

GROWING SHAREHOLDER VALUE

UBS conference, 16 October 2014



FIRSTRAND



FirstRand's definition of growing shareholder value

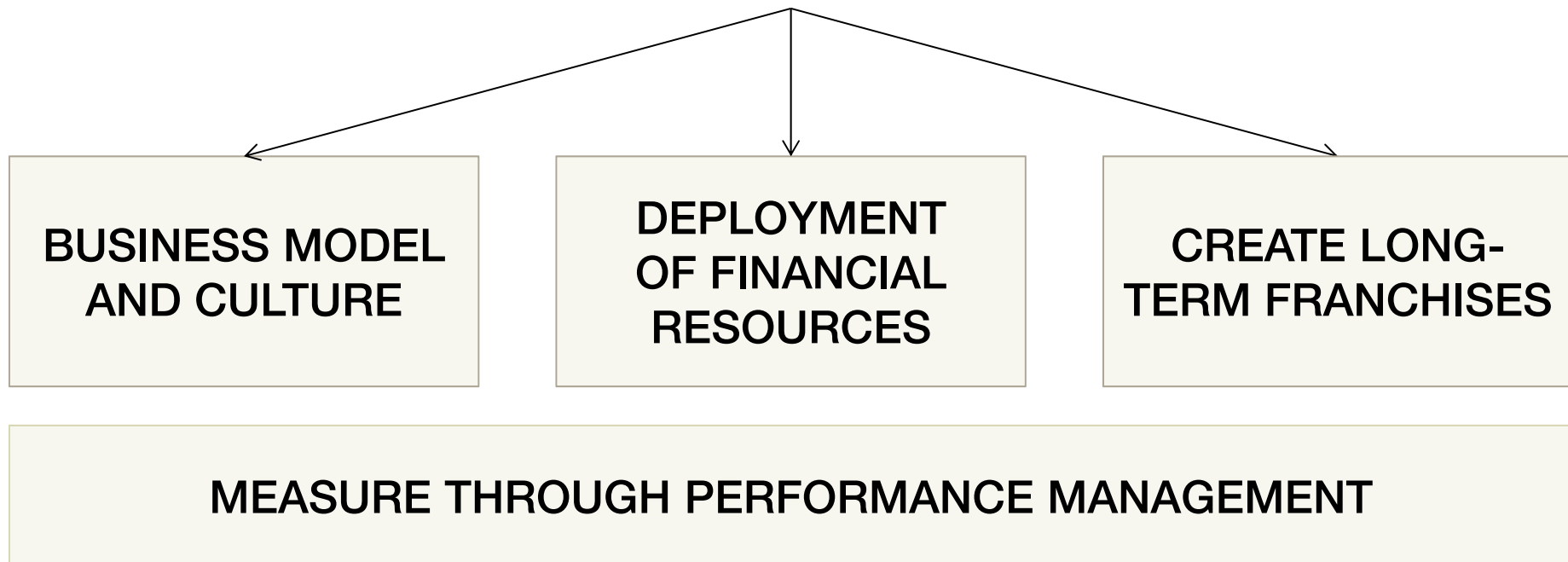
INVEST CAPITAL TO PROVIDE GROWTH
AND A SUPERIOR RETURN ABOVE THE
COST OF CAPITAL ON A SUSTAINABLE BASIS



Growing shareholder value

THINK AND BEHAVE LIKE SHAREHOLDERS

How is this operationalised?





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How is this operationalised?

**BUSINESS MODEL
AND CULTURE**

**DEPLOYMENT
OF FINANCIAL
RESOURCES**

**CREATE LONG-
TERM FRANCHISES**

MEASURE THROUGH PERFORMANCE MANAGEMENT

Owner-manager culture and model aligns employees and shareholders



- Has its roots in that FirstRand was owner-managed by the founders
- 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
- Business model empowers employees to **feel and act like owners**



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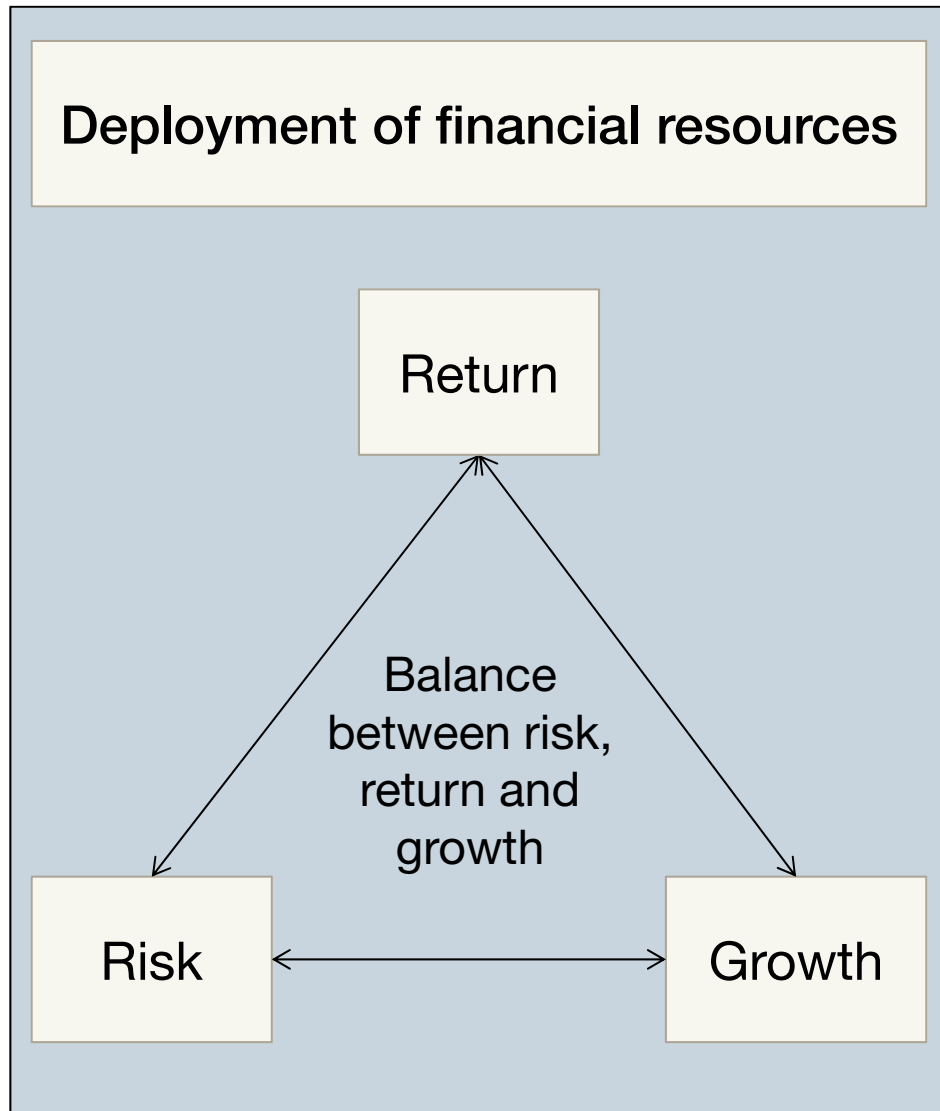
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Central frameworks to ensure discipline in deployment



- Strategic framework
 - Strategy executed through franchises
 - 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

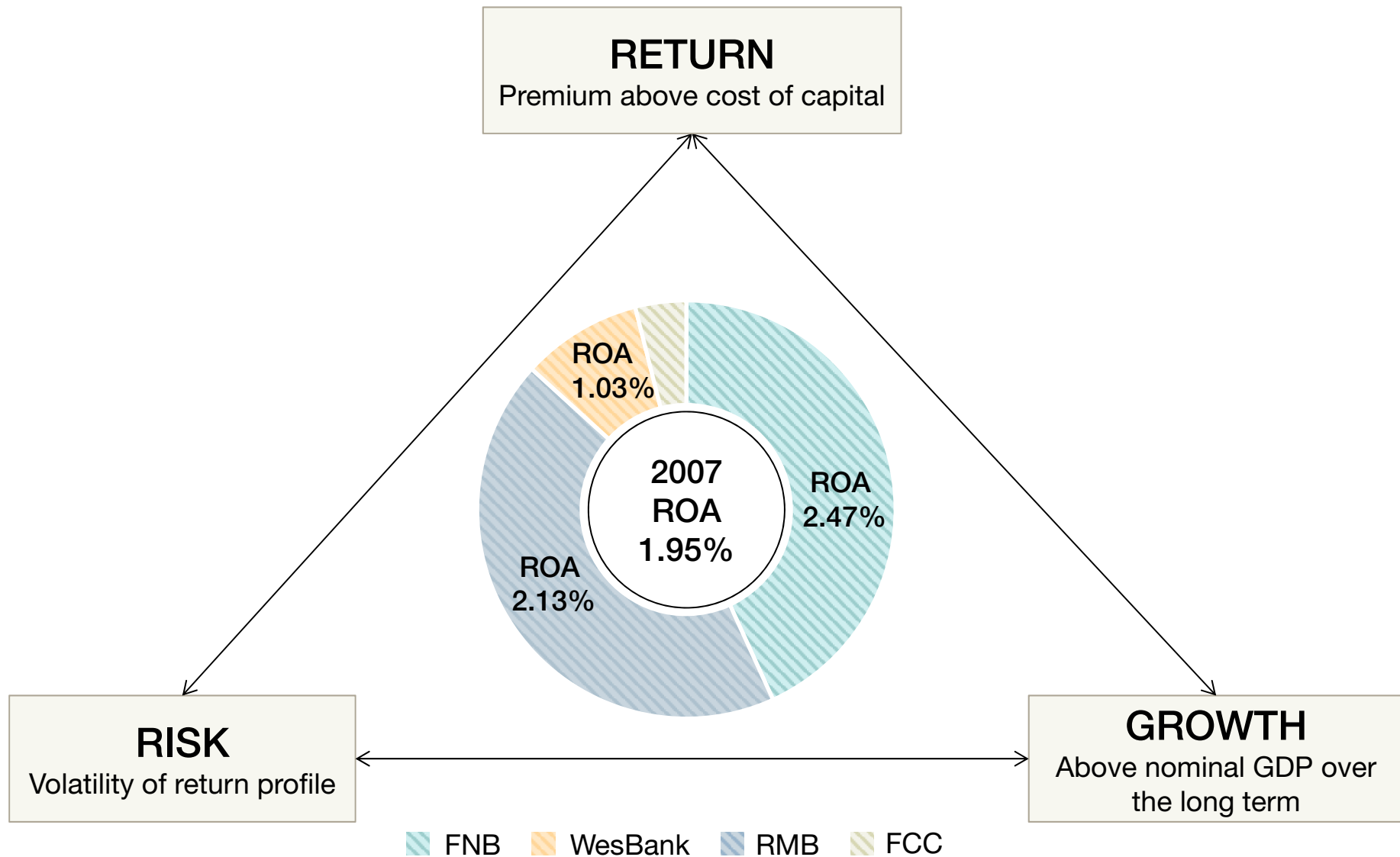


Forward-looking financial resource management

WHAT?	WHY?
Group Treasury manages financial resources (capital, funding, liquidity, risk appetite)	Allows operating franchises to focus on operational profits
Group Treasury: <ul style="list-style-type: none">• 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	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



Balance between risk and return in 2007 created volatility





What changes did we make?

FNB

- Built a transactional and deposit franchise
- Priced more appropriately for risk

RMB

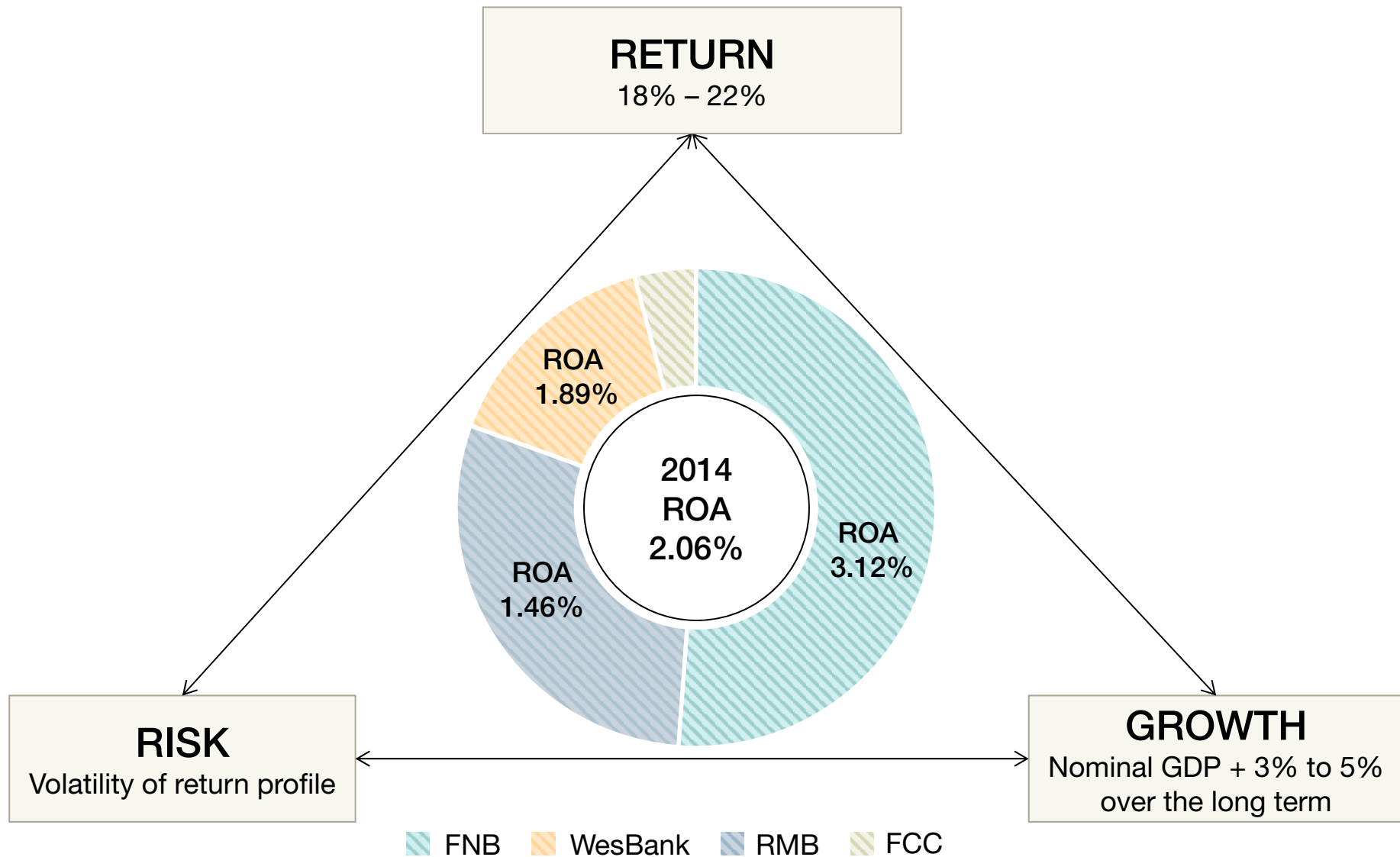
- Business model changed from highly-leveraged market risk to client franchise
- Increased appetite for corporate lending

WesBank

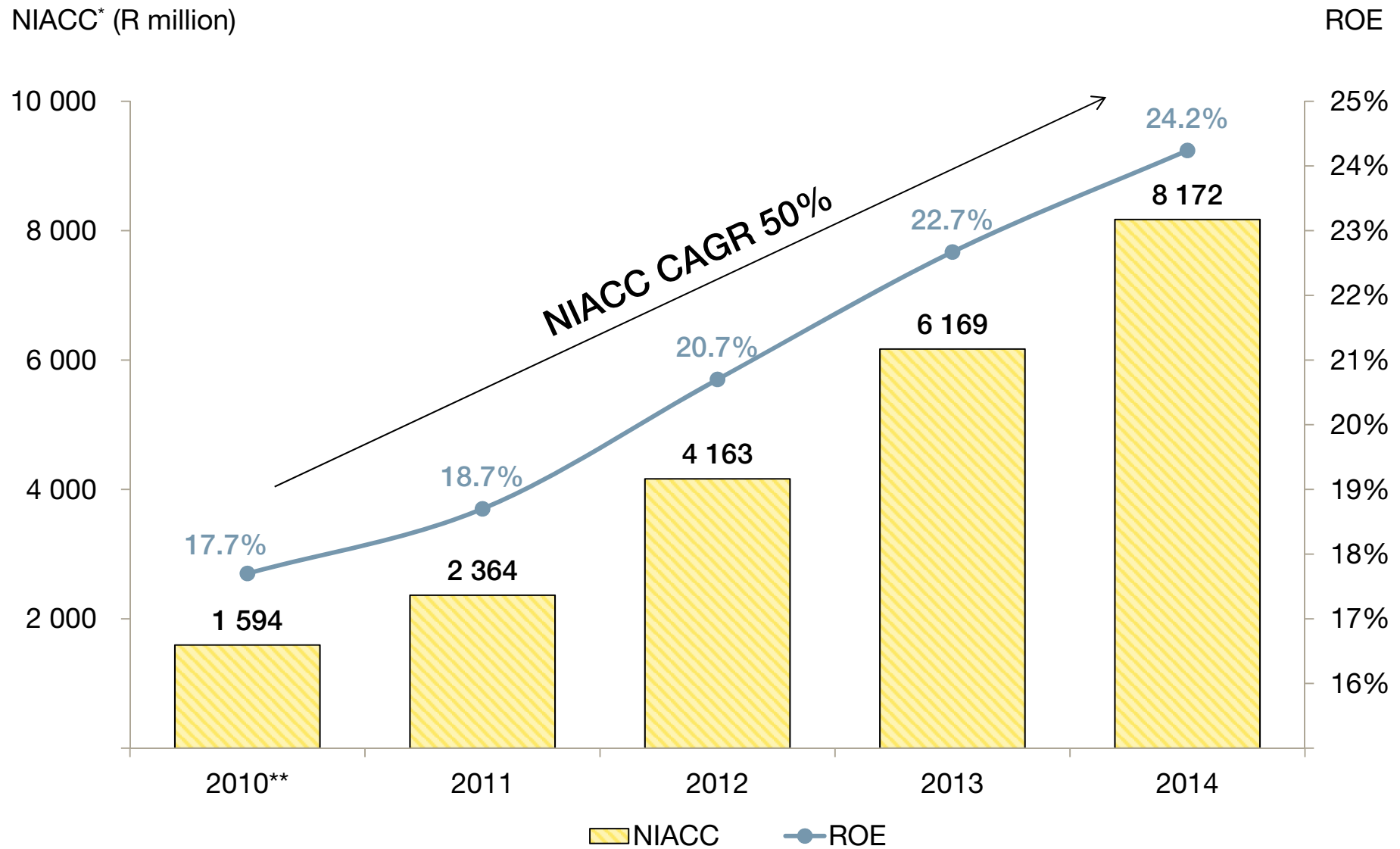
- Priced more appropriately for risk
- Increased diversification (MotoNovo, personal loans, corporate and commercial)
- Focused on efficiencies



Structurally higher and more sustainable ROA



Approach has resulted in superior shareholder value creation



* Net income after capital charge.

** Comparatives prior to 2011 are for FirstRand Banking Group.



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How we think about long-term franchise value

Franchise value

Client-centric activities

Diversified portfolios
(franchise, segment, geography, product)

Differentiated offerings
strengthen competitive position
(innovation)

Access new profit pools and
turnaround poor performers

- Building long-term client franchises = sustainability
- Portfolio effect reduces volatility from over-concentrations to product lines, segments or activities
- Differentiation in customer offerings strengthens relative positioning and ensures growth, but only possible through ongoing innovation
- Seek to grow in new profit pools using existing building blocks
- Exit or fix underperformers



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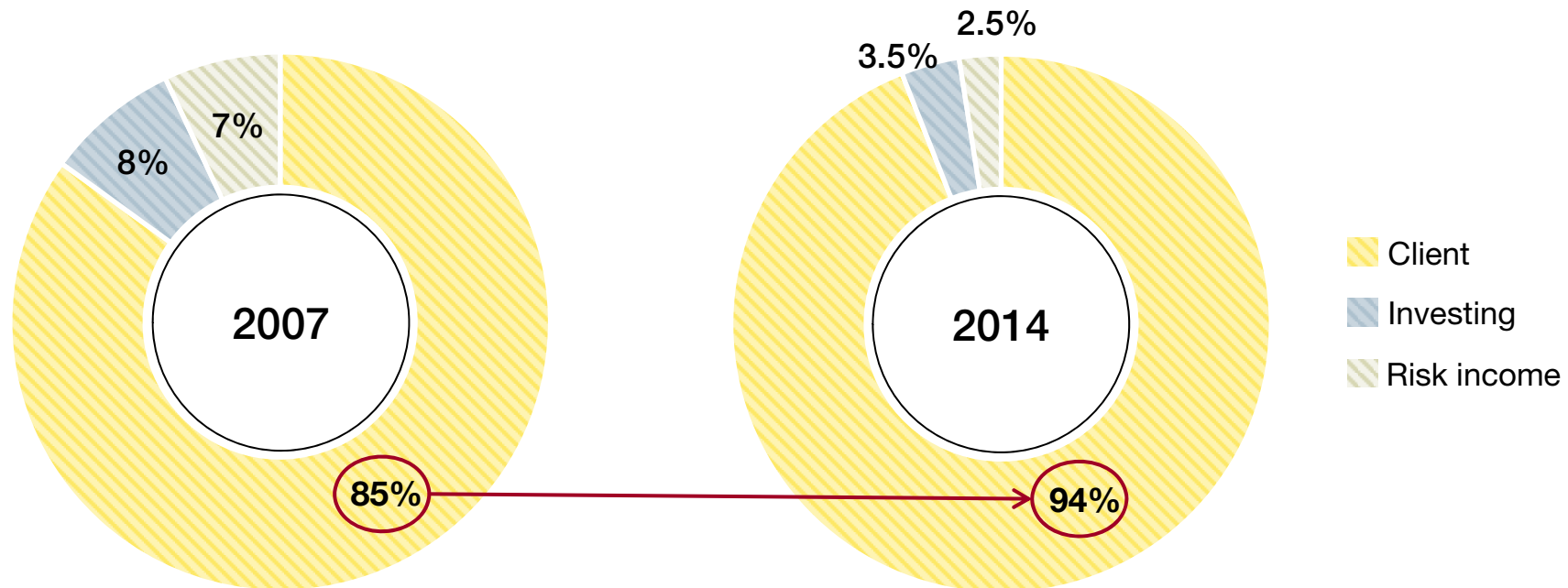
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Strong focus on growth and mix of client franchises



FNB client franchise credit-led

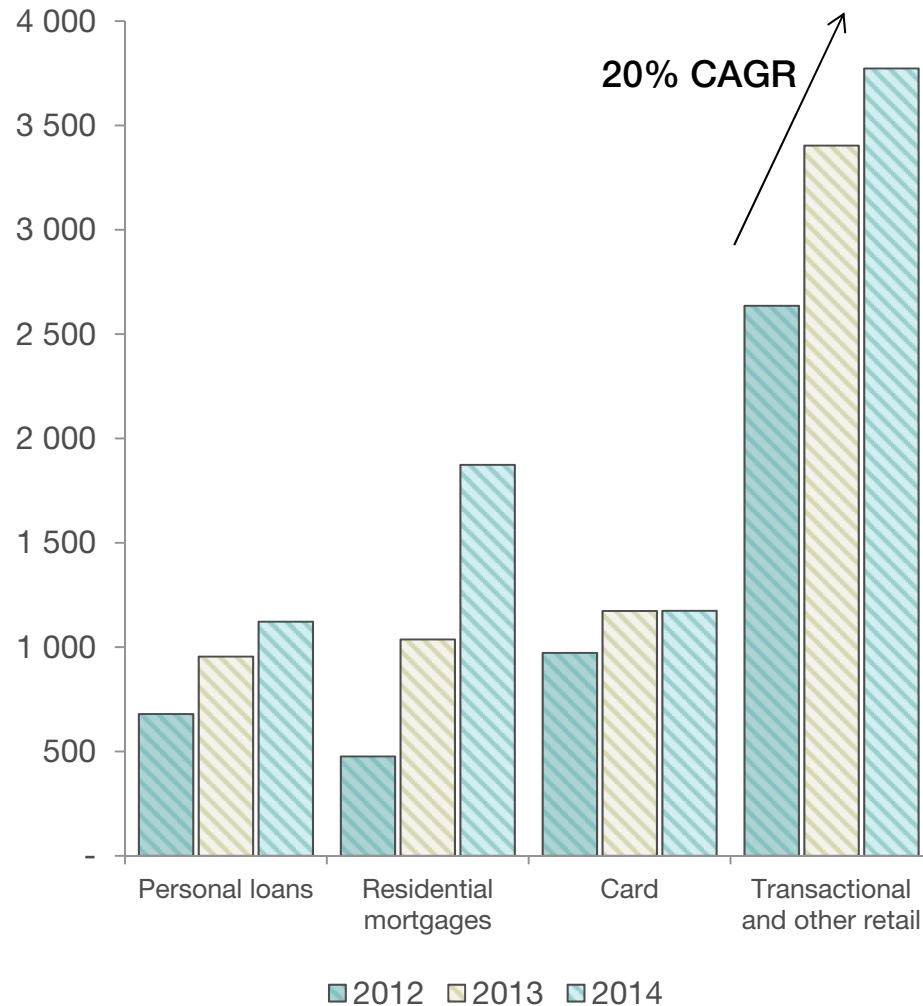


Transactional- and liability-led

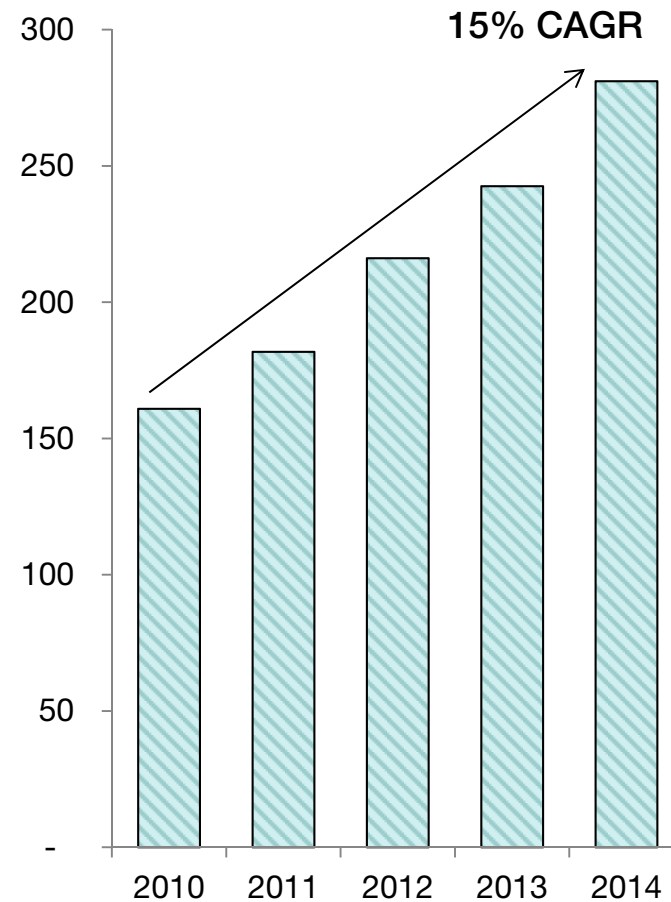


FNB's focus on growing transactional and deposit franchise resulted in better returns, lower volatility

FNB retail normalised profit before tax (R million)



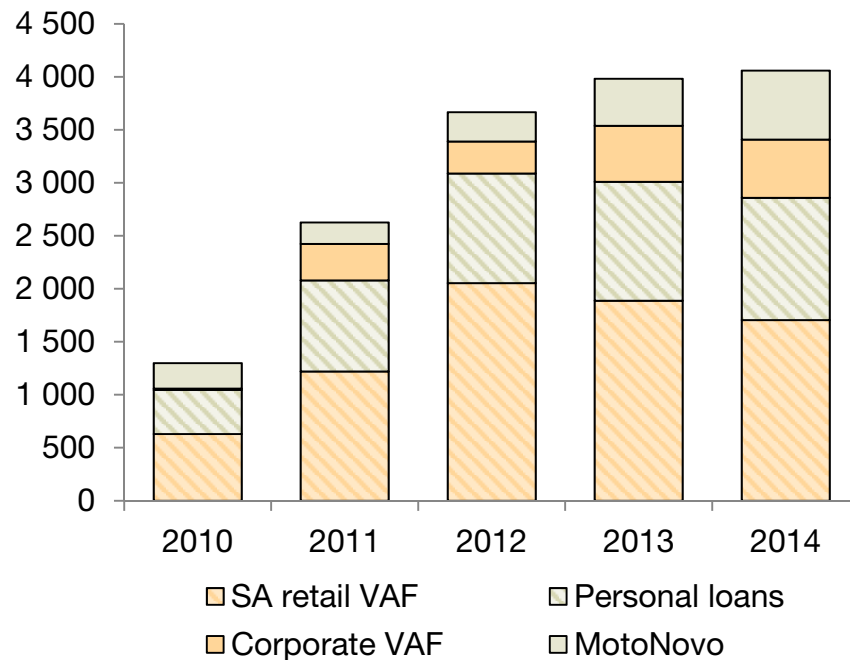
FNB SA deposits (R billion)



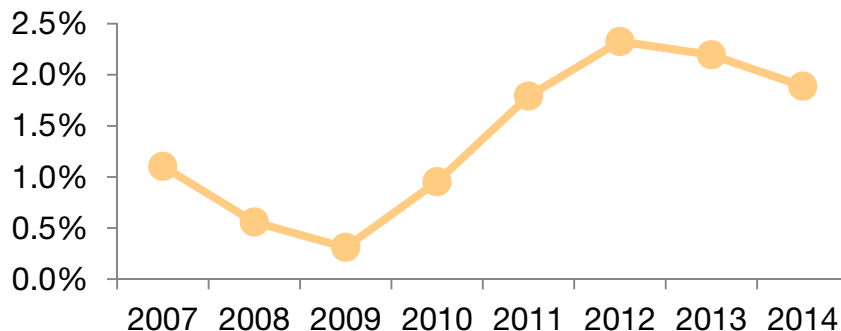


WesBank focus on risk-adjusted returns and diversification delivering a resilient return profile

PBT (R million)



ROA



Balance between risk, return and growth

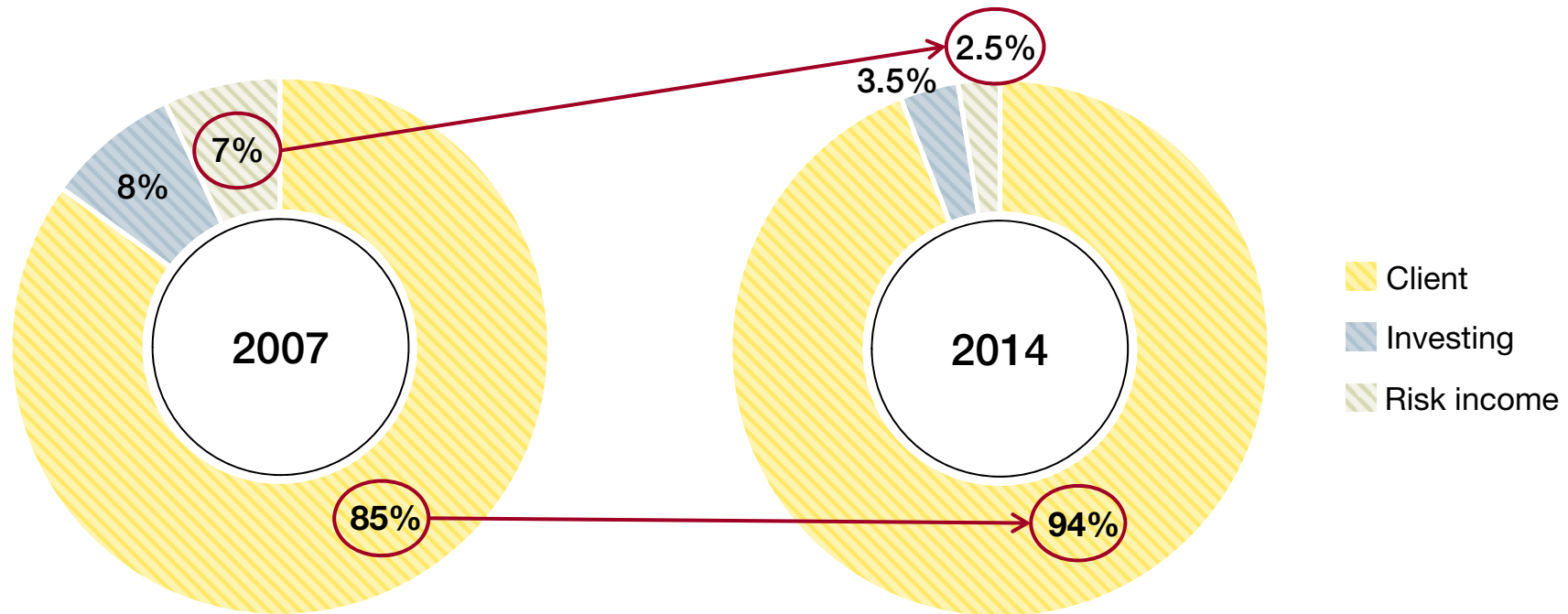
- Better pricing for risk and an improved risk profile should result in a less volatile return profile compared to the previous cycle

Franchise value

- Diversification
 - MotoNovo, personal loans and corporate contributions increasing
- Differentiated
 - Retail VAF – unique distribution model (partnerships)
 - Access different distribution channel/client bases through Direct Axis
- Efficiencies
- Turned around MotoNovo business



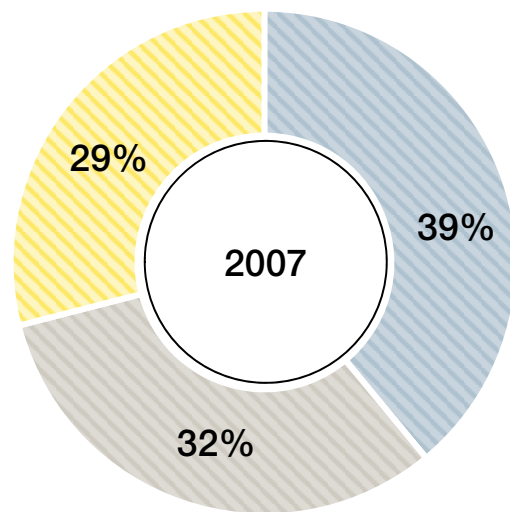
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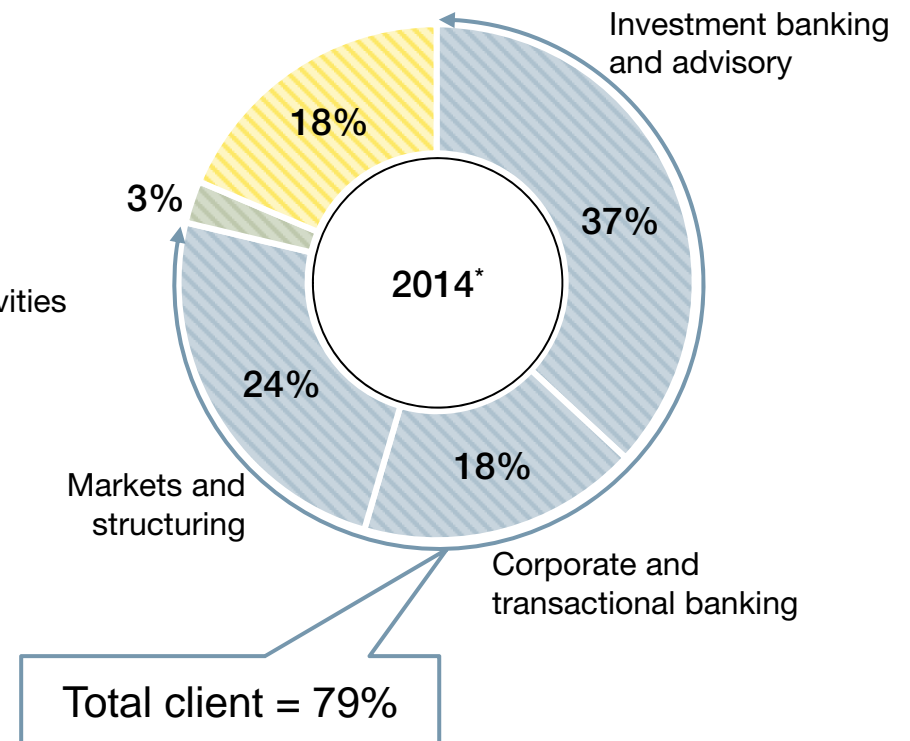
Also driven by change in RMB's strategy and business model



Proactive changes to business model resulted in more sustainable, better quality of earnings at RMB



- Client activities
- Investing activities
- Proprietary trading activities
- Asset management

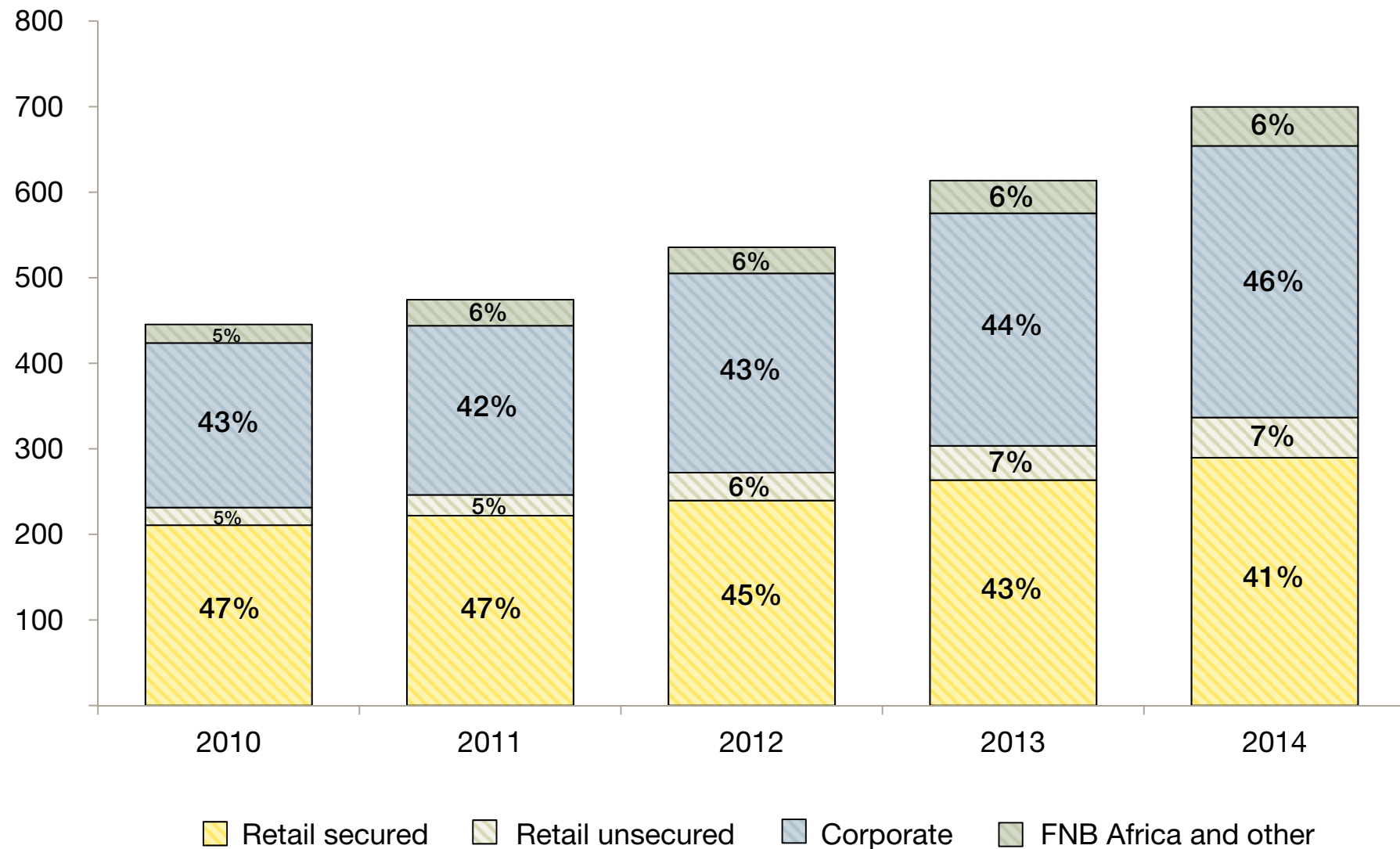


Based on gross revenue. Excludes legacy and head office portfolios.
* 2014 revenue includes RMB corporate banking.

Rebalanced advances portfolio to reduce retail concentration



Gross advances (R billion)





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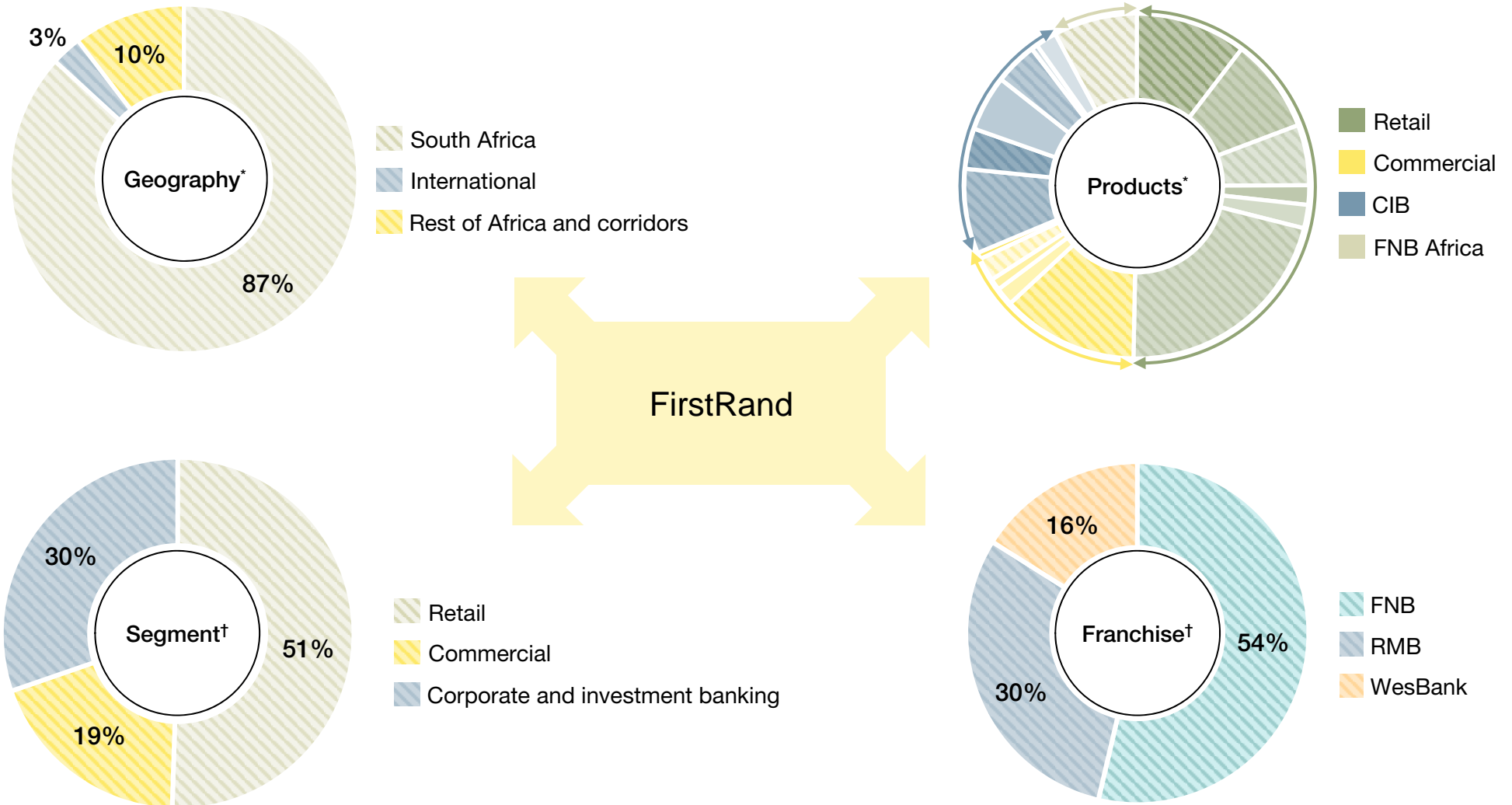
Diversified portfolios
(franchise, segment, geography, product)

Differentiated offerings
strengthen competitive position
(innovation)

Access new profit pools and
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Diversification underpins sustainability



* Based on gross revenue (excl. FCC)

† Based on normalised earnings (excl. FCC, FirstRand company, NCNR preference dividends and consolidation adjustments.)



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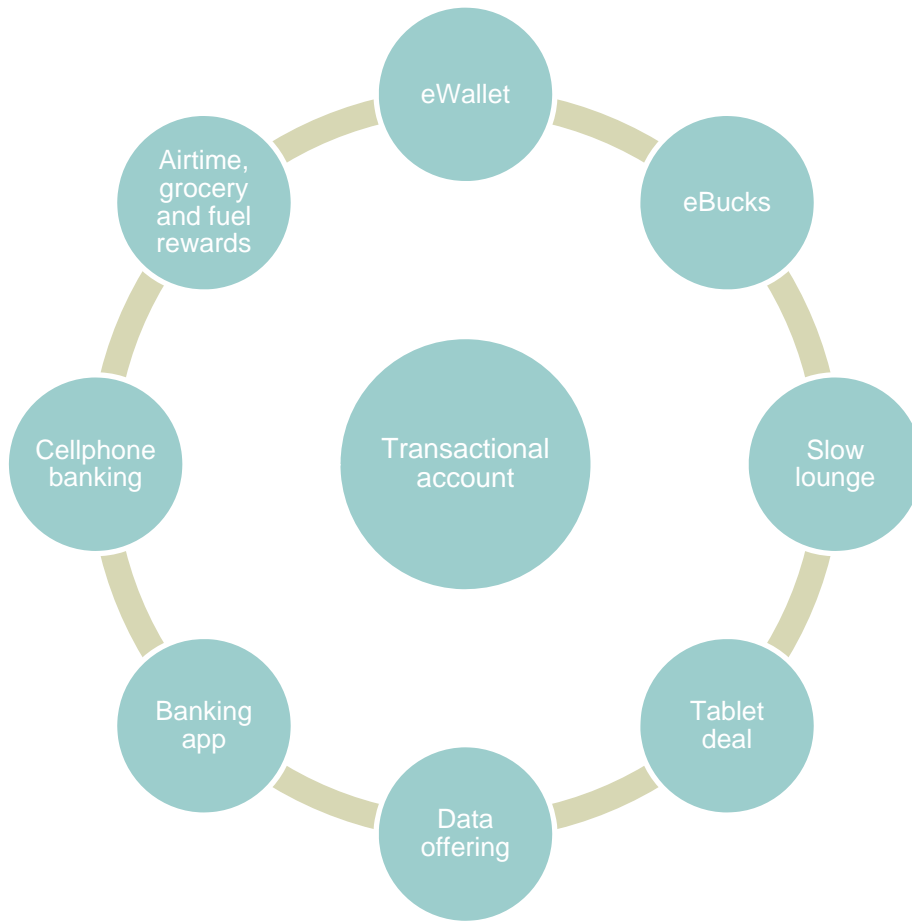
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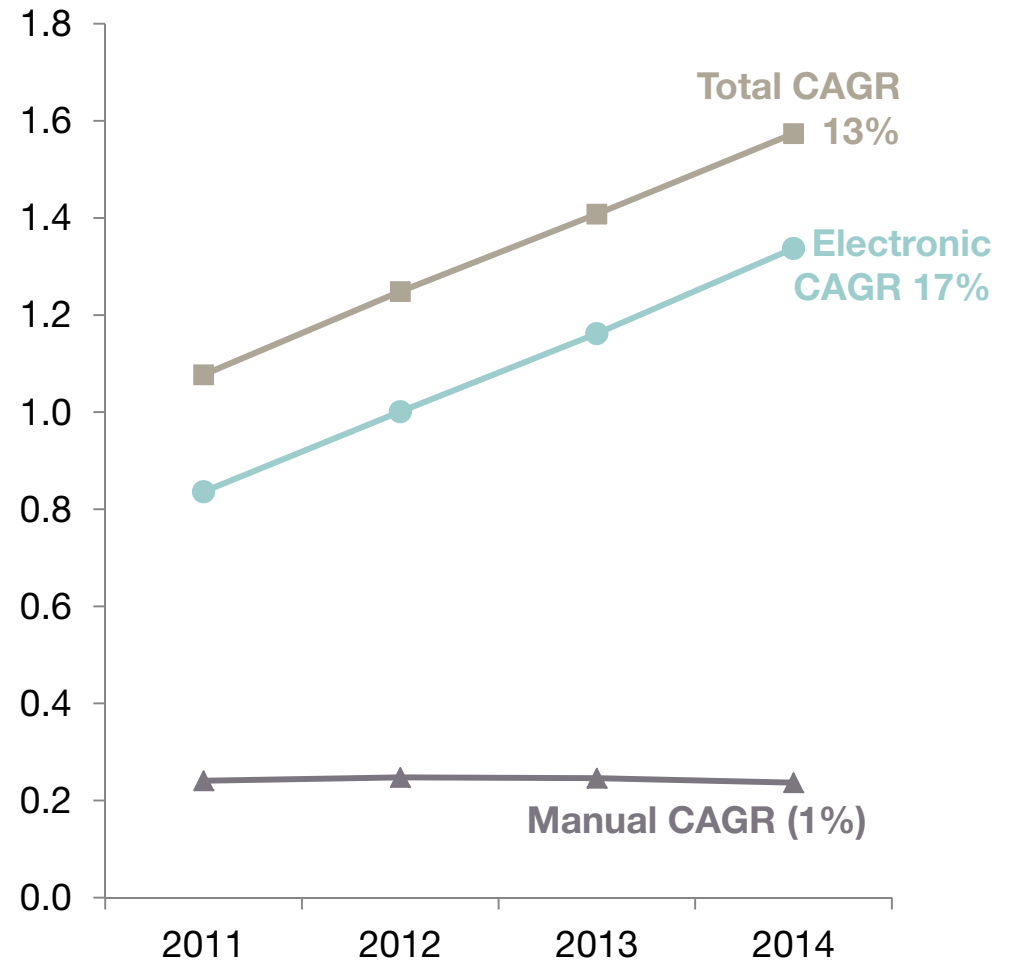


Differentiated product offering drove above-market growth in transactional volumes at FNB

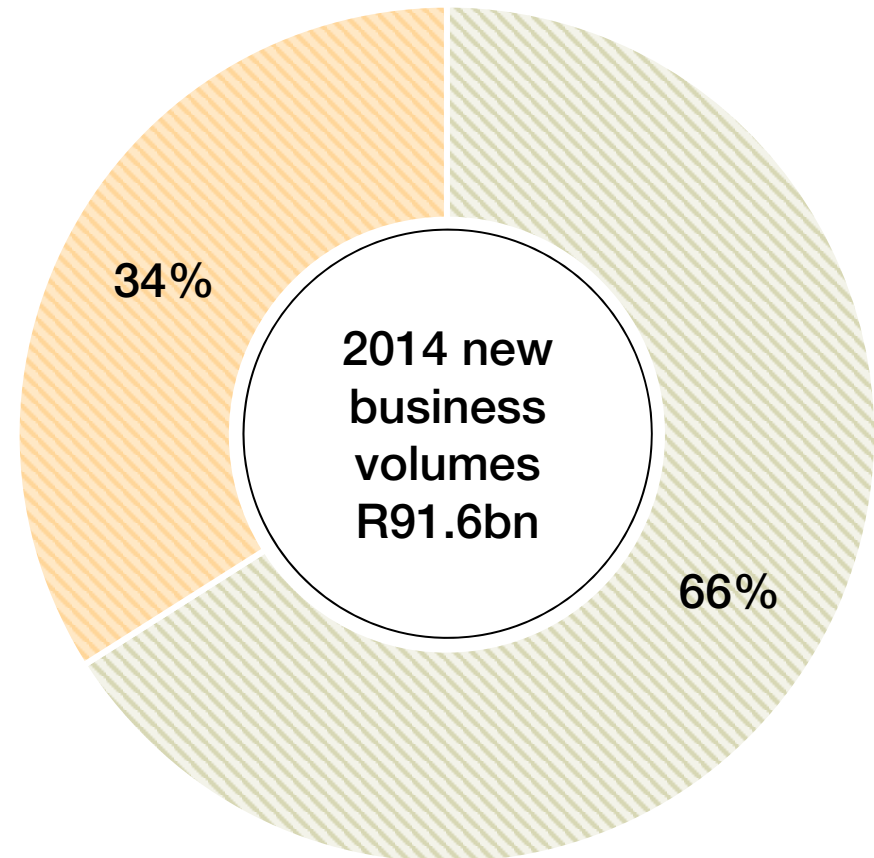
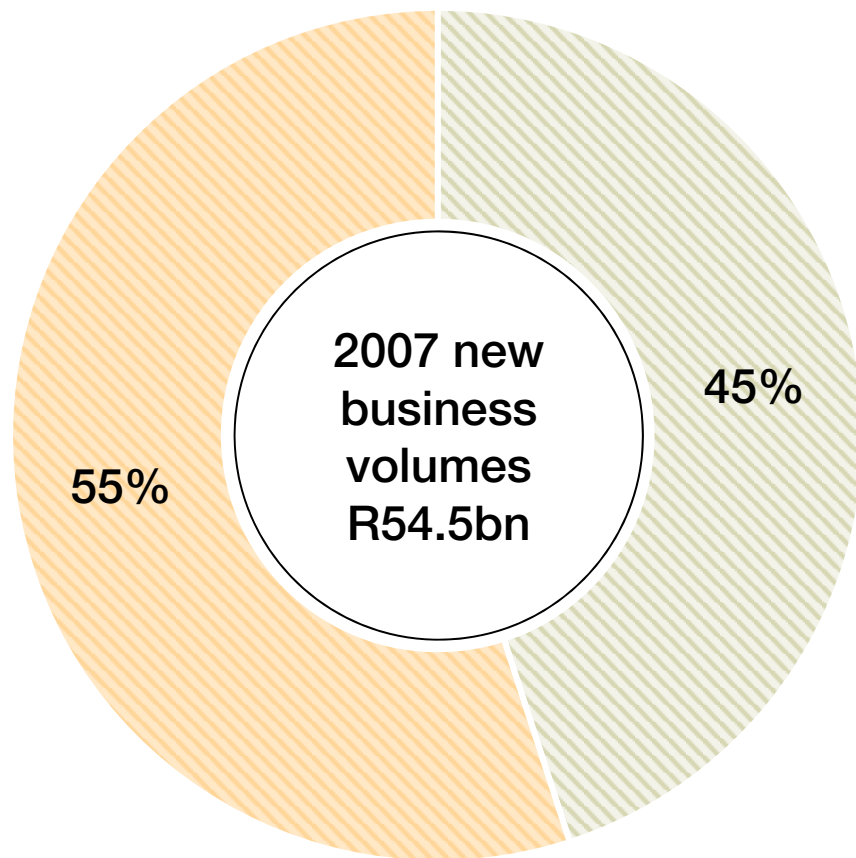
Consumer retail ecosystem



Number of transactions (million)



WesBank differentiated by its unique partnership model which provides sustainable growth through the cycle



Direct Partnerships



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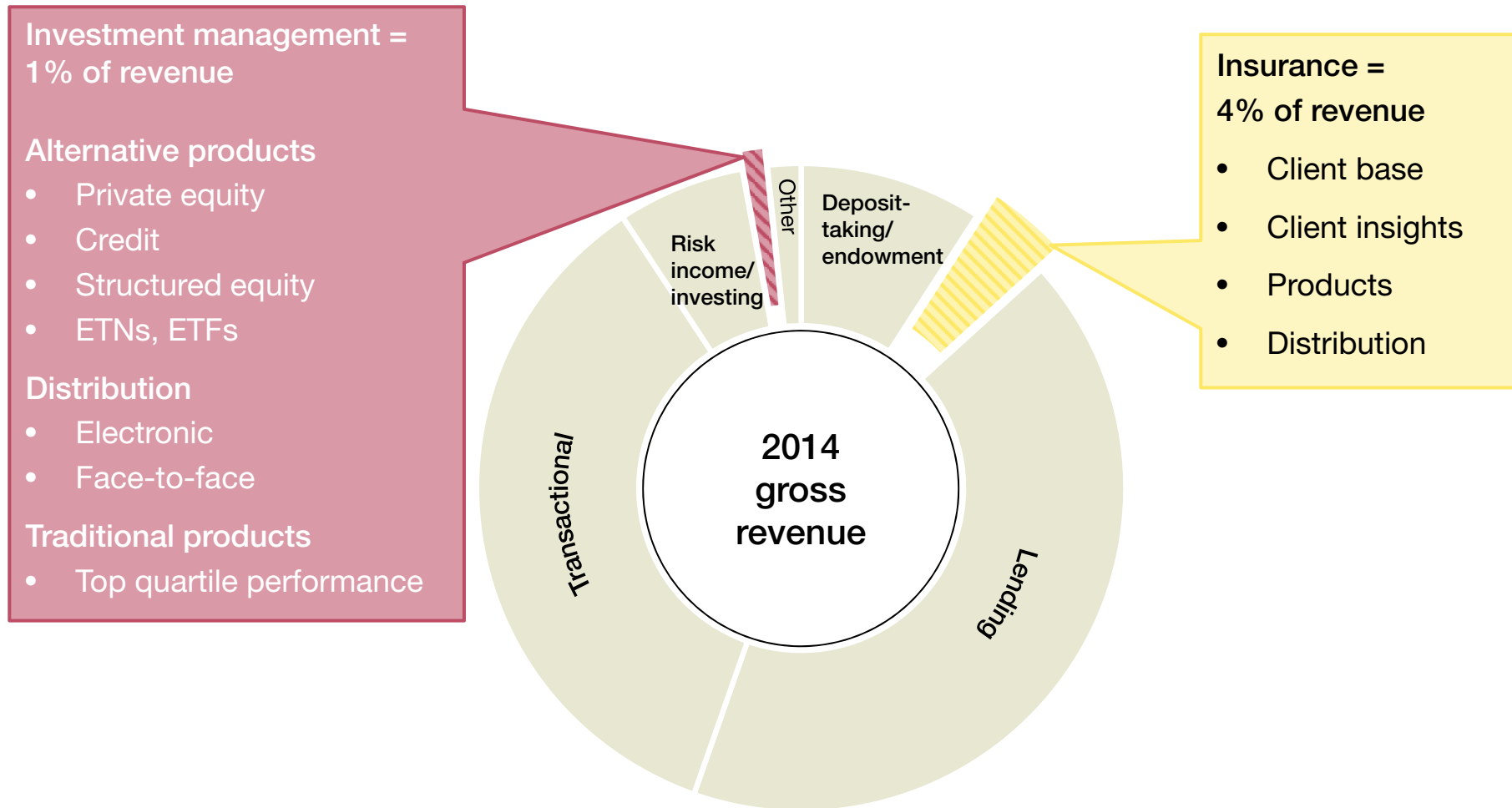
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There are meaningful new profit pools available to the Group



FirstRand has a track record of delivering significant shareholder value through growing new franchises organically



Focus on earnings resilience (2011 UBS conference)

- In 2008/09 the Group embarked on process to rebalance earnings profile ✓
- **Objectives:** to reduce volatility, but continue to deliver superior returns ✓
 - Create appropriate diversification
 - South Africa vs rest of Africa ✓
 - Better balance between segments ✓
 - Increase product fee income vs interest income ✓
 - Improve quality of earnings
 - Portfolio composition – appropriate balance between annuity income from client franchises and income driven by trading and investing activities ✓
 - Better pricing for risk ✓

Delivering on objectives and delivering growth in shareholder value



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