



FirstRand Bank

'19

**overview and financial results**  
*for the year ended 30 June*

**Financial and  
strategic** update

# Agenda

Overview of the FirstRand group Overview of FirstRand Bank (debt issuer)	Alan Pullinger (CEO: FirstRand)
Overview of macroeconomic environment Financial resource management Funding and liquidity Capital South African financial sector and market infrastructure Conclusion	Andries du Toit (FirstRand Group Treasurer)





FirstRand

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Overview of the  
**FirstRand group**

# FirstRand's financial position and track record

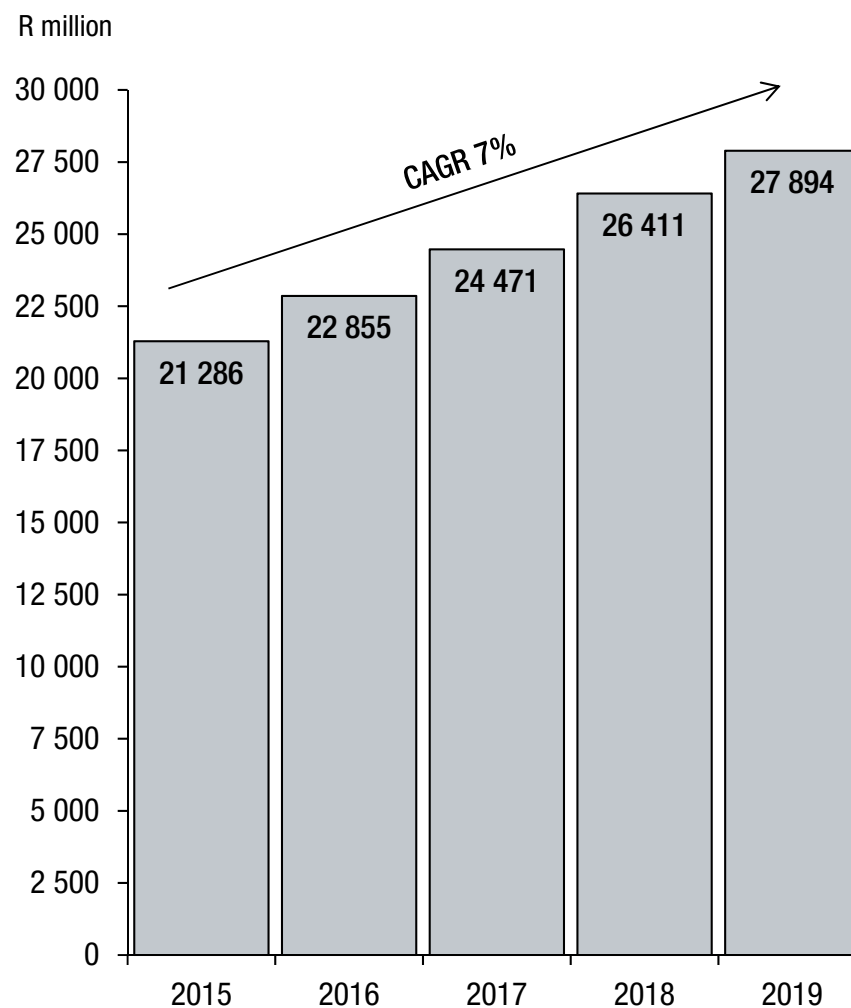
<b>FINANCIAL HIGHLIGHTS</b> for the year ended 30 June 2019	<b>R million</b>	<b>\$ million</b>
Total assets (normalised)	1 669 039	118 120
Normalised net asset value	129 650	9 176
Normalised earnings	27 894	1 969
Normalised ROE	22.8%	
Capital adequacy – CET1 ratio	12.1%	

Conversion rates at 30 June 2019: Income statement: \$1 = R14.17, balance sheet: \$1 = R14.13

<b>KEY OPERATING STATISTICS</b> for the year ended 30 June 2019	<b>Number</b>
Employees	48 780
Physical representation points*	781
ATMs*	6 734

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

## NORMALISED EARNINGS – YEAR ENDED 30 JUNE\*



# FirstRand's portfolio

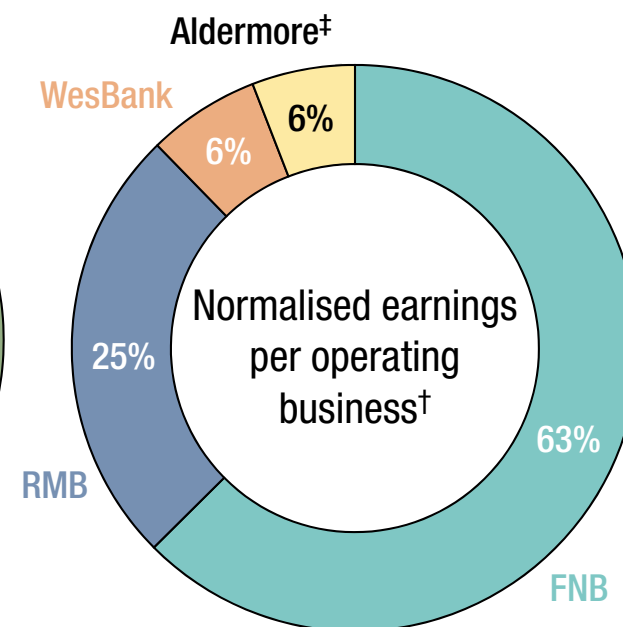
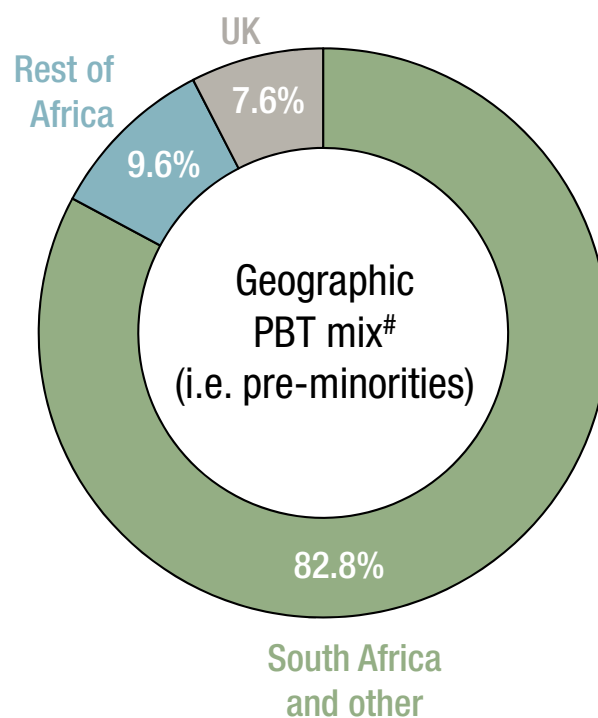
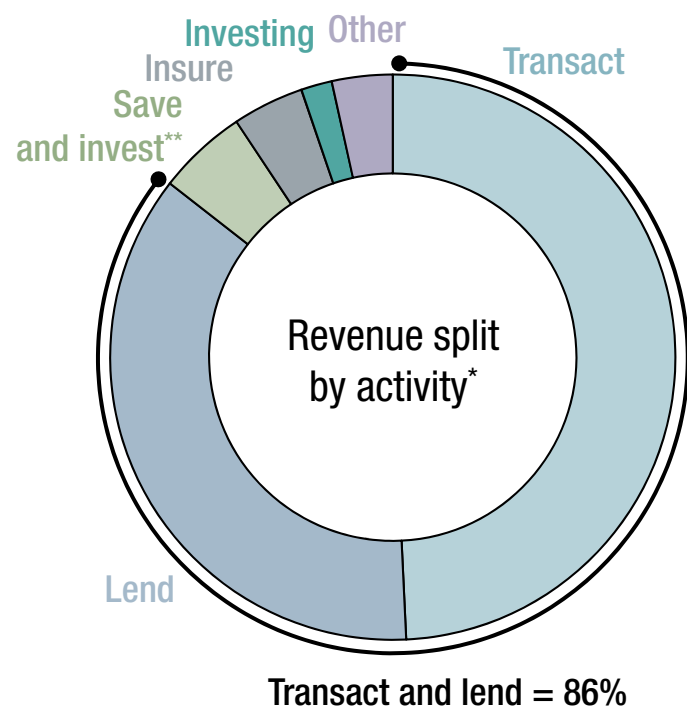


## FirstRand

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)



# Current portfolio mix – activity, geography and business



\* Based on gross revenue excluding consolidation adjustments. Excludes Aldermore.

\*\* Includes deposit taking and investment management.

# Includes Group Treasury, excludes remainder of FCC, FirstRand company, consolidation adjustments and dividends on other equity instruments.

† Excludes FCC (incl. Group Treasury), FirstRand company, consolidation adjustments and dividends on other equity instruments.

‡ Includes MotoNovo new book (originated since May 2019).



# Group strategic framework

*FirstRand commits to building a future of SHARED PROSPERITY through enriching the lives of its customers, employees and the societies it serves. This is the foundation to a sustainable future and will preserve the group's enduring promise to create long-term value and superior returns for its shareholders.*

## DELIVERED THROUGH CURRENT STRATEGIES:

Protect and grow banking businesses

Broaden financial services offering

Portfolio approach to the rest of Africa

Grow a more valuable UK business

Increase diversification – activity and geography

SOUTH AFRICA

REST OF AFRICA

UK

Build a platform-based integrated financial services business

Better leverage existing portfolio

Scale, disrupt and digitise

*Enabled by disruptive digital platforms*

*Underpinned by disciplined management of financial resources and empowered people*





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*for the year ended 30 June*

Overview of  
**FirstRand Bank**  
(debt issuer)



# FirstRand Bank is a **wholly-owned subsidiary** of FirstRand Limited



**FirstRand**

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100%

**DEBT ISSUER** →

**FIRSTRAND BANK LIMITED**

SA banking

**DIVISIONS**



**FNB** Retail and commercial



**RMB** Corporate and institutional



Asset finance

**BRANCHES**

London, Guernsey\* and India

**REPRESENTATIVE OFFICES**

Kenya, Angola and Shanghai

**OTHER WHOLLY-OWNED SUBSIDIARIES OF FIRSTRAND LIMITED**

FirstRand EMA Holdings (Pty) Ltd (FREMA)

Rest of Africa

FirstRand International Limited (Guernsey)

UK banking and hard currency platform

FirstRand Investment Management Holdings Limited

Investment management

FirstRand Insurance Holdings (Pty) Ltd

Insurance

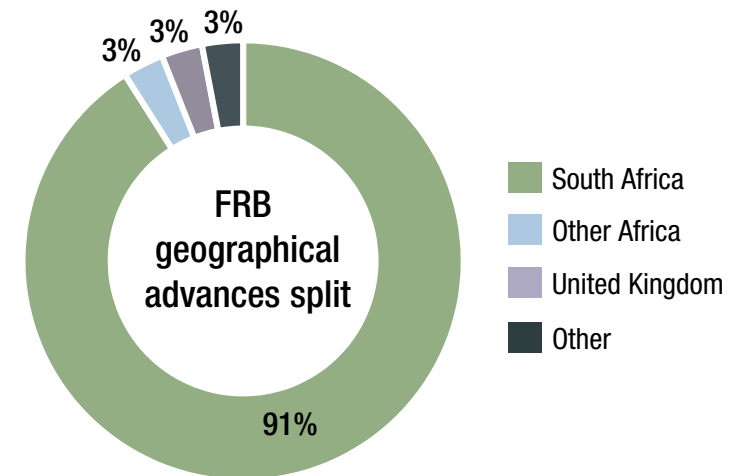
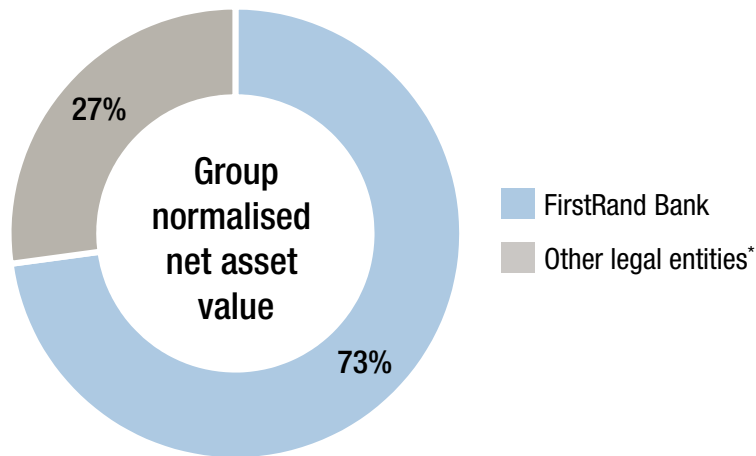
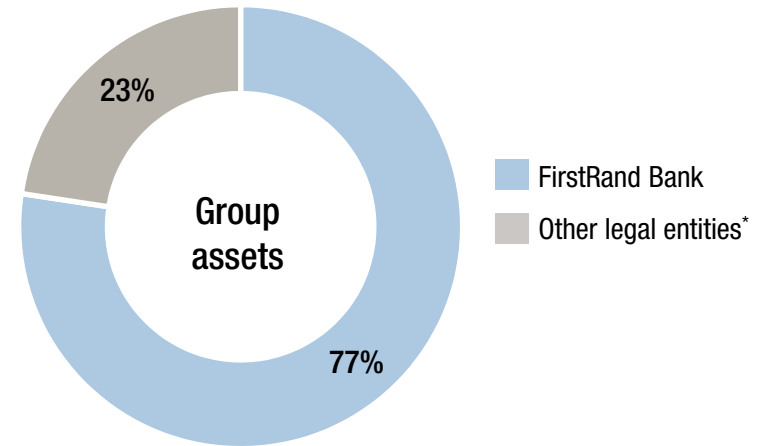
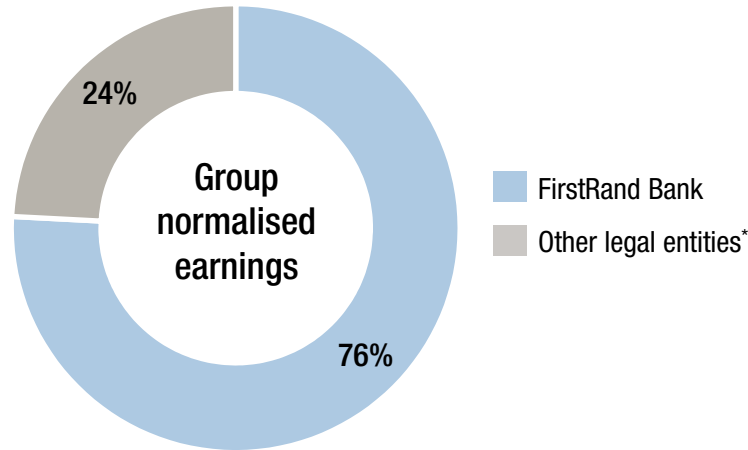
FirstRand Investment Holdings (Pty) Ltd (FRIHL)

Other activities

\* Trading as FNB Channel Islands.



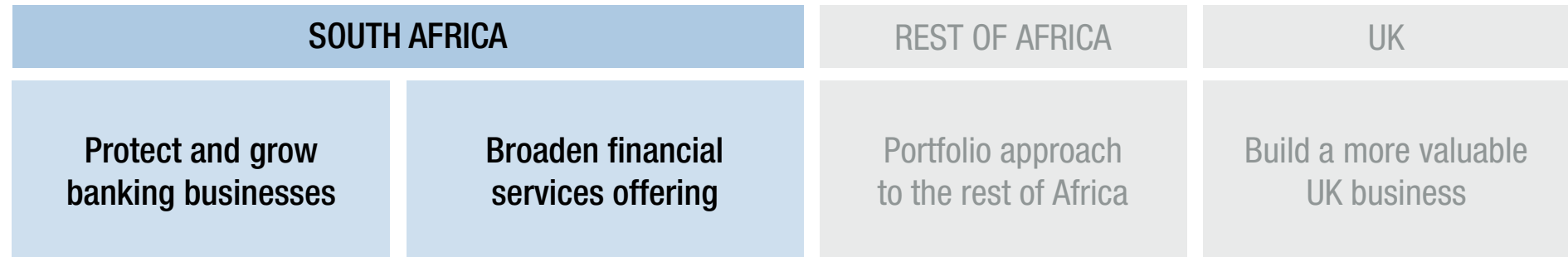
# FRB a significant contributor to group's financial position



\* Include 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 2019 for FirstRand Limited and FirstRand Bank Limited.



# Protecting and growing SA banking businesses key to group's growth

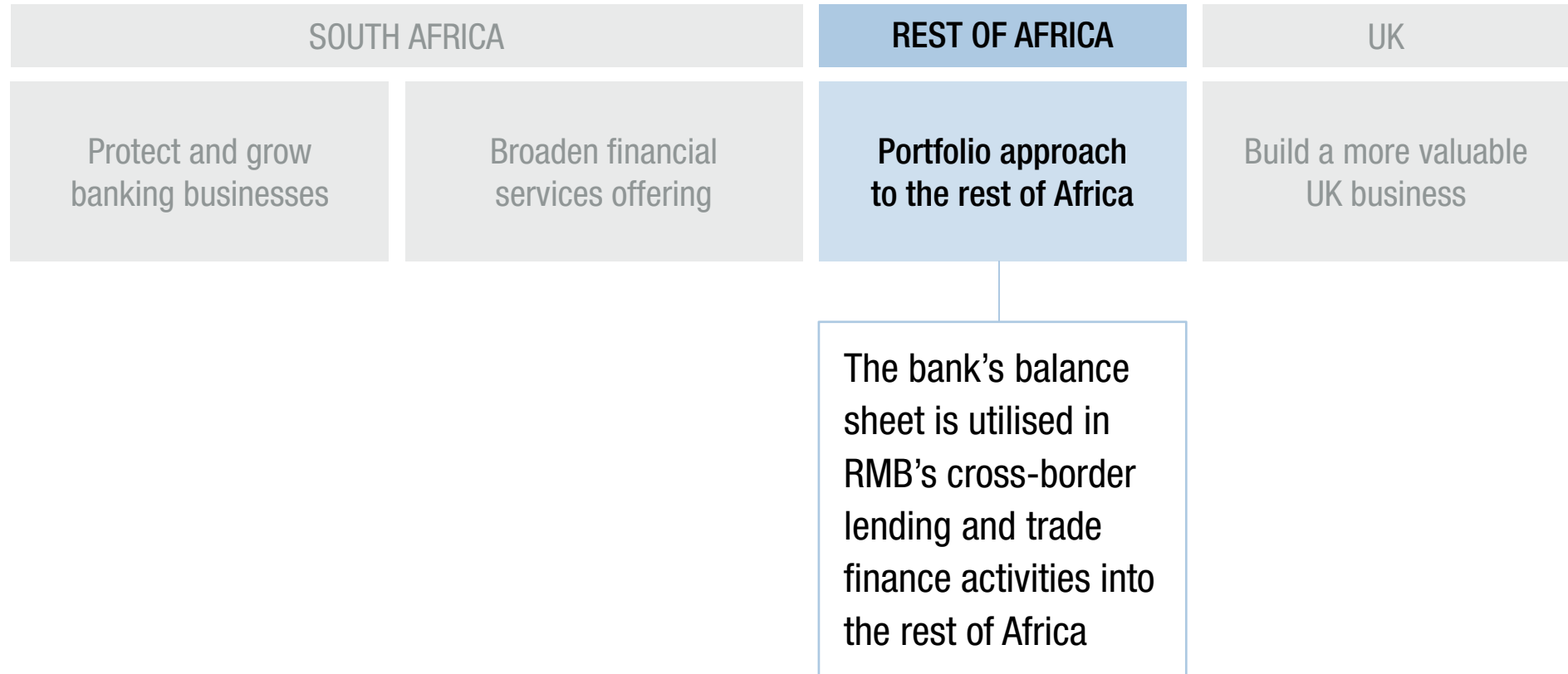


- The bank continues to focus on protecting and growing its lending and transactional businesses:
  - Growing profitable market share
  - Cross-sell and up-sell
  - Disciplined allocation of financial resources
  - Leveraging the group's building blocks (customer bases, distribution channels and systems)

- 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, asset management and investment platforms)
  - Further strengthens the bank's relationship with core transactional customers



# The bank **supports** the group's rest of Africa strategy



# UK – MotoNovo integration into Aldermore completed

SOUTH AFRICA		REST OF AFRICA	UK
Protect and grow banking businesses	Broaden financial services offering	Portfolio approach to the rest of Africa	<b>Build a more valuable UK business</b>

- FirstRand acquired Aldermore in 2018 (Aldermore is not part of FirstRand Bank)
- MotoNovo fully integrated into Aldermore in May 2019
  - All new business now funded through Aldermore's deposit and funding platform, as well as leveraging capital market securitisations and warehouse transactions
- MotoNovo's back book remains part of FirstRand Bank London branch (contributed  $\pm 1\%$  of the bank's total normalised earnings in FY2019)
  - Loans originated prior to May 2019 will continue to be funded through existing funding mechanisms in FirstRand Bank London branch, 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

	30 June 19 IFRS 9	30 June 18 IAS 39	% change
Normalised earnings (R million)	21 152	20 170	5 ▲
Return on equity (%)	23.7	23.4	▲
Return on assets (%)	1.70	1.76	▼
Credit loss ratio (%)	0.95	0.80	▲
Cost-to-income ratio (%)	53.6	54.3	▼
Tier 1 ratio (%) <sup>*</sup>	14.0 <sup>**</sup>	12.8	▲
Common Equity Tier 1 ratio (%) <sup>*</sup>	13.4 <sup>**</sup>	12.7	▲
Net interest margin (%)	4.97	5.17	▼
Average gross loan-to-deposit ratio (%)	87.5	90.3	▼
Gross advances (R billion)	921 846	860 961 <sup>#</sup>	7 ▲

<sup>\*</sup> Includes unappropriated profits.

<sup>\*\*</sup> IFRS 9 transitional CET1 ratio.

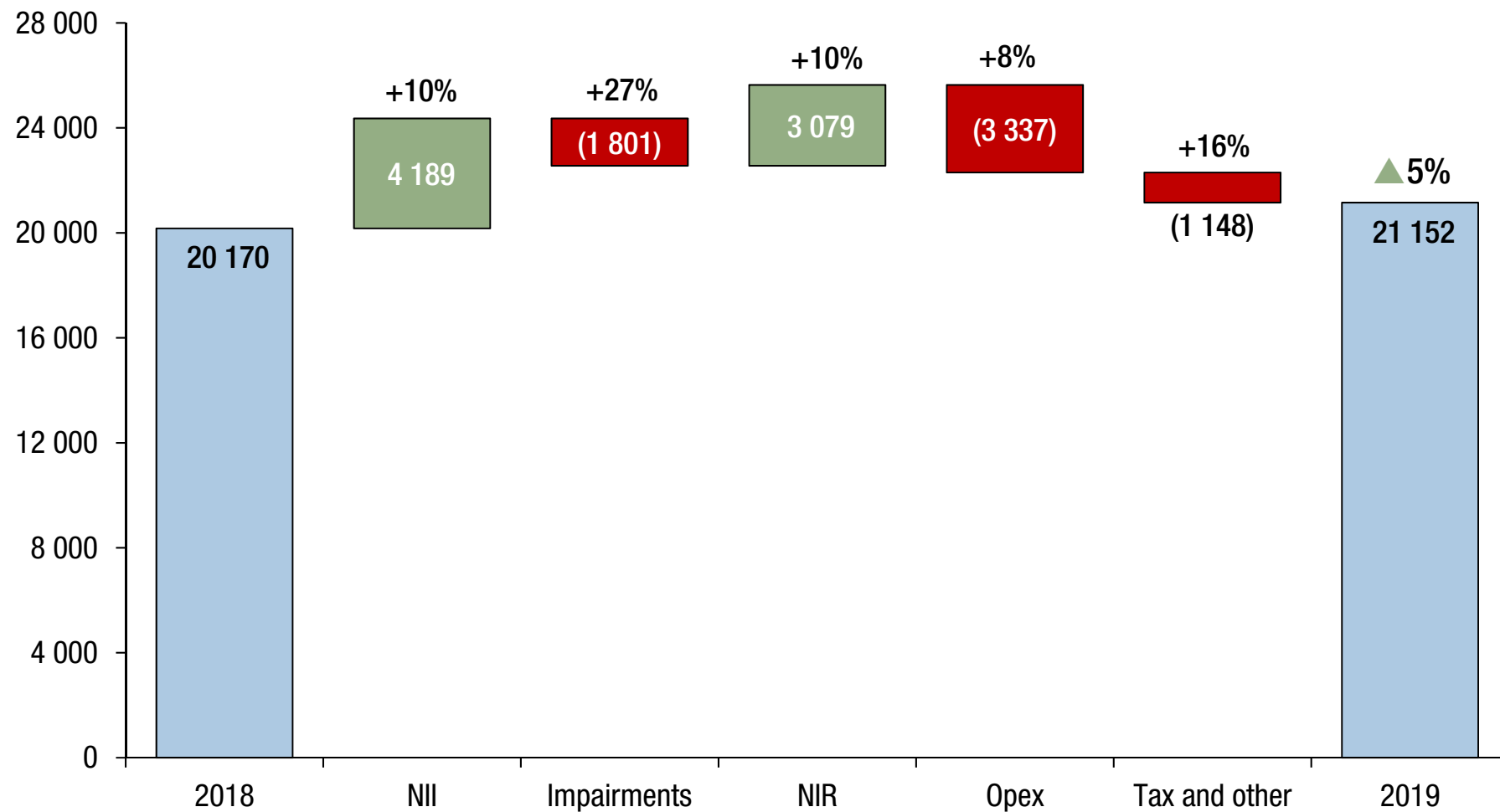
<sup>#</sup> IFRS 9.



# Overview of results

## NORMALISED EARNINGS

*R million*





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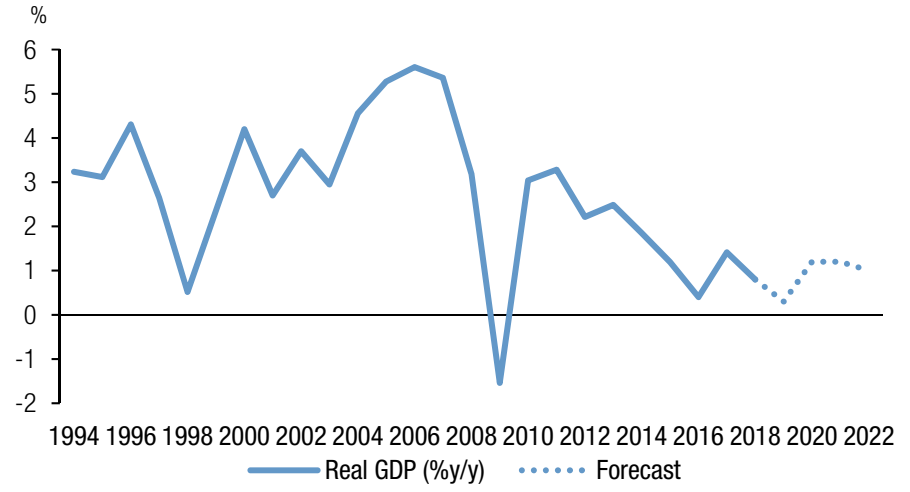
**overview and financial results**  
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Overview of  
**macroeconomic**  
environment

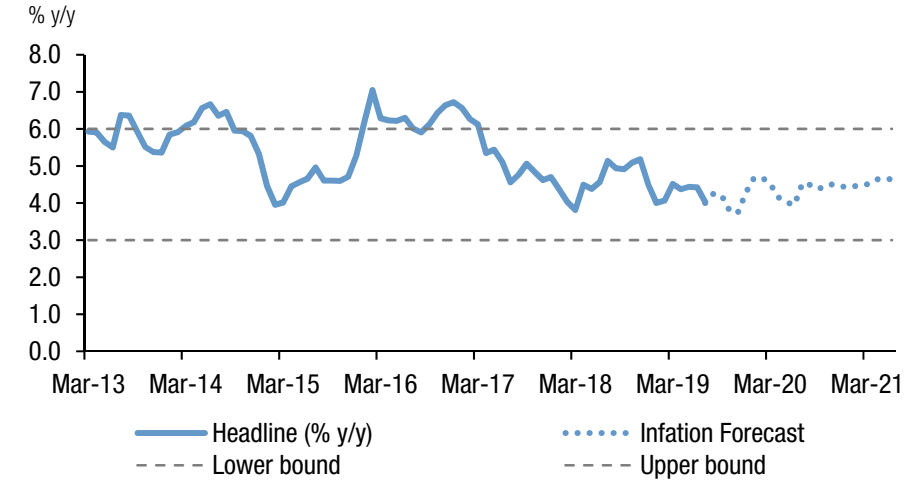


# South Africa's growth remains under pressure

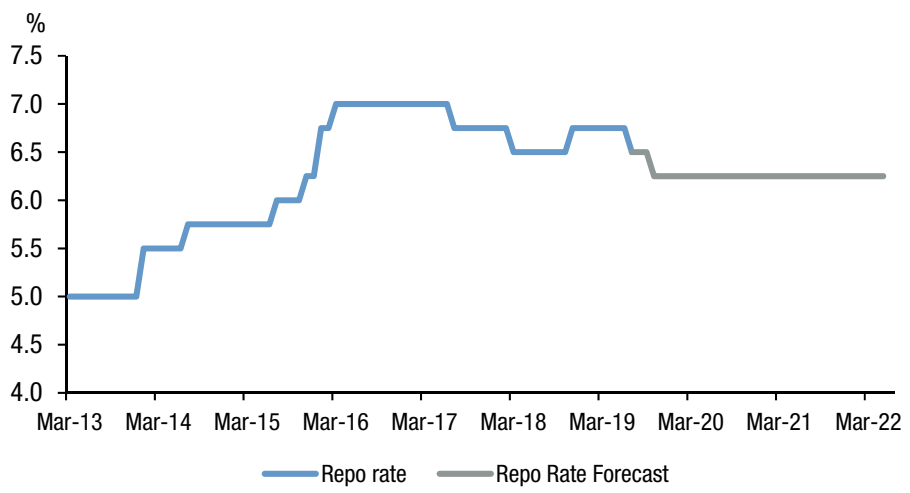
## GDP growth remains weak



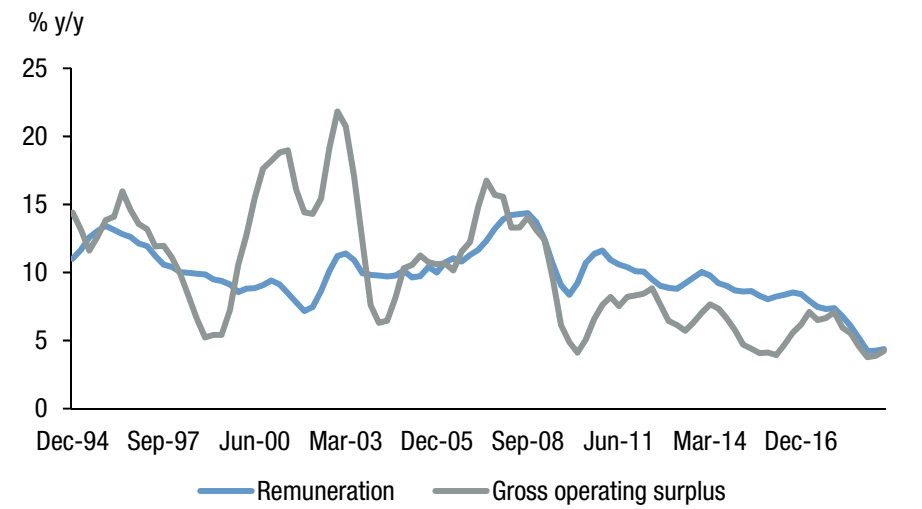
## Inflation is around the midpoint of the target band



## Interest rates remain low



## Income growth under consistent pressure

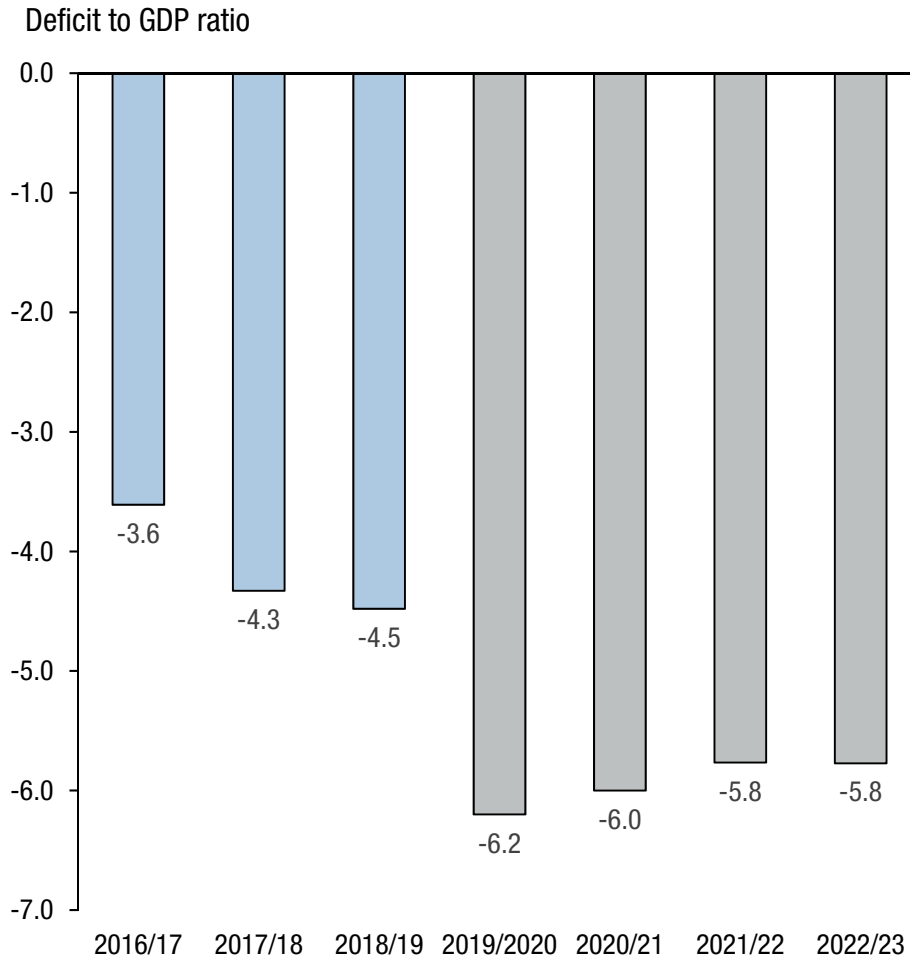


Sources: SARB, StatsSA, FirstRand.

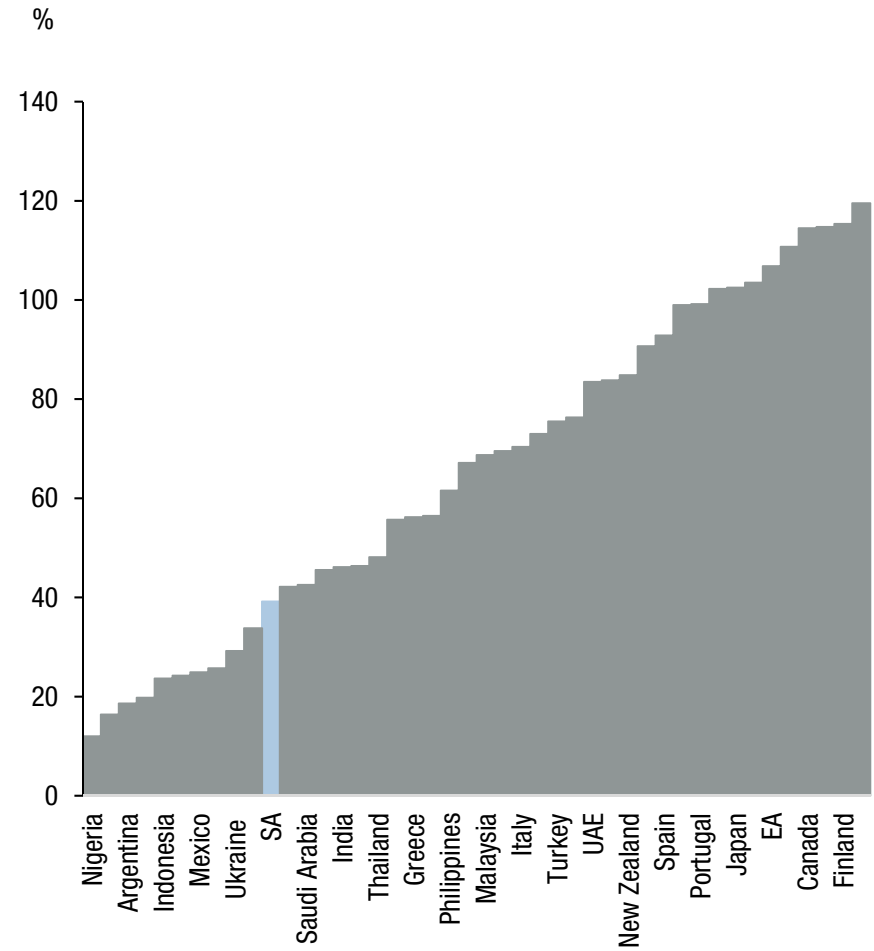


# Government balance sheet constrained but room in private sector

No room for additional fiscal support



A comparison of corporate debt to GDP



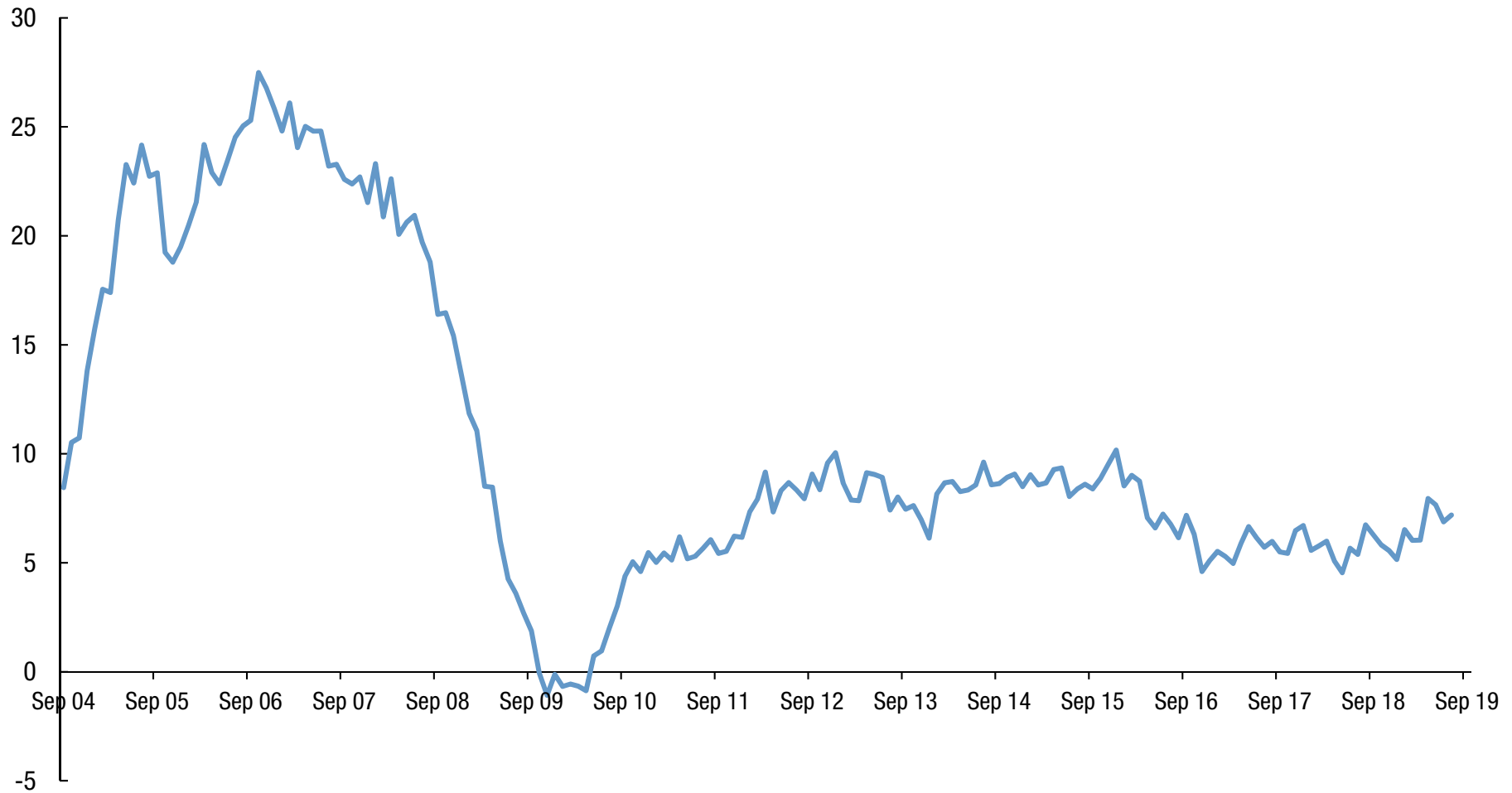
Sources: National Treasury, IIF, and FirstRand.



# Private sector credit growth **drifting sideways**

## PRIVATE SECTOR CREDIT GROWTH

% y/y



Sources: SARB, FirstRand.





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**Financial**  
resource  
management

# Disciplined approach to financial resource management

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



# FirstRand philosophy on funding and capital

Funding	Capital	Risk appetite measures
<ul style="list-style-type: none"> <li>• Diversify across business, markets, currencies, maturities and instrument types</li> <li>• Flexibility across markets, products and investors</li> <li>• Focus on alignment of funding strategies to asset growth and composition, incorporating risk-adjusted pricing</li> <li>• Continued evolution of funding instruments and mix to reduce regulatory volatility and optimise asset/liability matching</li> </ul>	<ul style="list-style-type: none"> <li>• Capital planning performed on forward-looking basis, not point-in-time</li> <li>• Targets aligned to end-state minimum requirements</li> <li>• Frequent issuer, managing roll-over profile</li> <li>• View Additional Tier 1 and Tier 2 as sources of funding, i.e. not used to support economic risk</li> </ul>	<ul style="list-style-type: none"> <li>• Regulator – comfortably exceed minimum prudential requirements</li> <li>• Shareholder – stress testing results within capacity growth, return and earnings volatility</li> <li>• Debtholder – standalone credit rating pierce the sovereign and highest rated</li> </ul>



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 >5.5%
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.



# Building a **stronger balance sheet**

	ACTUAL	TREND
Assets in marketable format	R195 billion	Increased
HQLA as % total assets	18%	Improved
Credit quality of assets	BB/BB-	Stable
Institutional funding term	36 months	Improved duration
Deposit franchise	64% core deposit funding	Increased
ROE	23.7%	Continues to exceed long-term target range of 18% to 22%
RWA risk density	54.3%	Stable
Bank CET1 ratio	13.4%	Improved
Standalone bank credit rating	Highest-rated bank in SA	Maintained







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**Funding**  
and liquidity

# FRB **exceeds** LCR and NSFR requirements

## Liquidity coverage ratio (LCR)

- June 2019: 133%
- LCR minimum requirement: 100%
- Aim to exceed minimum requirements incorporating a management buffer for seasonal volatility
- SARB to withdraw the committed liquidity facility (CLF) over the next three years
- Industry and SARB working together to develop alternative liquidity capacity

## Net stable funding ratio (NSFR)

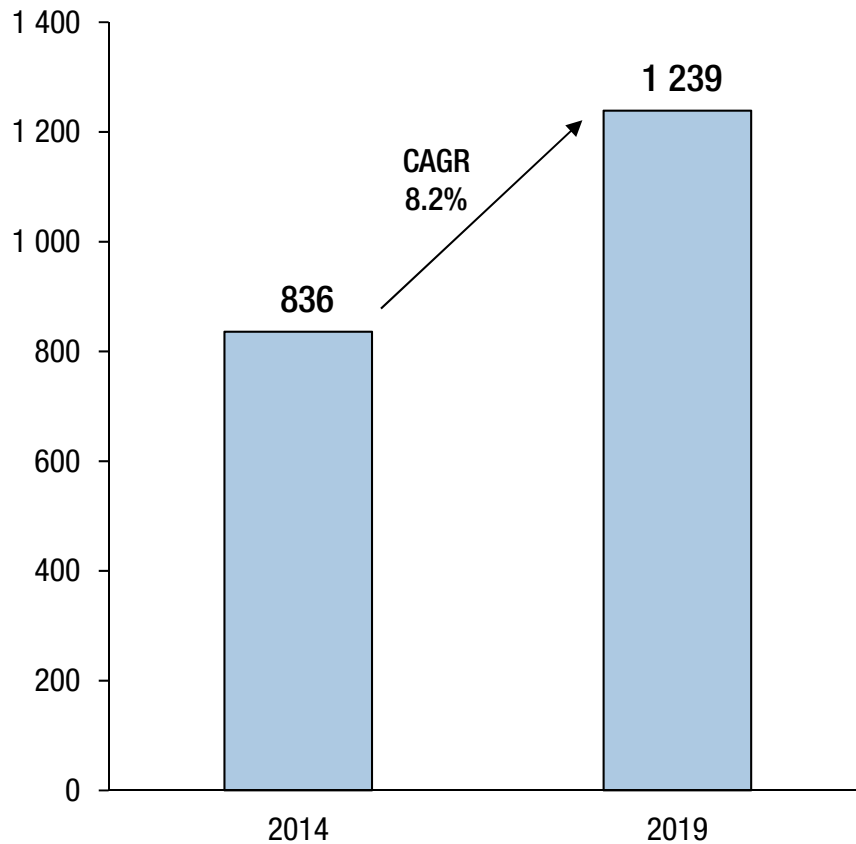
- June 2019: 117%
- Taking into consideration the regulatory and economic barriers to ZAR liquidity flowing out of the domestic economy, the SARB applies national discretion to financial institution deposits <6 months by adopting a 35% available stable funding factor, rather than 0%
- SARB assigns a 5% required stable funding factor to CLF collateral
- In addressing the LCR, the bank adopted strategies that improve structural liquidity risk, as well as meeting NSFR compliance



# Improved balance sheet liquidity

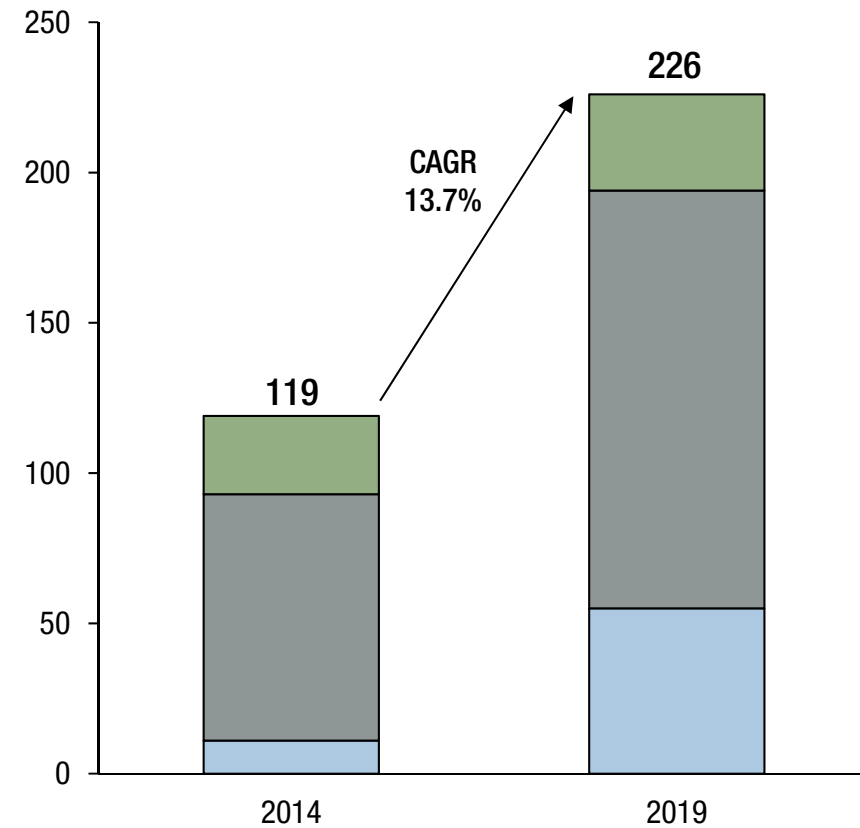
## BALANCE SHEET GROWTH

R billion



## LIQUID ASSET GROWTH AND MIX

R billion



- Cash and central bank deposits
- Government bonds and bills
- Other liquid assets

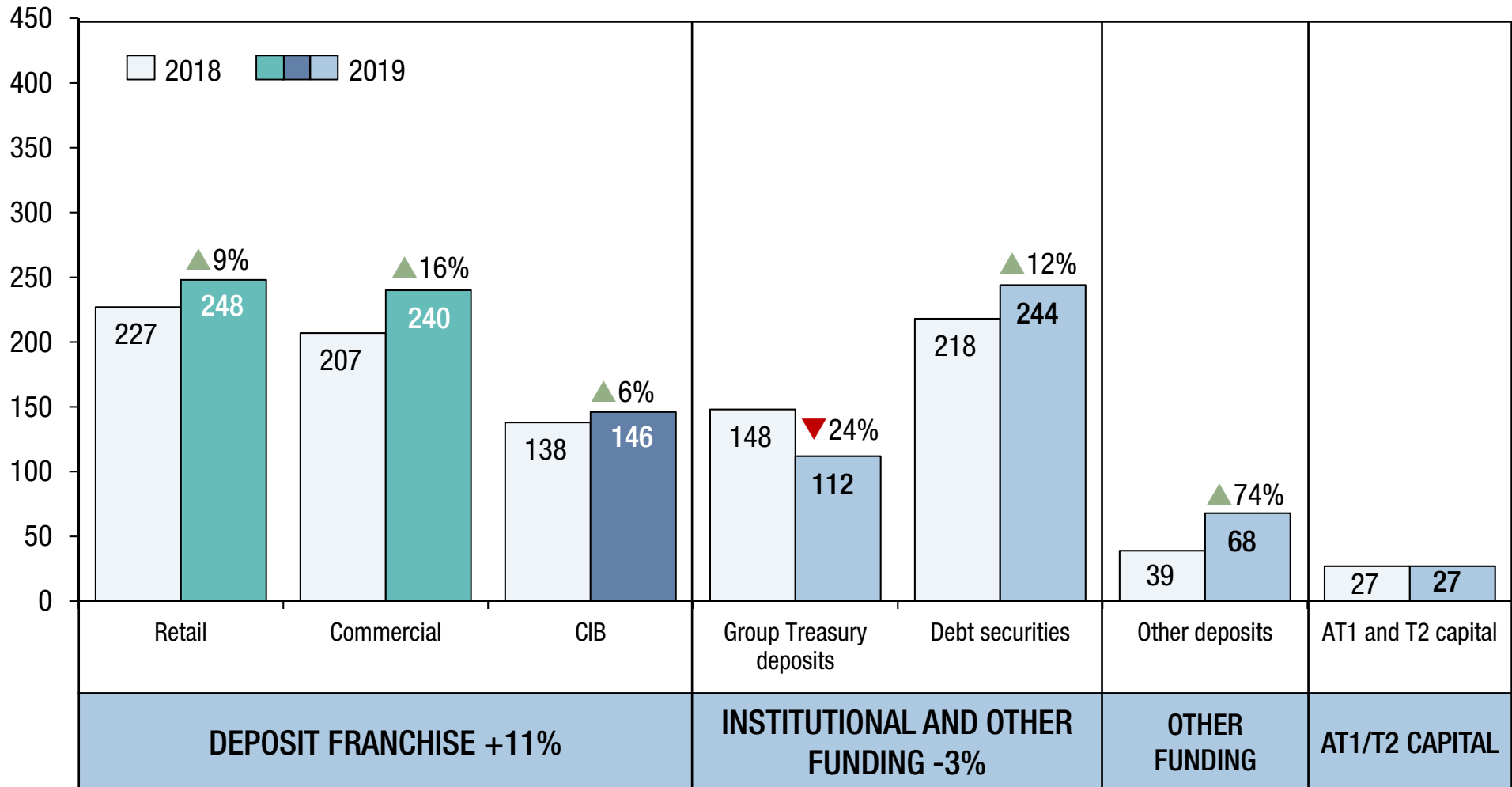
Source: FRB SARB BA900, BA100, June 2019.



# Strong growth in deposit franchise across all segments

## LIABILITIES

R billion

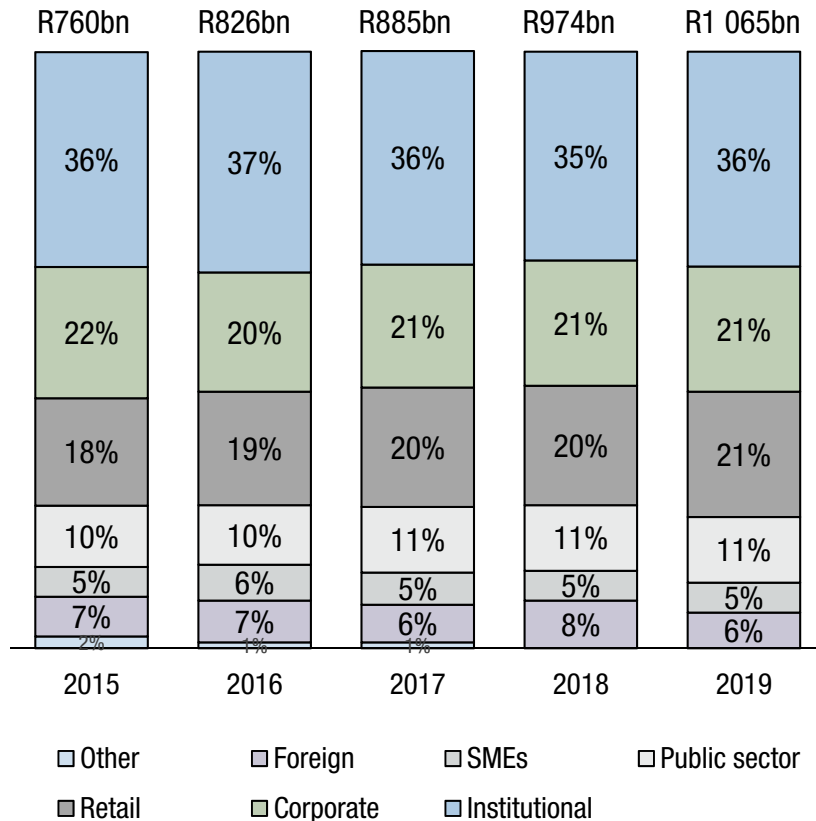


Note: Percentage growth is based on actual rather than rounded numbers shown in the bar graphs.

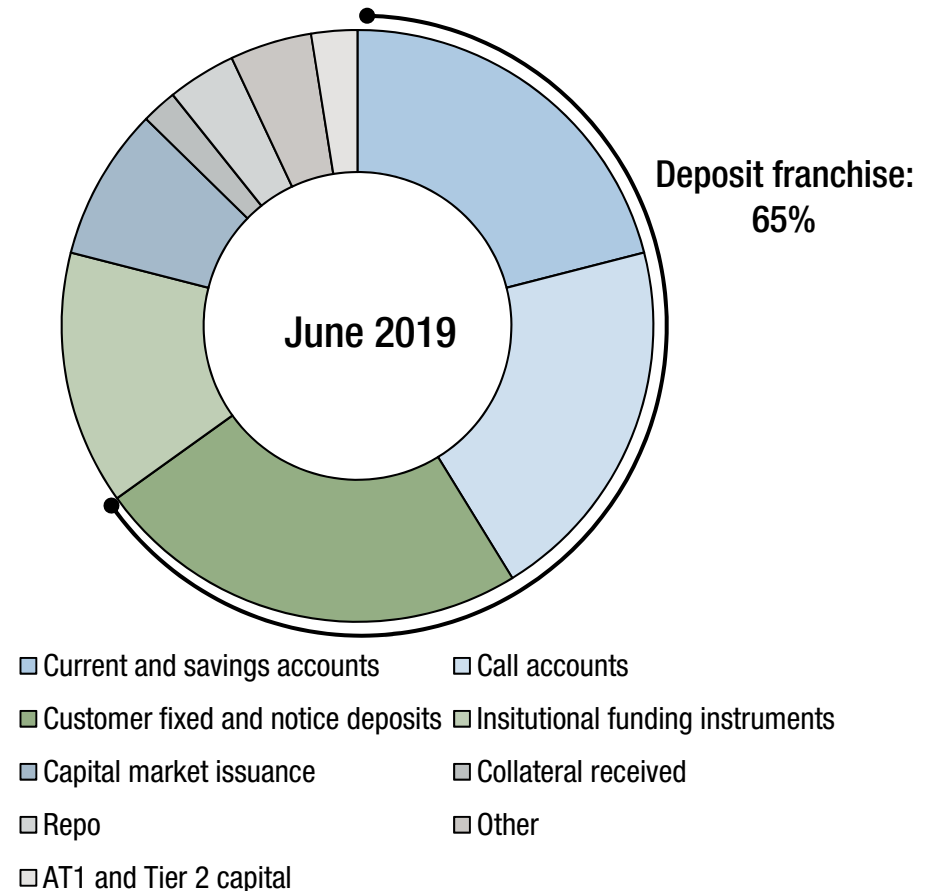


# Continued focus on optimising the funding base

Sources of funding



Funding instruments



Weighted average remaining term of institutional funding ± 36 months

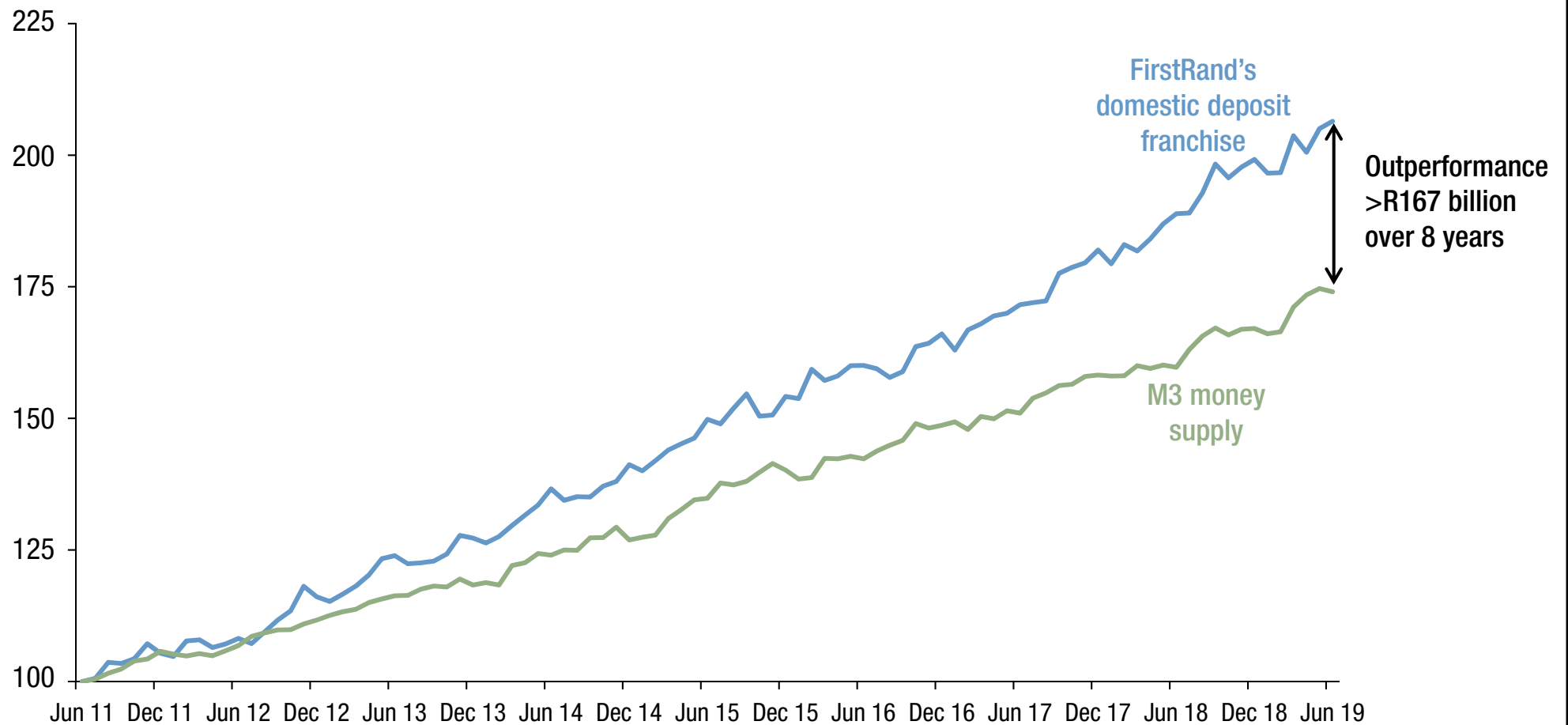
Source: FRB SARB BA900, BA100, June 2019.



# Local **deposit franchise outperforms market** due to successful save/invest strategy, and innovative products

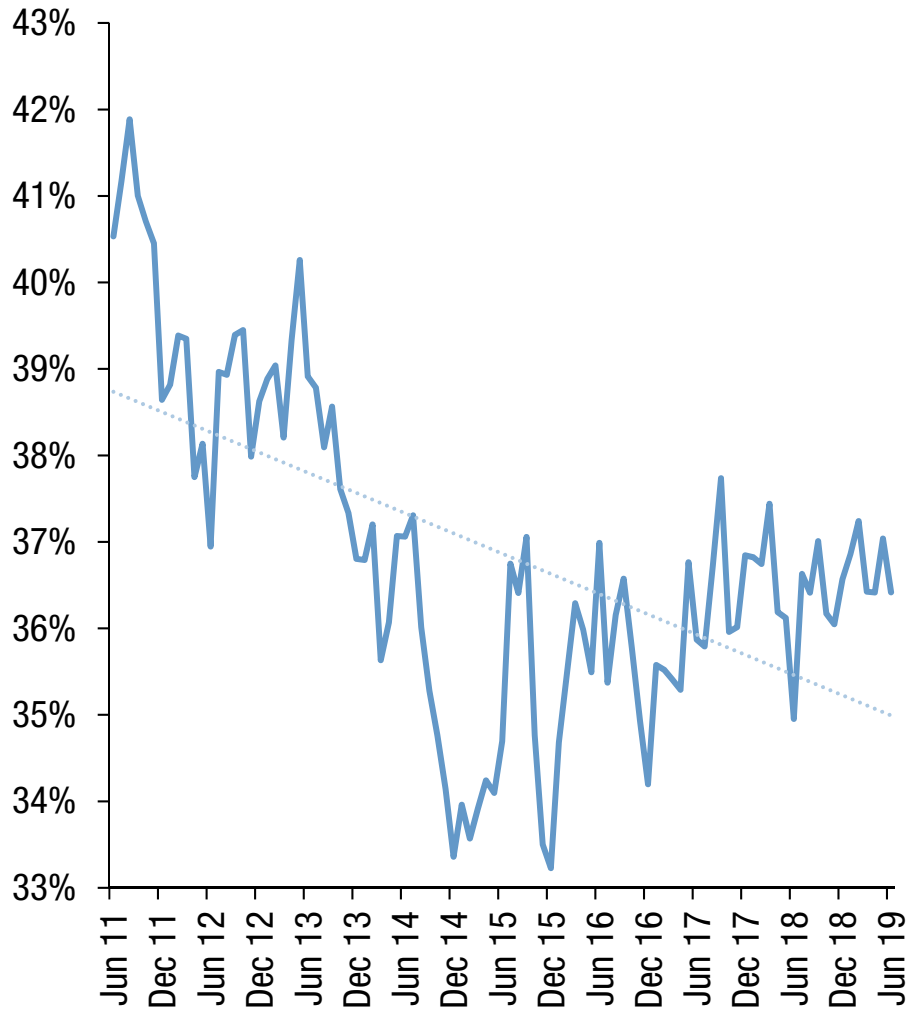
INDEX

June 2011 = 100

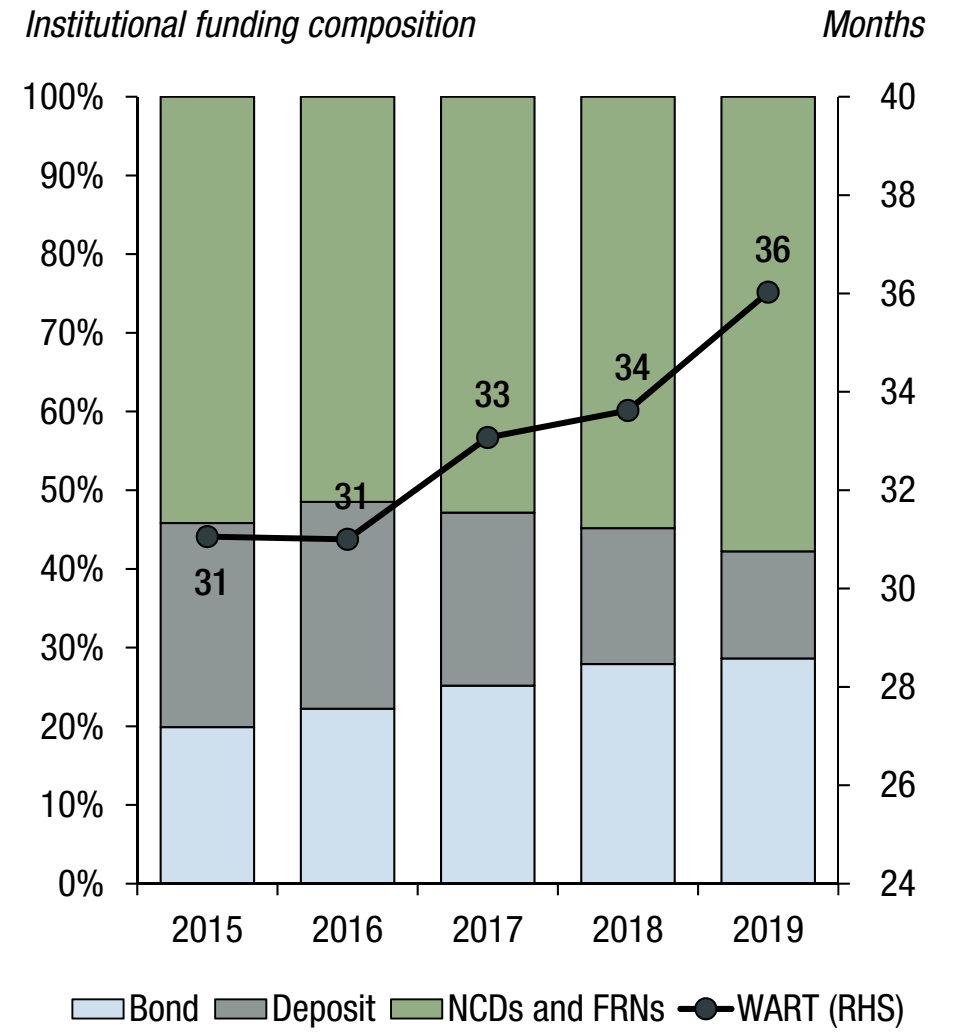


# Bank continues to optimise institutional funding profile

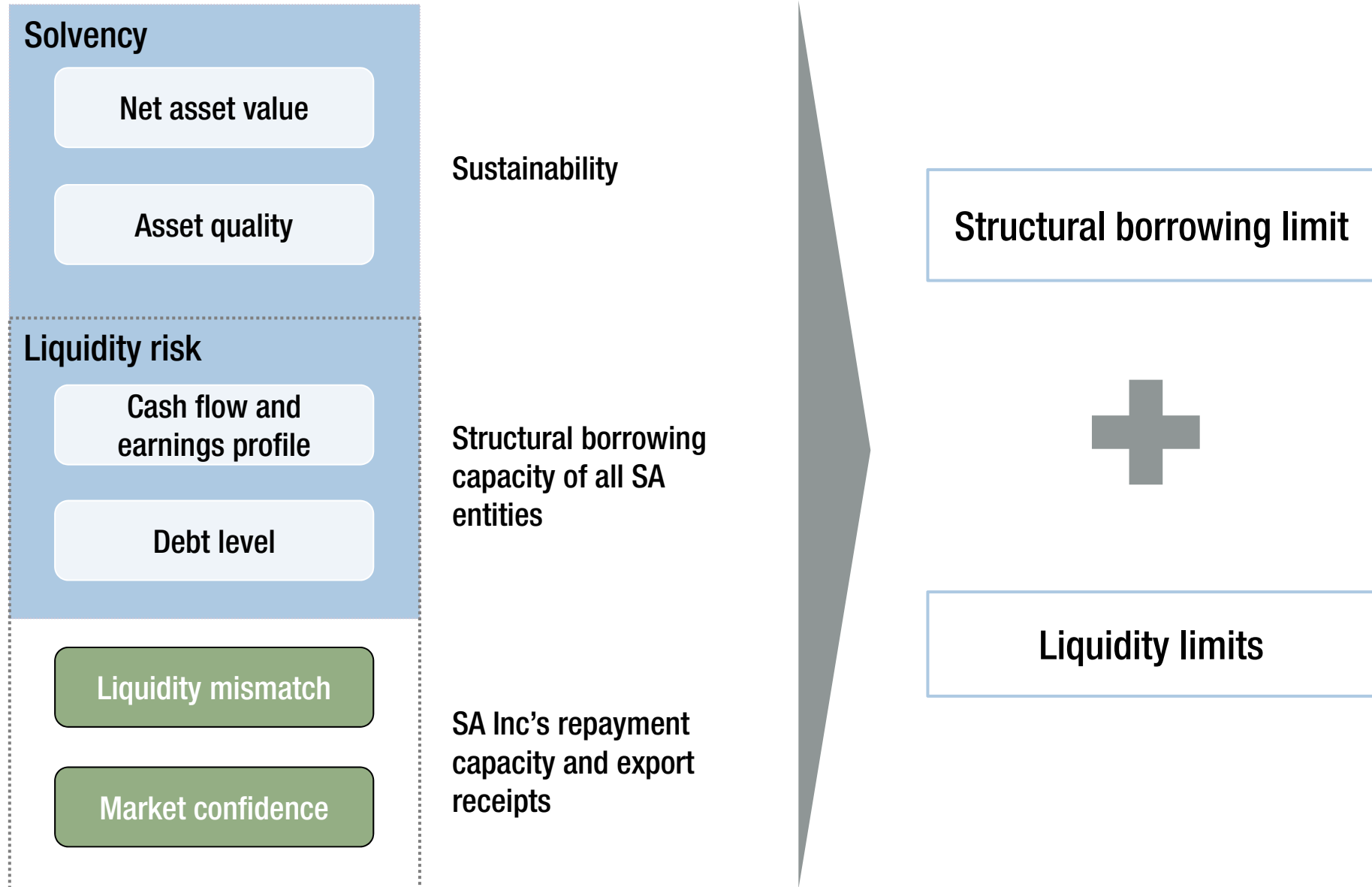
Institutional funding as % of total funding



Diversified institutional funding mix and term profile

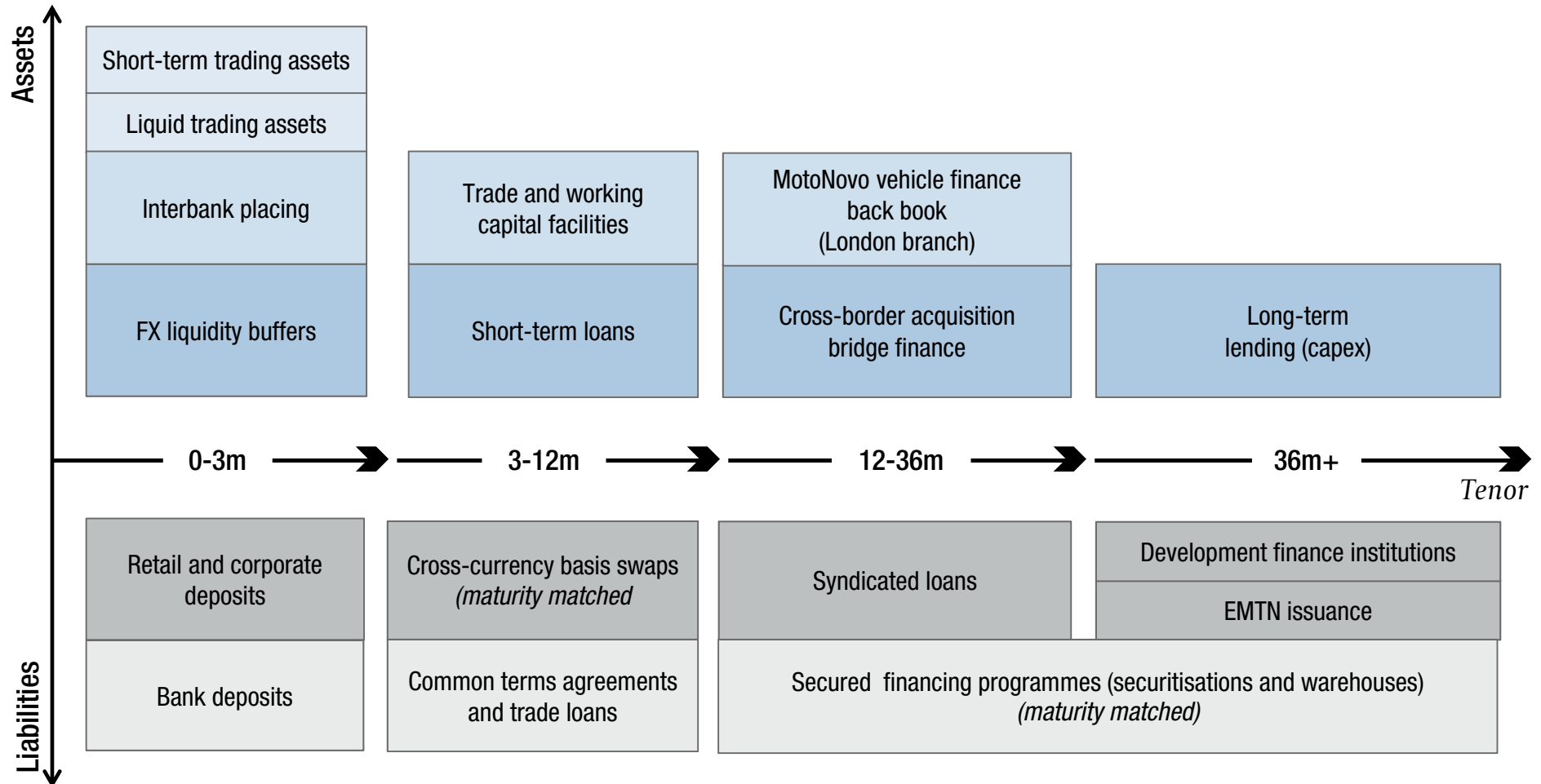


# FirstRand's philosophy on **external debt**...





# ...results in **sustainable FX balance sheet** structure





FirstRand Bank

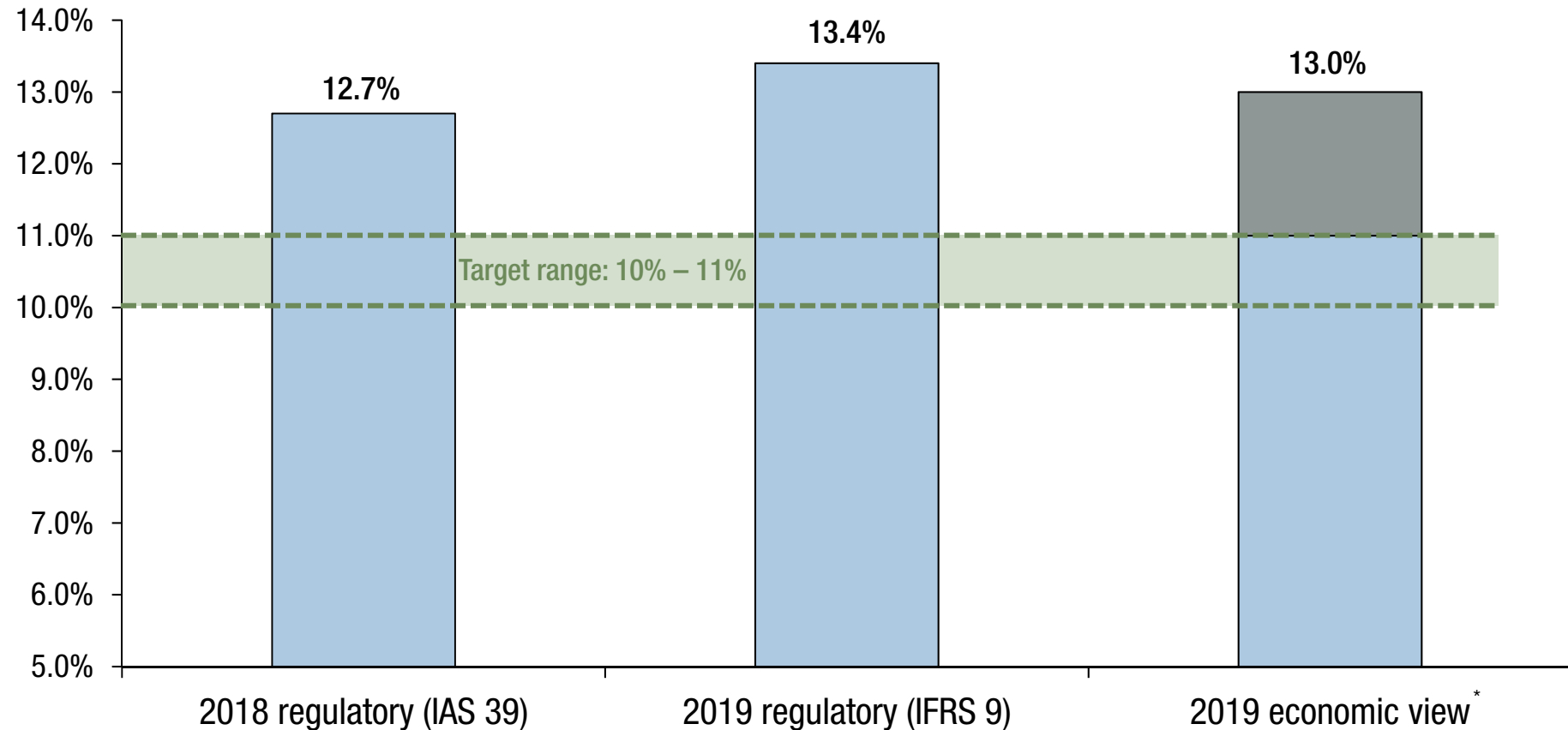
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**Capital**

# Strong recovery in CET1 leaves bank well in excess of internal target

CET1 RATIO



Driven by net internal capital generation and R1.5 billion from Discovery transaction

\* The economic view of CET1 is reduced by the foreign currency translation reserve and the transitional impact of IFRS 9 for the 2020 financial year.



# Additional Tier 1 and Tier 2 issuance to date

## Additional Tier 1 (AT1)

- Inaugural AT1 issuance
  - Issuance to date: R5.7 billion

## Tier 2

- Redemption of remaining old-style Tier 2
  - R3.2 billion in December 2018
- Redemption of Basel III-compliant instruments
  - April 2019: USD172.5 million
  - June 2019: R1.7 billion
- Recent issuances to manage roll over risk
  - June 2019: R2.6 billion





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South African  
**financial sector**  
and market  
infrastructure

# Regulatory update

- Draft Financial Sector Laws Amendment Bill published for comment by National Treasury in October 2018
  - Proposed amendments to various acts to support and empower the resolution regime
  - New chapter (*12A – Resolution of Designated Institutions*) builds on the draft resolution framework
    - Released to the banking industry in January 2018
  - Establishment of the Corporation of Deposit Insurance, designed to protect depositors' funds and enhance financial stability
- Discussion paper, *South Africa's intended approach to bank resolution*, released for public comment in July 2019
  - Objectives of the resolution framework, and planning and conducting a resolution
  - New tranche of loss-absorbing instruments (flac instruments)
    - Subordinated to other unsecured creditors and intended for bail-in in resolution
- Financial conglomerate framework
- Final Basel III reforms
  - Prudential Authority published Guidance note 6 of 2018 – outlines proposed implementation dates for final regulatory reforms
  - Group project to assess and quantify impact of final reforms



# Resolution blueprint – proposed hierarchy in insolvency

CURRENT	AMENDED	
Secured (up to the value of security)	Secured (up to the value of security)	<ul style="list-style-type: none"> <li>Allows for setoff up to the value of security held</li> <li>Residual claims rank <i>pari passu</i> with all other unsecured creditors</li> <li>Assets under repo GMRA, ISDA, etc.</li> </ul>
Preferred	Preferred	<ul style="list-style-type: none"> <li>Creditors specified by legislation, including outstanding tax claims and central banks claims</li> </ul>
	Covered deposits	<ul style="list-style-type: none"> <li>Deposits qualifying for deposit insurance - maximum of R100 000 per depositor, per bank</li> </ul>
Unsecured	Unsecured creditors	<ul style="list-style-type: none"> <li>All residual claims (uncovered deposits &gt; covered amount) and non qualifying debt instruments</li> </ul>
	Flac instruments	<ul style="list-style-type: none"> <li>Preidentified, transparent tranche of funding instruments available for bail-in at point of resolution (POR) – sufficient to restore Prudential Authority minimum capital requirements</li> <li>Rank senior to regulatory capital</li> </ul>
	Regulatory debt instruments	<ul style="list-style-type: none"> <li>Ranked in the order as per regulatory framework</li> <li>Assumed to be available to absorb going concern losses and depleted at POR</li> </ul>



# SA has a **sophisticated financial system**

- SA benefits from world class market infrastructure in payments, exchanges and securities clearing
- SA benefits from financial stability due to 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><b>Prudential</b></p> <ul style="list-style-type: none"> <li>• Basel III</li> <li>• Solvency assessment and management (Solvency II)</li> <li>• Financial conglomerates</li> </ul> <p><b>Market conduct</b></p> <ul style="list-style-type: none"> <li>• JIBAR code of conduct</li> <li>• Code of conduct for OTC market</li> <li>• Treating customers fairly</li> <li>• Financial markets review committee</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Markets Bill 2012</li> <li>• Financial Services General Laws Amendment Act, 2013</li> <li>• Banks Act Amendment Bill (B17 2014)</li> <li>• Financial Markets Act 2012</li> <li>• Credit Ratings Services Bill</li> <li>• Resolution policy framework (draft)</li> <li>• Deposit insurance policy framework (draft)</li> <li>• South Africa's intended approach to bank resolution (discussion paper)</li> </ul>





# 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



# FRB credit ratings

	SOUTH AFRICA SOVEREIGN RATINGS	FIRSTSTRAND BANK LIMITED CREDIT RATINGS		
	FOREIGN CURRENCY	COUNTERPARTY*		
	Long term/ outlook	Long term/ outlook	Long term national scale	Standalone credit rating
<b>S&amp;P Global</b>	BB/Stable	BB/Stable	zaAA+	bbb-
<b>Moody's</b>	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 22 October 2019.

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





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**Conclusion**

# Despite difficult macroeconomic backdrop, FirstRand remains **well positioned**

- Continued focus on increasing balance sheet strength
  - Strong capital position
  - Integrated and diversified funding and liquidity management
  - Prudent credit provisions
- Resilient earnings base and strong return profile underpinned by quality of operating businesses and diversification of income streams
- Group continues to execute on growth strategies





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**Important**  
notice

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