Creating and protecting shareholder value

Johan Burger (CEO: FirstRand)

29 January 2016

FIRSTRAND

Agenda

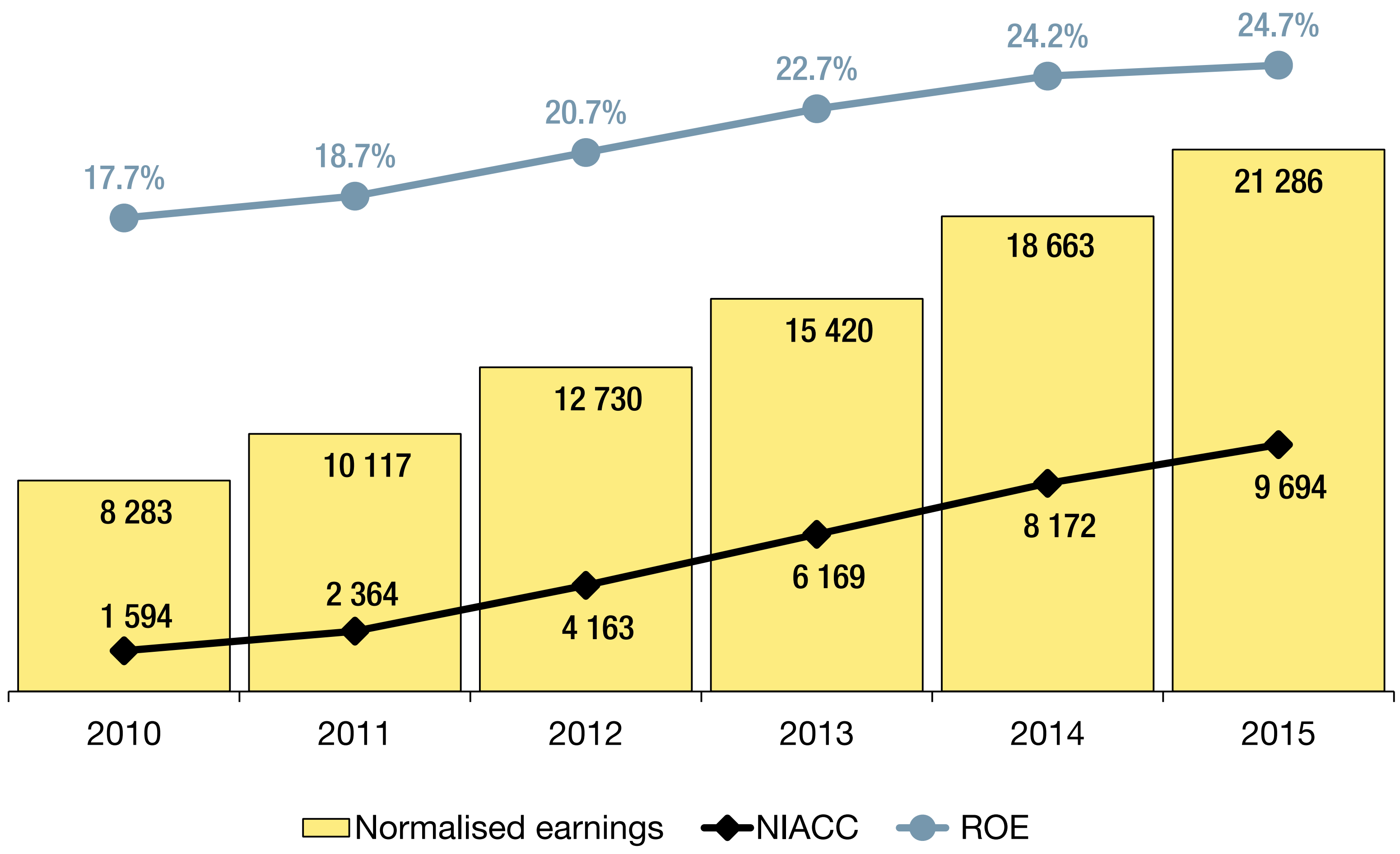
TRACK RECORD OF SUPERIOR RETURNS

TOUGH CYCLE RAPIDLY EMERGING

HOW IS THE GROUP POSITIONED FOR THIS CYCLE?

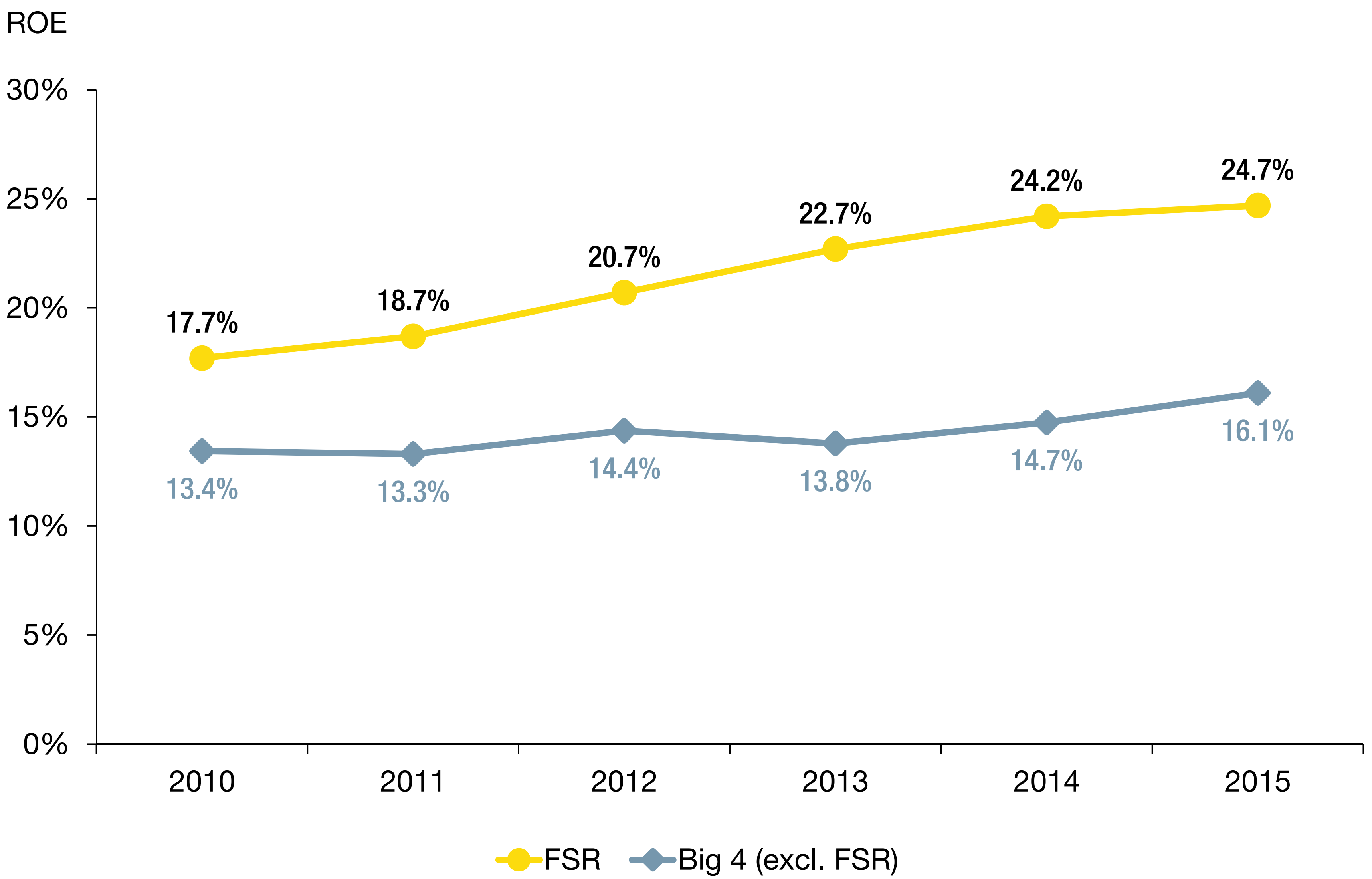
FOCUS REMAINS ON DELIVERING SUSTAINABLE RETURNS

Track record of superior returns…



2010 comparatives is for FirstRand Banking Group.

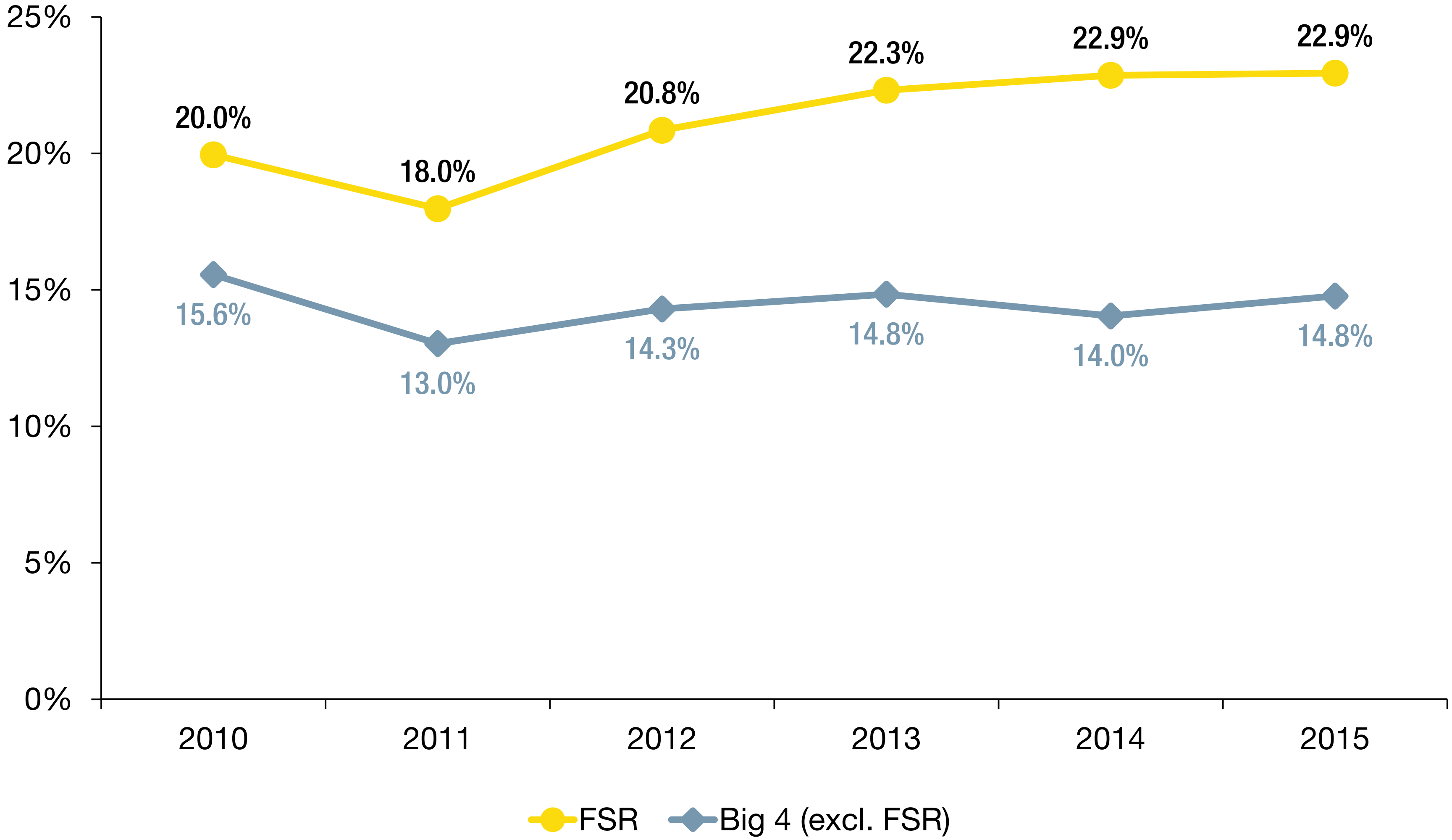
…relative to peer group



2010 comparatives is for FirstRand Banking Group.

Same picture on a through-the-cycle basis

ROE using normalised impairment (105bps)



2010 comparatives is for FirstRand Banking Group.

Shareholder value creation driven by consistent and unique approach

THINK AND BEHAVE LIKE SHAREHOLDERS

How is this operationalised?

- FRANCHISE VALUE
- DEPLOYMENT OF FINANCIAL RESOURCES
- BUSINESS MODEL AND CULTURE

MEASURE THROUGH PERFORMANCE MANAGEMENT

Shareholder value creation driven by consistent and unique approach

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How is this operationalised?

FRANCHISE VALUE

DEPLOYMENT OF FINANCIAL RESOURCES

BUSINESS MODEL AND CULTURE

MEASURE THROUGH PERFORMANCE MANAGEMENT

How we think about long-term franchise value

FRANCHISE VALUE

Client base	Customer base underpins sustainability.
Market-leading financial services franchises	Market-leading operating businesses deliver customers, distribution and products.
Diversified portfolios (operating franchises, segments, countries, products)	Diversified portfolio reduces volatility from over-concentrations in product lines, segments or activities. Appropriate mix of capital-light and capital-intensive businesses.
Differentiated offerings strengthen competitive position (innovation)	Differentiation in customer offerings strengthens relative positioning and ensures growth, but only possible through ongoing innovation.
Flexible and brand-neutral platforms (skills, technology, customer bases, distribution, licences)	Platforms provide building blocks to operate across all financial services profit pools.

Franchise value = resilient earnings

Shareholder value creation driven by consistent and unique approach

THINK AND BEHAVE LIKE SHAREHOLDERS

How is this operationalised?

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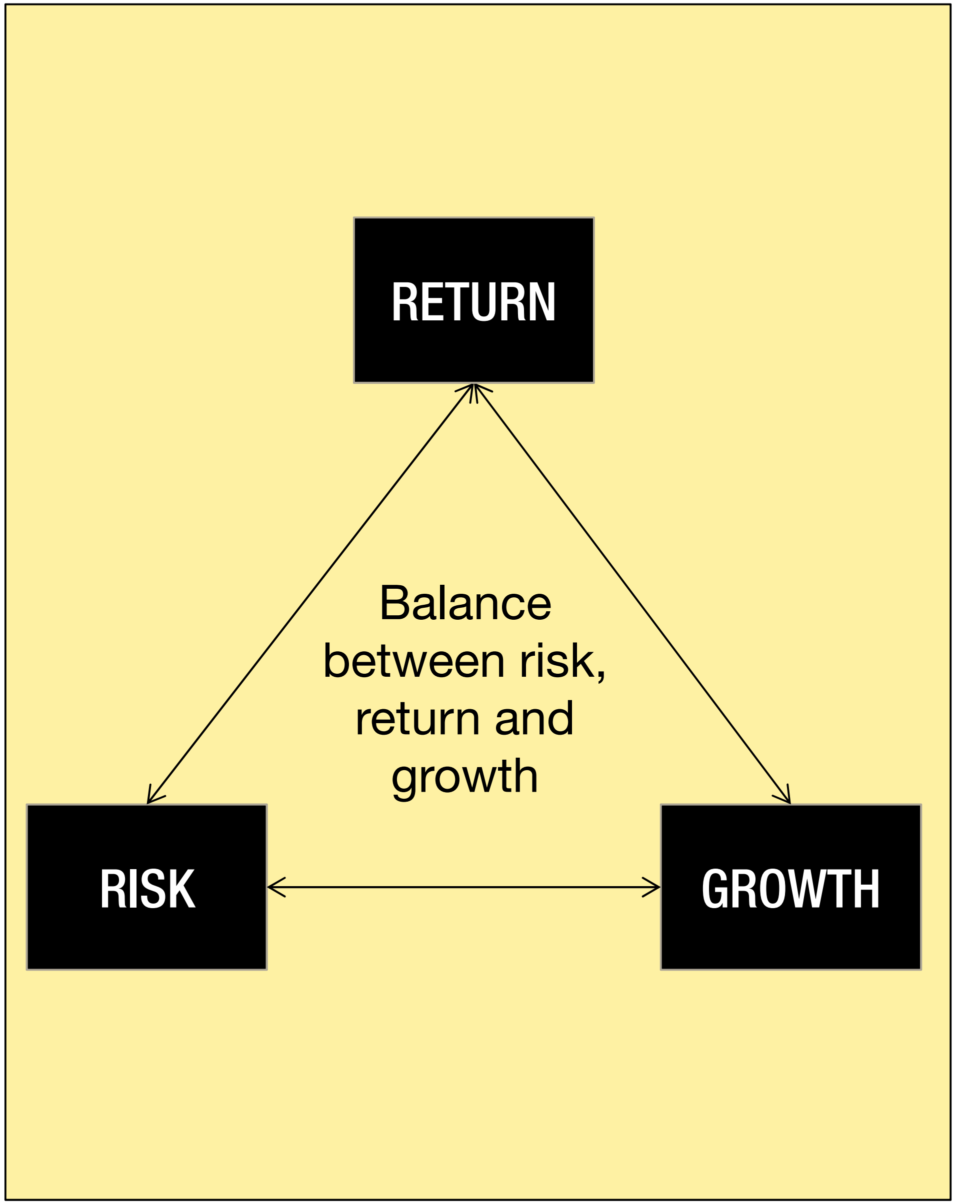
MEASURE THROUGH PERFORMANCE MANAGEMENT

Disciplined financial resource management

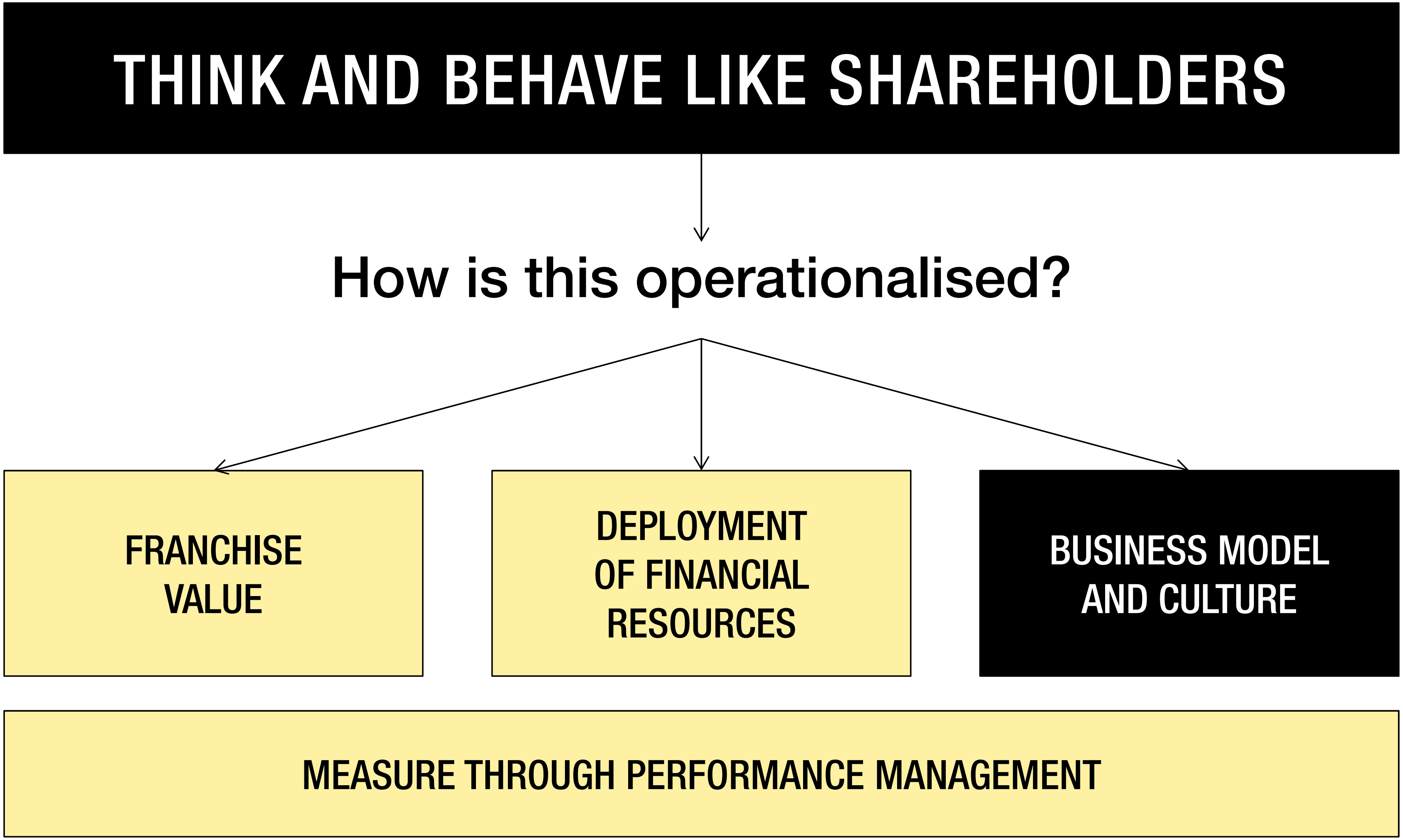


- Strategic framework
  - Strategy executed through operating franchises
  - Achieve appropriate balance between capital-light and capital-intensive businesses
- Risk management framework
  - Through-the-cycle approach/ countercyclical origination and capital allocation
  - Understand and price for risk
  - Risk appetite – minimise volatility
- Performance measurement framework
  - Net income after capital charge (NIACC)
- Financial resource management framework
  - Capital, funding, liquidity, risk appetite

Proactive and dynamic financial resource management

WHAT?	WHY?
Group Treasury manages financial resources (capital, funding, liquidity, risk appetite)	Allows operating franchises to focus on operational profits
Group Treasury: • Determines level of capital, capital structure and gearing • Allocates capital and cost of capital to business units and sets hurdle rates • Decides on availability and pricing of funding and liquidity to BUs (funds transfer pricing)	To ensure that BUs price appropriately for financial resources in their underlying business activities, i.e. focus on ROA
Set capital, funding, liquidity and volatility targets	To maintain desired credit rating
Align franchise growth, return and volatility targets to FSR objectives	To ensure Group meets its overall objectives
Financial resource management is linked to macros	To enable Group to be countercyclical in origination and capital allocation

Shareholder value creation driven by consistent and unique approach



Business model allows franchises access to all platforms within appropriate governance frameworks

FIRSTRAND

	FirstRand Bank Limited (FRB)	FirstRand EMA (Pty) Ltd (FREMA)	FirstRand Investment Holdings (Pty) Ltd (FRIHL)	Ashburton Investments Holdings Limited	FirstRand Insurance Holdings (Pty) Ltd
	BANKING	AFRICA AND EMERGING MARKETS	OTHER ACTIVITIES	INVESTMENT MANAGEMENT	INSURANCE
FNB First National Bank	✓	✓	✓	✓	✓
RMB	✓	✓	✓		
WesBank	✓	✓	✓		
ASHBURTON INVESTMENTS		✓	✓	✓	✓

Model also facilitates cross-sell and up-sell for franchises

	FIRSTRAND ACTIVITY VIEW PER FRANCHISE					
	TRANSACT	LEND	INVEST	DEPOSITS	INSURANCE	INVESTMENT MANAGEMENT
FNB First National Bank	✓	✓		✓	✓	✓
RMB	✓	✓	✓	✓		✓
WesBank	✓	✓			✓	
ASHBURTON INVESTMENTS						✓

Owner-manager culture aligns employees and shareholders

- Culture empowers employees to **think like owners/shareholders** – employees know and understand:
  - Business strategy
  - The business case always prevails
  - Capital is only deployed to achieve required returns
  - Treat company assets as their own
  - Remuneration aligned to shareholder value creation

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TOUGH CYCLE RAPIDLY EMERGING

HOW IS THE GROUP POSITIONED FOR THIS CYCLE?

FOCUS REMAINS ON DELIVERING SUSTAINABLE RETURNS

Macros deteriorating

Real GDP growth very subdued going forward	0% – 1.5%
Above inflation target (average) inflation for next two years	6% – 7%
Low nominal GDP growth expected over the medium term	5% – 7.5%
Low real income growth will place pressure on topline and bad debts	0.5% – 1.5%
Interest rate normalisation to continue (repo)	Peak: 7.75%

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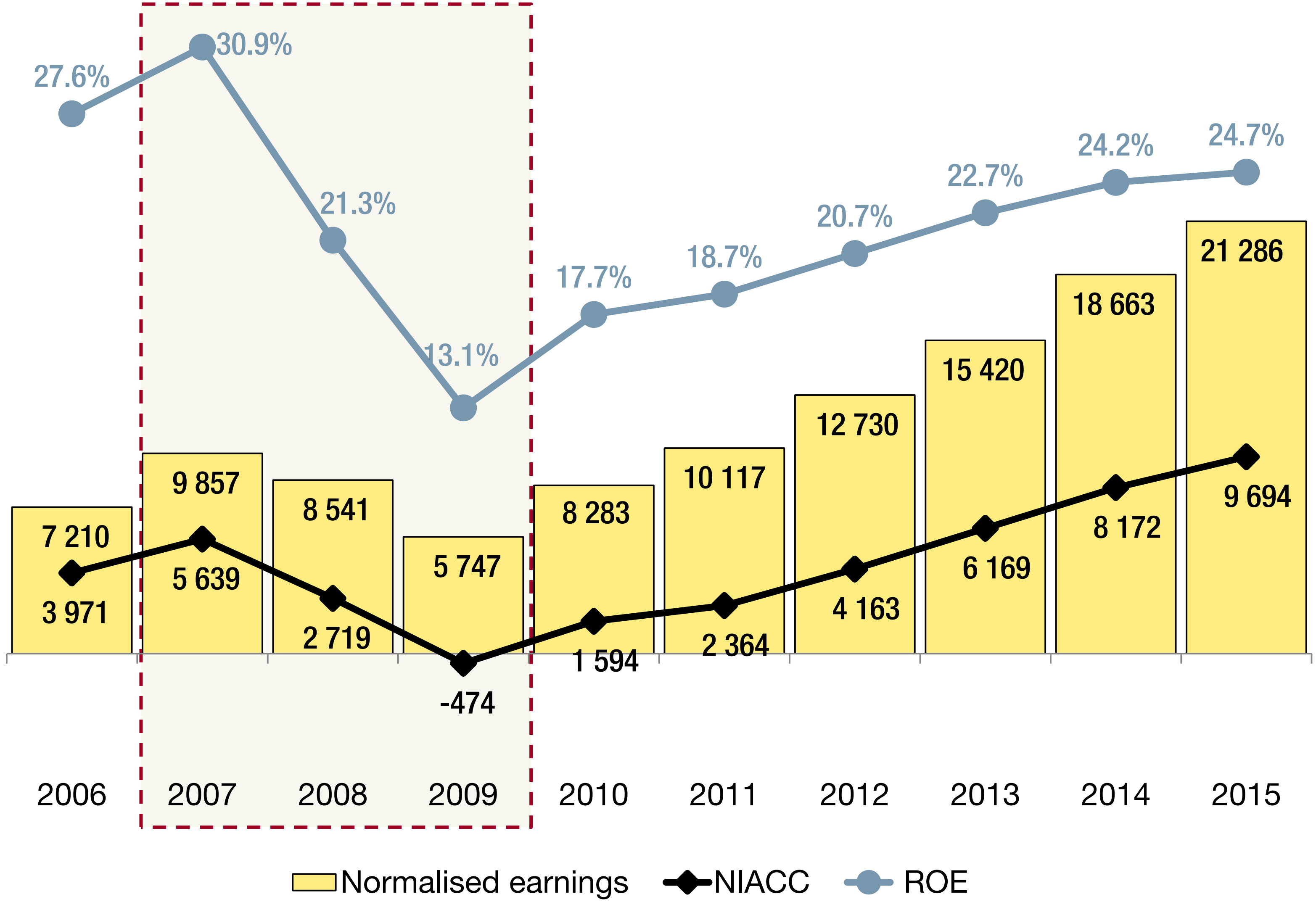
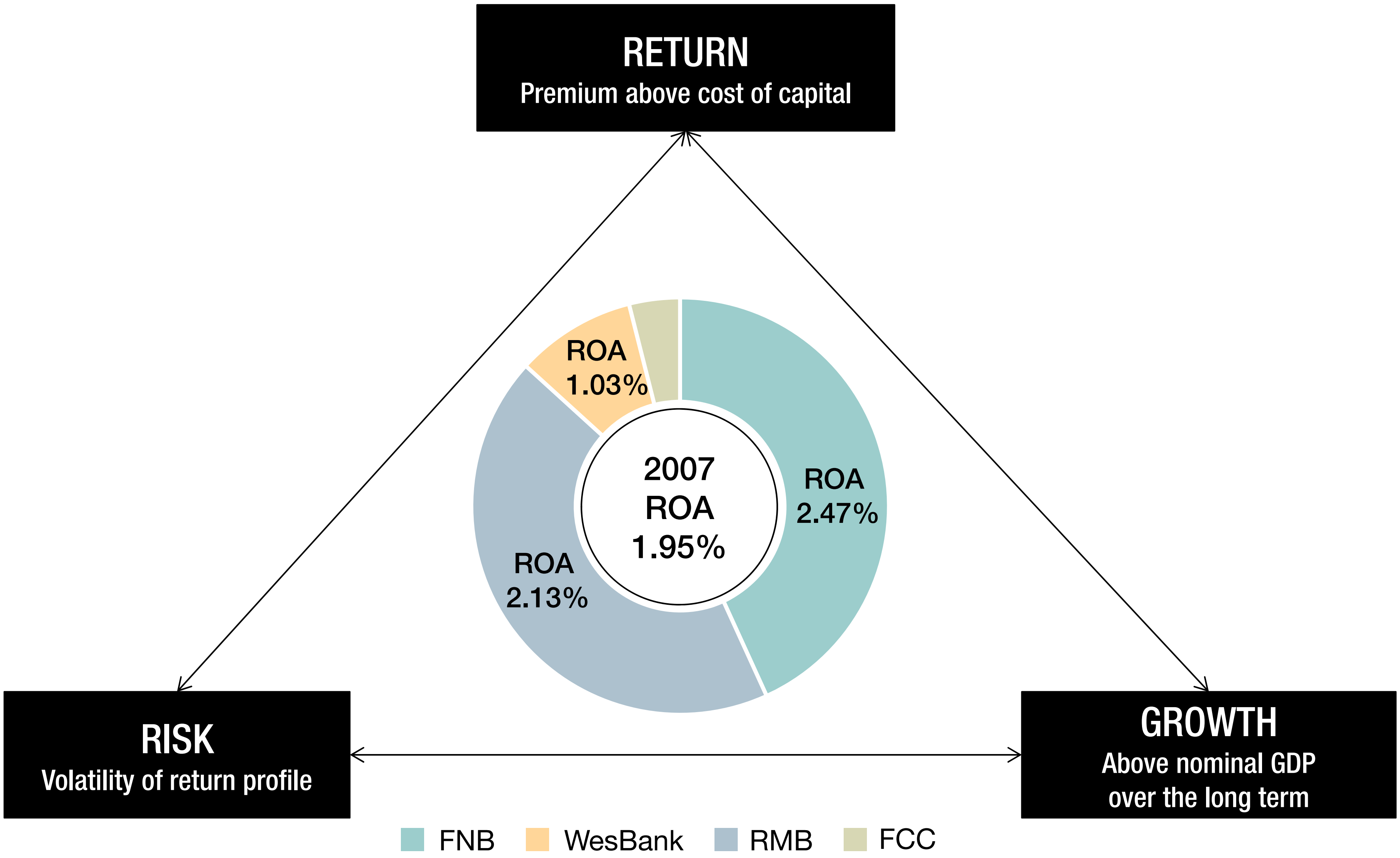
What has changed since the previous cycle?



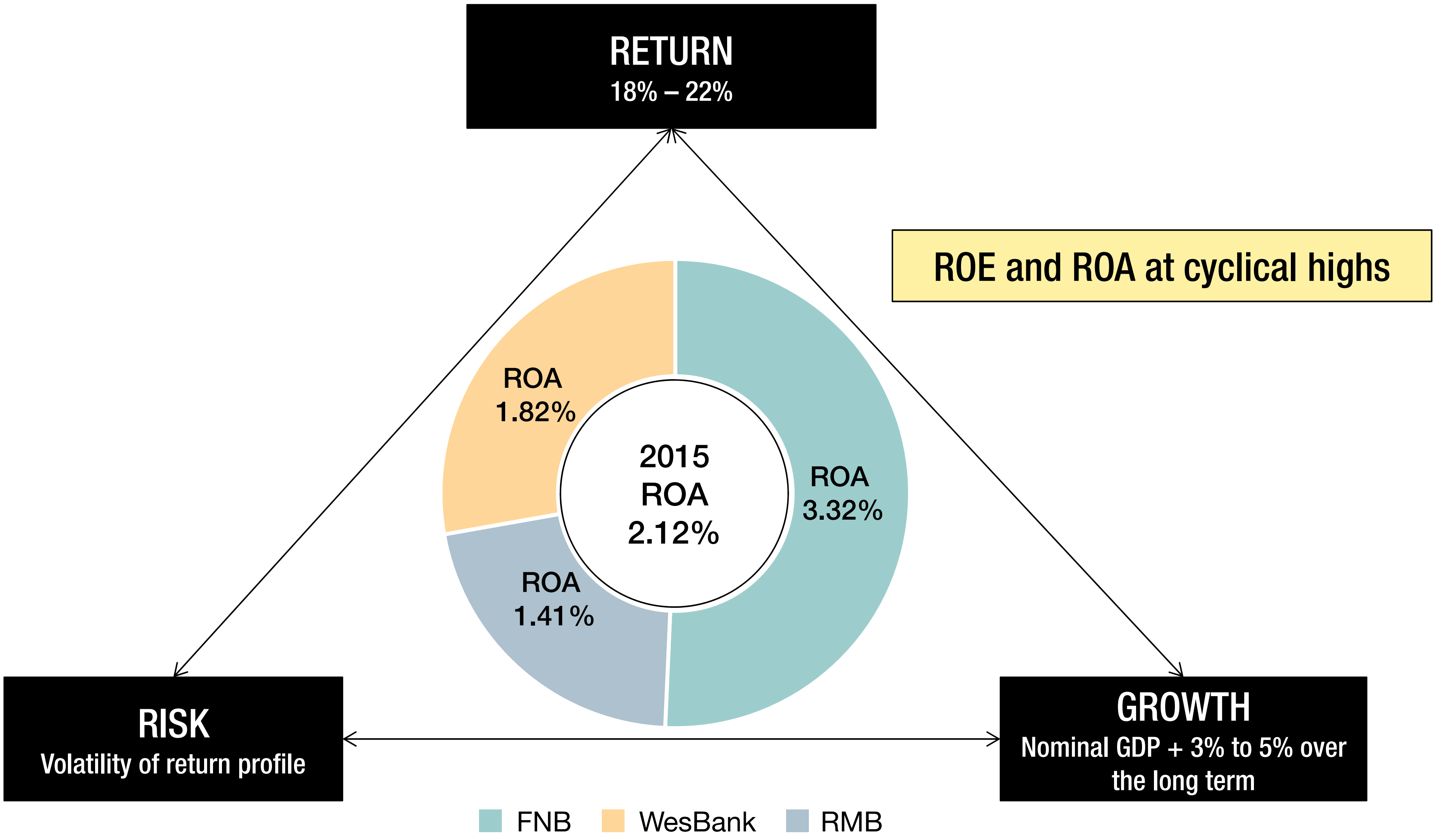
We believe the business is more resilient

Comparatives prior to 2011 are for FirstRand Banking Group.

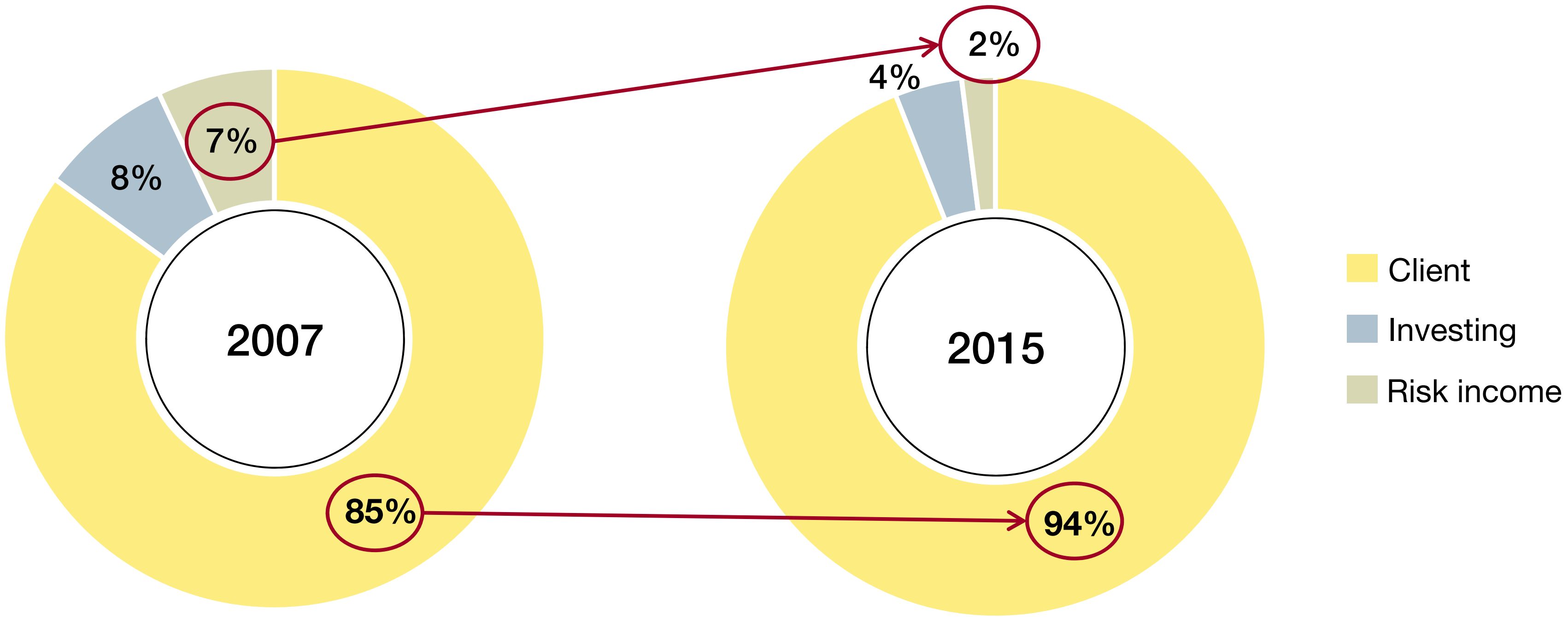
Improved balance between risk and return = lower volatility…



…resulting in structurally higher and more sustainable ROA



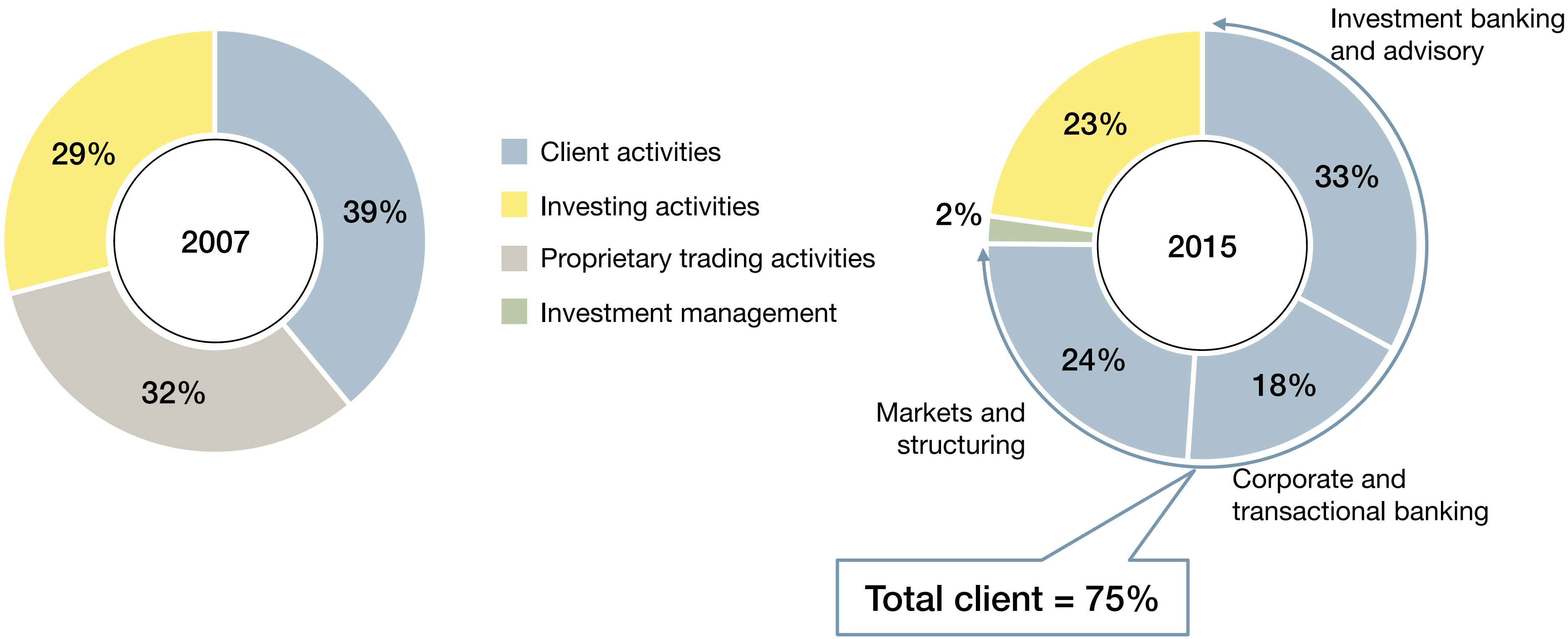
Improved quality of earnings underpinned by growth and mix of client businesses



Driven by proactive strategies in all operating franchises

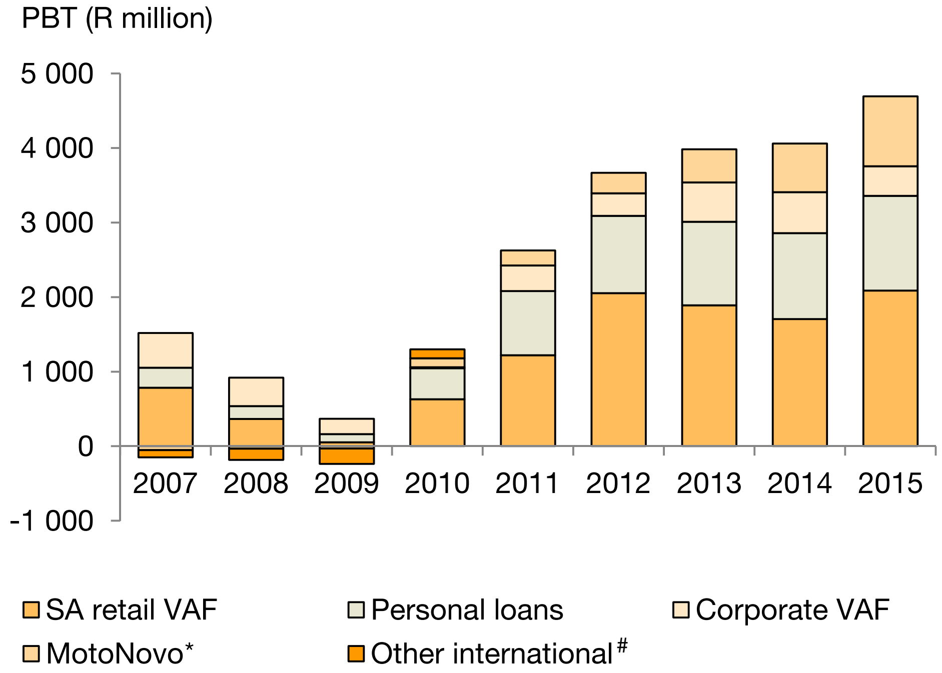
Based on gross revenue.

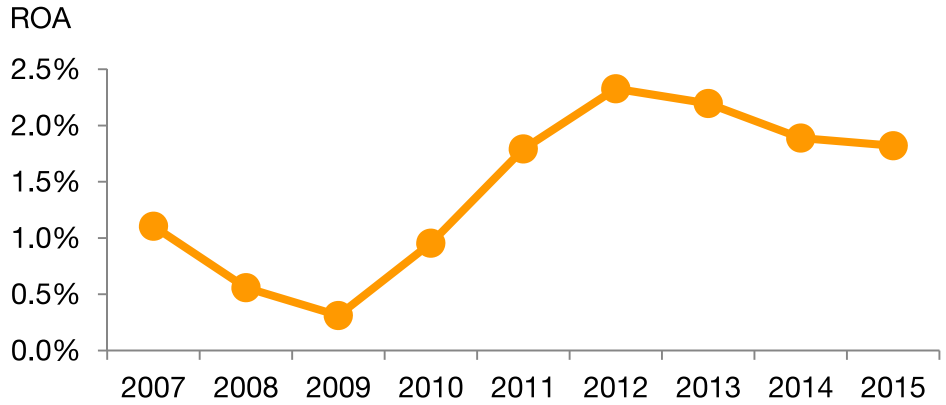
RMB portfolio reflects shift to client businesses



Based on gross revenue. Excludes RMB Resources, legacy and head office portfolios.

WesBank improved risk-adjusted returns and diversification





* MotoNovo was previously known as Carlyle Finance.

\# 'Other International' includes WorldMark Australia and MotorOne Finance Australia.

Balance between risk, return and growth

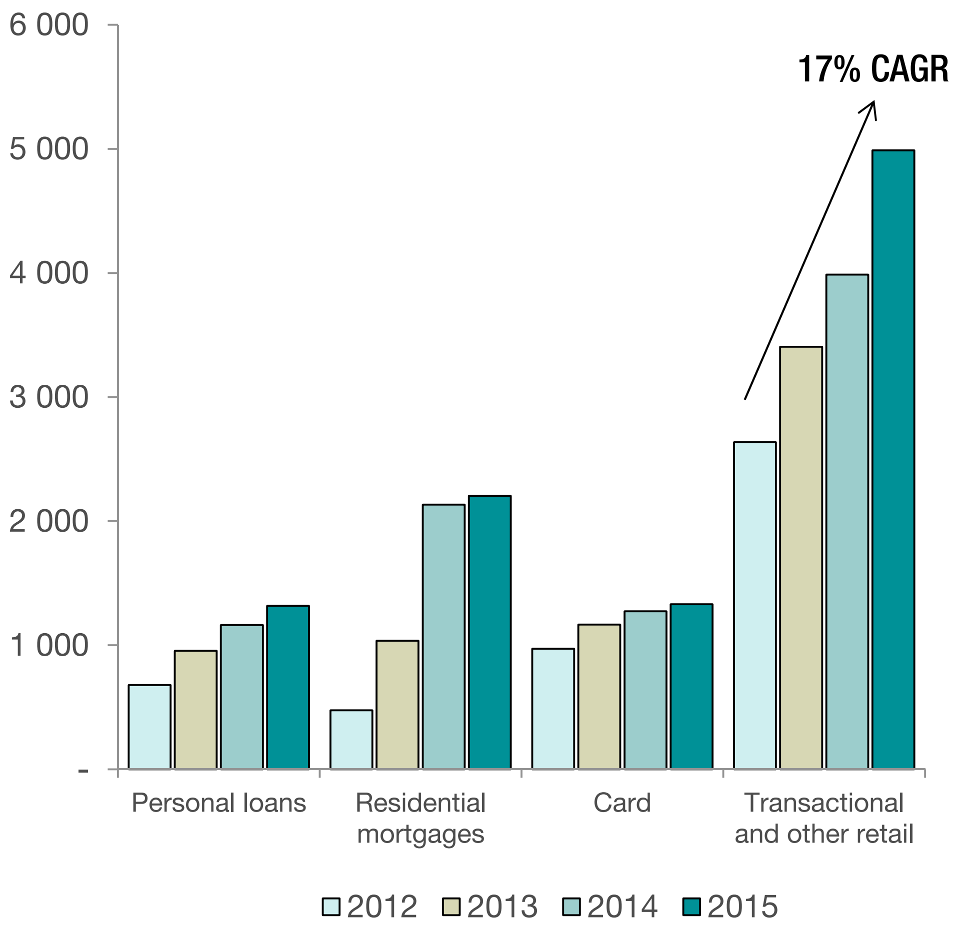
- Better pricing for risk and improved risk profile should result in less volatile return profile vs. previous cycle

Franchise value

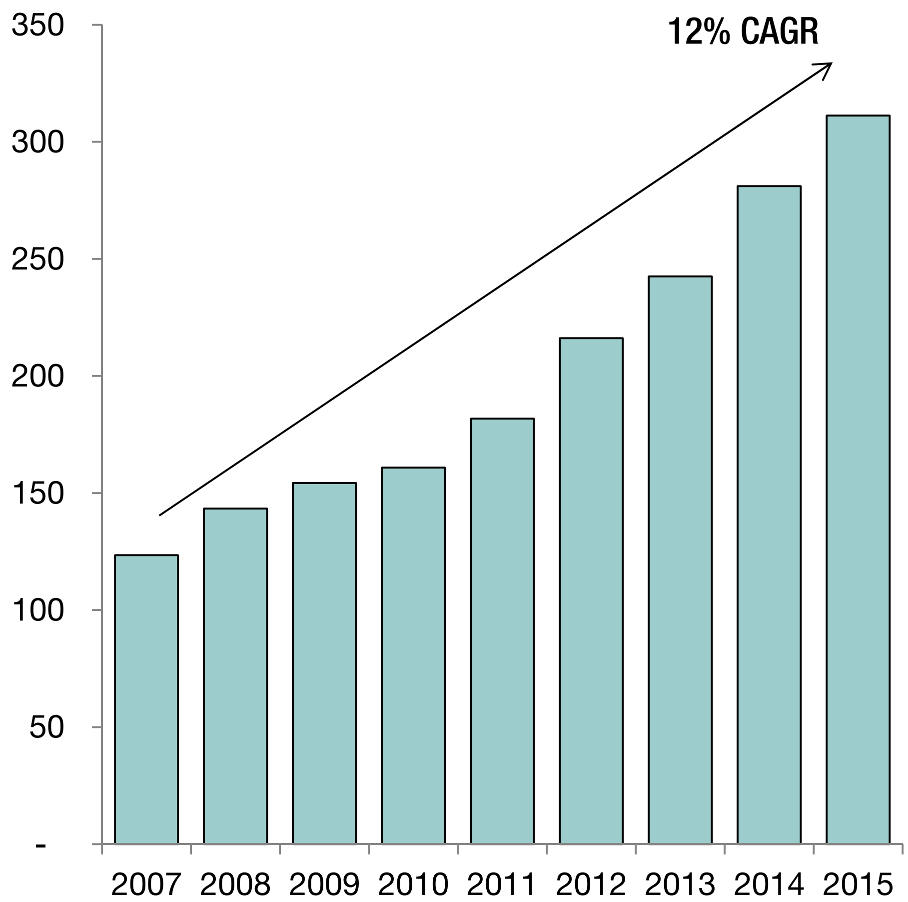
- Diversification of products
  - MotoNovo, personal loans and corporate
- Differentiated
  - Retail VAF – unique distribution model (partnership models)
  - Access different distribution channel/client bases through Direct Axis
- Efficiencies
- ROA also benefited from turn-around at MotoNovo

FNB grew its transactional and deposit franchises

FNB retail normalised profit before tax (R million)



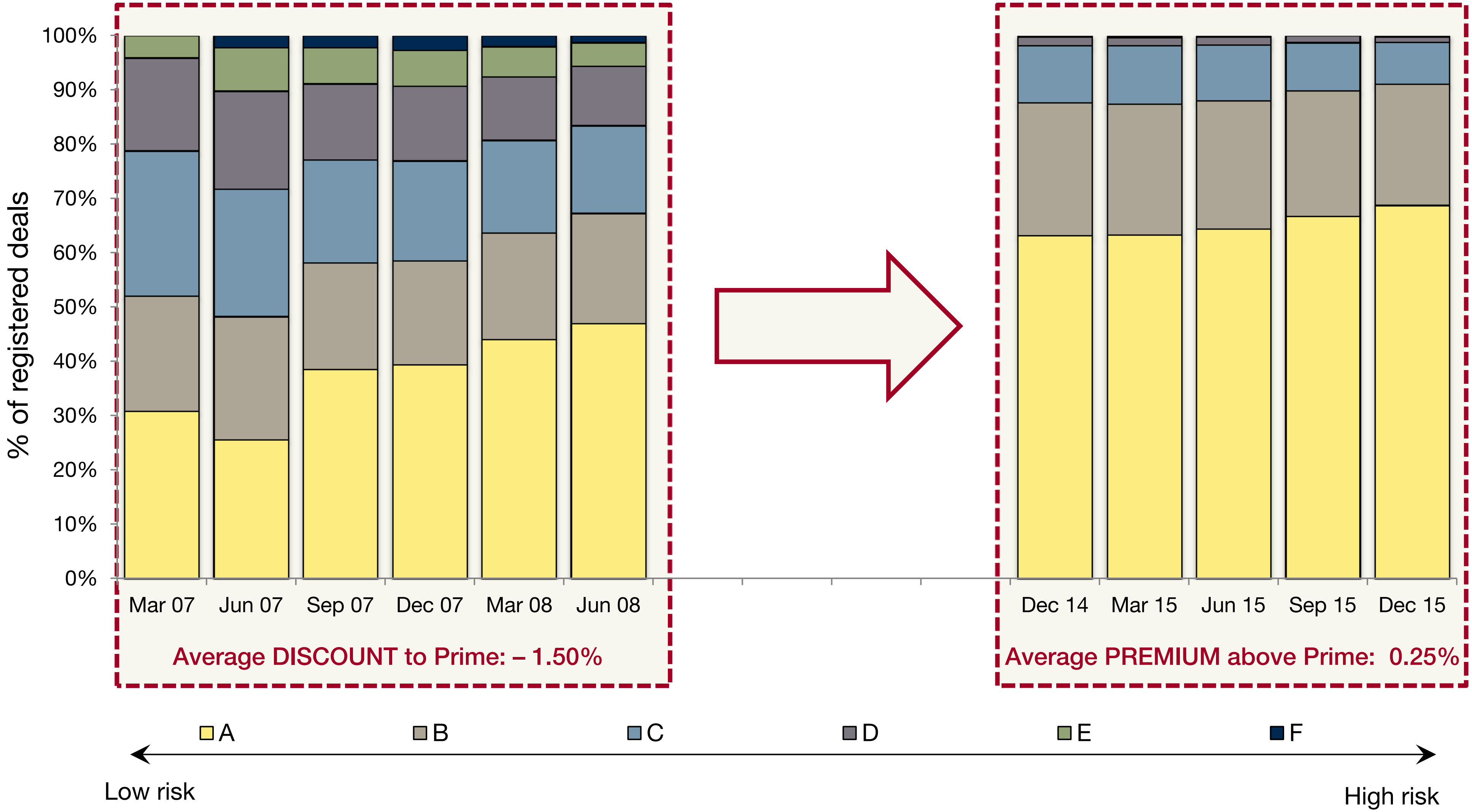
FNB SA deposits (R billion)



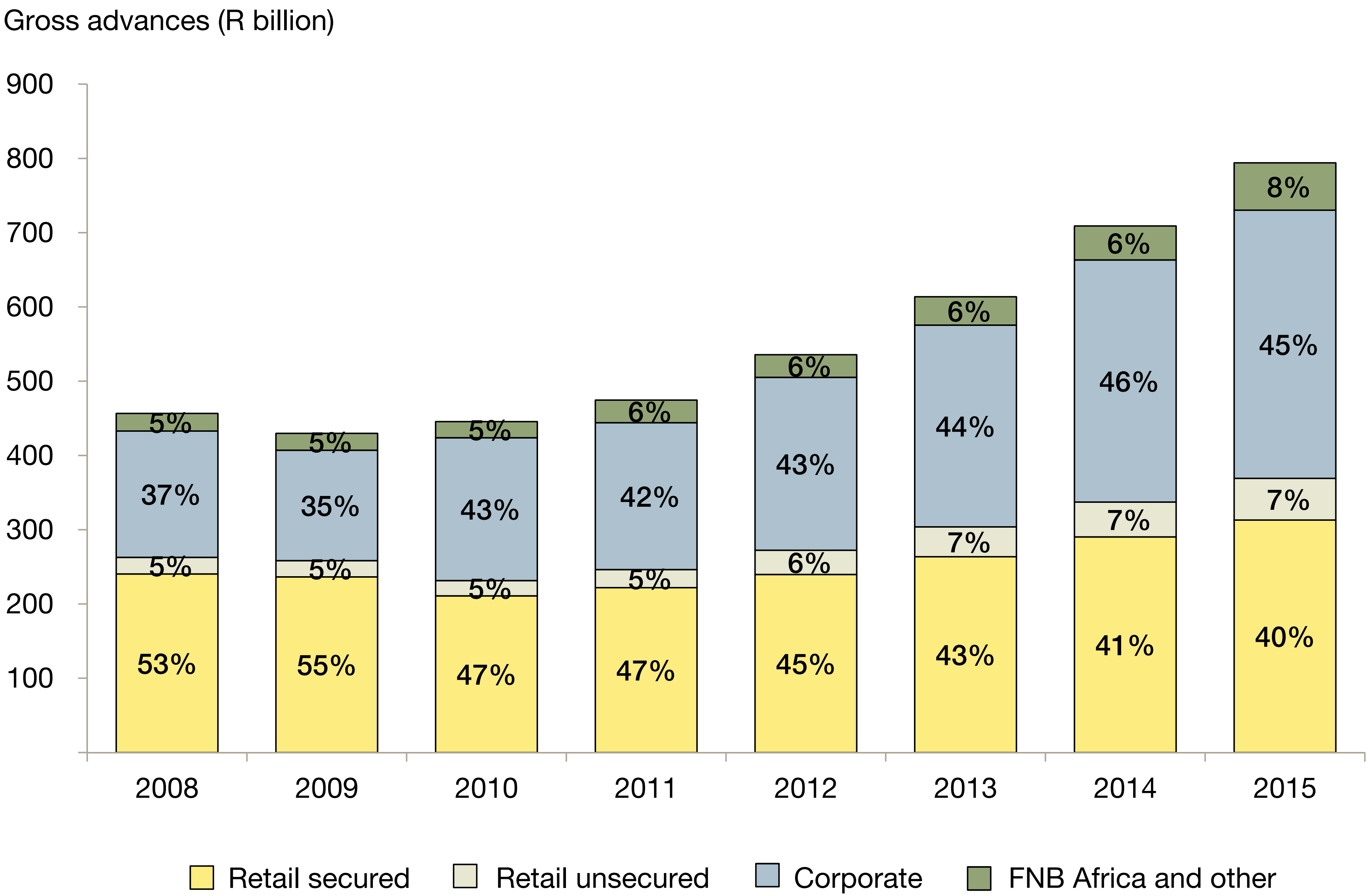
Strategy shift from credit-led to transactional- and liability-led

Adjusted credit appetite and improved pricing across retail portfolios

(e.g. FNB HomeLoans)

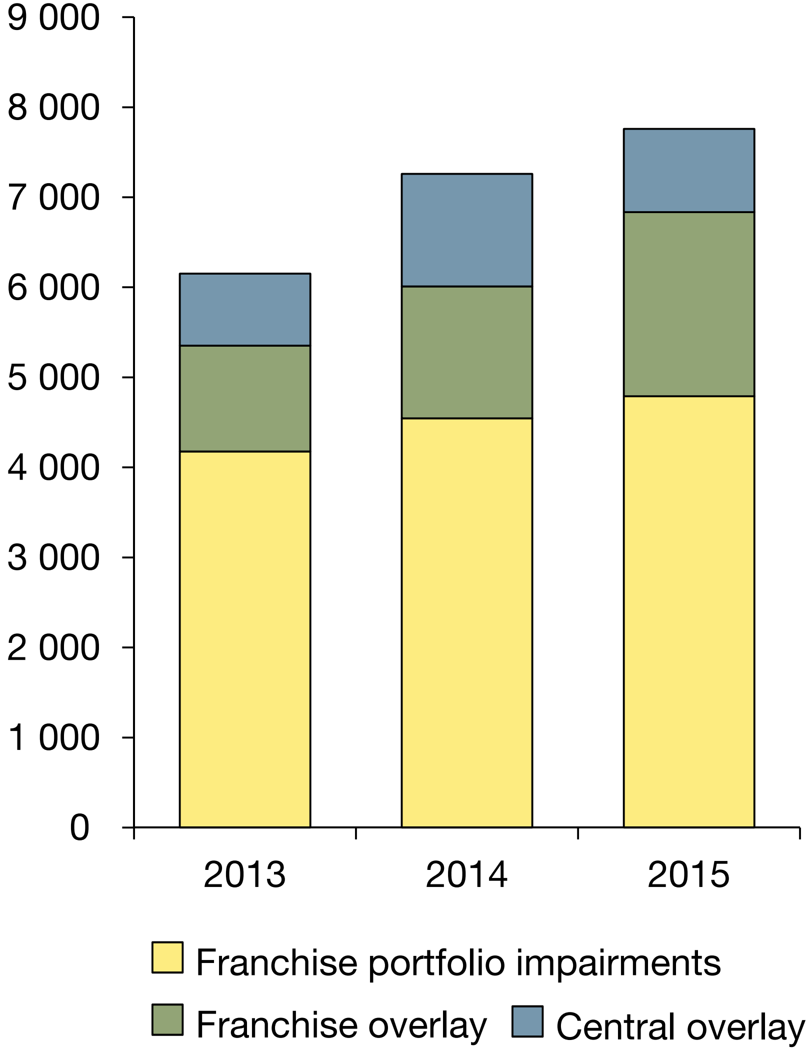


Advances portfolio rebalanced for more appropriate mix between corporate and retail



Started early with prudent provisioning

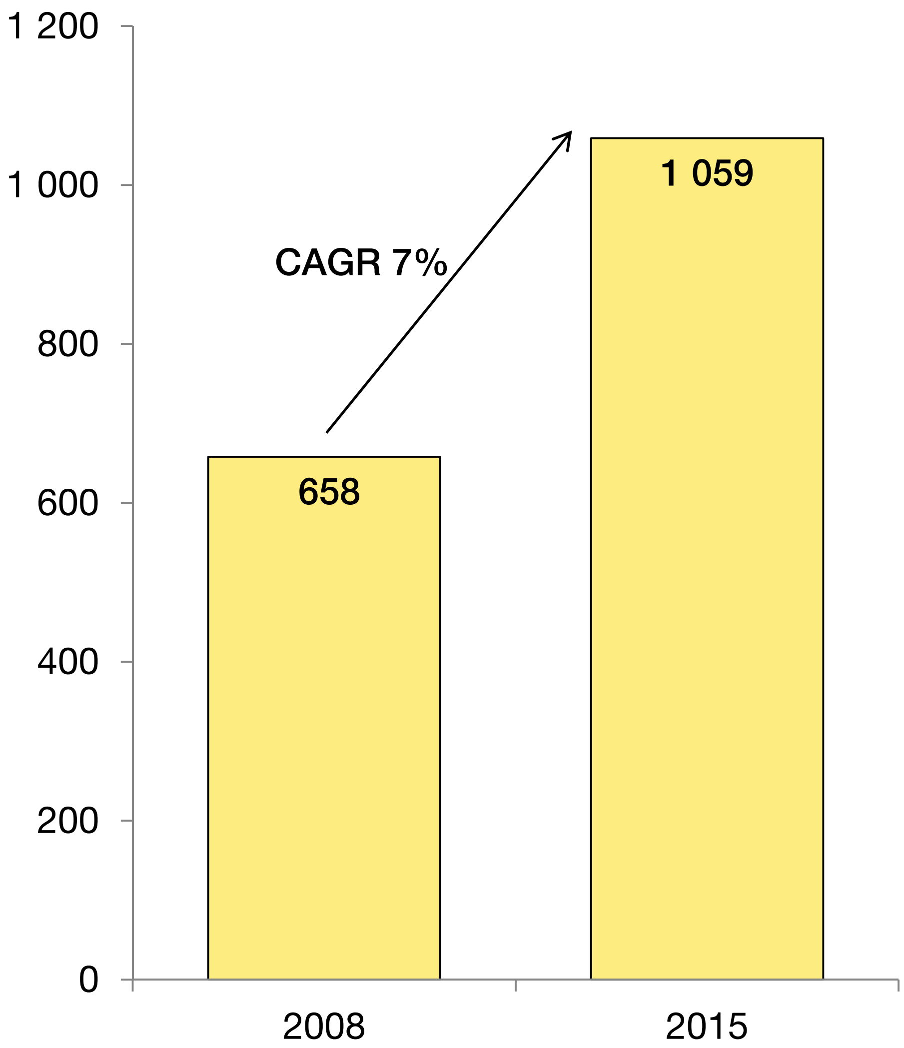
Portfolio impairments (R million)



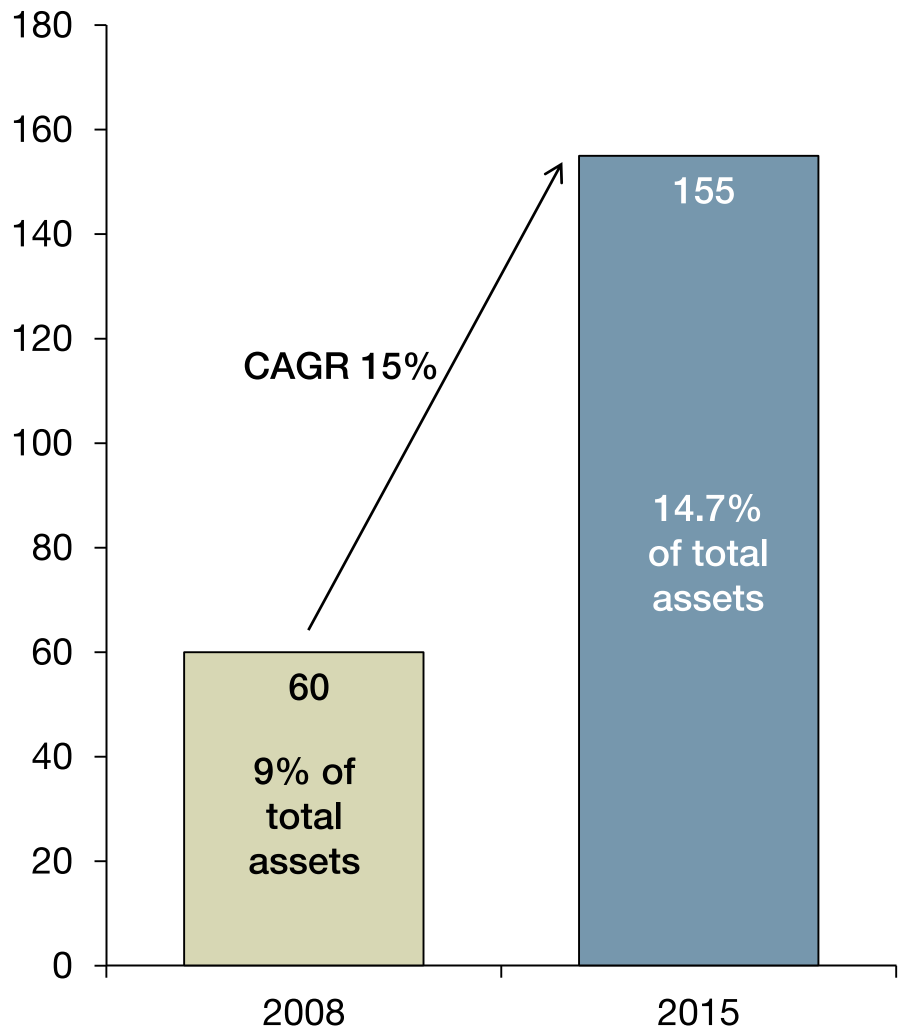
	2015	2014
Portfolio impairments as % of performing book	**1.00%**	1.05%
Bad debt charge	**0.77%**	0.83%
Portfolio impairments (R million)	**7 760**	7 259

Balance sheet more liquid…

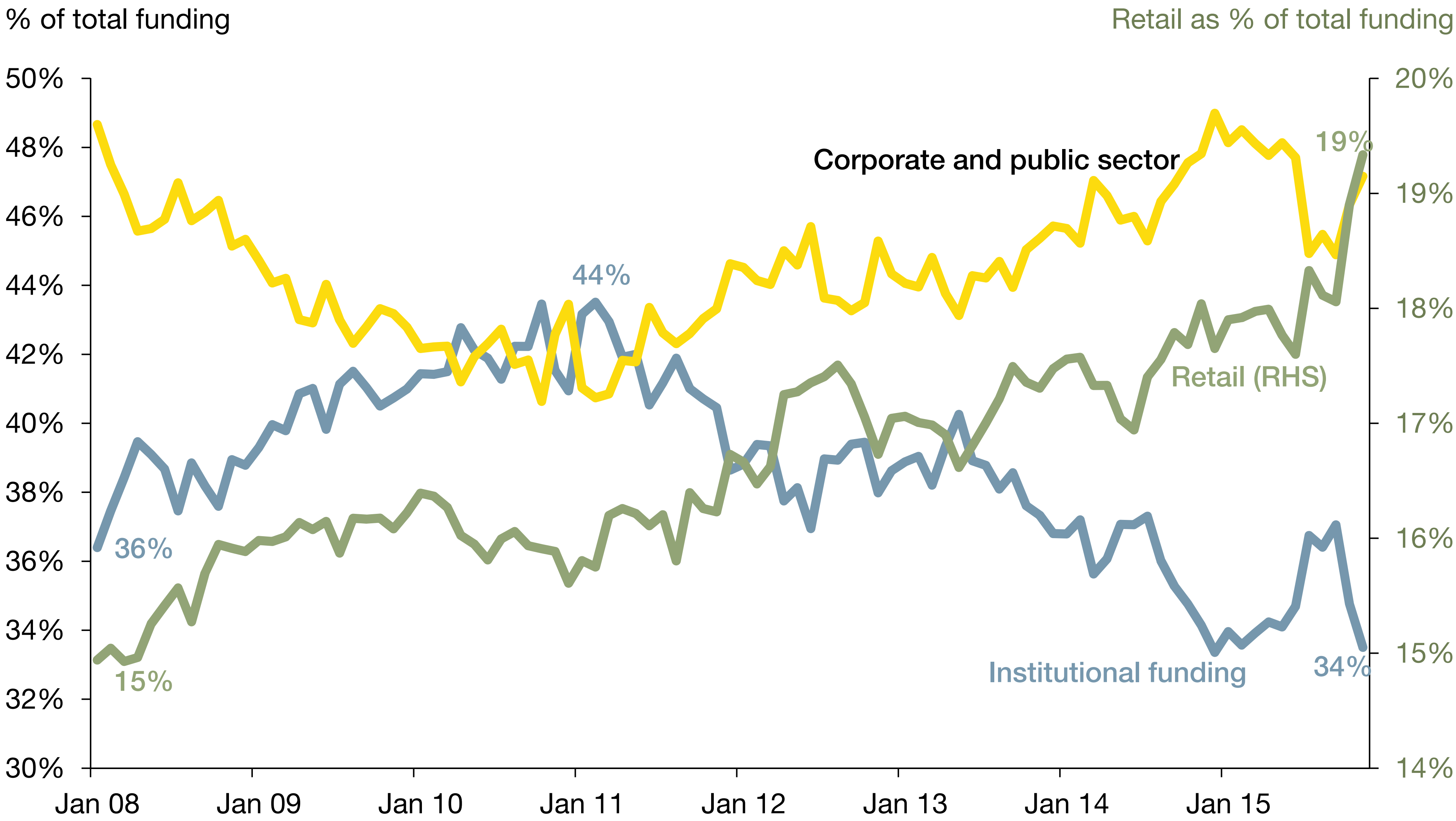
Total assets (R billion)



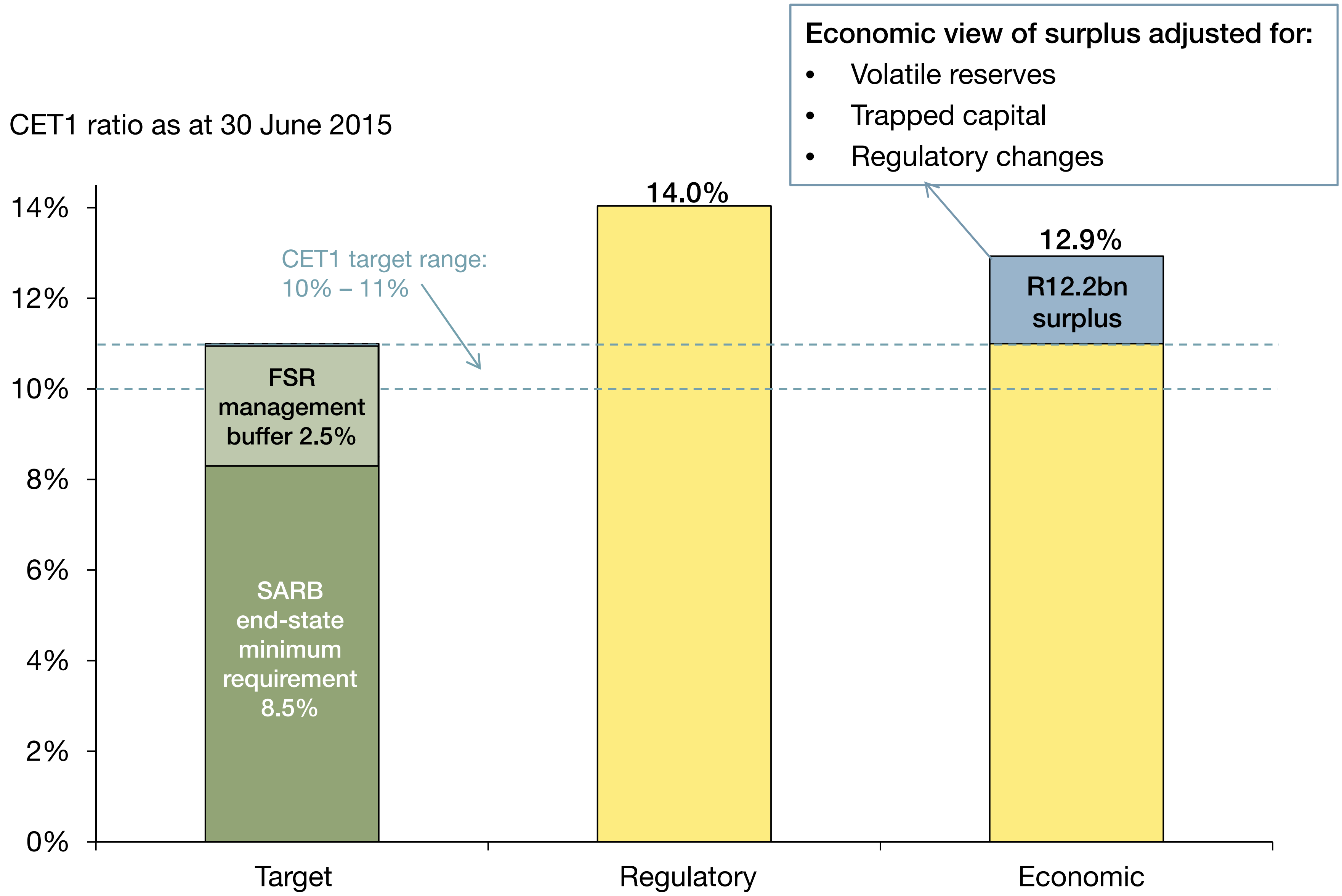
Cash and liquid assets (R billion)



…with reduced reliance on institutional funding and improved funding mix



Stronger capital position despite more punitive RWA requirements



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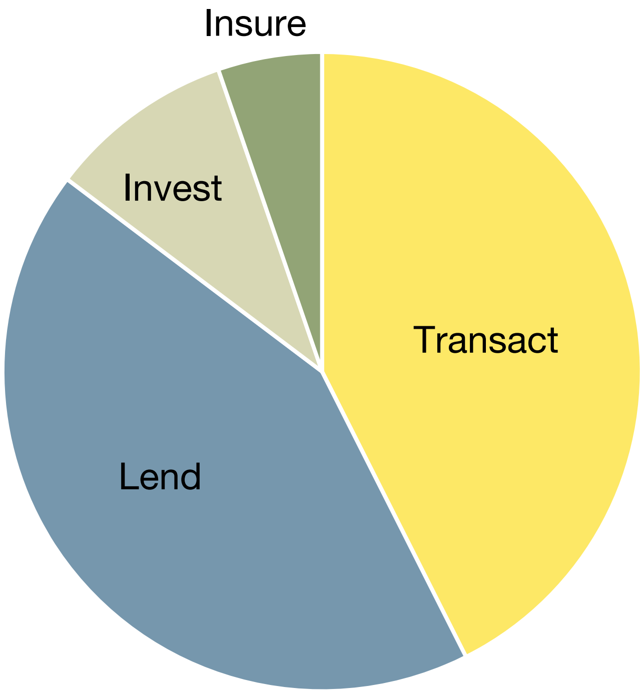
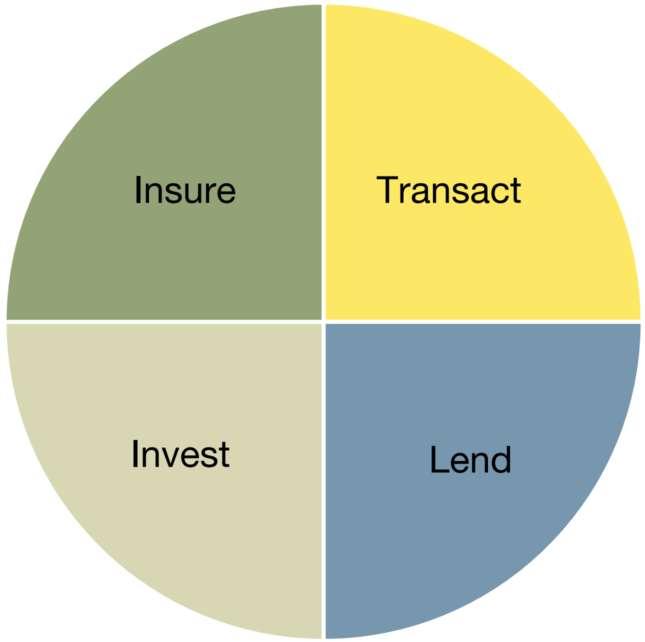
Despite short-term pressures, continue to execute on stated growth strategies

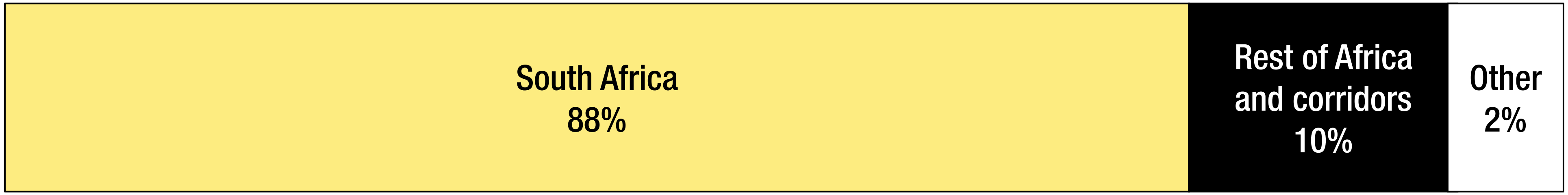
CURRENT REVENUE MIX



WE WOULD LIKE REVENUE MIX TO LOOK MORE LIKE THIS…



Rest of Africa still represents opportunity for growth, but need to navigate elevated risks



- Higher risk, but higher growth than SA
- Namibia and Botswana dominate current contribution
- Focus has shifted to building in-country franchises in chosen markets

In summary

- Macros very difficult, but franchise well prepared for short-term pressures
- ROA/ROE structurally higher than previous cycle; ROE expected to trend down into the target range (18% to 22%)
- Strong balance sheet

FirstRand's return profile is resilient, but not immune to cycles