



Capital management
enhances shareholder value



FIRSTRAND



Our unique value proposition

- Integrated
 - The building blocks for collaboration
- Segment focus
 - “Chunking”
- Business philosophy
 - Innovation
 - Entrepreneurial
- Federal structure
 - Run by owner-managers
 - Lots of little growth stories

integrated



integrated

Integrated

- Provides building blocks
- Leverages intellectual capital, client base, brand, infrastructure, and balance sheet
- Facilitates collaboration
- Capital
 - Mobility of capital
 - Leverage benefit
 - Skills – actuarial & banking



Consistent growth strategy



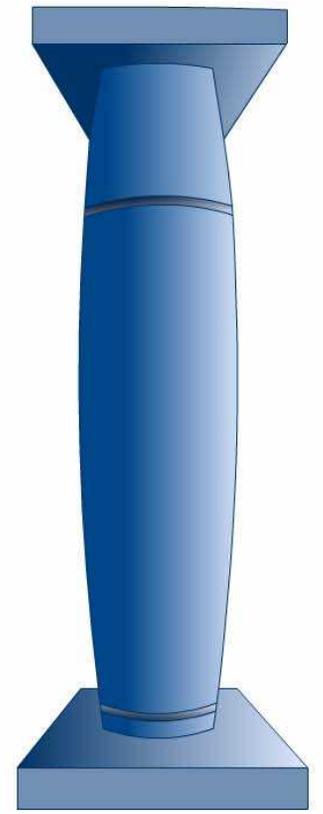
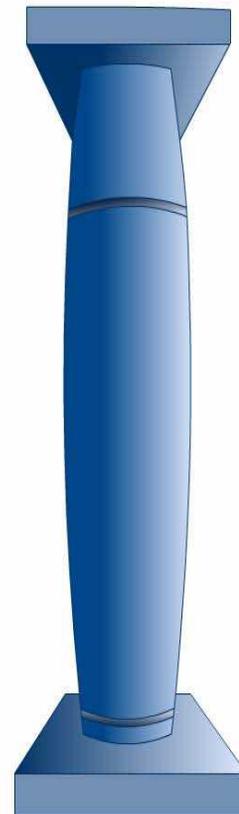
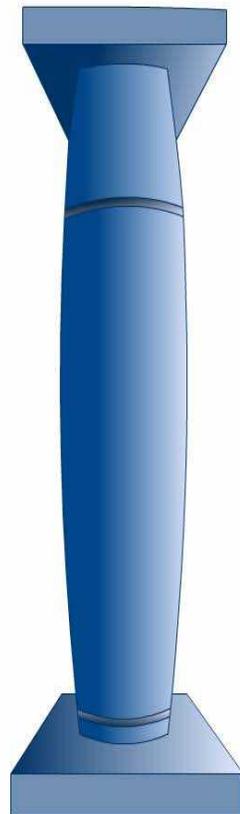
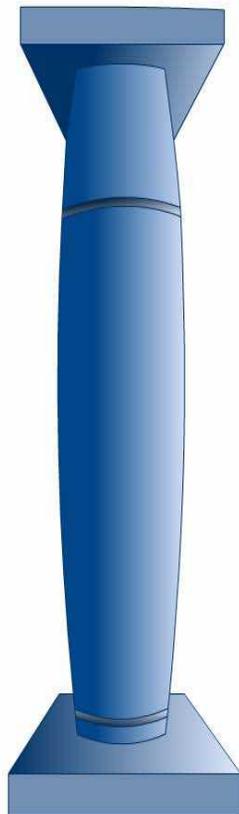
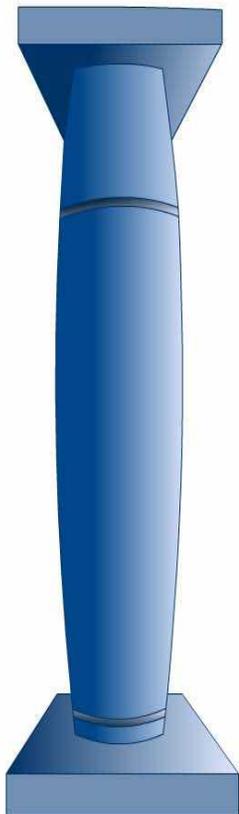
Organic

Collaboration

Acquisitions

Greenfields

Capital management



integrated





integrated



FirstRand Capital Management Framework

Level & structure of capital

Investment of capital

Allocation of capital



What is the optimal level of capital in the Bank?

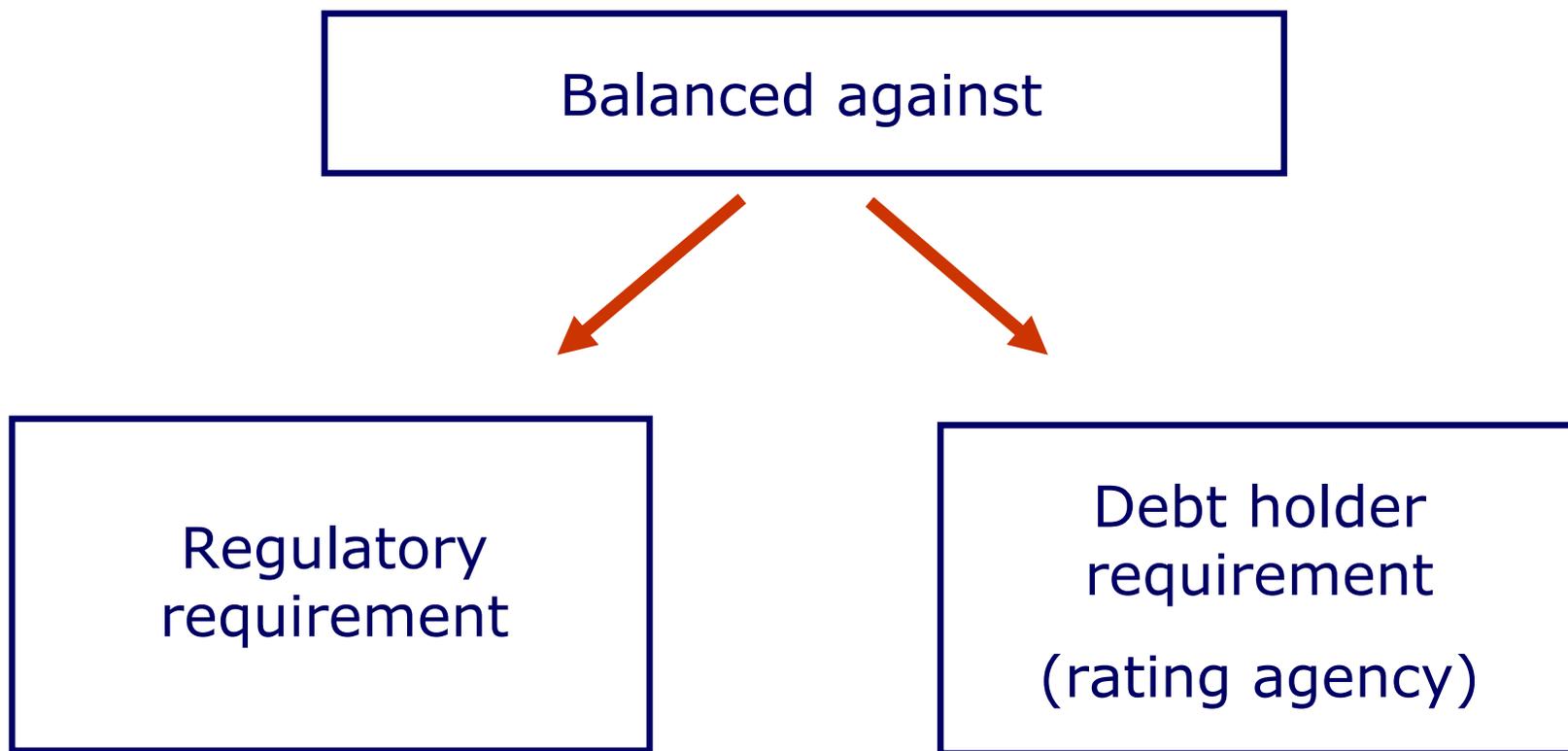


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Balancing perspectives

Maximise return on capital for shareholder



Strong capital & credit rating to attract investors & clients



integrated

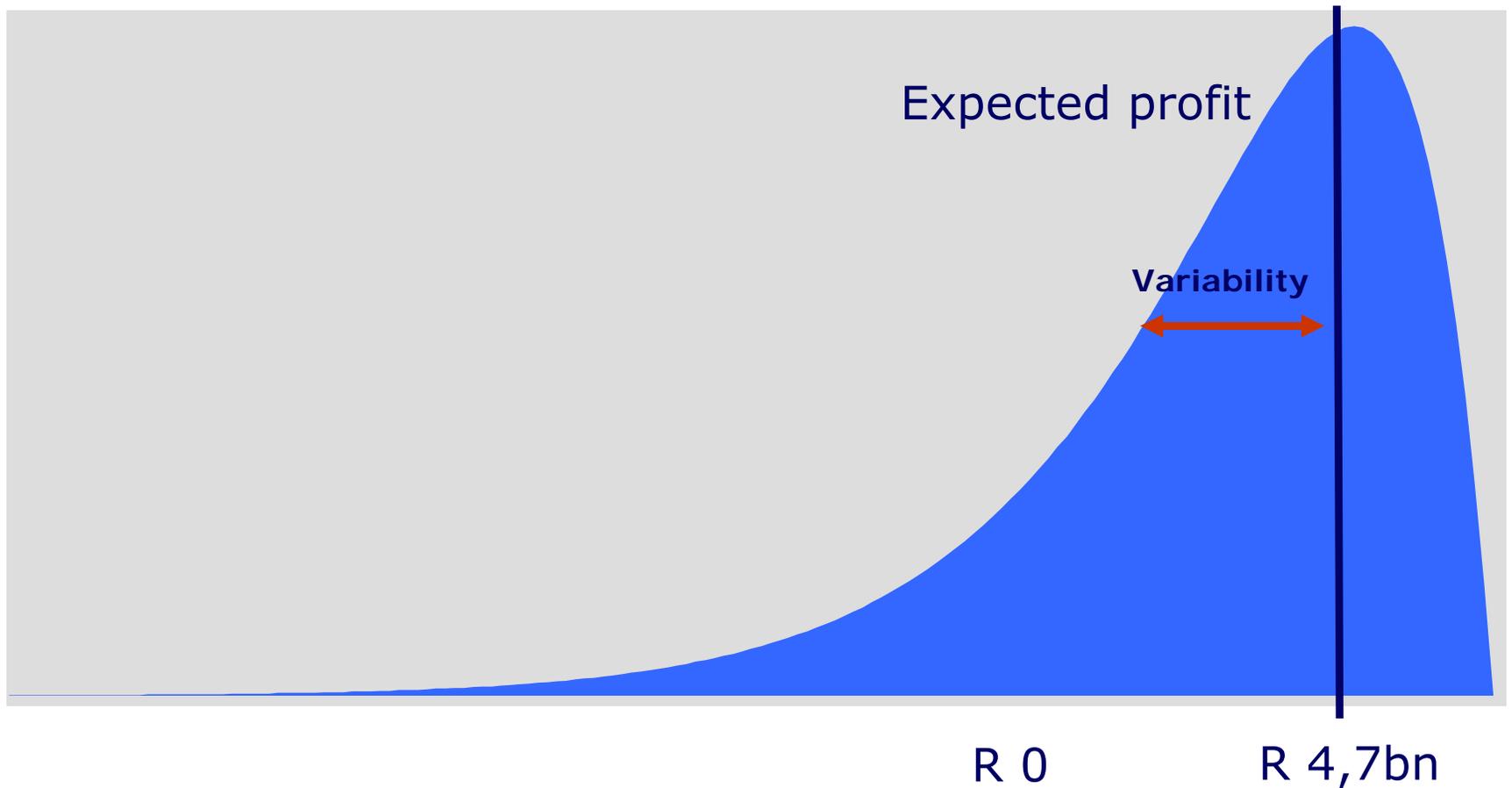
Sound principles

- Maintain highest level of regulatory or economic capital
- Maintain target counterparty credit rating
- Building blocks for buffer
 - Expected profit
 - Economic capital
 - Economic cycles
 - Risk concentration



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Expected profit



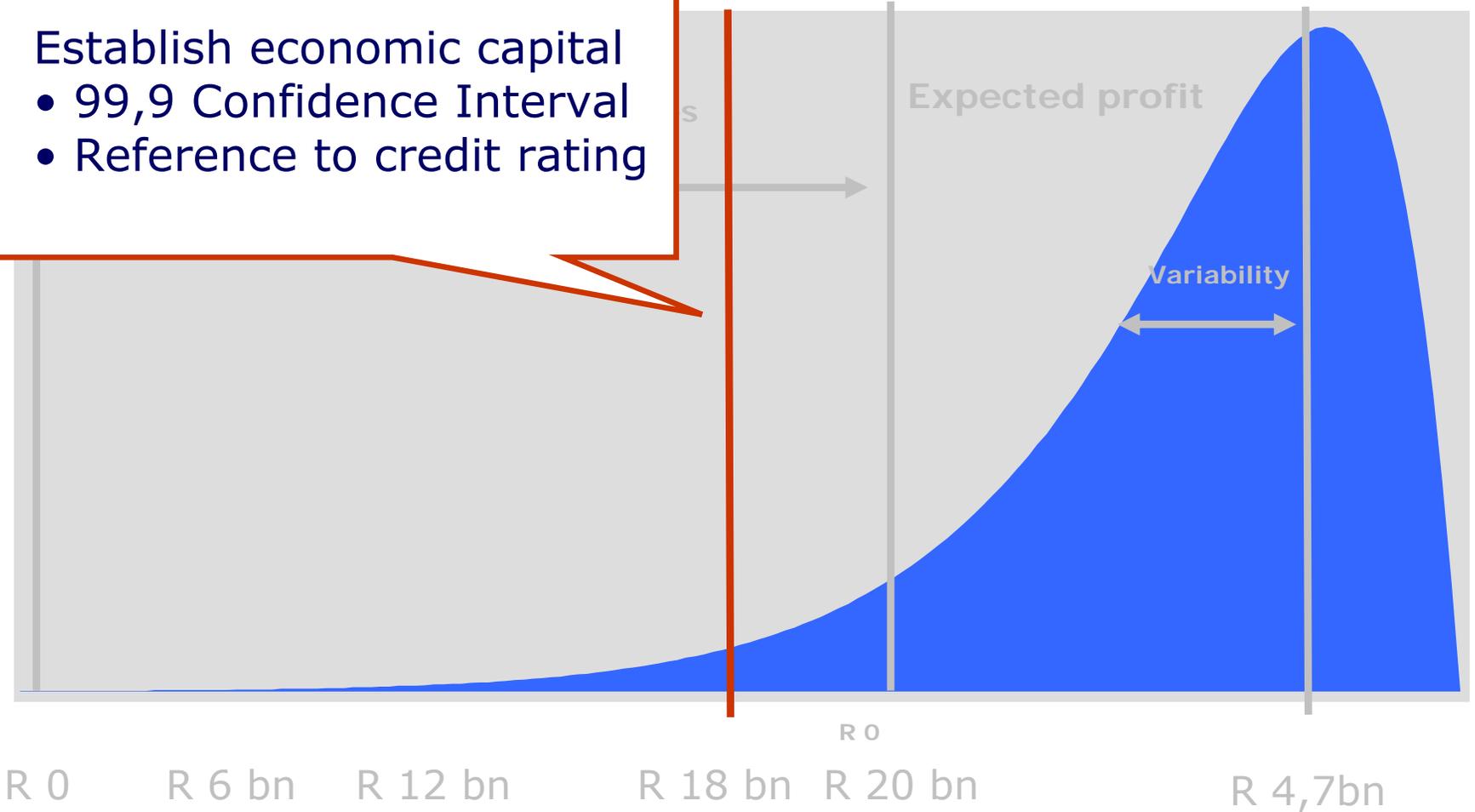
Funds organic growth and expected losses



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Economic capital

- Establish economic capital
- 99,9 Confidence Interval
 - Reference to credit rating



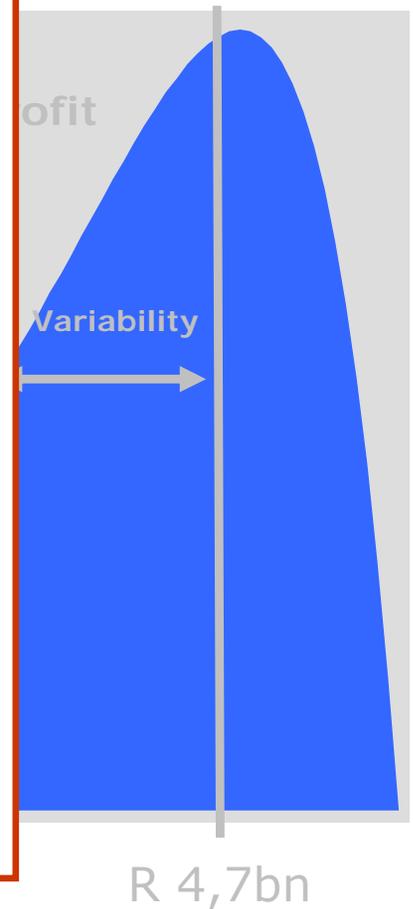


integrated

Building protection

Establish buffer over regulatory capital

- Protect against business disruptions
 - Volatility of earnings
 - AC 133
- Internal capital generation for growth
- Economic downturns
 - Interest rate shocks
 - Exchange rate volatility
- Risk concentrations



R 0

R 6 bn

R 12 bn

R 18 bn

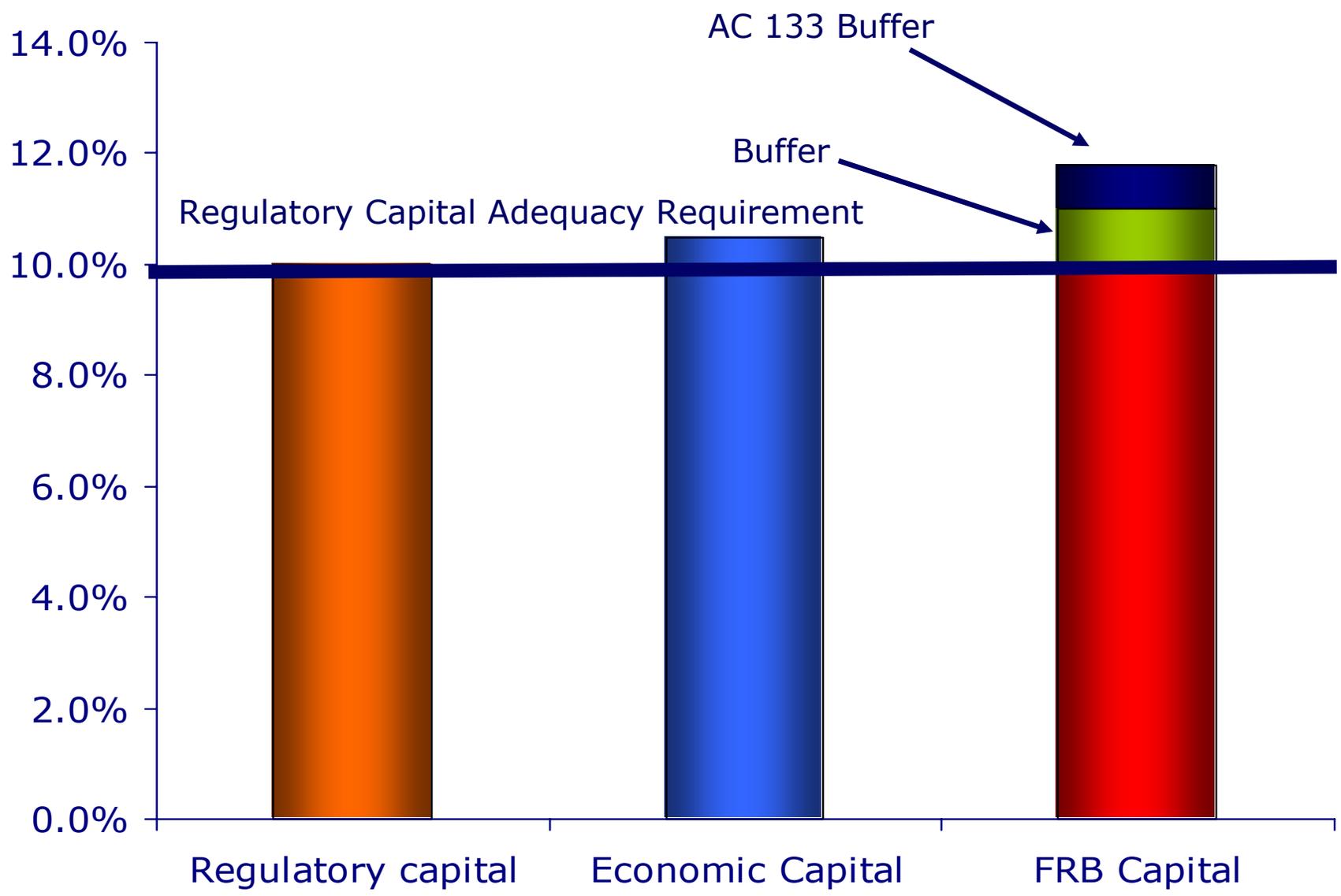
R 4,7bn



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Optimal target





integrated

Surplus capital ?

Capital adequacy as disclosed: FirstRand Banking Group	13,7%
Issue of preference shares	1,6%
Capital adequacy after preference shares	<hr/> 15,3%



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Surplus capital ?

Capital adequacy after preference shares 15,3%

Less:

- Dividend 1,2%
- AC 133 1,1%

Excess capital 13,0%

Adjust for

- Perpetual preference shares
- Ansbacher Capital

1,6%
0,4%

Optimal capital level 11,0%

Apply true excess capital



What is the optimal capital structure for the Bank?

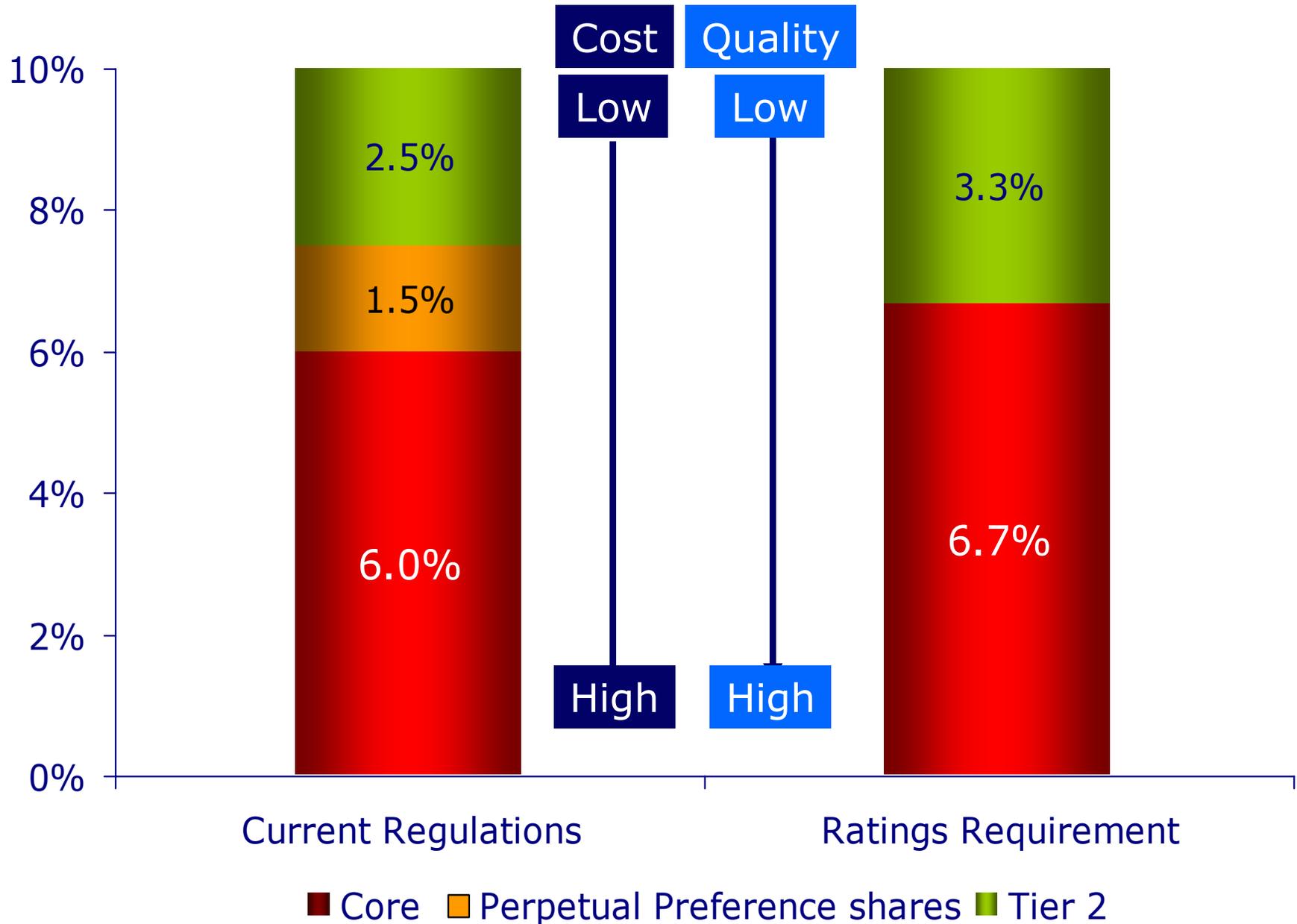


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Improving cost through Δ mix





integrated

Improving cost through Δ mix

- Rank capital instruments in order of cost

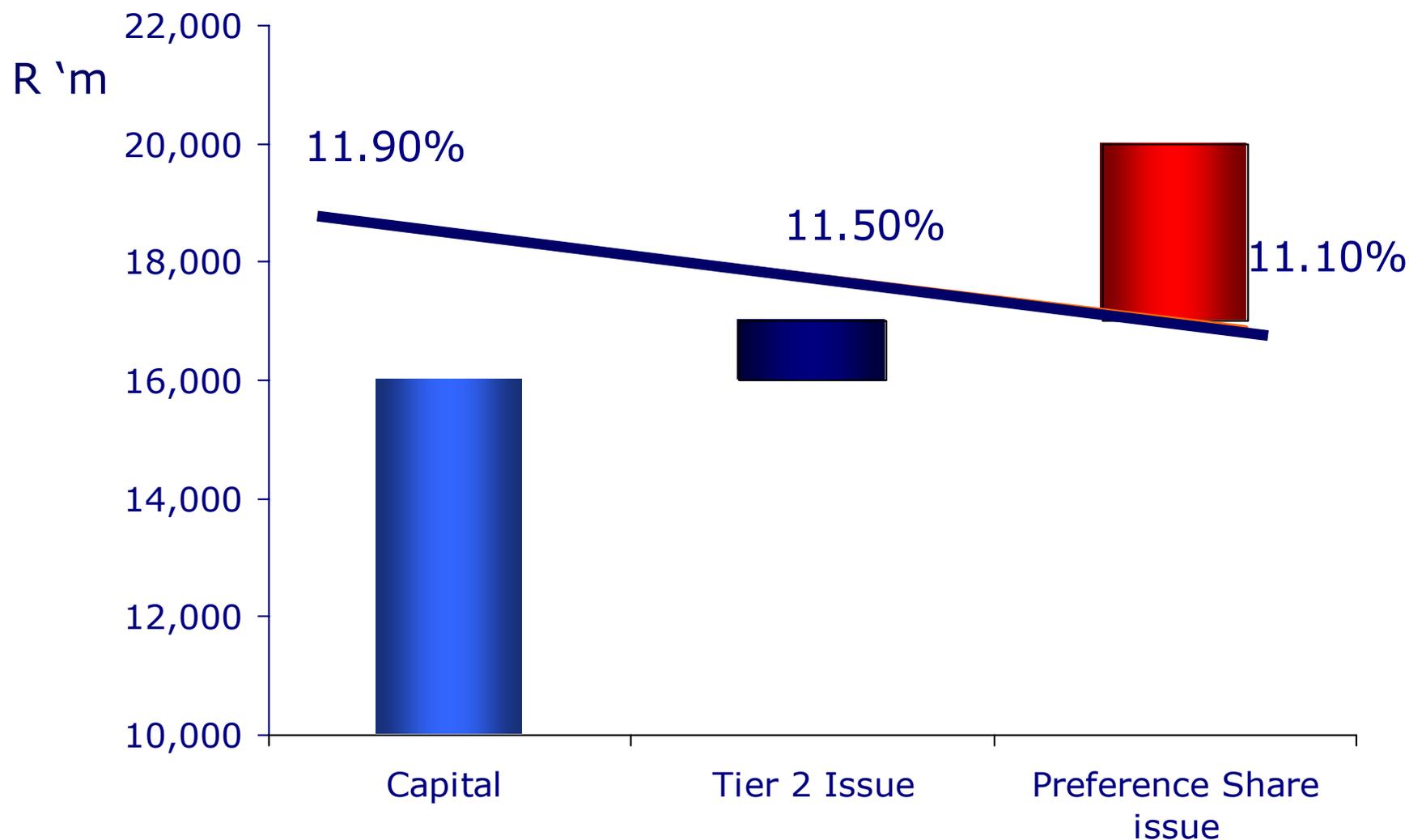
i.e. equity vs. subordinated term paper
- Issue capital instruments in order
- Capacity for the lowest cost

FirstRand raises these instruments on a regular basis



integrated

Improving cost through Δ mix



FirstRand raises these instruments on a regular basis



What is the optimal level of capital for Momentum?

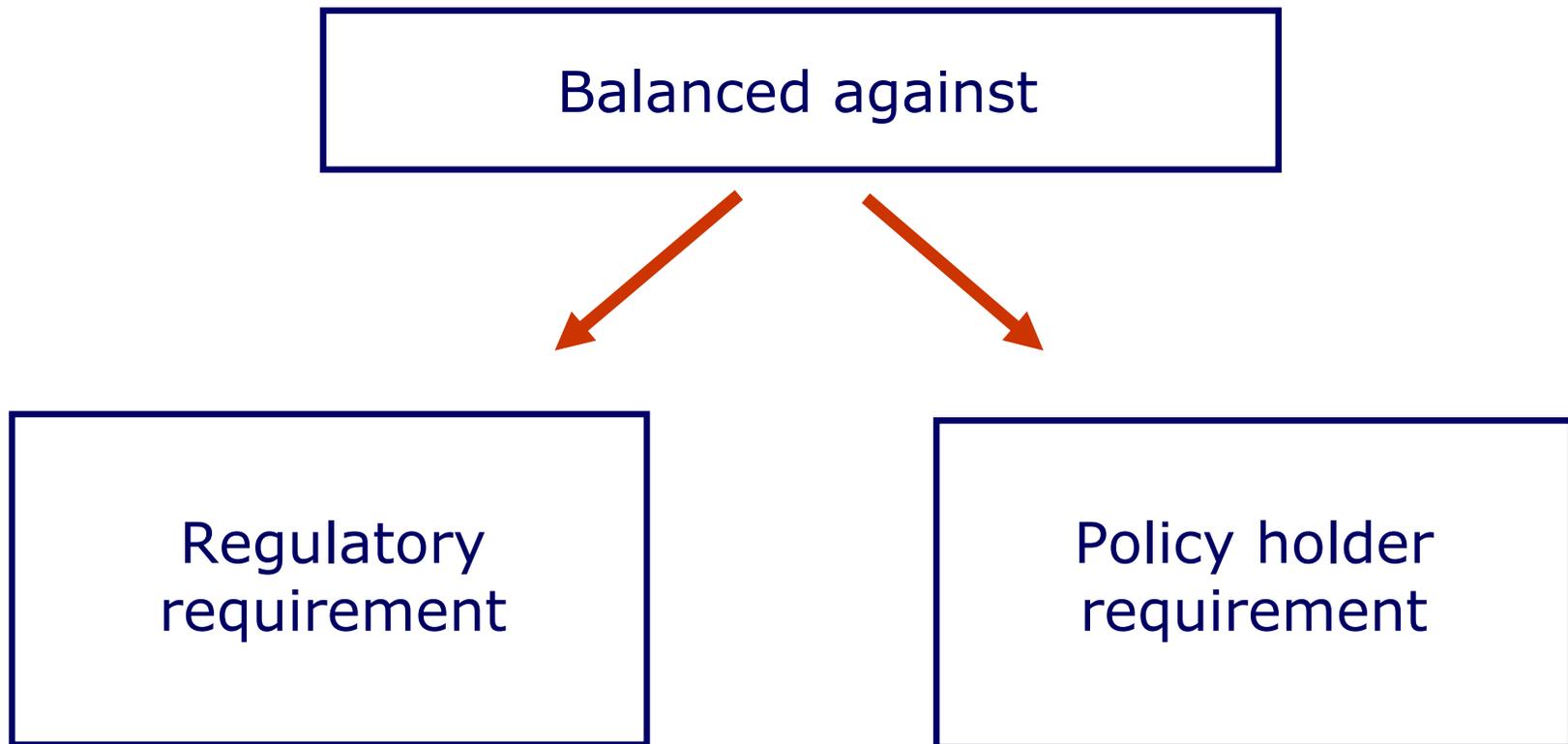


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Balancing perspectives

Maximise return on capital for shareholder



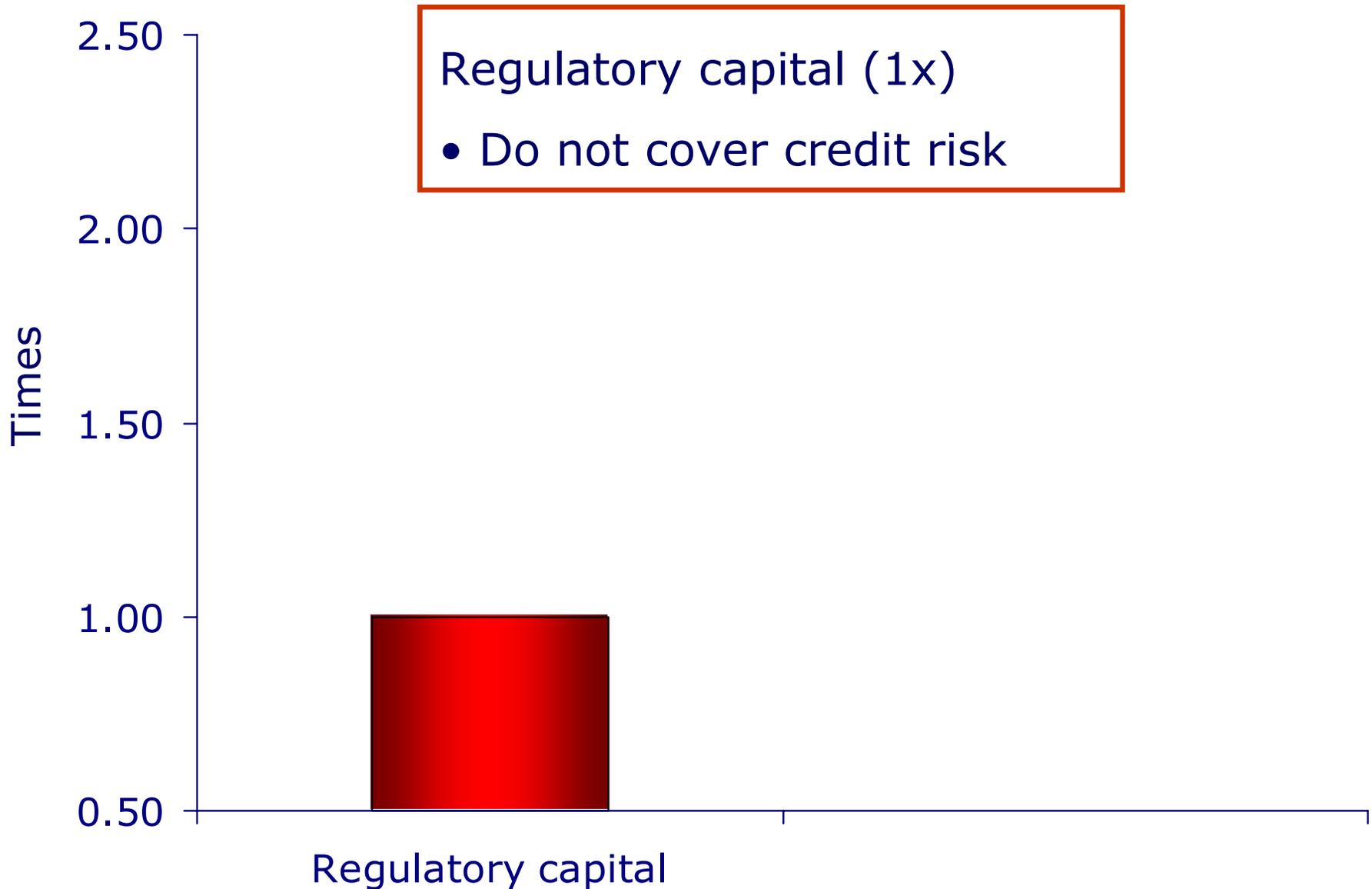
integrated





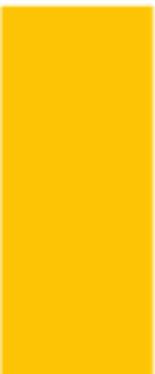
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Regulatory capital

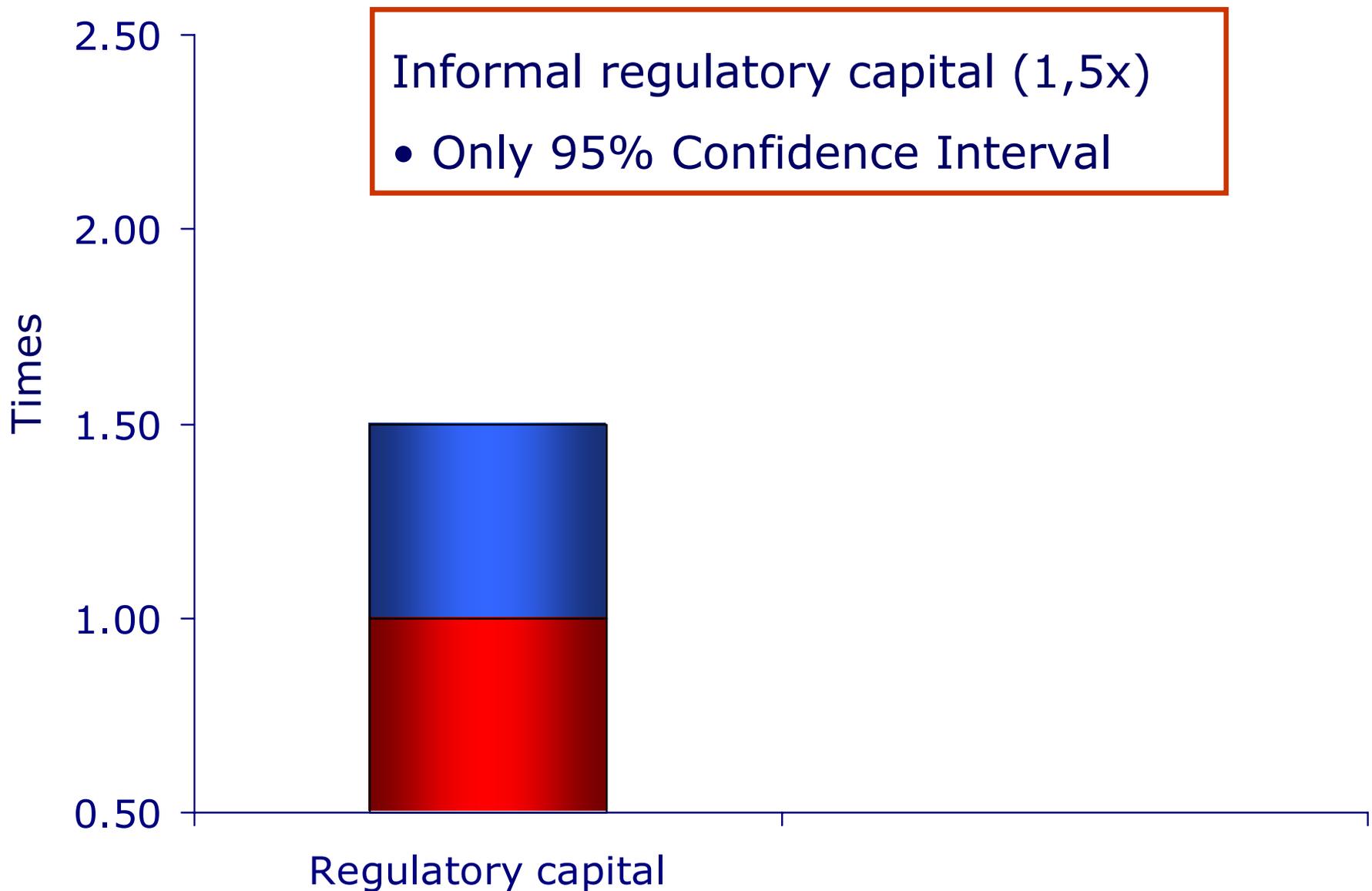




integrated



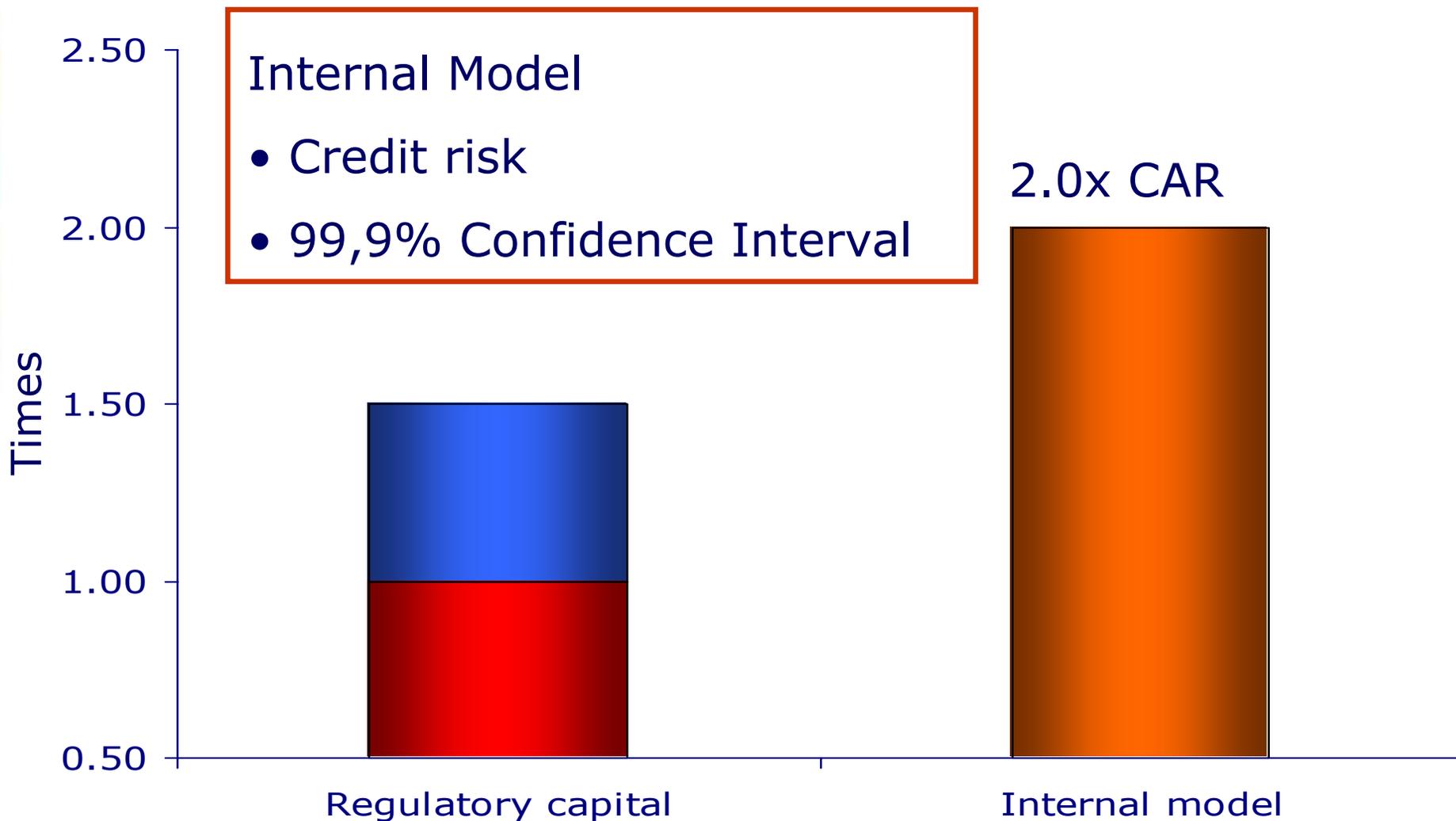
Informal regulatory capital





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Optimal capital level



Application of the same principles as the bank



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Built on three pillars

FirstRand Capital Management Framework

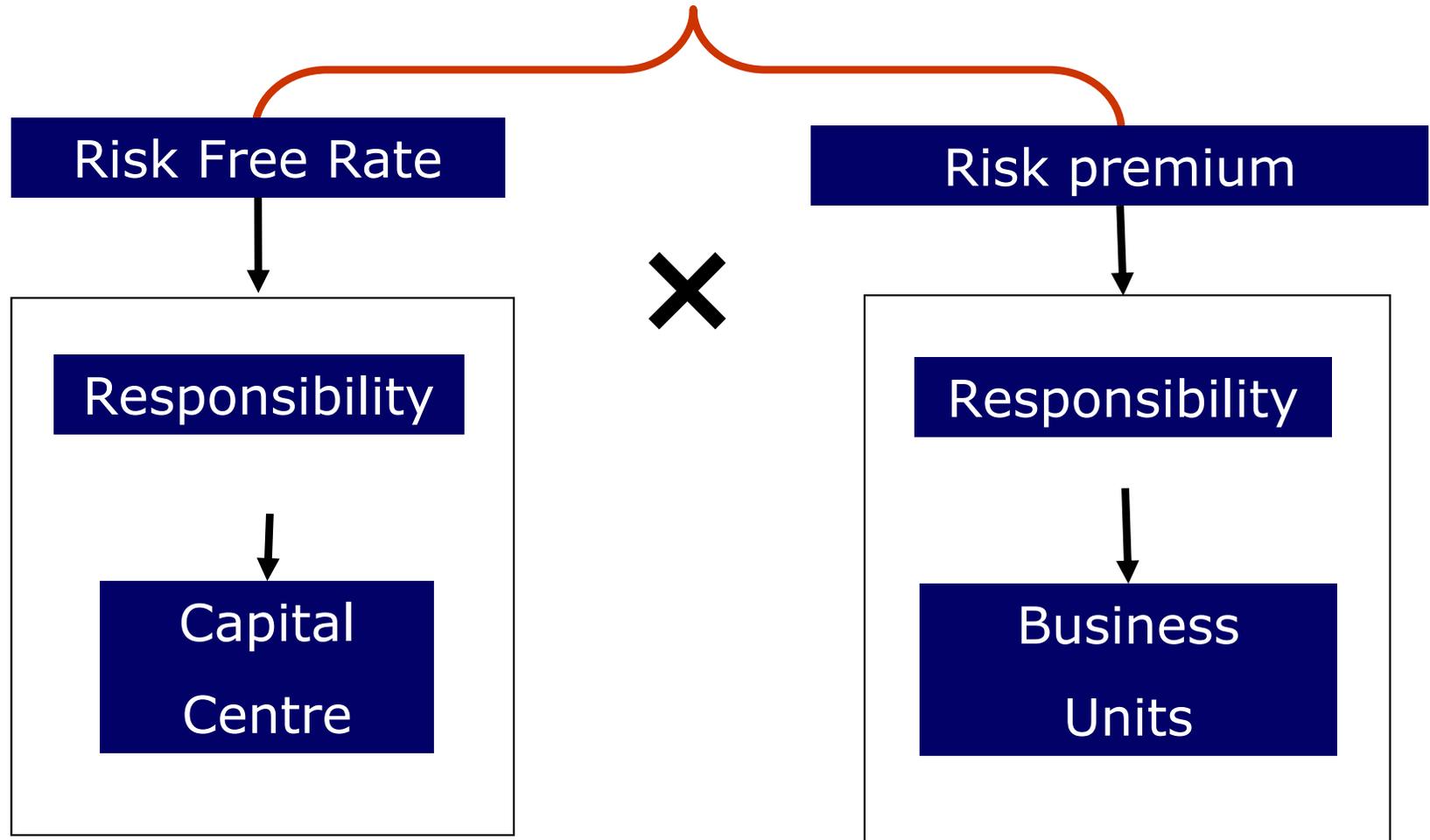
Level
of capital

Investment
of capital

Allocation
of capital

Recovery of cost of capital

Cost of capital



Measure what business units manage



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How do we invest the
capital in the bank?



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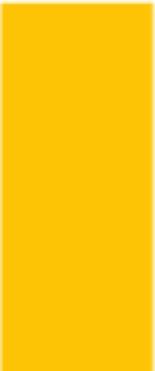
Recovery of risk free rate

- Managed by Banking Group Treasury
- Invest in underlying currency
- No interest rate risk on issue of capital debt instruments
 - Cost is credit spread
- Invest along the yield curve to:
 - Maximise and optimise the return
 - Reduce volatility in the income statement



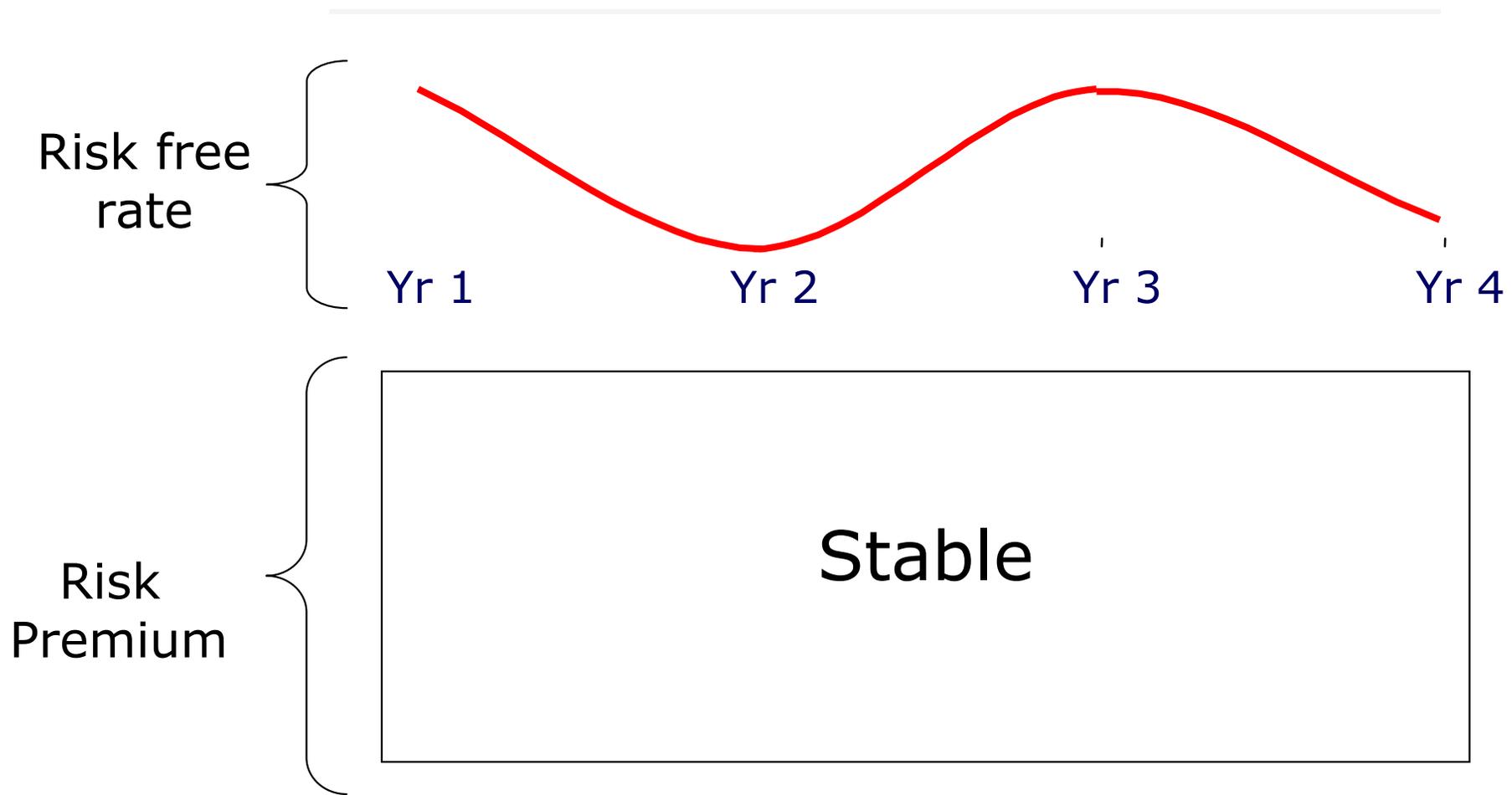
Recovery of risk free rate

- Determine economic capital utilisation
- Monitor and change risk premium to business units
- Measure profitability above risk premium





Measured in two components



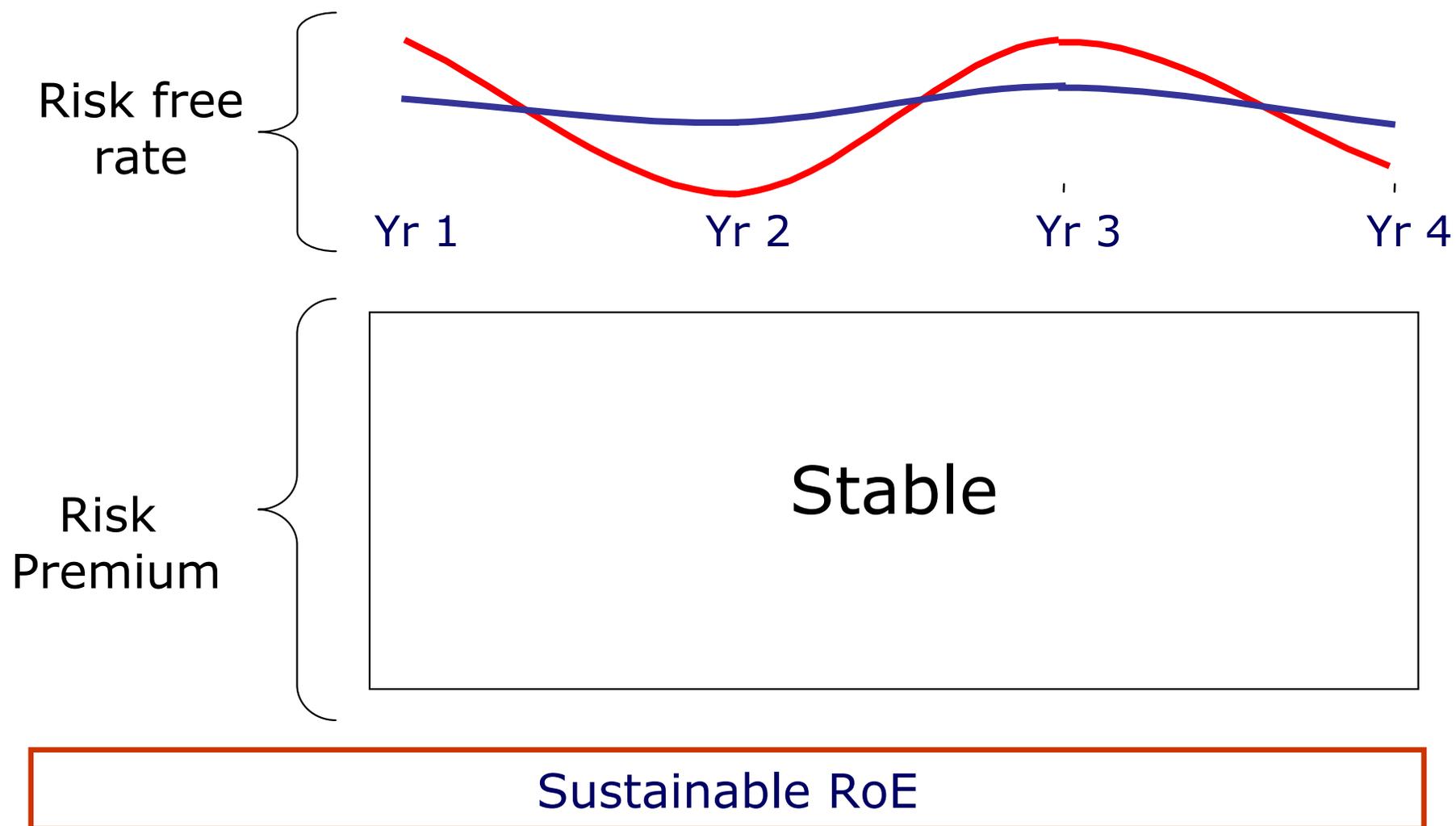
RoE measured in two components

integrated



integrated

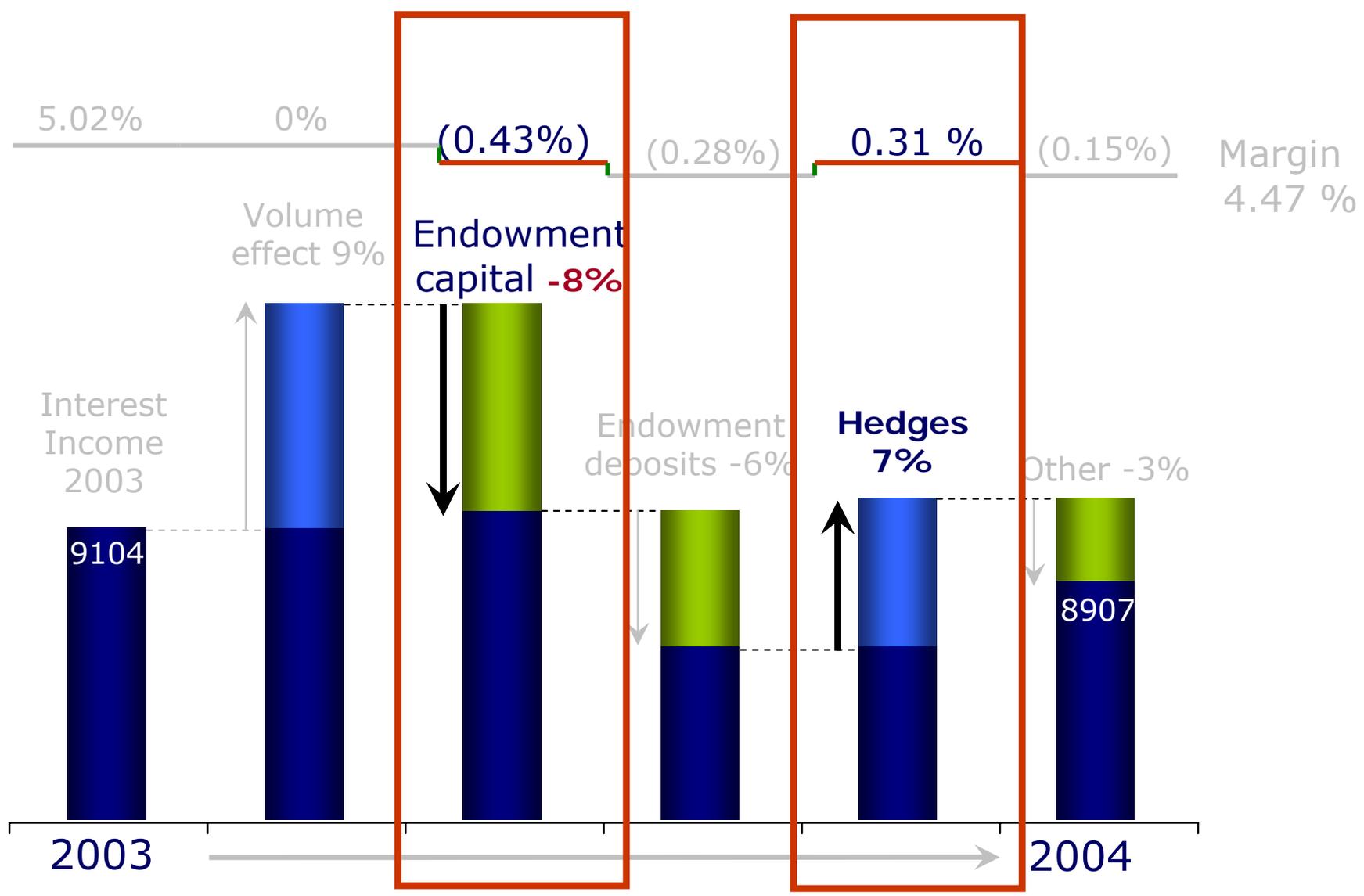
Reduce volatility





integrated

Strategy at work





How does investment strategy
affect level of capital in
Momentum?

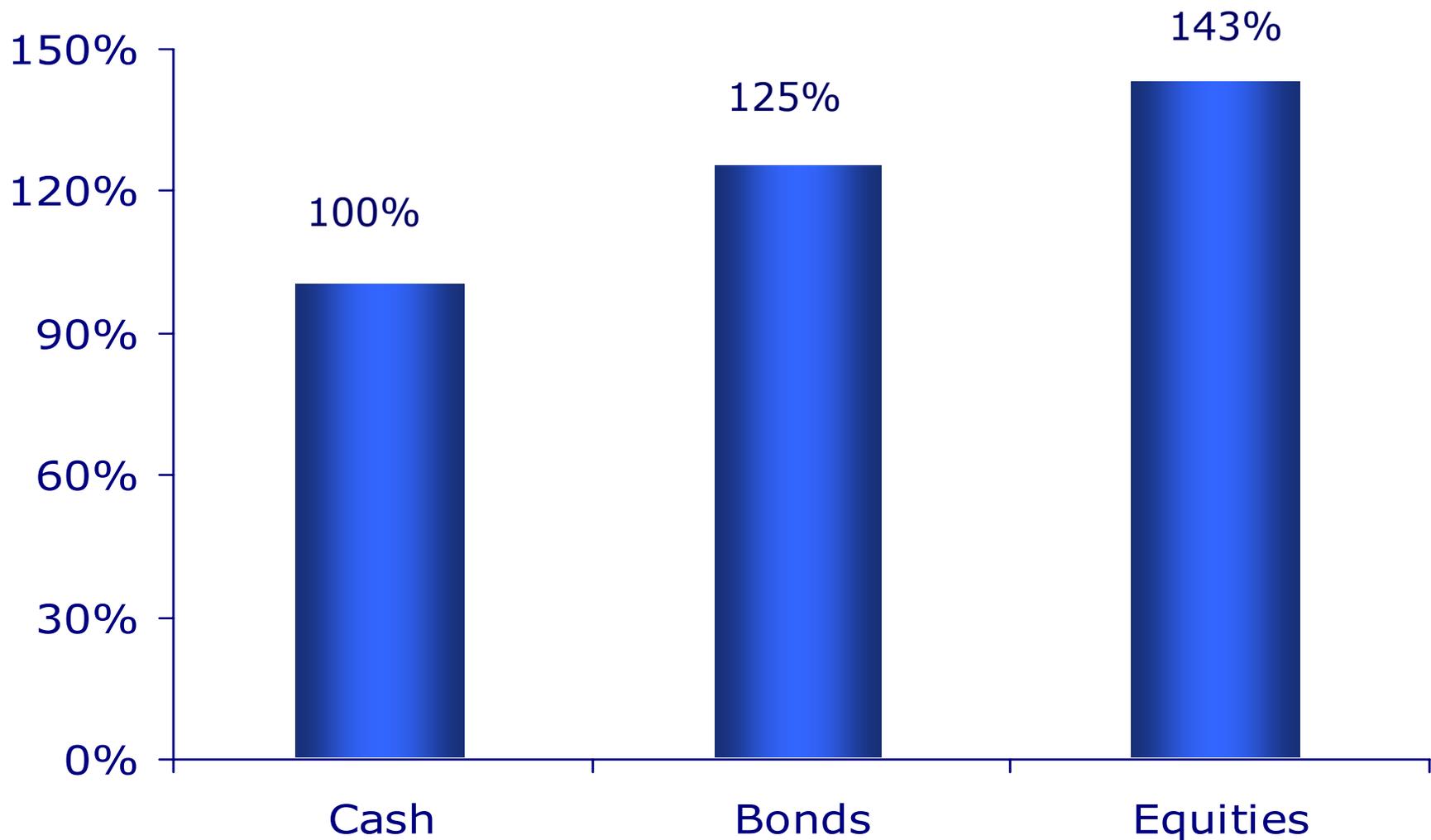


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integrated

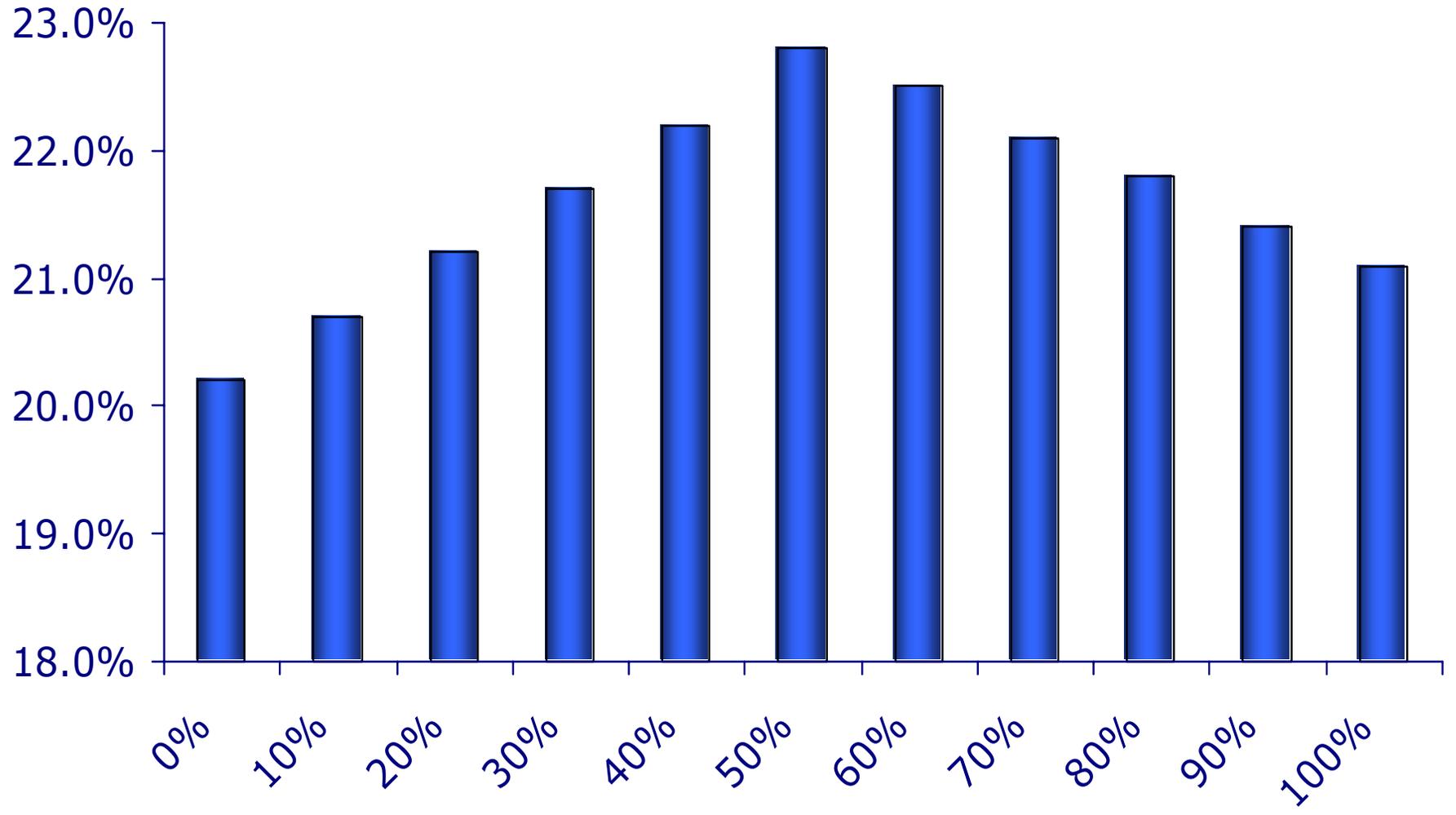
Optimise capital investment strategy





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Maximising RoE



Within optimal capital level



Integrated investment approach

- Cash & near cash
 - Managed by FirstRand Bank (Banking Group Treasury)
- Actively managed equities
 - RMB Asset Management





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Built on three pillars

FirstRand Capital Management Framework

Level
of capital

Investment
of capital

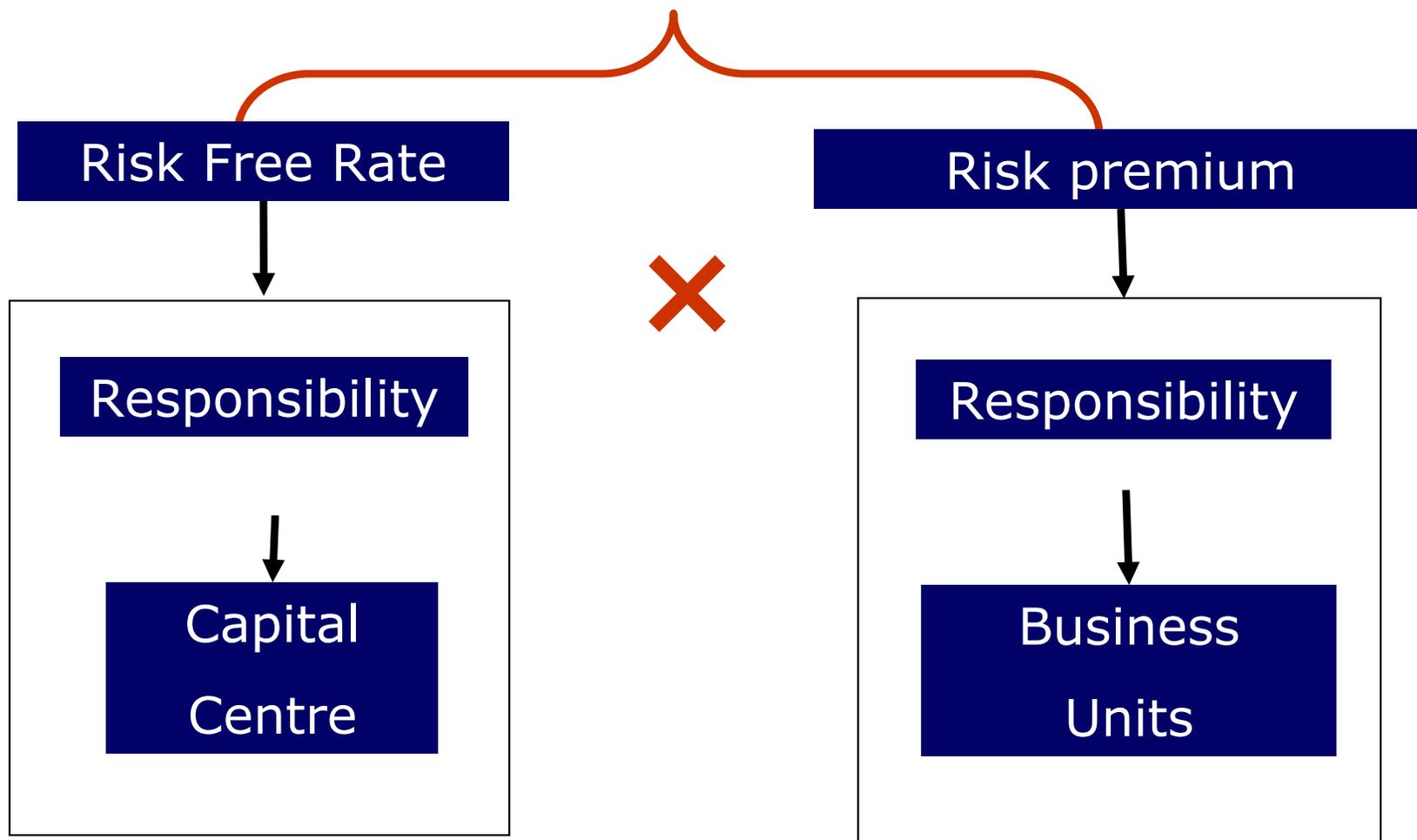
Allocation
of capital



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Recovery of cost of capital

Cost of capital



Measure what business units manage



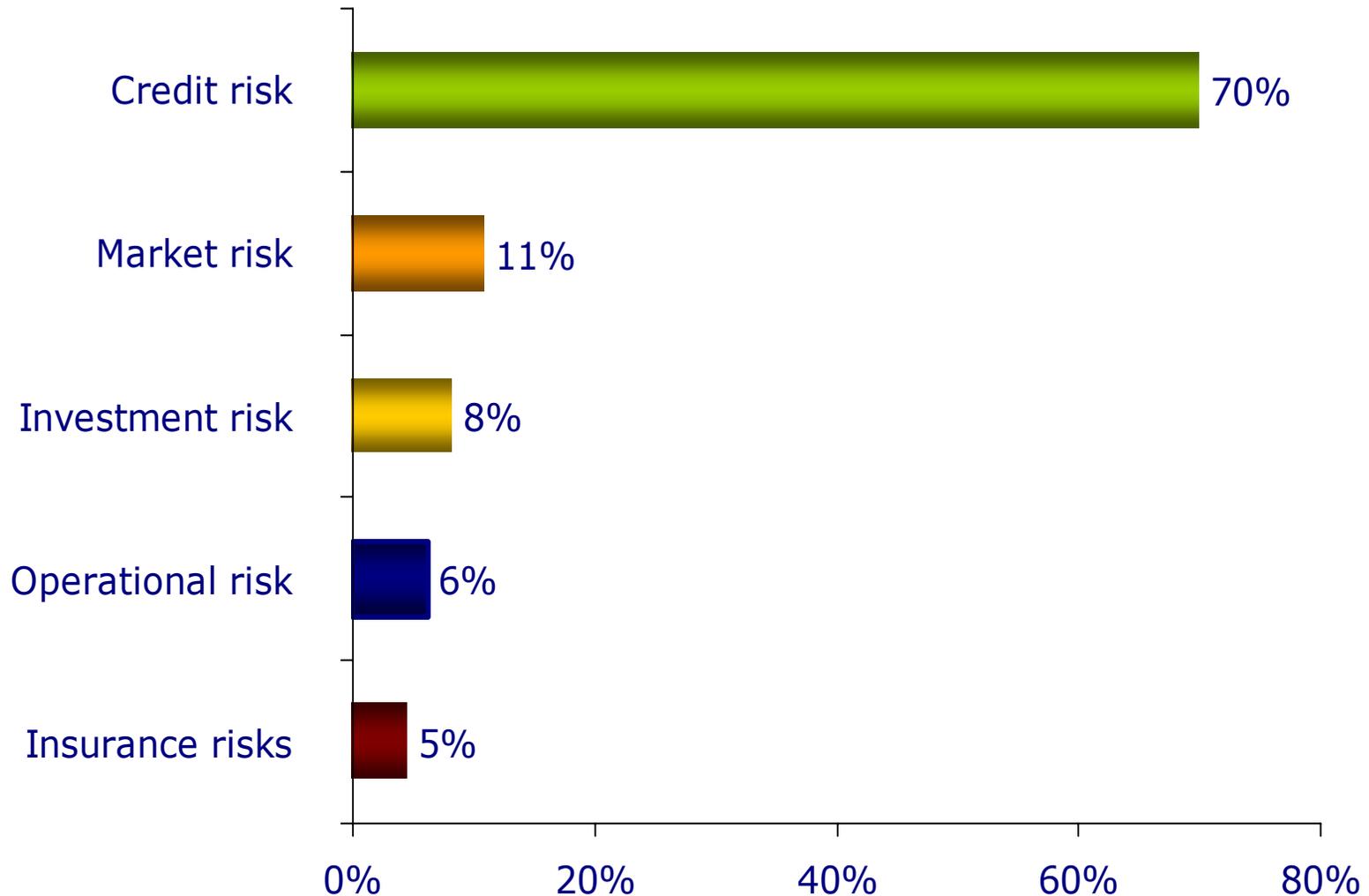
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Objectives

- Understanding the risk assumed by business units
- Measure profitability above risk premium
- Ensuring appropriate pricing for risk
- Strategic decisions measured against requirement and returns
- Aligning shareholders' interests with performance measurement of management



Understanding economic risk



Align business strategies to capital utilisation

integrated



integrated

Profitability above risk premium

Capital Charge to business units

Economic capital

×

Risk premium

- Bottom up calculation
- All risk types
- Per business unit
- Per product/ client
- Per portfolio

Measure Business units above risk premium



Ensuring appropriate pricing

Interest & Liquidity risk (ALCO) →

MMTP

Regulatory costs →

Statutory costs

FR Internal Rating Assessment →

Expected Loss (Credit)

Infrastructure costs & salaries →

Operational costs

Economic Capital →

Unexpected loss (capital)

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Ensure price for risk and pricing is dynamic



Strategic decision making

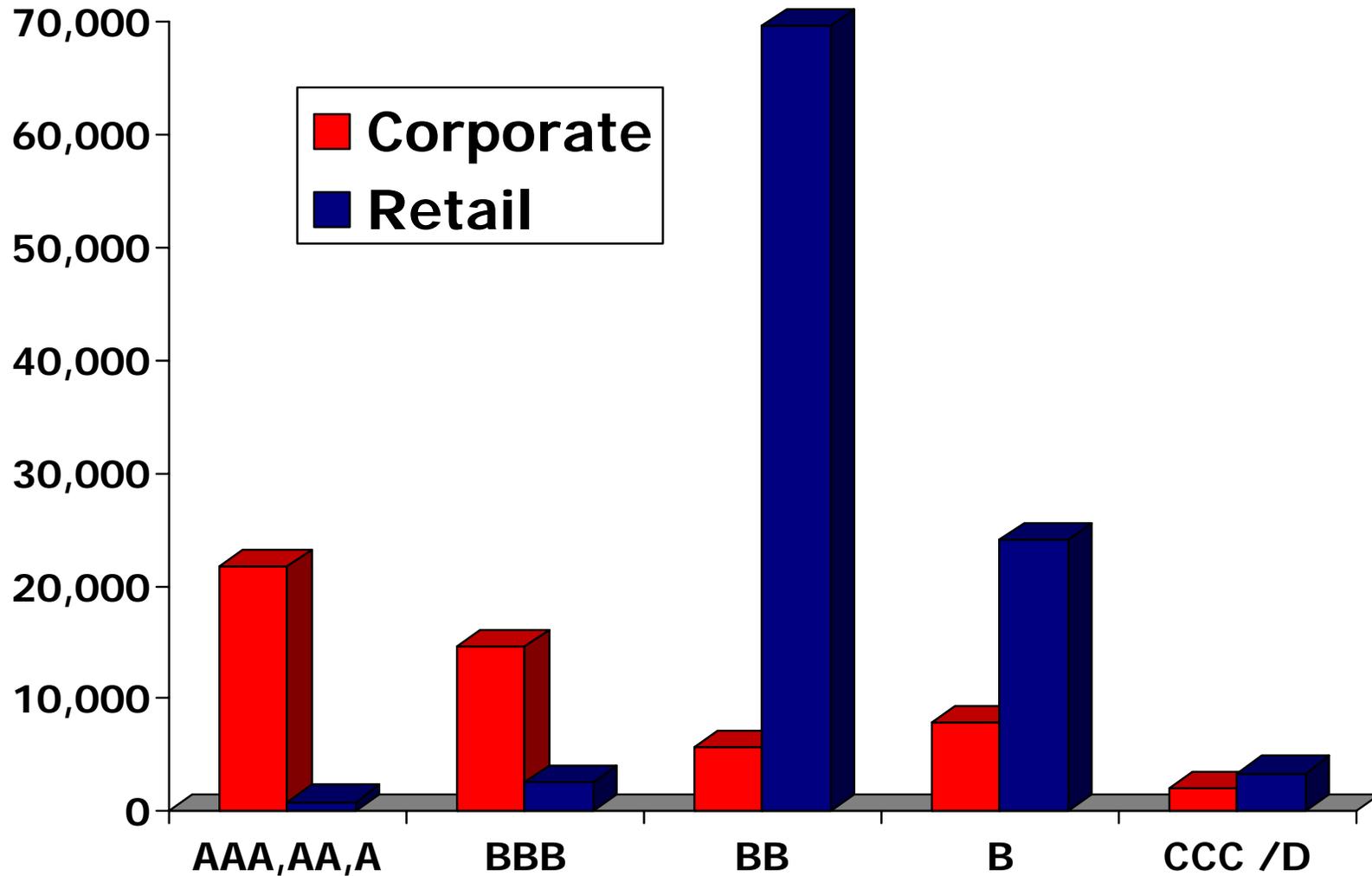
Prerequisite

- Maintain credit rating
- Establish economic capital and risk/ reward
- Capital at risk
 - Probability of loss
 - Severity of loss
- Fund the capital required



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Strategic decision making



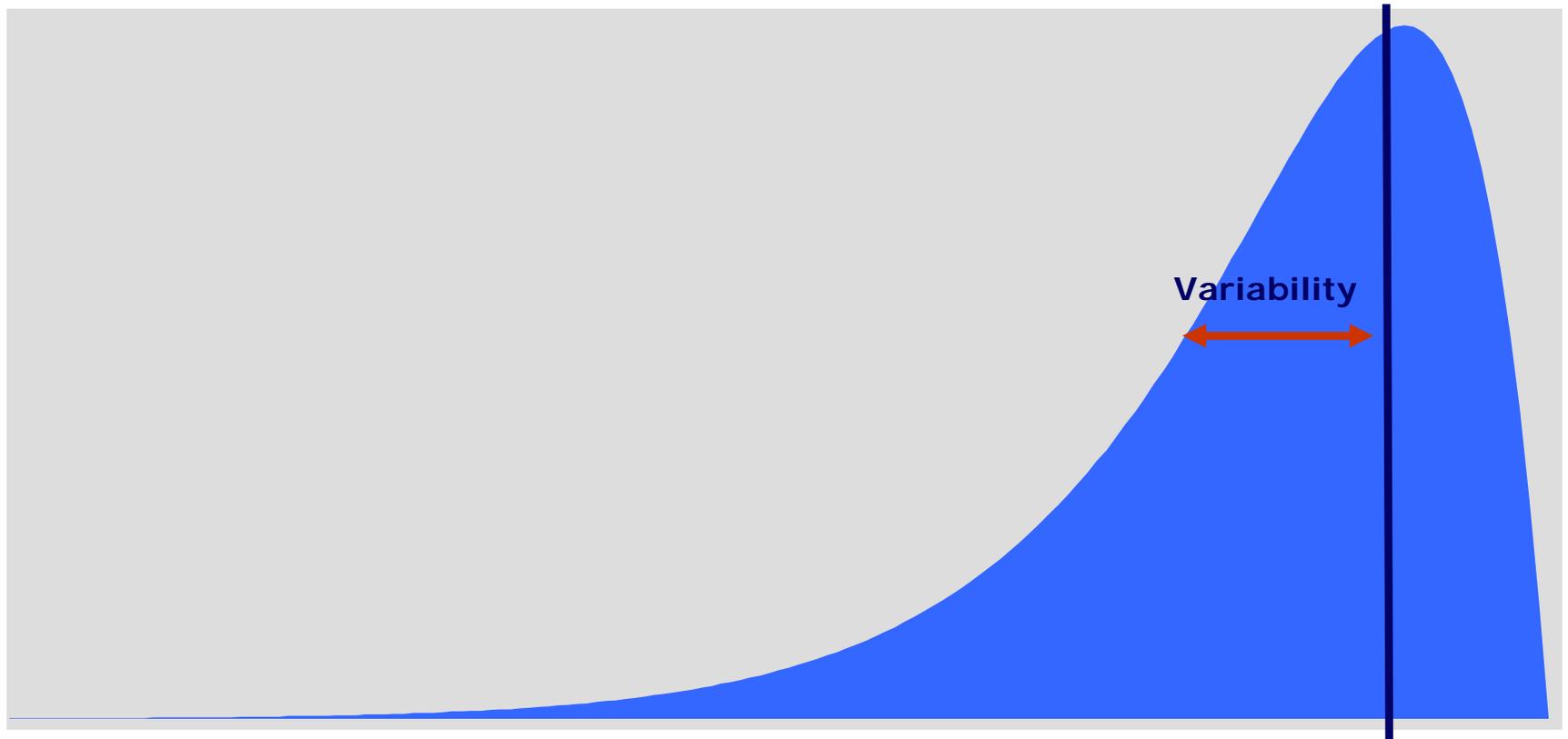
Align with existing portfolio credit rating



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Limit the severity of loss

Target: 10% Real growth

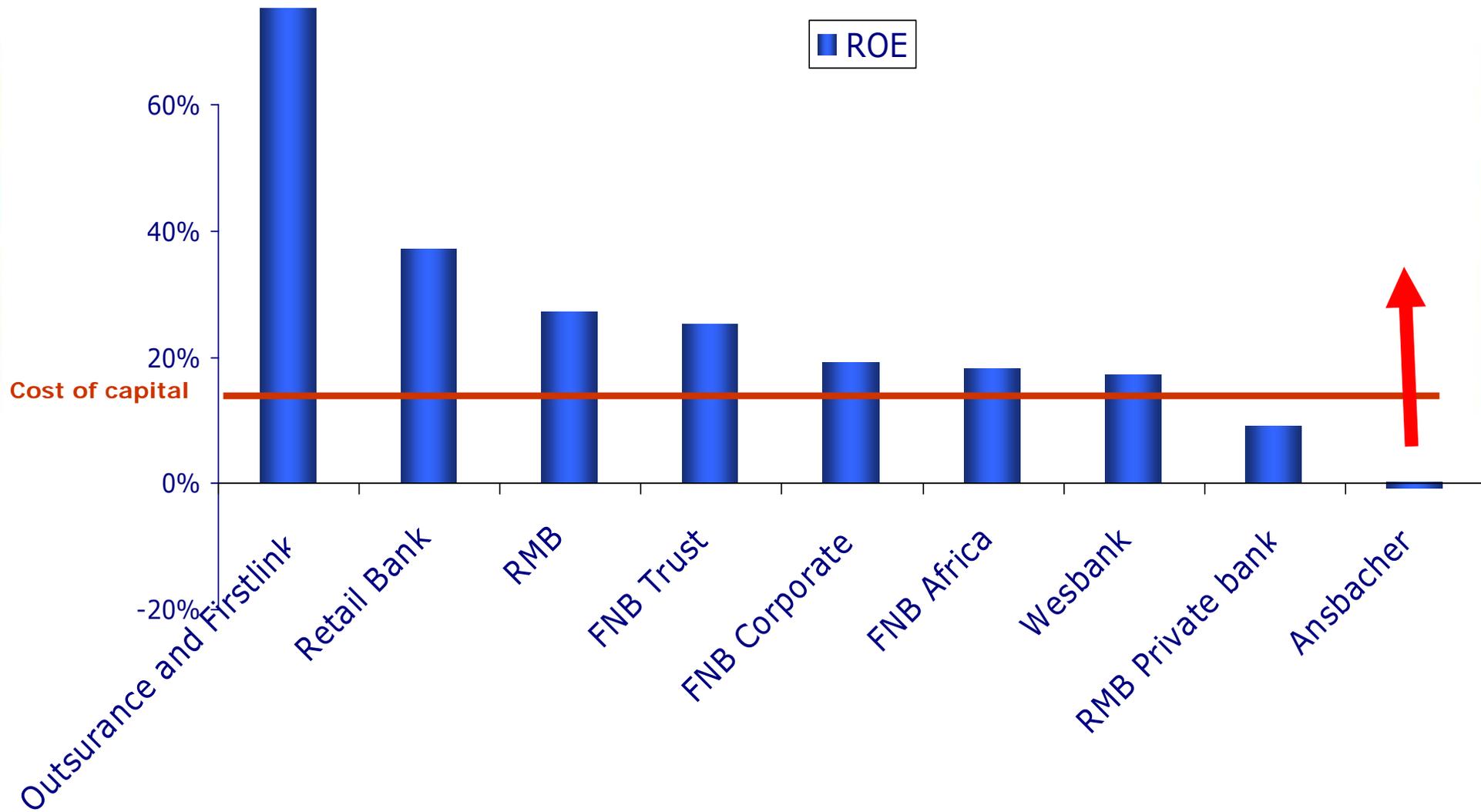


Loss acceptance align to expected growth



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Contribution above RoE



Return on equity per product/ market segment



Aligning management with shareholders

Capital Charge to business units

Level of capital

×

Risk premium

Performance measurement

Remuneration program



What does it all mean?



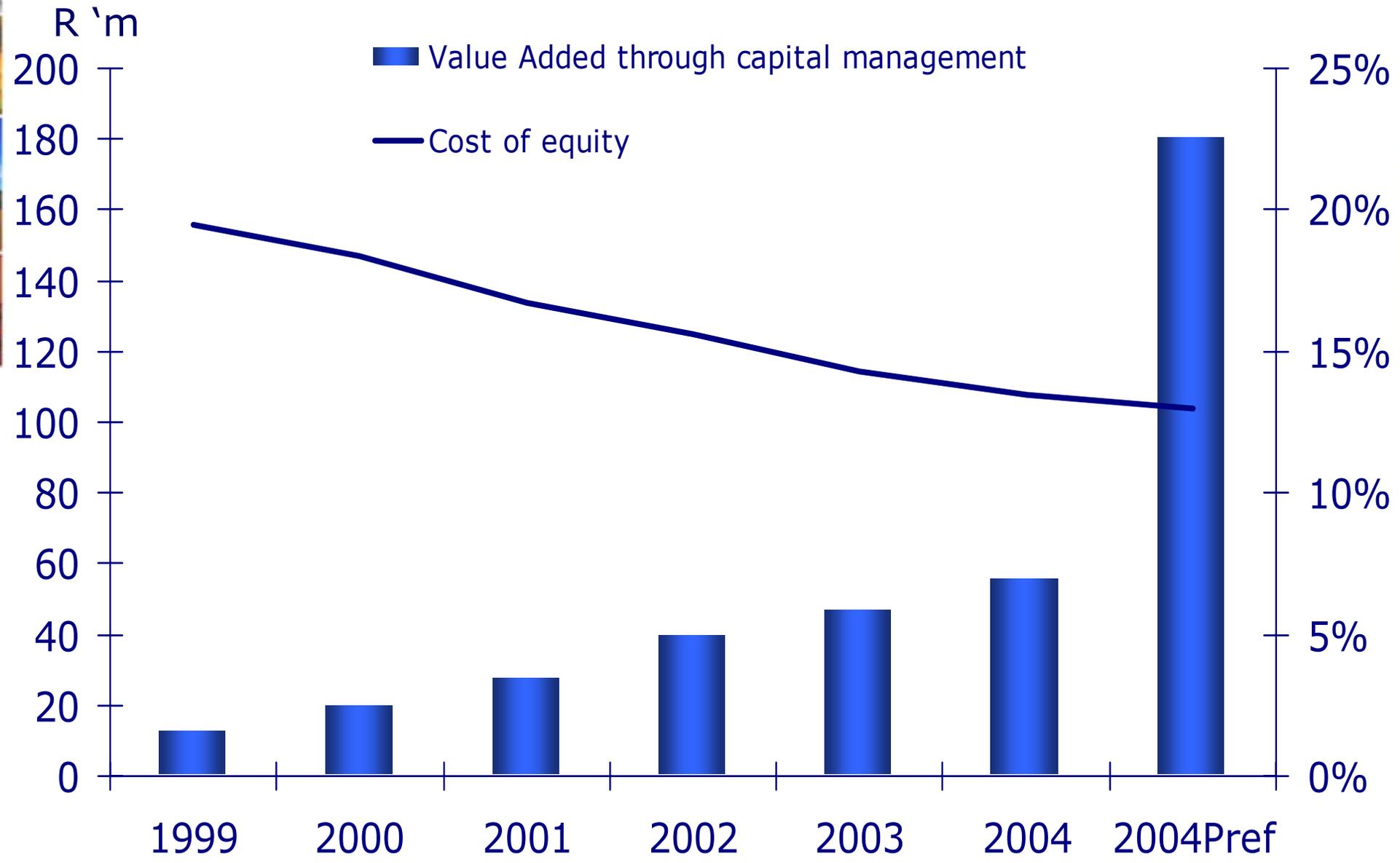
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Thinking like shareholders



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Simple sum

- Optimal capital level
 - Dividend strategy is important
 - True excess should be returned to shareholders
- Cost efficient capital structure
- Maximise return over cost of capital
- Ensure capital requirement is embedded in business unit strategy
- Alignment with remuneration strategy

Business looks for capital and not capital for business



What are the future challenges?



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Basel II implications

- Capital requirements more volatile Basel II
 - But FRBG capital planning process robust
 - Capital buffers are sufficient
- Retail v Corporate shift of capital requirements
 - Collateralised businesses benefit
- Higher complexity of compliance
 - But closely aligned to business management processes

FRBG is well placed to operate in a Basel II environment



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FRBG External Targets

Credit Risk	Market Risk	Operational risk
Standardised	Basic	Basic indicator
Foundation IRB	Building Block	Standardised
Advanced IRB*	Internal model	AMA**

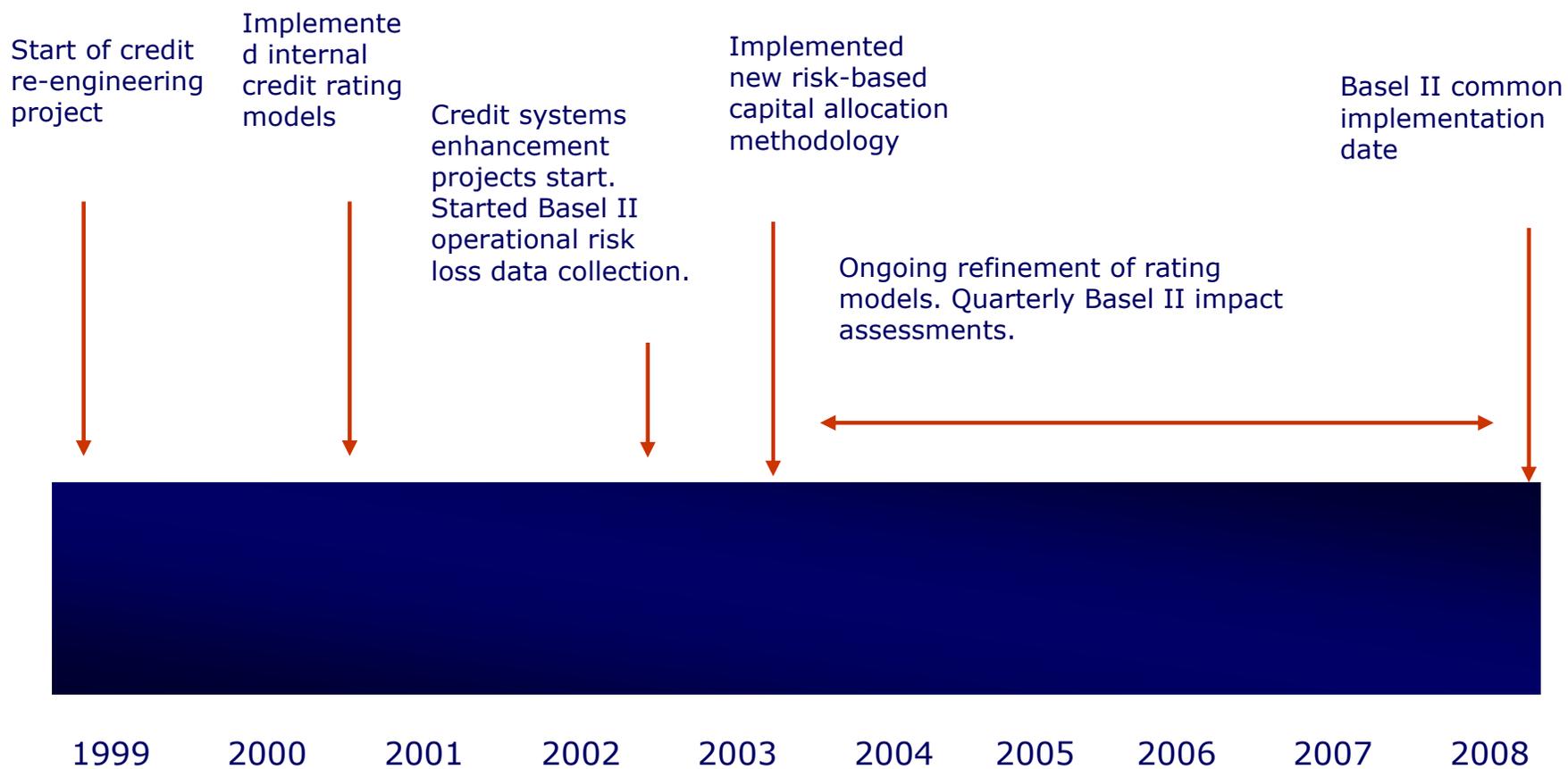
Targets commensurate with internal risk practices

- *Retail only
- **Initially will operated under standardised approach



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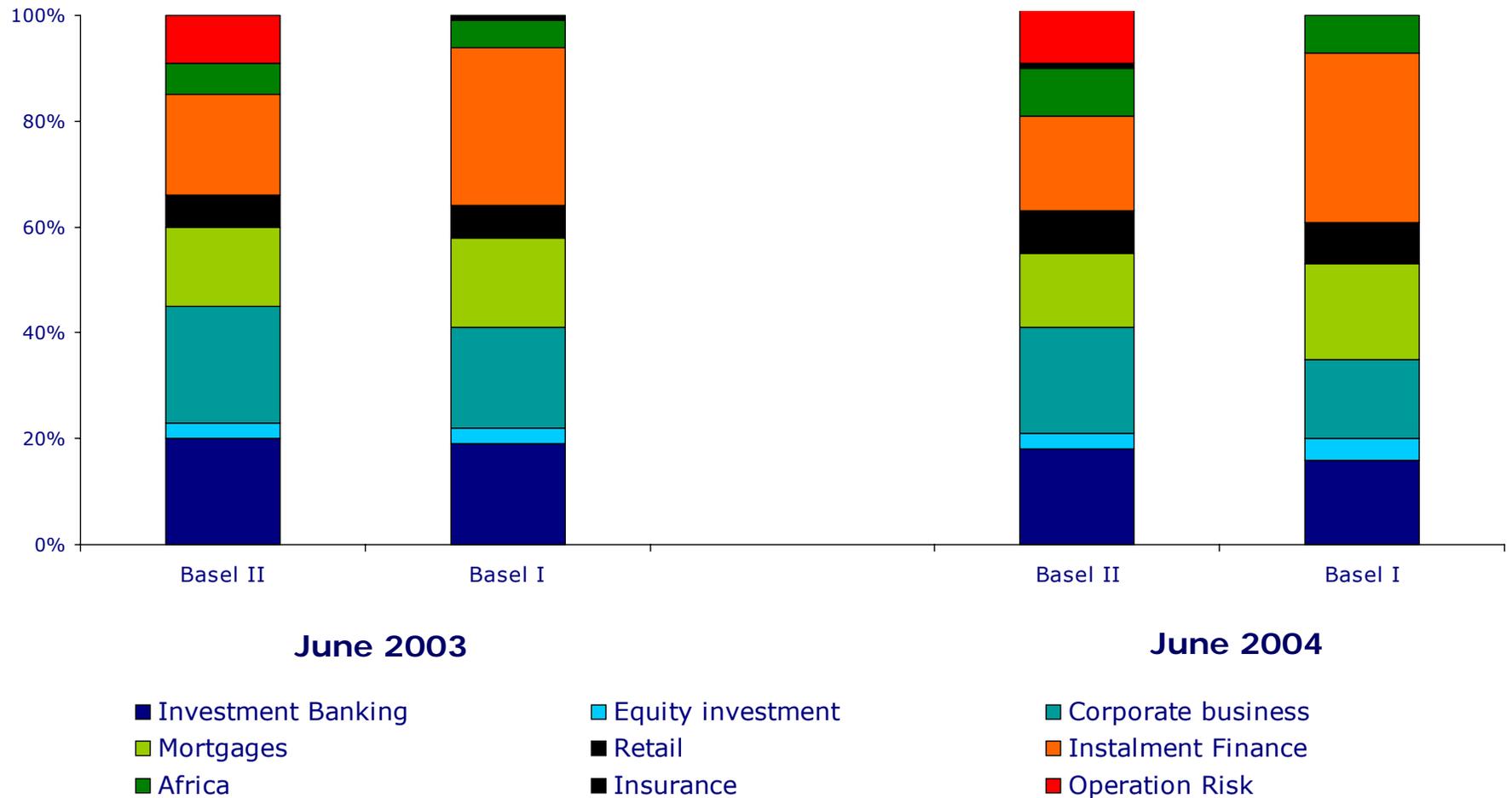
Five years of prep





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Positioning the book for Basel II



Understand the impact on business



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Insurance industry

- Alignment between statutory & economic capital
- Exploring the use of debt capital instruments



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