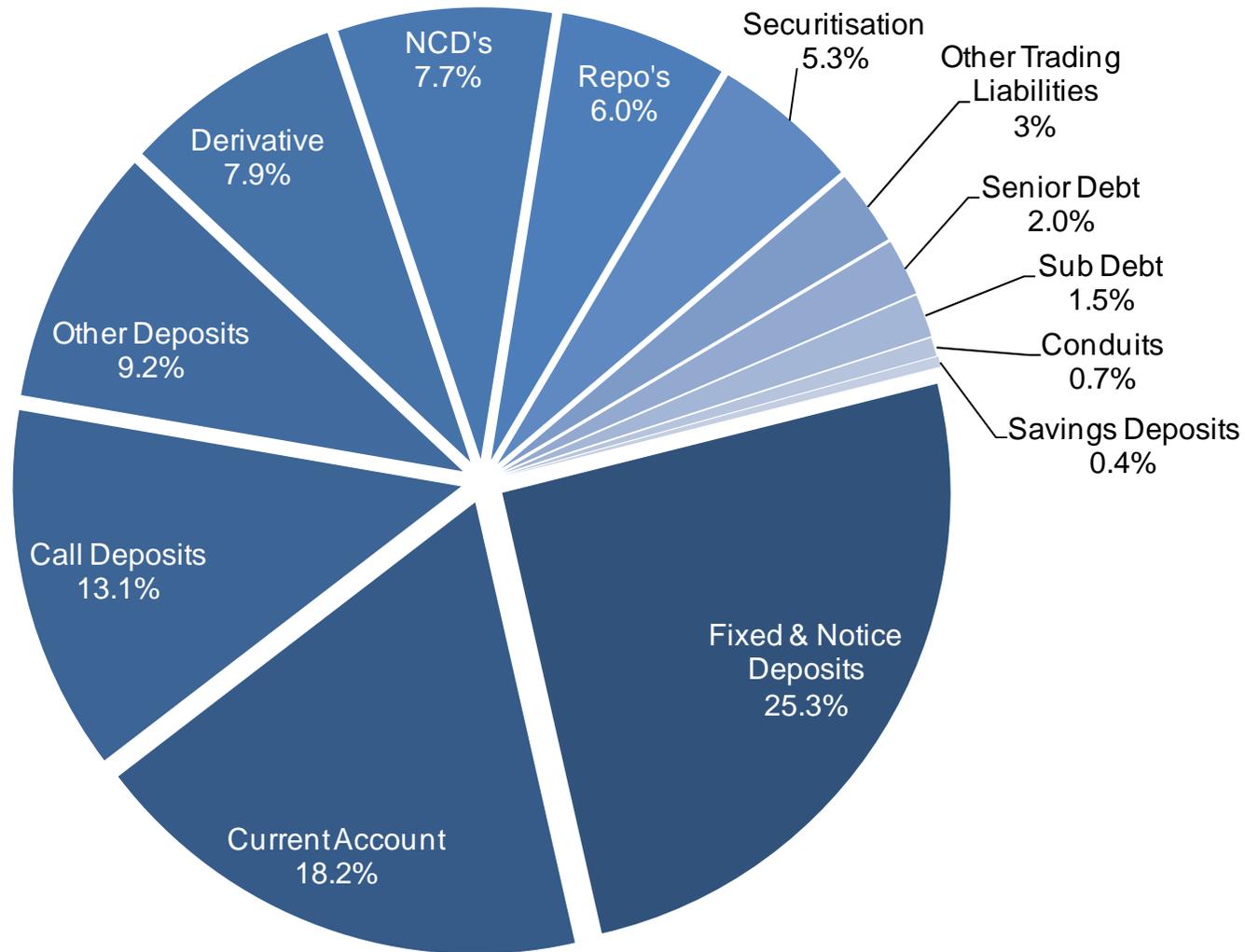
Source: SARB BA Returns

Matching funding to liquidity of assets



Source: SARB BA 100 Return & FirstRand Limited Annual Report

Portfolio of funding instruments



Source: SARB BA 100 Return & FirstRand Limited Annual Report

Funding initiatives

Domestic

- Retail product development
- Structured Notes
- Institutional funding
 - How can we help you?

International

International platforms

- London branch
- Middle East presence
- Africa (7 countries ex SA)
- Australia
- Indian branch

Products

- Listed programmes in international markets
- Wholesale deposits
- Structured notes



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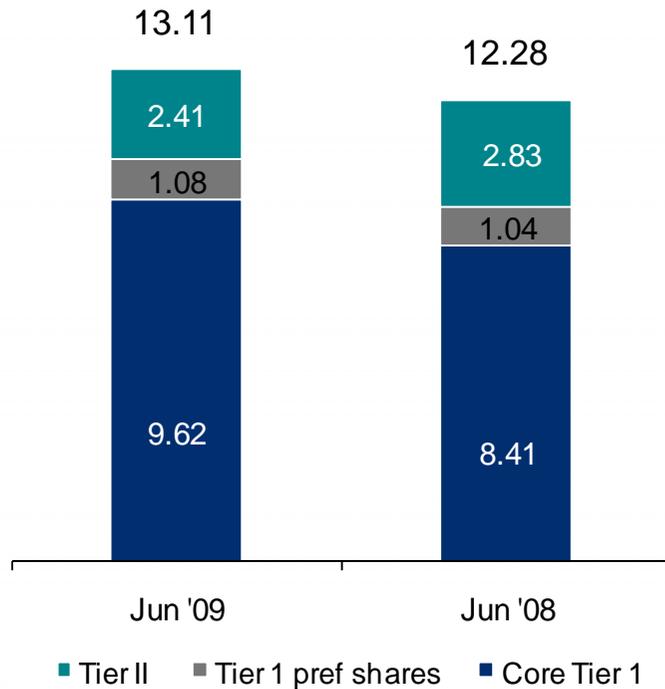
Capital strategy in line with Basel II developments

- Tier 1 quality
 - Economic capital backed by Tier 1
- Gearing
 - Leverage ratios are monitored
- Pro-cyclicality
 - Capital targets defined as bands to ensure we have buffers to take into account the effects of Basel II pro-cyclicality and IFRS
- Stress testing
 - Capital strategy subject to stress testing



FRB capital position remains robust

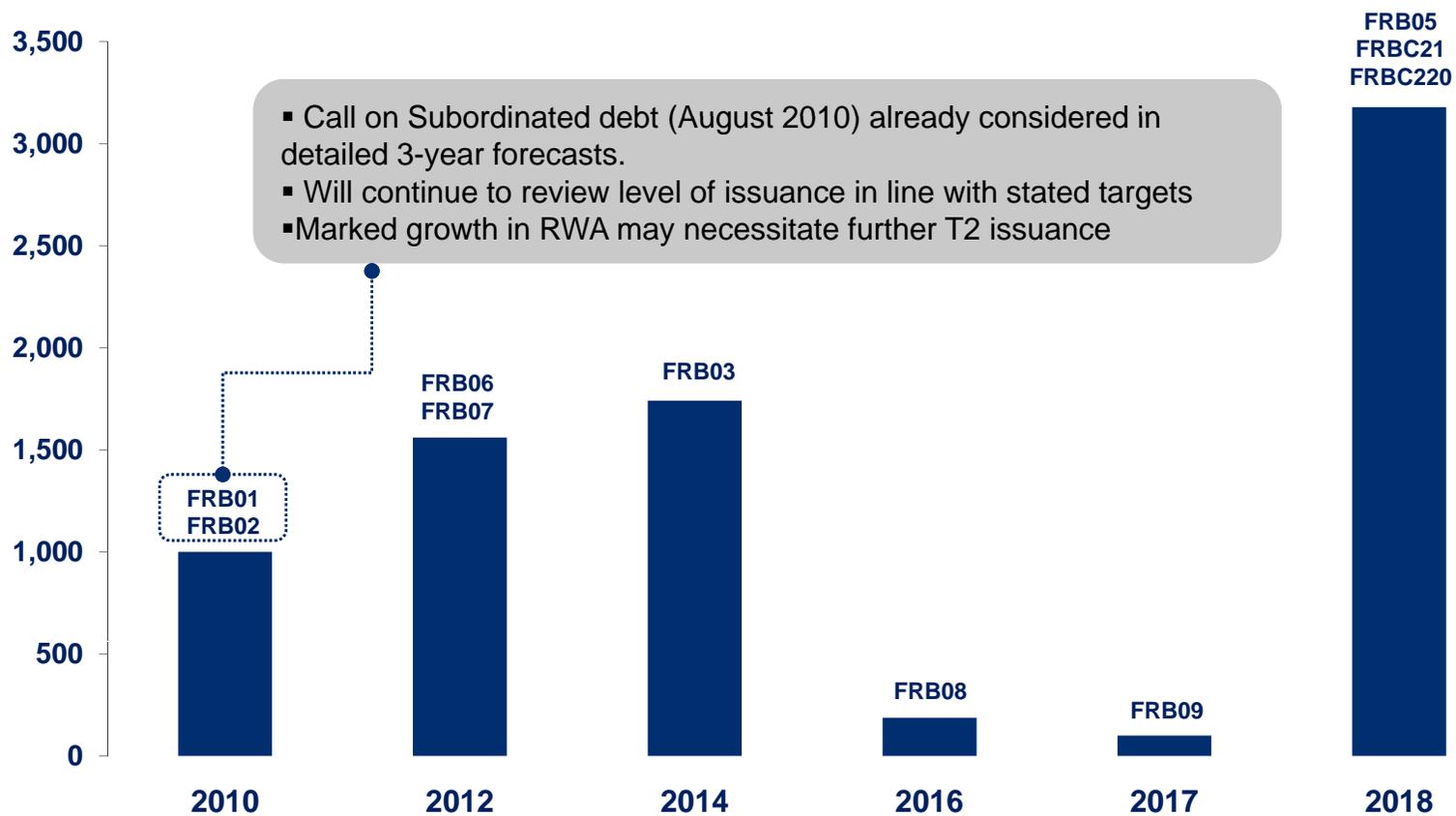
Capital adequacy (%)



	Tier 1%	Total %
Capital adequacy ratio	10.70	13.11
Regulatory minimum	7.00	9.50
Target	9.50	11.50 – 13.00

	Tier 2%
Utilisation	2.41
Target	2.00 – 3.50

Maturity profile based on call dates



FirstRand Bank Limited external ratings

FirstRand Bank Limited	Moody's Investor Service
Foreign currency counterparty credit rating	
Long term	A3
Short term	P-2
Outlook	Stable
Local currency counterparty credit rating	
Long term	A2
Short term	P-1
Outlook	Stable
National scale bank deposit ratings	
Long term issuer default rating	
Aa1.za	Aa2.za
Short term issuer default rating	P-1.za
Outlook	Stable
Bank Financial Strength Rating	
	C-
Outlook	Stable

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

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

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