



Financial and strategic update

Agenda

<p>Overview of the FirstRand group</p> <p>Overview of FirstRand Bank (debt issuer)</p> <p>FirstRand Bank financial performance</p>	<p>Alan Pullinger (CEO: FirstRand)</p>
<p>Macroeconomic environment</p> <p>SA financial sector and market infrastructure</p> <p>Funding and liquidity</p> <p>Capital</p>	<p>Andries du Toit (Group Treasurer)</p>





Overview of the FirstRand group

Introducing the FirstRand group – financial position and track record

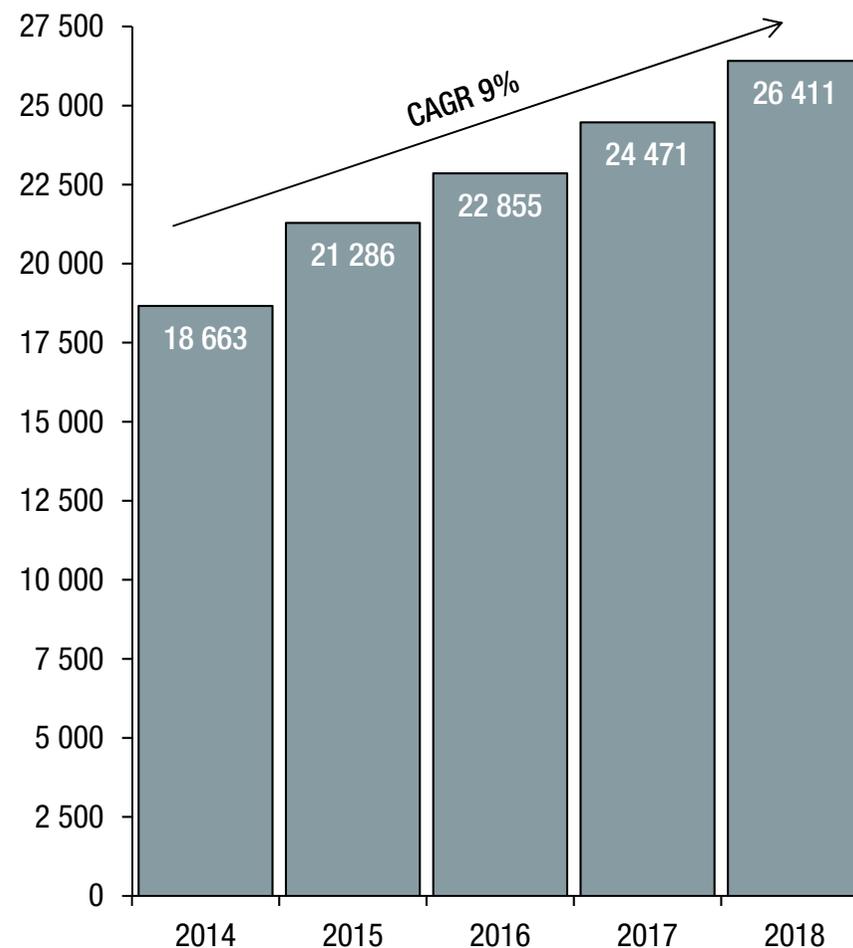
FINANCIAL HIGHLIGHTS for the year ended 30 June 2018	ZAR million	USD million
Total assets (normalised)	1 532 310	111 037
Normalised net asset value	121 046	8 771
Normalised earnings	26 411	2 060
Normalised ROE	23.0%	
Capital adequacy – CET1 ratio	11.5%	

Conversion rates at 30 June 2018: Income statement: USD1 = ZAR12.82, balance sheet: USD1 = ZAR13.80

KEY OPERATING STATISTICS for the year ended 30 June 2018	Number
Employees	46 284
Physical representation points*	801
ATMs*	7 358

* Relates to FNB's representation points and ATMs in South Africa and the rest of Africa.

NORMALISED EARNINGS – YEAR ENDED 30 JUNE
ZAR million



FirstRand's portfolio



FirstRand

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)



Group strategic framework

FirstRand aims to create long-term franchise value, ensure sustainable and superior returns for shareholders within acceptable levels of volatility and maintain balance sheet strength

DELIVERED THROUGH CURRENT STRATEGIES:

Protect and grow banking businesses

Broaden financial services offering

Portfolio approach to the rest of Africa

Build a sustainable UK business

SOUTH AFRICA

REST OF AFRICA

UK

Build a truly integrated financial services business

Better leverage existing portfolio

Integrate, scale and grow

Underpinned by disciplined management of financial resources

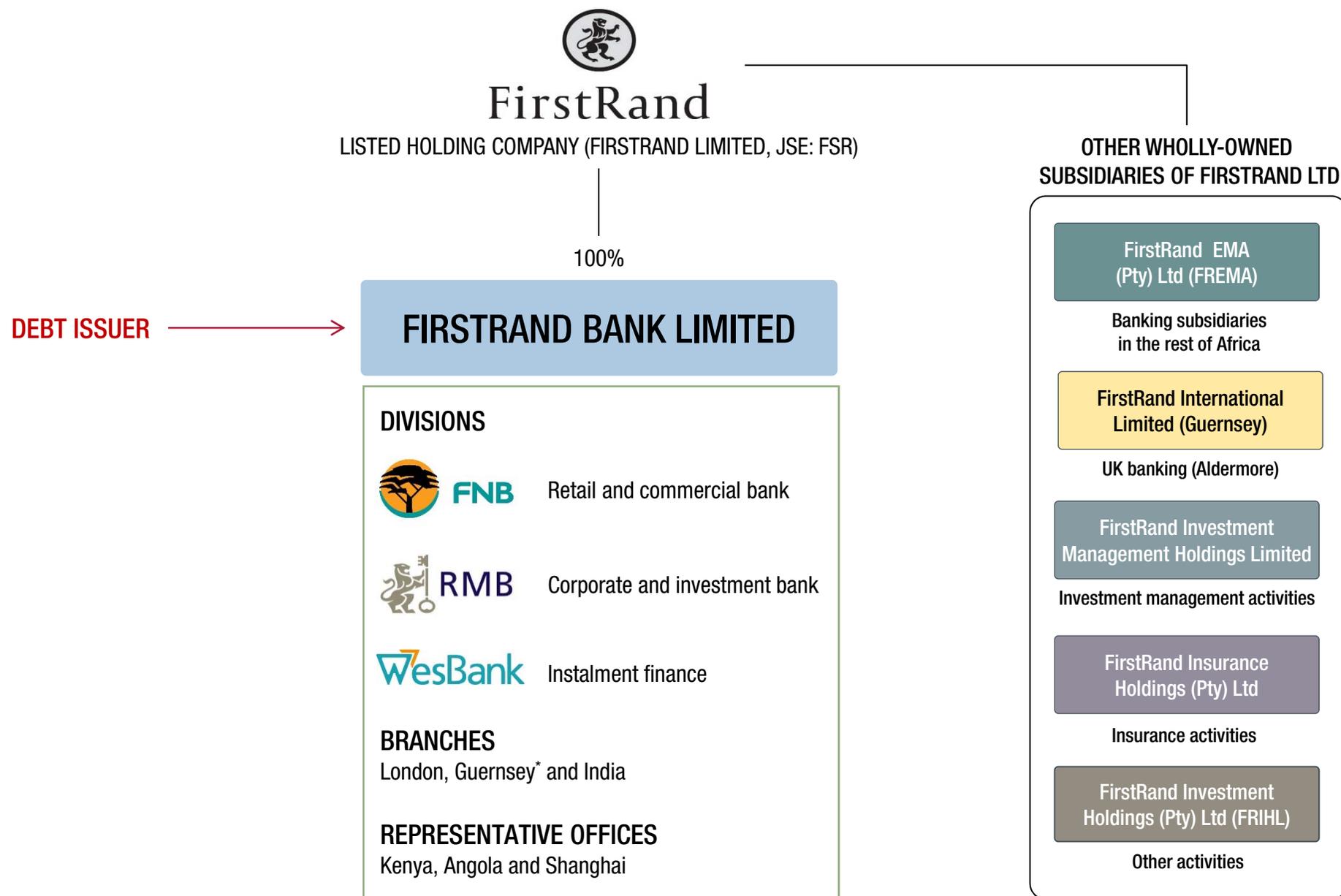
Enabled by disruptive digital and data platforms





Overview of FirstRand Bank (debt issuer)

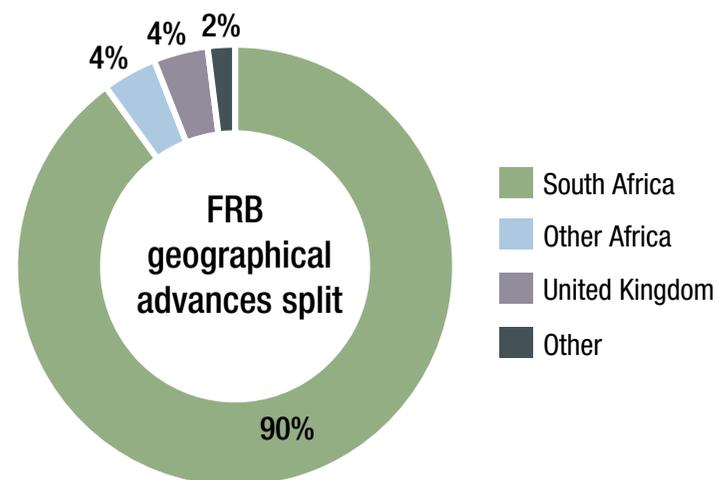
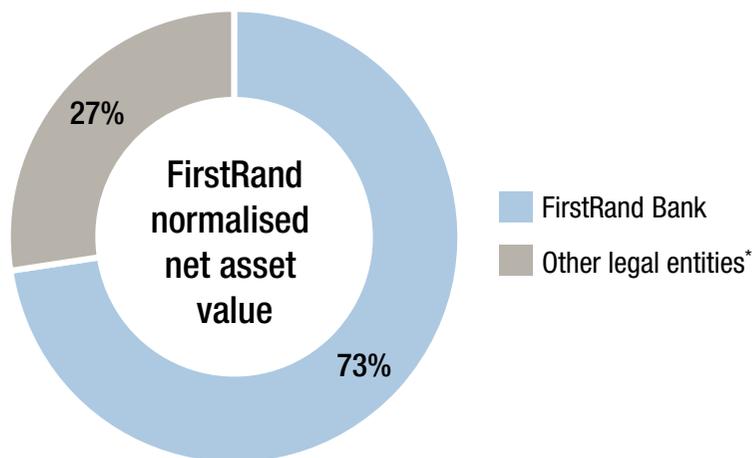
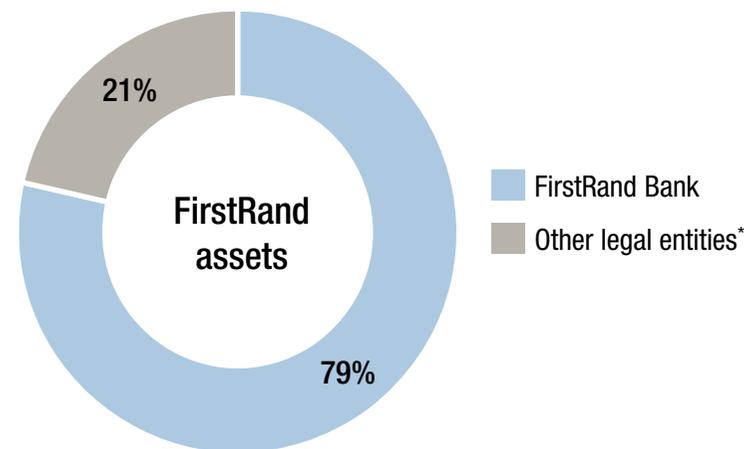
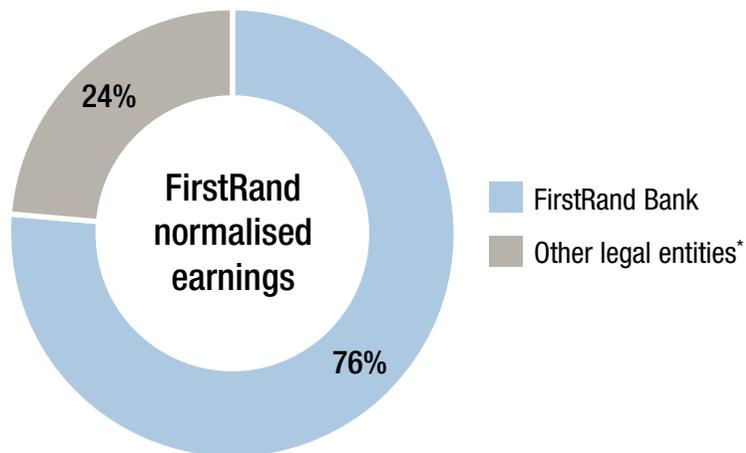
FirstRand Bank is a wholly-owned subsidiary of FirstRand Limited...



* Trading as FNB Channel Islands.



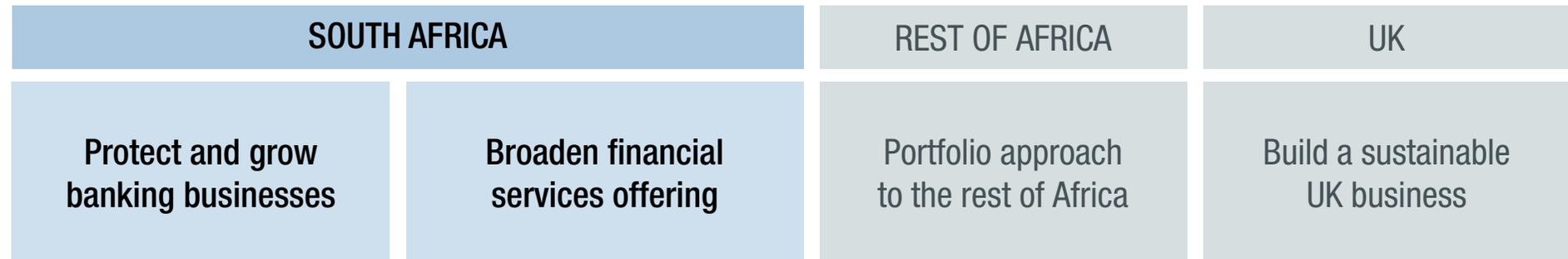
... and a significant contributor to the group's financial position



* Comprises FREMA, FRIHL, FirstRand Investment Management Holdings Ltd, FirstRand Insurance Holdings (Pty) Ltd and FirstRand International Limited (Guernsey), which is the holding company of Aldermore.
 Source: Analysis of Financial Results for the year ended 30 June 2018 for both FirstRand Limited and FirstRand Bank Limited.



Protecting and growing SA banking franchise key to group's growth

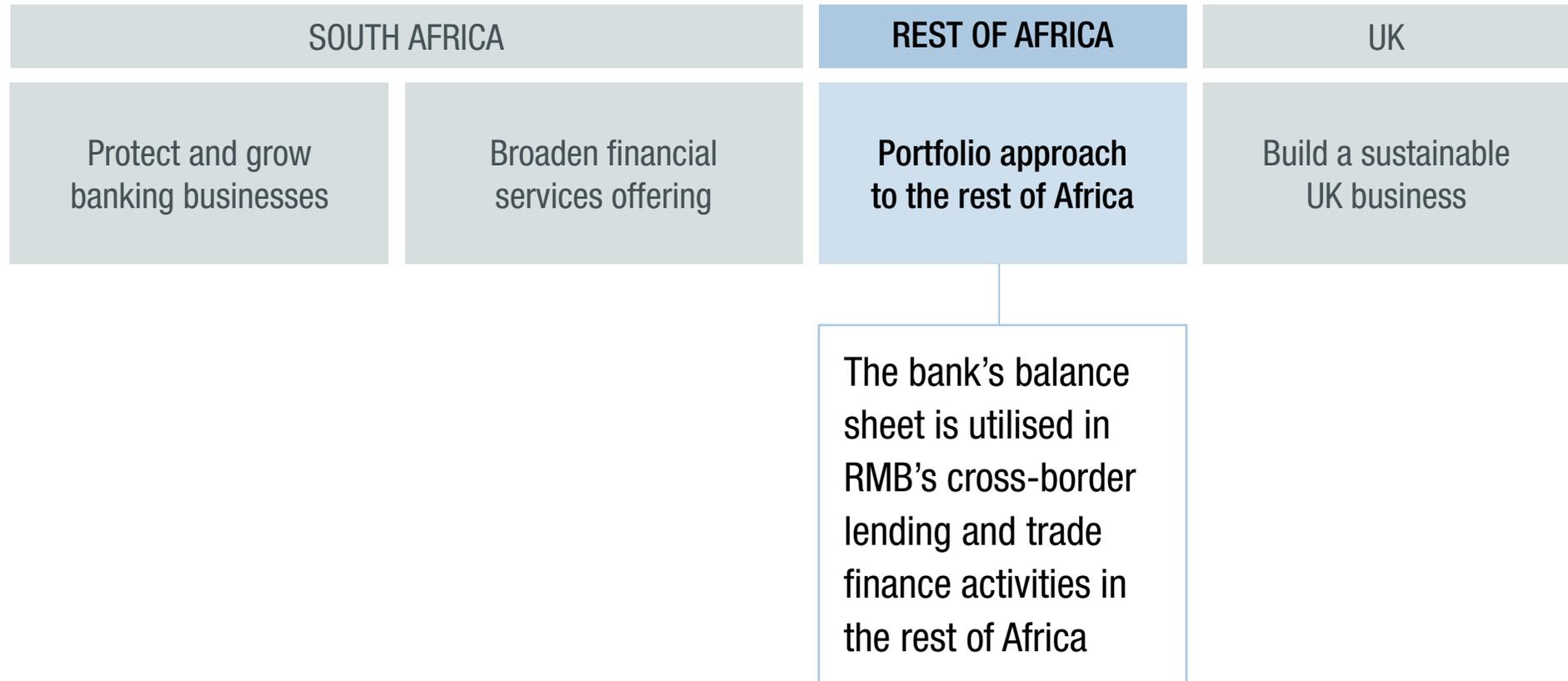


- The bank continues to focus on **protecting and growing its lending and transactional businesses**:
 - Growing profitable market share
 - Cross-sell and up-sell
 - Disciplined allocation of financial resources
 - Leveraging the group's building blocks (customer bases, distribution channels and systems)

- The group's strategy to broaden its financial services offering also benefits the bank:
 - Enables comprehensive customer offering (including products and services offered off the group's insurance, AM and investment platforms)
 - Further entrenches the bank's relationship with core transactional customers



The bank supports the group's rest of Africa strategy



UK platform will enable the group's rest of Africa strategy



- FirstRand acquired Aldermore – 1 April 2018 (Aldermore is not part of FirstRand Bank)
- MotoNovo is currently part of FirstRand Bank London branch (contributed <2% of the bank's total normalised earnings in FY2018)
- Once MotoNovo is fully integrated into Aldermore, all new business will be funded through further scaling Aldermore's deposit and funding platform
- MotoNovo's current loans will continue to be funded through existing funding mechanisms, but will be run down over time
- MotoNovo will ultimately cease to form part of the bank
- FirstRand Bank London Branch – CIB strategy



FRB normalised performance highlights

	2018	2017	% change
Normalised earnings (ZAR million)	20 170	18 089	12% ▲
Return on equity (%)	23.4	22.2	▲
Return on assets (%)	1.76	1.71	▲
Credit loss ratio (%) [*]	0.80	0.88	▼
Cost-to-income ratio (%)	54.3	54.4	▼
Tier 1 ratio (%) ^{**}	12.8	14.3	▼
Common Equity Tier 1 ratio (%) ^{**}	12.7	14.1	▼
Net interest margin (%)	5.17	5.11	▲
Average gross loan-to-deposit ratio (%)	90.3	93.5	▼
Gross advances (ZAR billion)	859	814	6% ▲

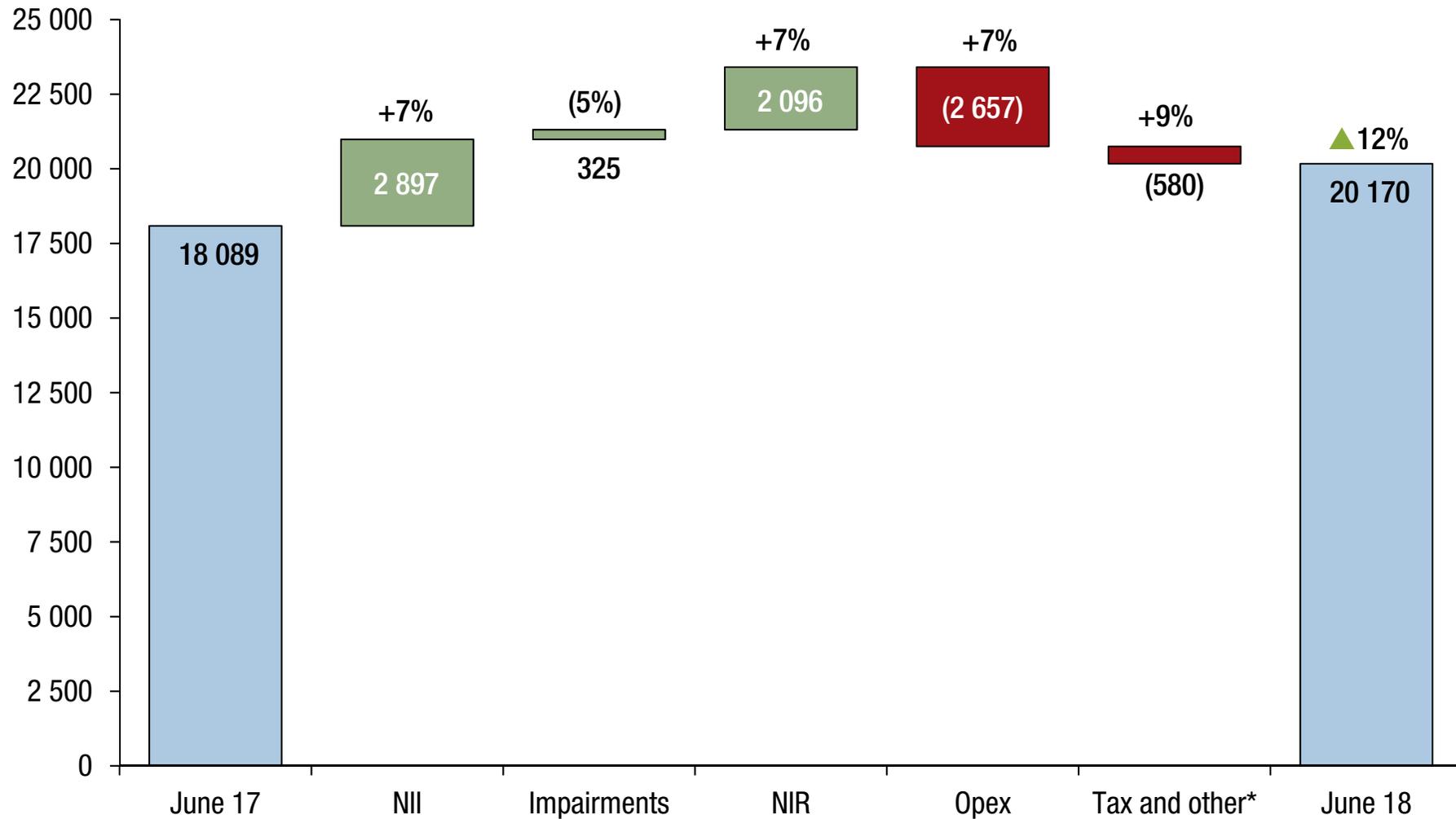
* Credit loss ratio = impairments/average gross loans.

** Includes unappropriated profits.



Overview of results

Normalised earnings
R million



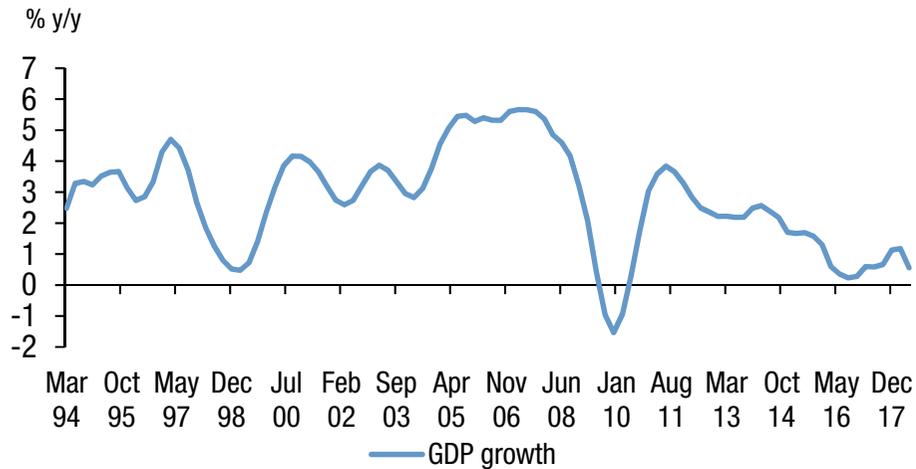
* Includes indirect tax, income tax expense and NCNR preference share dividends.



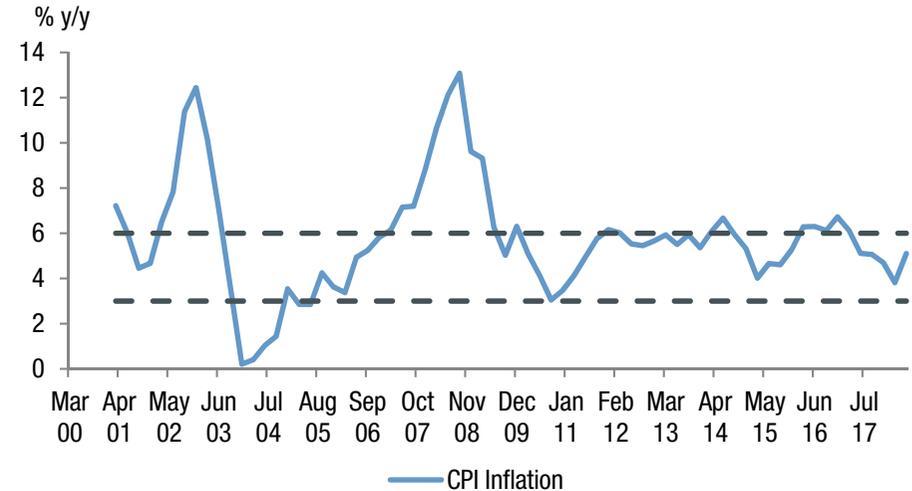
Macroeconomic environment

South African growth remains under pressure

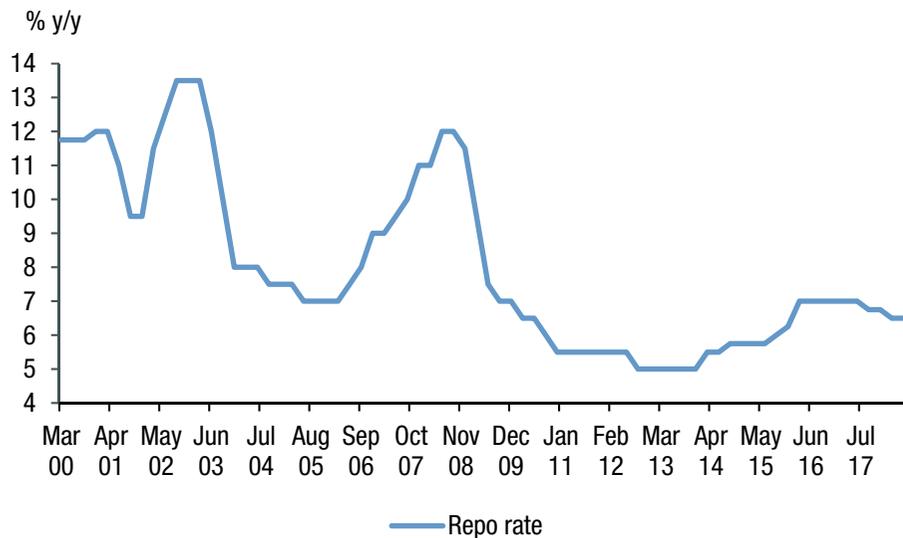
GDP growth remains sub par



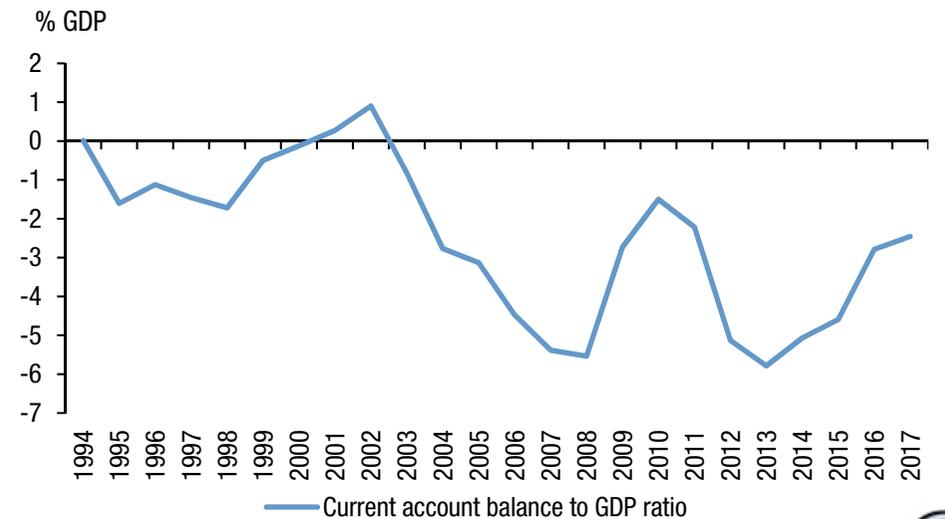
Inflation remains within target band



Interest rates remain low



Current account deficit has narrowed

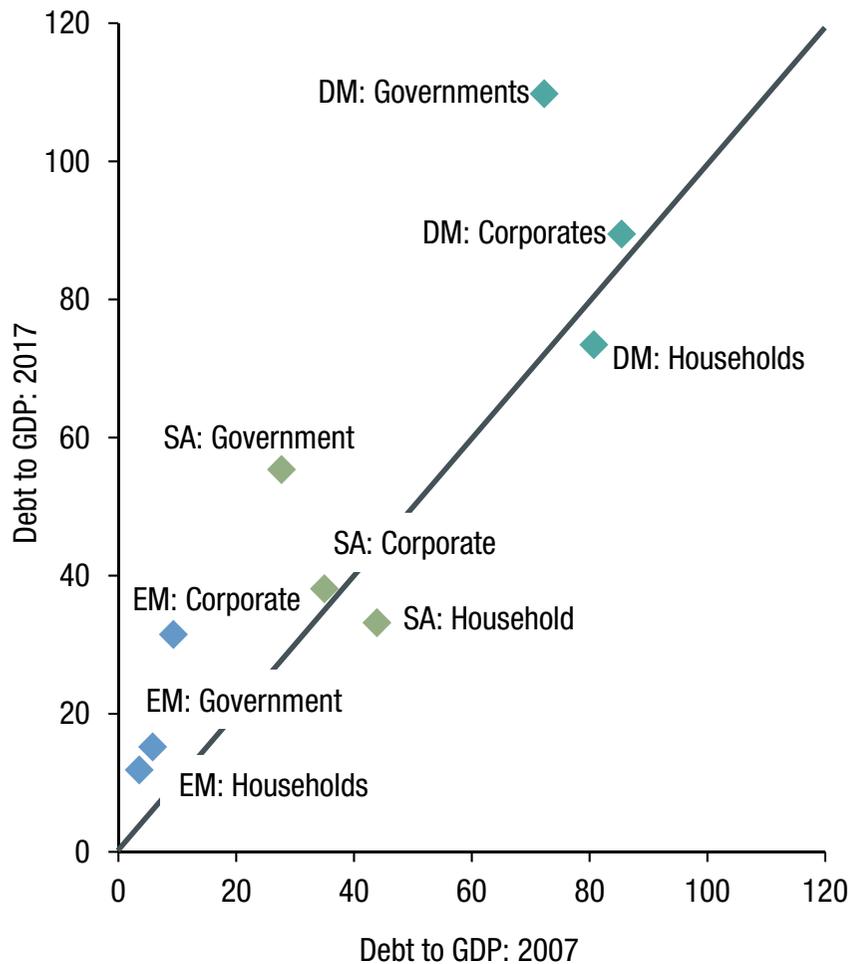


Sources: SARB, StatsSA, FirstRand.

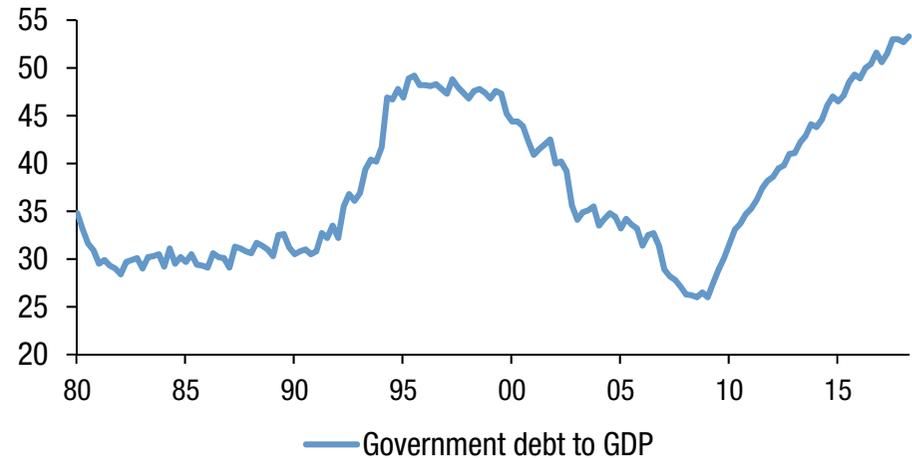


The private sector's balance sheets continue to improve

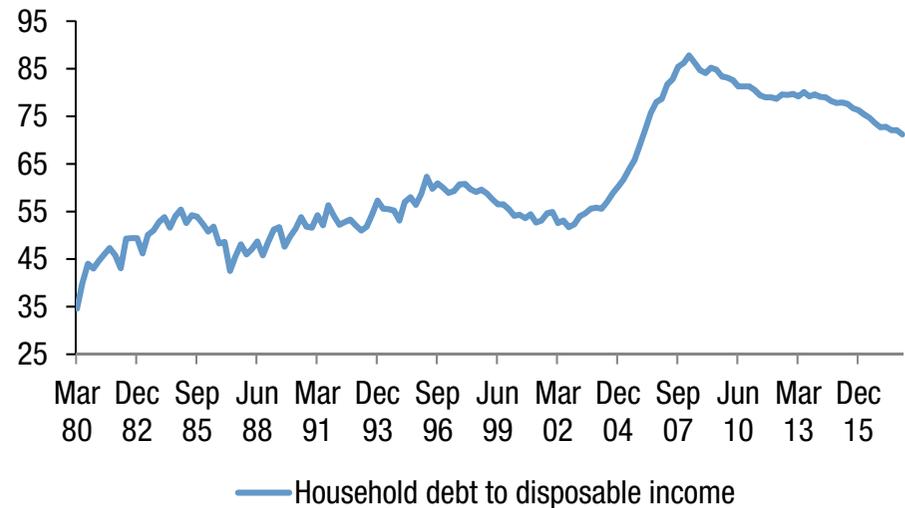
Change in indebtedness: 2007 vs 2017



Government debt to GDP ratio



Household debt to disposable income ratio



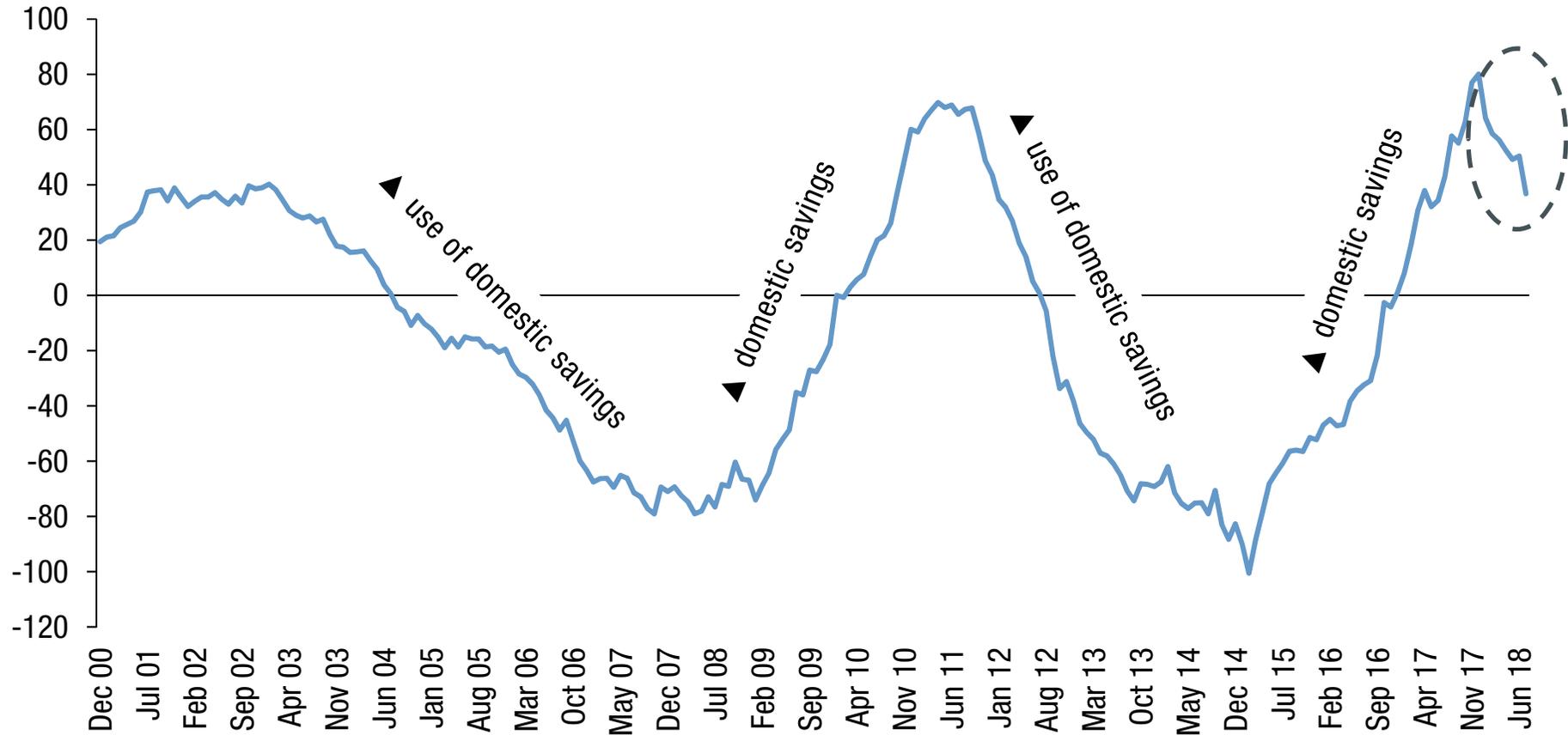
Sources: SARB, IIF, and FirstRand.



Domestic use of available savings is increasing

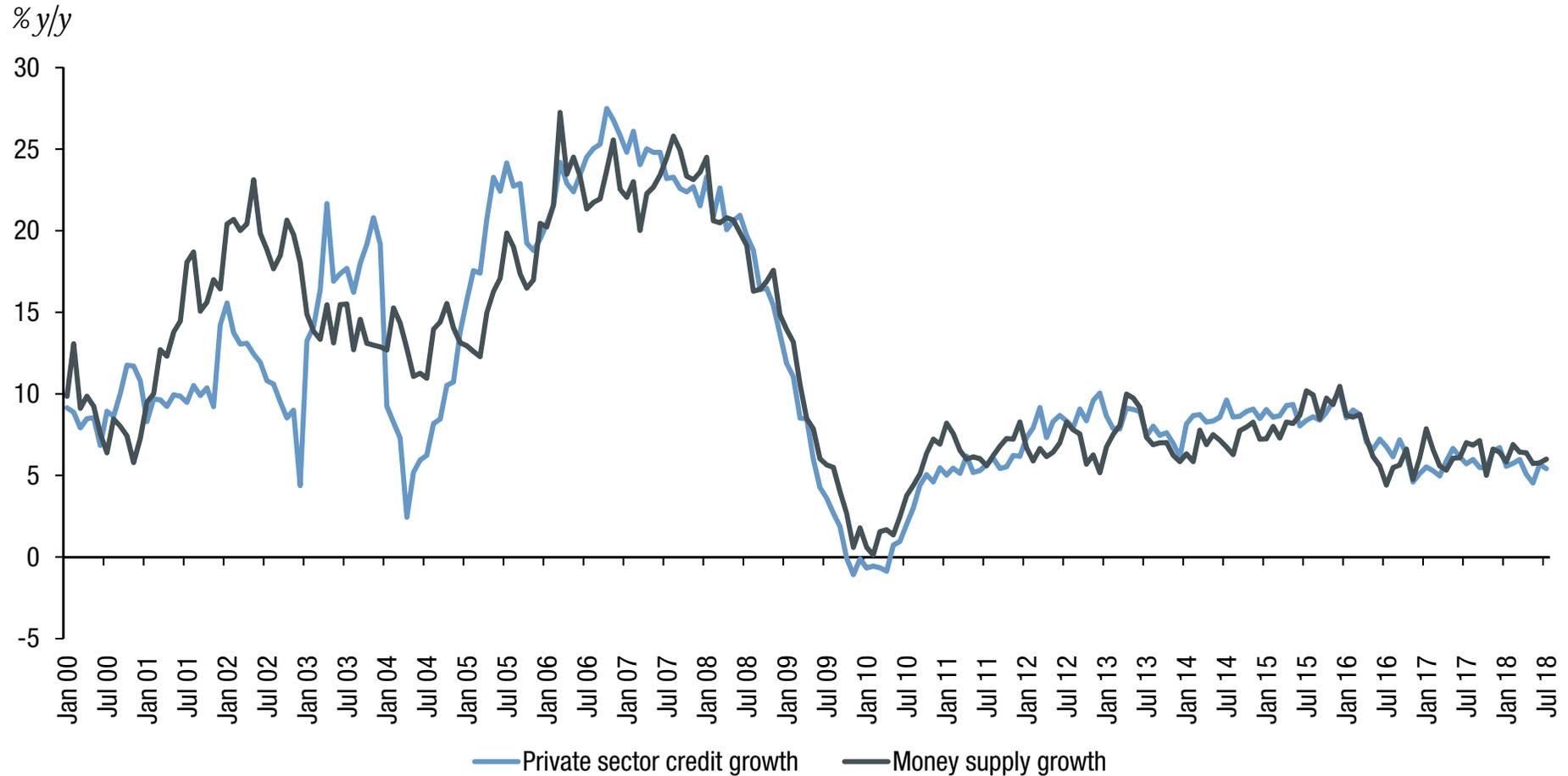
12-month rolling trade balance

R billion



Money supply and credit growth drifting sideways

Money supply (M3) and private sector credit growth



Sources: SARB, FirstRand.



**SA financial sector
and market
infrastructure**

SA has a sophisticated financial system

- SA benefits from world class market infrastructure in payments, exchanges and securities clearing
- SA benefits in financial stability from the closed rand system
- SA has adopted the Twin Peaks model of financial sector regulation
- Regulation and legislative frameworks (including draft frameworks)

REGULATION	LEGISLATION
<p>Prudential</p> <ul style="list-style-type: none"> • Basel III • Solvency assessment and management (Solvency II) • Financial conglomerates <p>Market conduct</p> <ul style="list-style-type: none"> • JIBAR code of conduct • Code of conduct for OTC market • Treating customers fairly • Financial markets review committee 	<ul style="list-style-type: none"> • Financial Markets Bill 2012 • Financial Services General Laws Amendment Act, 2013 • Banks Act Amendment Bill (B17 2014) • Financial Markets Act • Credit Ratings Services Bill • Resolution policy framework (draft) • Deposit insurance policy framework (draft)



IMF Review: South Africa's financial stability assessment

- Financial sector operates in challenging economic environment
- Relatively high capital buffers as well as sound regulation and supervision have helped mitigate risks
- Stress tests confirm the capital adequacy resilience of banks and insurance companies to severe shocks but illustrate a vulnerability to liquidity shortfalls
- Given significant downside risks to the economy, strong regulation and supervision are essential to ensure financial sector resilience
- Crisis management and resolution framework – work in progress
- Twin Peaks reform to the regulatory architecture provides an opportunity to strengthen areas needing improvement
- Authorities should promote a more competitive financial system to make it more efficient
- Assessment due for review in 2019



FirstRand Bank's credit ratings

	SOUTH AFRICA SOVEREIGN RATINGS	FIRSTRAND BANK LIMITED CREDIT RATINGS		
	FOREIGN CURRENCY	COUNTERPARTY*		
	Long term/ outlook	Long term/ outlook	Long term national scale	Standalone credit rating
S&P Global	BB/Stable	BB/Stable	zaAA+	bbb-
Moody's	Baa3/Stable	Baa3/Stable	Aaa.za**	baa3

* Relates to issuer credit rating for S&P, and long-term bank deposits ratings for Moody's.

** Highest rated in South Africa.

Sovereign rating is a ceiling to standalone credit rating and credit profile

Credit ratings as at 2 October 2018.

Sources: S&P Global Ratings and Moody's Investors Service.



Financial resource management

FirstRand philosophy on funding and capital

Funding	Capital	Risk appetite measures
<ul style="list-style-type: none"> • Diversify across segments, source, currency, markets, instrument types and maturities • Flexibility of access across markets, investors, products, investor risk appetite • Focus on alignment of funding strategies and further granularity in risk-adjusted pricing • Need to evolve funding instruments and mix to reduce regulatory volatility, better matching of assets and liabilities 	<ul style="list-style-type: none"> • Capital planning performed on forward-looking basis, not point-in-time • Targets aligned to end-state minimum requirements • Raise capital in good times, not in stress • Frequent issuer, managing its roll-over profile • View Tier 2 as a funding source, not used to support economic risk 	<ul style="list-style-type: none"> • Regulator - comfortably exceed minimum prudential requirements • Shareholder - stress testing results within capacity growth, return and earnings volatility • Debtholder - standalone credit rating pierce the sovereign and highest rated



The group's risk profile remains within appetite across all perspectives

Quantitative risk appetite measure for normal cycles

Performance targets		Resource objectives and constraints		
Returns	ROE 18% - 22%	Solvency	CET1 capital 10% - 11%	Leverage >5%
Earnings growth	Nominal GDP plus >0% - 3%	Liquidity	To exceed minimum regulatory requirements with appropriate buffers	
Credit rating*	Equal to highest in SA banking industry			

* Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors and refers to FirstRand Bank Limited.



Funding and liquidity

FRB on track to comply with 2019 end-state liquidity requirements

Liquidity Coverage Ratio (LCR)

- June 2018: 118%
- LCR phase-in of minimum requirements continues:
 - 2018: 90% and 2019: 100%
- Aim to exceed minimum requirements incorporating a management range for seasonal volatility
- SARB to withdraw the committed liquidity facility (CLF) over the next three years

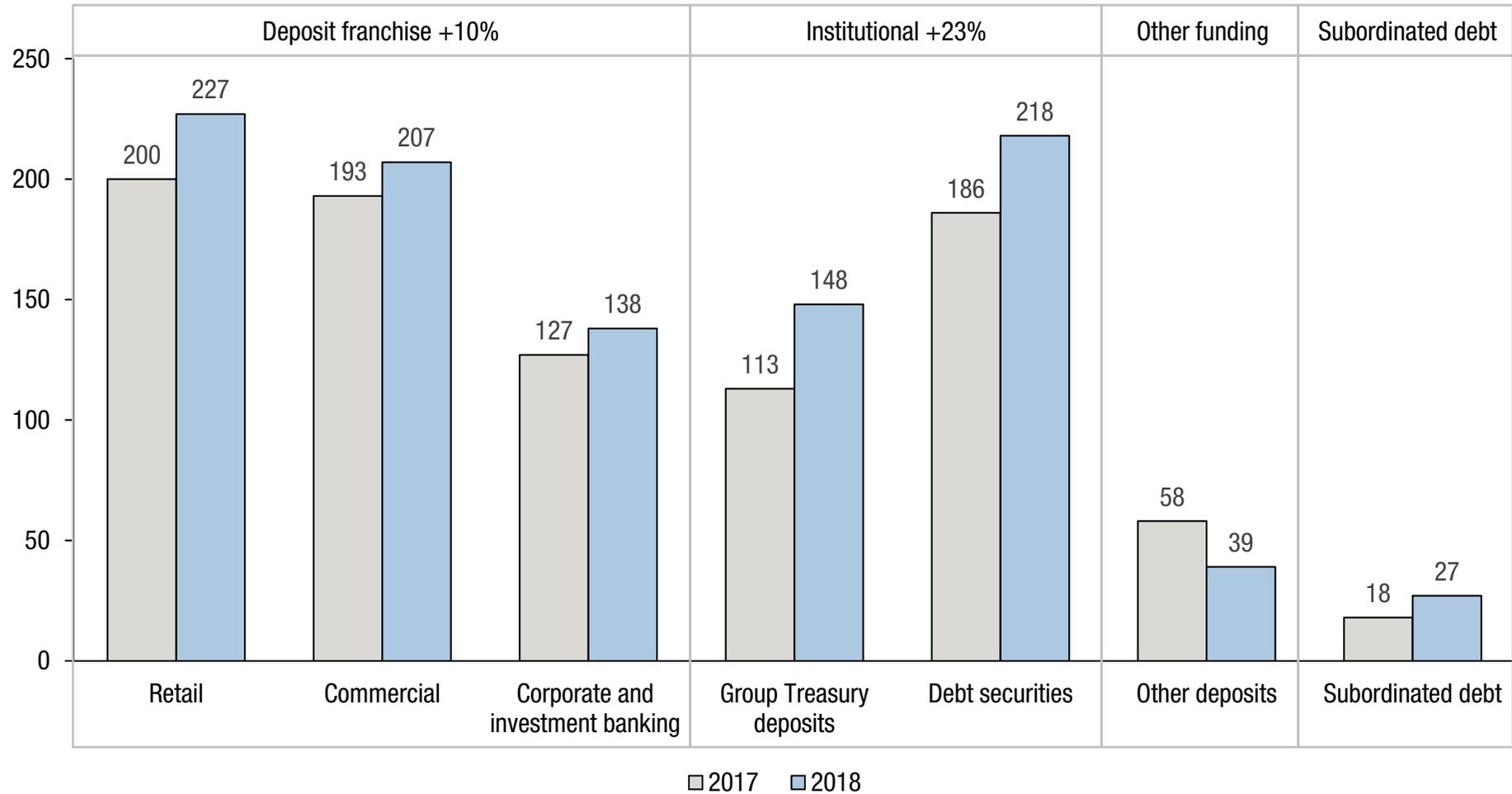
Net Stable Funding Ratio (NSFR)

- June 2018: 111%
- Taking into consideration the regulatory and economic barriers to ZAR liquidity flowing out of the domestic economy, the SARB applied national discretion to financial institution deposits <6 months by adopting a 35% available stable funding factor, rather than 0%
- SARB includes the CLF in the NSFR with a 5% required stable funding factor
- In addressing the LCR, the bank adopted strategies that improve structural liquidity risk, as well as meeting NSFR compliance



Funding strategy continues to be anchored in the deposit franchise

R billion



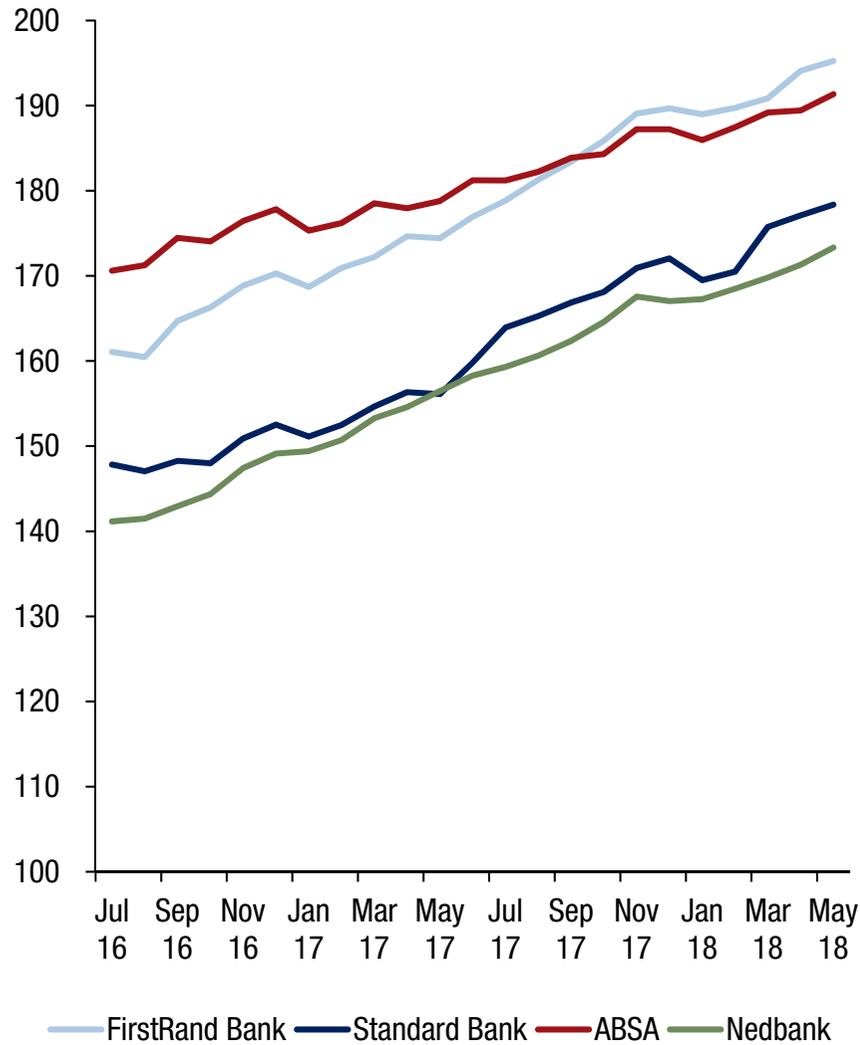
Ongoing focus on protecting and growing the deposit franchise, with increased emphasis on savings and investment products

Source: FRB Analysis of financial results for the year ended 30 June 2018.

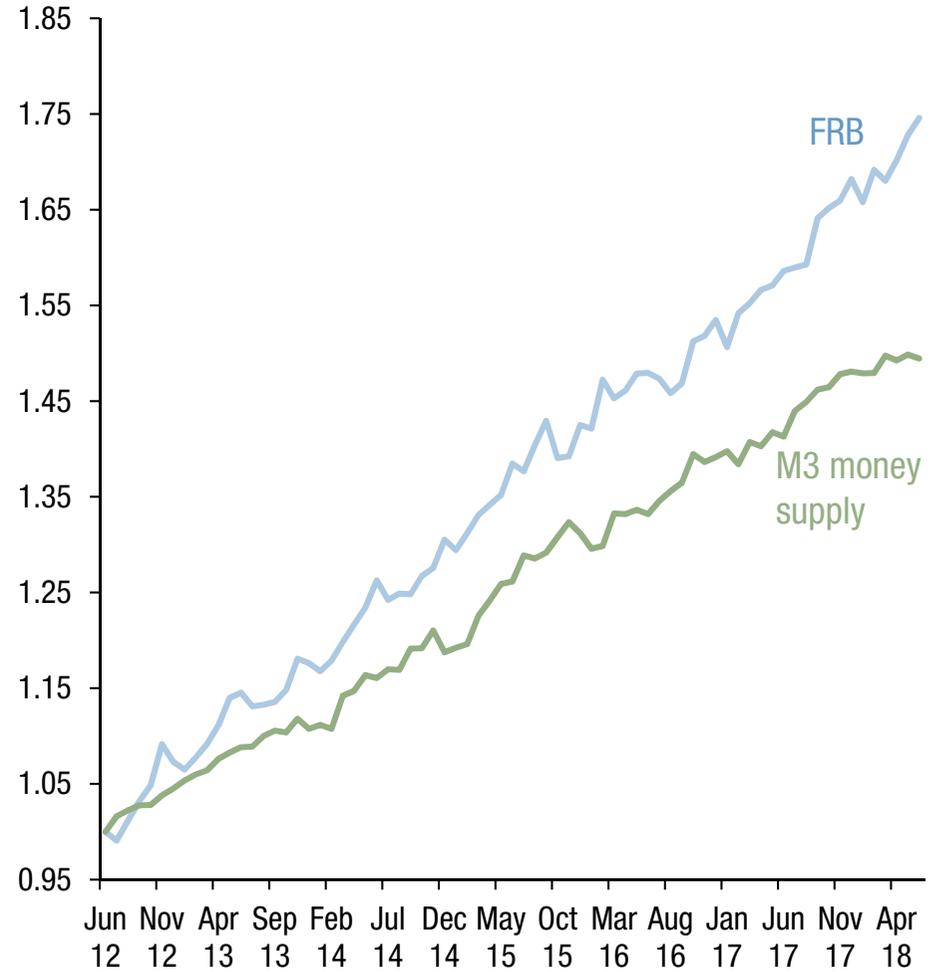


FRB has become the #1 retail deposit franchise in SA

R billion



Deposit growth vs money supply

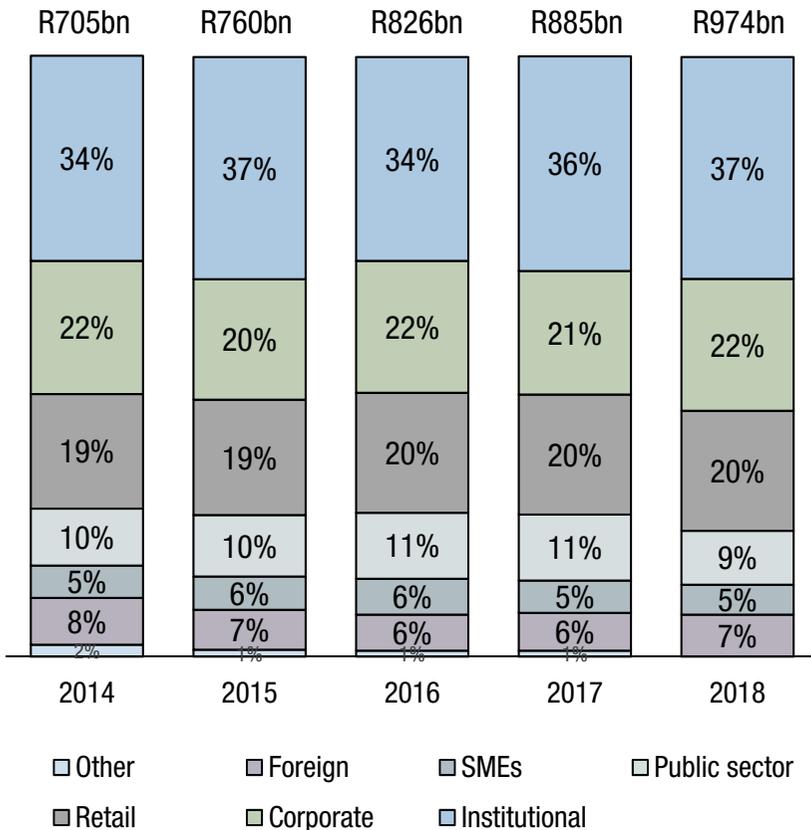


Source: SARB BA900 June 2018.

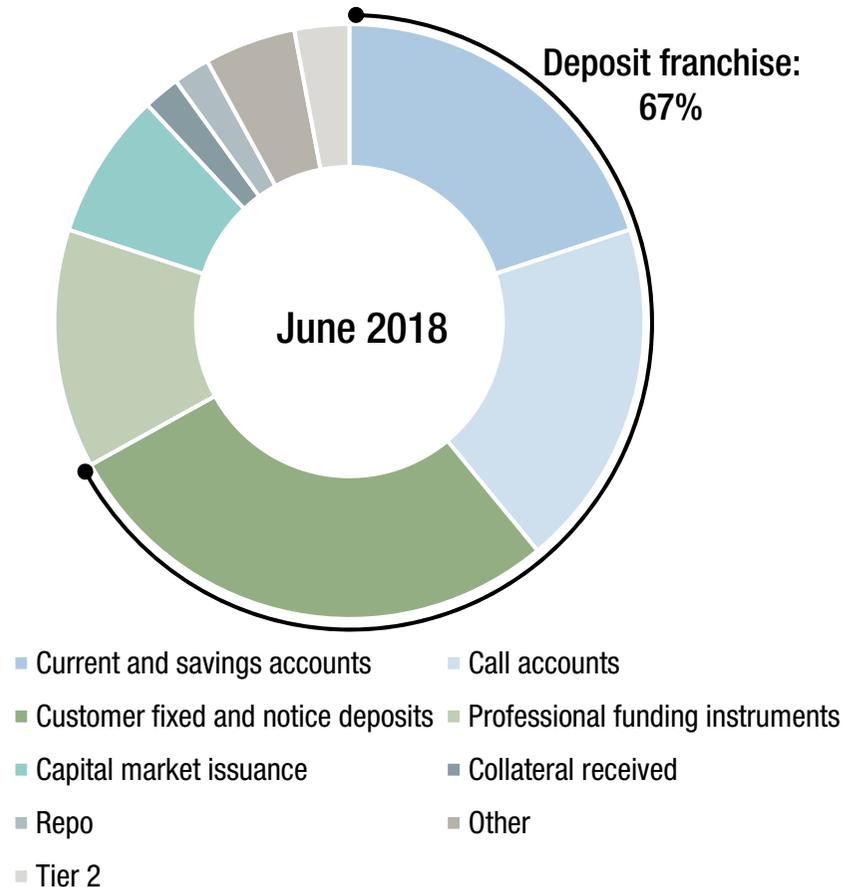


Continued focus on optimising the funding base

Sources of funding



Funding instruments



Weighted average remaining term of institutional funding ± 34 months

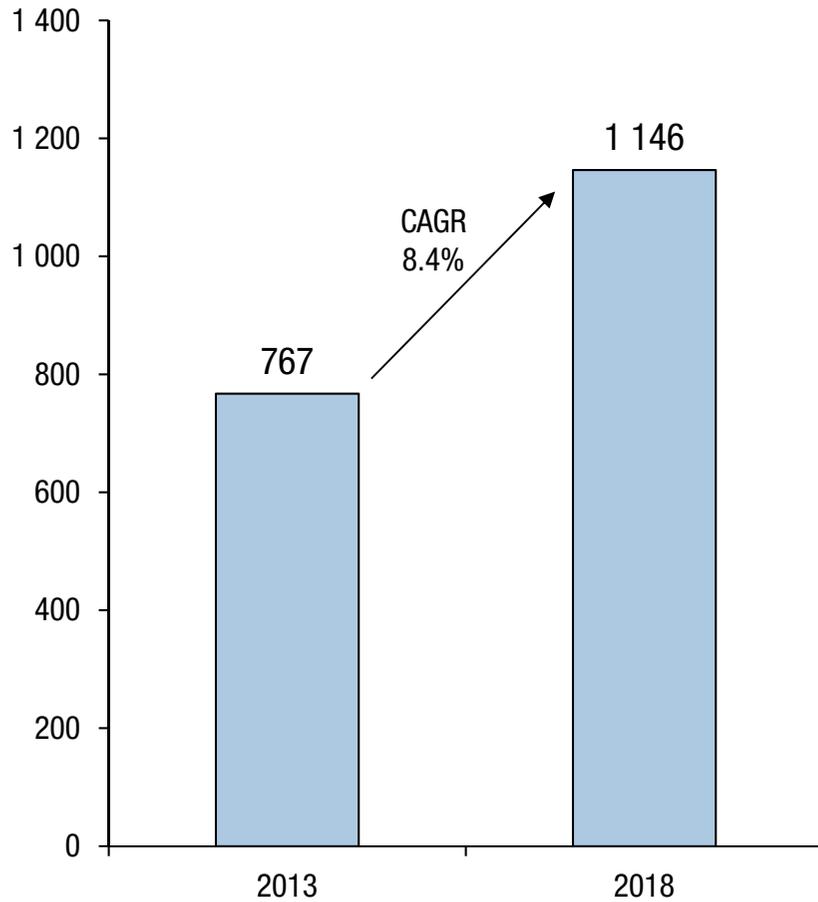
Source: FRB SARB BA900, BA100, June 2018.



Improved balance sheet liquidity

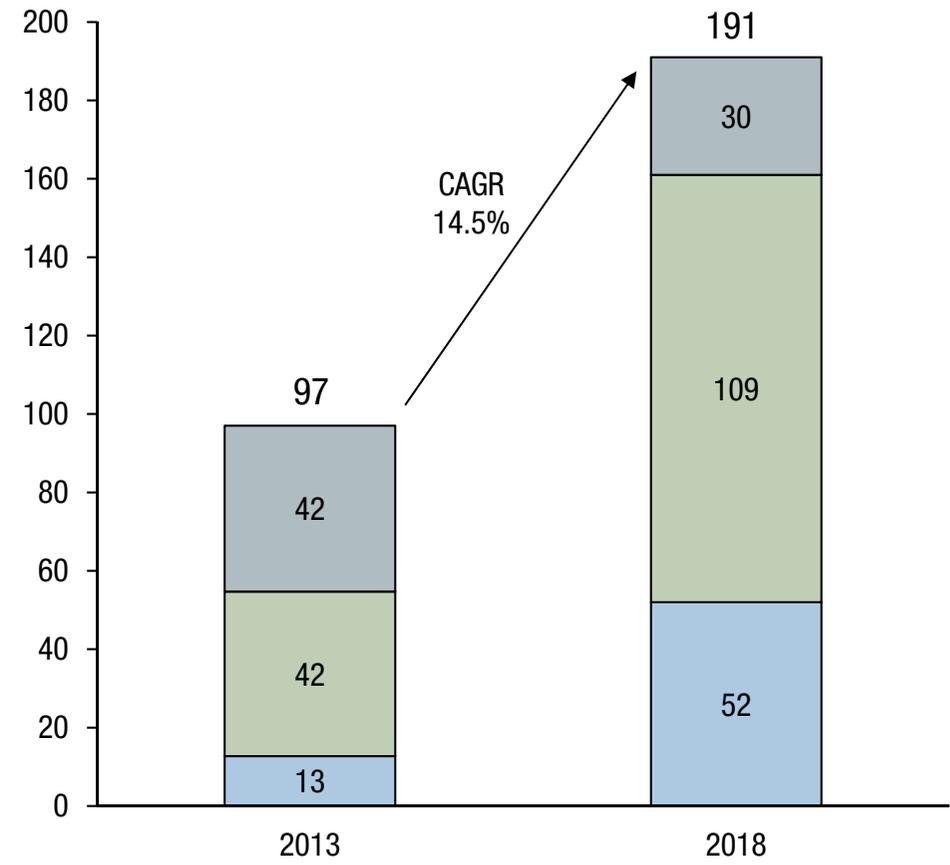
Balance sheet growth

R billion



Liquid asset growth and mix

R billion



■ Other liquid assets

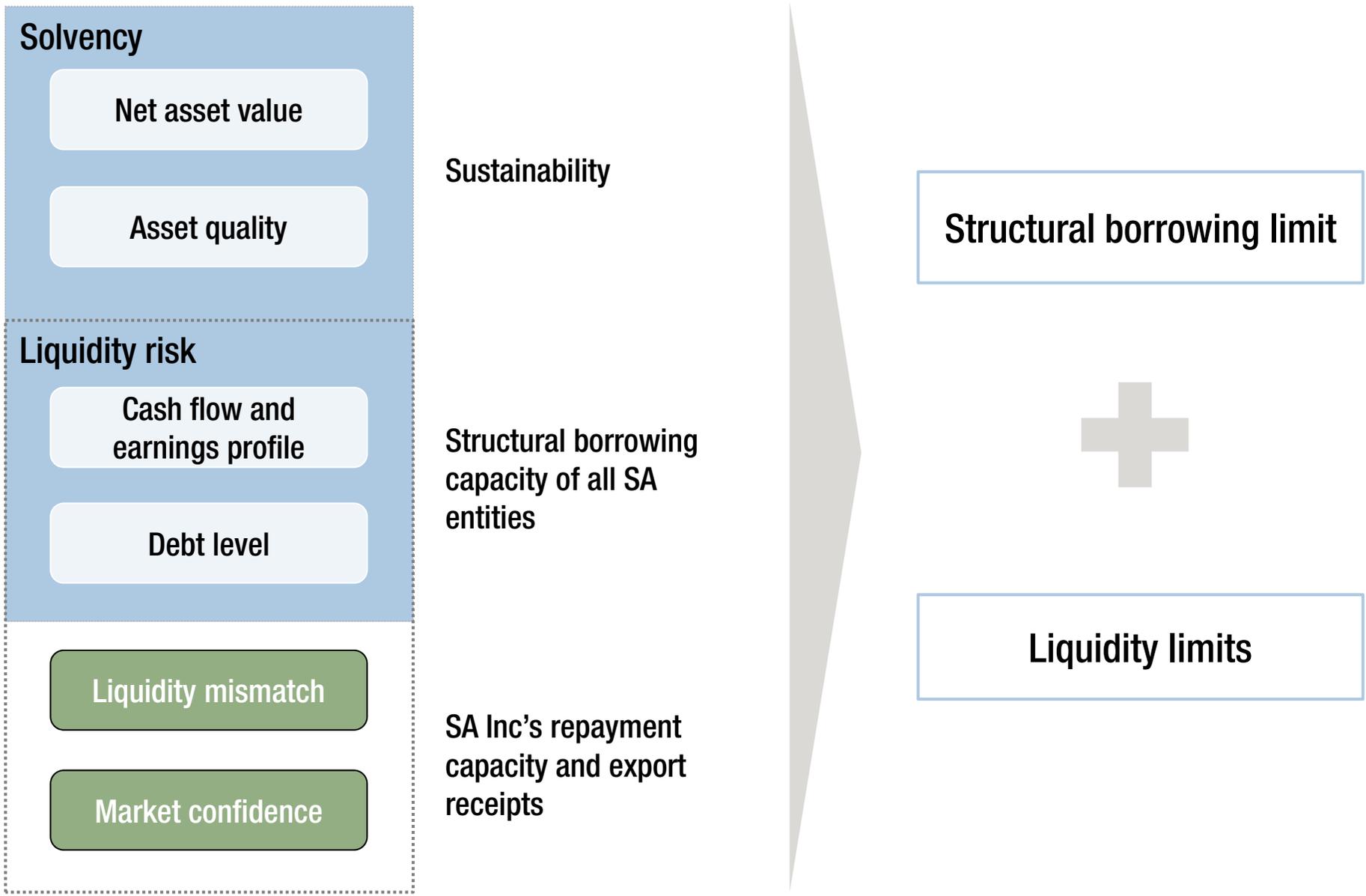
■ Government bonds and bills

■ Cash and central bank deposits

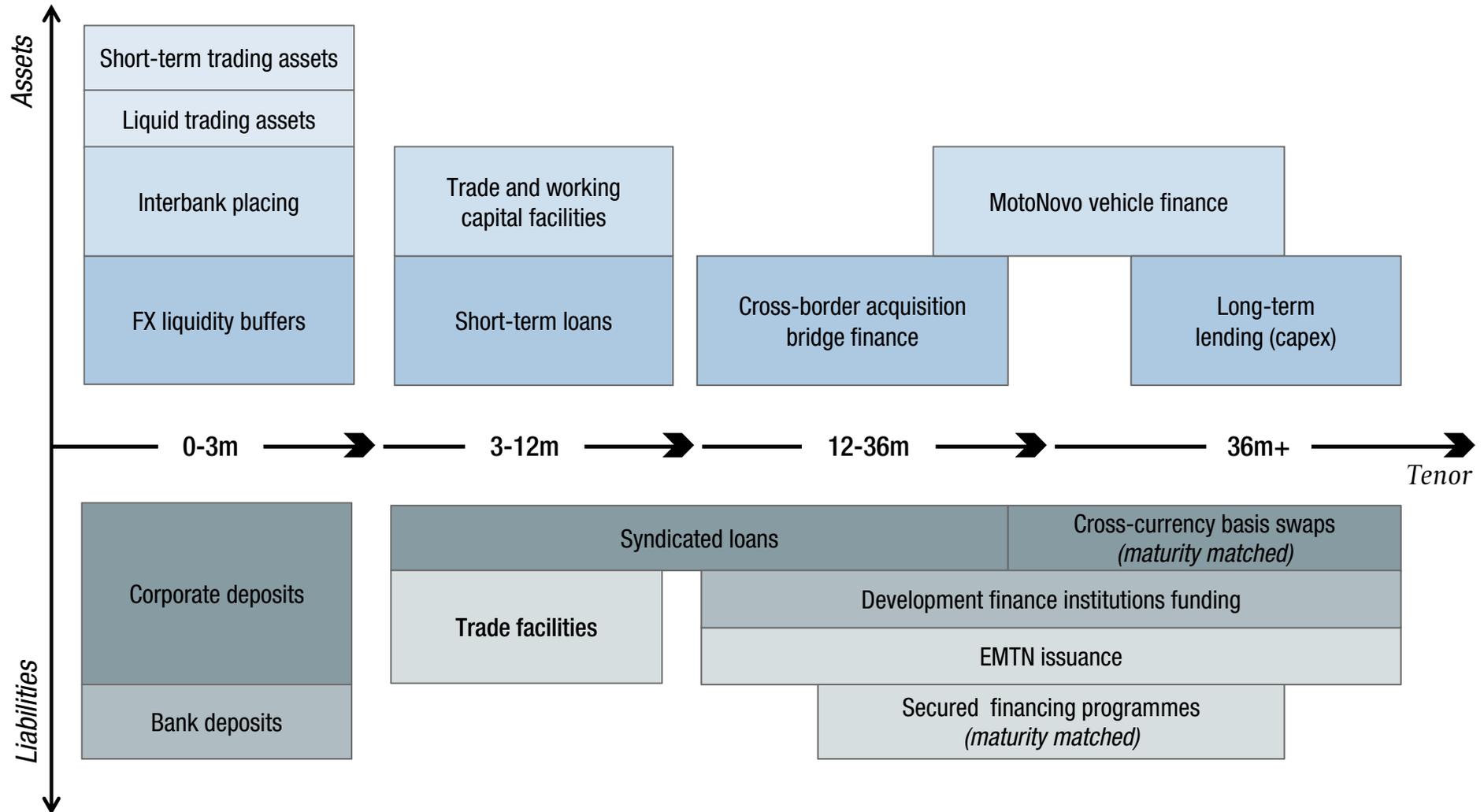
Source: FRB SARB BA900, BA100, June 2018.



FirstRand's external debt philosophy...



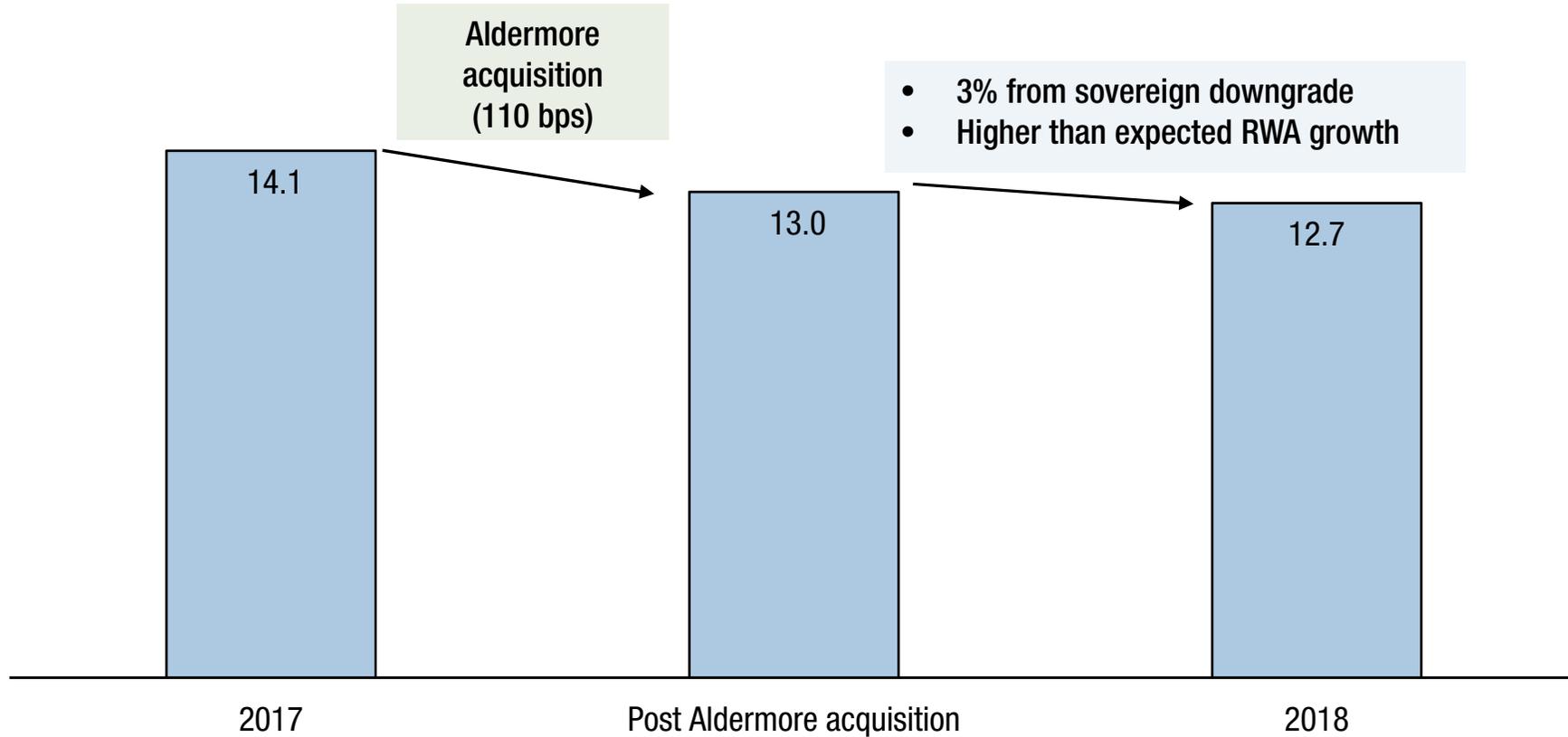
...which results in a sustainable FX balance sheet structure



Capital

Strong capital position as at 30 June 2018

CET1 ratio
%



CET1 remains well above internal target



Optimal level of Tier 2 issuance to date

- Bolstered by USD500 million Tier 2 issuance in April 2018
 - Increase USD capital to support FRB cross-border lending
 - Diversify funding base
 - Internal allocation framework - investor and jurisdiction
 - Manage roll-over risk of USD Tier 2 issuance



Regulatory update

- Basel IV reforms
 - SARB Guidance Note 3 of 2018
- IFRS 9 transitional arrangements
- Recovery and resolution framework
 - Point-of-resolution (POR) vs point-of-non-viability (PONV)
 - First loss after capital (FLAC)
 - Resolution valuation
- Financial conglomerate framework



Conclusion

Disciplined approach to financial resource management

Balance sheet strength	Capital management	<ul style="list-style-type: none"> • Strong capital position <ul style="list-style-type: none"> • Appropriate buffers in excess of minimum • Distance-to-trigger/default • Quality • Integrated funding and liquidity
	Assets	
	Liabilities	
Earnings resilience, volatility and growth		<ul style="list-style-type: none"> • Quality • Diversification • Risk appetite



FirstRand Bank is well positioned for the cycle

- Strong financial position
 - Strong capital position
 - Integrated and diversified funding and liquidity management
 - Prudent credit provisions
- Earnings remain resilient
 - Underpinned by quality of franchises and diversification of income streams



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