FirstRand Banking Group:
Inaugural debt investor day

London, 31 March 2008
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Agenda

- South African macroeconomic environment
- South African banking industry
- Overview of the FirstRand Banking Group
- Financial review: FirstRand Limited
- Key focus areas for balance sheet management
South African macroeconomic environment

Jaco van der Walt
Structural achievements

Fiscal reform exceeds expectations

- Fiscal stabilisation and reform (incl. cyclical surpluses)
- Prudent monetary policy (incl. inflation targeting)
- Economy opened up to global competition (66% from 42% in '94)
- Privatisation of non-core activities
- Selected labour reform (decreased labour action)

Commitment to inflation targeting

Reform agenda has run its course

Higher growth path

Continued benefits from reform

Sources: SARB, Centre for Africa Studies
**Structural challenges**

**Physical infrastructure falling behind**

- Net capital formation (% GDP)

**Policy uncertainty—expect noise, not change**

- Change in political leadership creating uncertainty
- Expect more debate from the left wing, but new leadership is committed to the current policy framework
- Lack of delivery remains a bottleneck (especially in local government)

**Skills and social infrastructure required**

- Skills shortage (1000s of workers)

**Structural challenges weigh on growth**

- Economic growth (% y/y)

Sources: SARB, Department of Labour, StatsSA

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**Structural impediments require political will**
Cyclical challenges

Inflation pressure beyond food & oil

External vulnerability

ZAR is escape valve, if inflation persists

Risk to real income from inflation

Sources: SARB, Bloomberg, Economist

A period of lower growth and inflation pressures
SA in context

Slower growth not unique to SA

Inflation pressure not unique to SA

SA not alone

SA has specific challenges, but...

- SA inflation beyond food and oil
  - CPIX forecast to be within the target by 1H09
  - SARB vigilant despite slowing demand
- Infrastructure impeding growth
  - Billions already set aside (and PPP possible)
- External vulnerability amidst global slowdown
  - CAD to shrink to 6.5% and inflows into resources
- Policy uncertainty
  - Expect noise, not change

Sources: SARB, IMF, Stan du Plessis - University of Stellenbosch

Solutions underway
South African banking industry

Sizwe Nxasana

FirstRand Bank
Banking Group
Structure of the SA banking industry

- Robust banking system
- Regulated by the South African Reserve Bank (SARB)
- 20 registered banks, 14 registered branches, 2 registered mutual banks and 46 representative offices of foreign banks
- Retail lending represents approximately 70% of bank loans – roughly 75% of retail advances are asset backed
- Average CAR is 11.7% as of end 2007 compared to the regulatory minimum ratio of 9.75%
- Basel II implemented in January 2008
  - SARB adheres to the Basel II capital adequacy rules and supervisory framework
SA banking sector – sophisticated, competitive, expanding

- Total assets at 31 December 2007 = EUR255bn
  (18.2% CAGR over past 5 years in local currency terms)
- Total deposits at 31 December 2007 = EUR186bn
  (18% CAGR over past 5 years in local currency terms)

**Trends**
- Strong barriers to entry given Big 4 banks’ dominance in retail
- Growing demand for credit and banking services
- Increasing customer sophistication

**Risk management**
- Basel II: SARB approved advanced internal ratings-based (AIRB) approach for credit risk and internal model approach for market risk. Applied for advanced measurement approach (AMA) for operational risk from January 2009
- Well developed capital markets

Source: DI900’s at 31 December; Form 18-k and Financial Stability Review, September 2007
Competitive map
FirstRand Banking Group is a market leader

Total assets (EURbn)
- FirstRand Bank: 62
- ABSA: 64
- Standard Bank: 97
- Nedbank: 49

Total deposits (EURbn)
- FirstRand Bank: 48
- ABSA: 37
- Standard Bank: 71
- Nedbank: 38

Return on Equity
- FirstRand Bank: 27%
- ABSA: 27%
- Standard Bank: 25%
- Nedbank: 21%

Net asset value (EURbn)
- FirstRand Bank: 3.9
- ABSA: 3.8
- Standard Bank: 5.5
- Nedbank: 3.0

Note: ROE for FirstRand Banking Group based on annualised half-year results
Overview of FirstRand Banking Group
Our structure

Listed entity
(FirstRand Ltd, JSE:FSR)

FirstRand Investment Holdings

FirstRand Bank Holdings Ltd

Momentum Group Ltd

FirstRand International Ltd

Banking

Insurance & asset management

FirstRand Bank Limited

FNB Africa

Investment banking division

Commercial banking division

Instalment finance division
Our business model

- Decentralised, federal operating model

- Portfolio of leading franchises
  - Strategies are owned at franchise level
  - Autonomous management
  - Entrepreneurial culture

- Centralised functions
  - Performance management
  - Risk management
  - Balance sheet management
Performance management

- The approach to performance management is to
  - Maximise the spread between return on equity and cost of capital
  - Measure the performance of each division on its ability to maintain and grow that spread over time

- Long-term financial targets
  - 10% real growth in earnings
  - ROE of WACC plus 10% (WACC of 13.3% at 31 Dec 2007)
Franchise diversification

Assets* 31 December 2007
- RMB: 43%
- FNB: 34%
- FNB Africa: 18%
- WesBank: 4%

Normalised earnings* 31 December 2007
- RMB: 51%
- FNB: 36%
- FNB Africa: 9%
- WesBank: 5%

Return on Equity
- RMB: 33%
- FNB: 34%
- FNB Africa: 32%
- WesBank: 17%

* FirstRand Banking Group, excluding Group Support, NCNR preference shares.
Segment diversification

Normalised earnings*
31 December 2007

36% 36% 28%

- Investment banking
- Corporate & commercial
- Retail

* FirstRand Banking Group, excluding Group Support, NCNR preference shares.
Continued rotation to corporate and investment banking

Normalised earnings after tax

FirstRand Banking Group, excluding Group Support, NCNR preference shares
Overview of banking franchises

FirstRand Bank Holdings Ltd

FirstRand Bank Limited

RAND MERCHANT BANK
A division of FirstRand Bank Limited

FNB
First National Bank

WesBank
A division of FirstRand Bank Limited

100%

Investment banking division

Commercial banking division

Instalment finance division

Multi-branding strategy in banking
A quality portfolio

- RMB is a leading advisor and financier in South Africa in many sectors such as mining and resources, construction, black economic empowerment (BEE), transport, and retail
- RMB was rated top in all investment bank product areas in latest PWC peer survey
- Well positioned to take advantage of the budgeted public sector infrastructure development projects over the next few years
### Consistent leaders

**Survey on Banking in SA**

<table>
<thead>
<tr>
<th>Survey Year</th>
<th>Mergers &amp; Acquisitions</th>
<th>BEE Deals</th>
<th>Listings</th>
<th>Structured Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td><strong>1st</strong></td>
<td><strong>1st</strong></td>
<td><strong>3rd</strong></td>
<td><strong>1st</strong></td>
</tr>
<tr>
<td>2005</td>
<td><strong>1st</strong> *</td>
<td><strong>1st</strong></td>
<td><strong>1st</strong></td>
<td><strong>1st</strong></td>
</tr>
<tr>
<td>2003</td>
<td><strong>1st</strong> *</td>
<td>n/a</td>
<td><strong>7th</strong></td>
<td><strong>1st</strong></td>
</tr>
</tbody>
</table>

**M & A Deal of the year**
- **2007**
- **2006**
- **2005**
- **2004**

*M & A Dealmaker of the year*  
- **2007**  
- **2006**  
- **2005**  
- **2004**

*PriceWaterhouseCoopers*  
Survey on Banking in SA

*Joint place  n/a = new category*
Overview of banking franchises

Multi-branding strategy in banking
Successful segment strategy

- Overall strategy to optimise ROE through gaining profitable market share
- Increasing access to the low income markets and small and medium enterprises
- FNB currently operates 709 branches and 4,642 ATMs across South Africa
### FNB segment strategy and structure

**Income / Turnover**

- **>ZAR400m**
  - Corporate

- **N/A**
  - Public Sector

- **<ZAR400m**
  - Commercial

- **>ZAR750k**
  - Wealth

- **ZAR81 – 750k**
  - Consumer

- **<ZAR81k**
  - Mass

**Customer numbers**

- **Total**: 6m

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Income/Turnover</th>
<th>Customer numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;ZAR400m</td>
<td>N/A</td>
<td>0.7k</td>
</tr>
<tr>
<td>N/A</td>
<td>&gt;ZAR400m</td>
<td>12.5k</td>
</tr>
<tr>
<td>&lt;ZAR400m</td>
<td>N/A</td>
<td>430k</td>
</tr>
<tr>
<td>&gt;ZAR750k</td>
<td>N/A</td>
<td>47k</td>
</tr>
<tr>
<td>ZAR81 – 750k</td>
<td>N/A</td>
<td>2.0m</td>
</tr>
<tr>
<td>&lt;ZAR81k</td>
<td>N/A</td>
<td>3.4m</td>
</tr>
</tbody>
</table>

**Profit before tax – Dec ’07**

- **Corporate**: 9%
- **Consumer**: 31%
- **Commercial**: 39%
- **Mass**: 17%
- **Wealth**: 6%
- **Support**: -2%

- **Corporate & Commercial** = 48%
- **Retail** = 52%
Pre-tax profit up 23%* to ZAR525m (EUR 53.7m); CIR 46.5%

FNB Botswana
- Profit +13% to ZAR239m (EUR24.4m) (+18% local currency)
- Infrastructure investment
- Assets up 29%
- Deposits up 34%
- Strong brand in market

FNB Namibia
- Profit +29% to ZAR253m (EUR25.9m)
- Excellent performance
- Market leader
- ROE up to 25.8%

FNB Mozambique
- Acquired in July ‘07
- PBT of ZAR11m (EUR1.1m)

FNB Swaziland
- Profit +20% to ZAR36m (EUR3.7m)

FNB Lesotho
- PBT ZAR1m (EUR0.1m)

*Attributable income up 18%

As at 31 December 2007, conversion at average rate of EUR1 = ZAR9.7851 for the 6 months
Overview of banking franchises

FirstRand Bank Holdings Ltd

Investment banking division

FirstRand Bank Limited

Commercial banking division

WesBank

Instalment finance division

Multi-branding strategy in banking
• WesBank is a market leader in both asset-based finance and fleet management solutions (market share 36% as at 31 December 2007)

• WesBank’s strategy of partnering with motor manufacturers and distributors is a significant factor in the growth of its business and the dominant position that it holds in the financing of motor vehicles
Strategy of the FirstRand Banking Group
Challenges and opportunities

+

- 

Corporate sector remains strong

Infrastructure expansion

Commodity prices up e.g. gold and platinum

Capital, funding & liquidity

Current account deficit

Inflationary pressures

Increased interest rates put pressure on consumer

Major sell-off of SA equities by foreigners
Strategy

• FRBG strategy is to build a diverse portfolio of leading banking franchises in South Africa

• Increasing focus on selected niche international opportunities, particularly in large emerging markets
  • RMB – building investment banking, private equity capacity in India & Nigeria
  • FNB – accelerating strategy to become significant player in SADC region (through greenfields/acquiring platforms)

• The Banking Group’s growth prospects underpinned by
  • On-going organic growth from local portfolio
  • Growing returns from international initiatives in the medium term
Financial review: FirstRand Limited

Johan Burger
Performance to financial targets

Based on normalised earnings, excluding Discovery, FirstRand centre and NCNR preference shares

- **10% real growth**
- **15%**
- **85%**

- **Momentum Group (ROE 31%)**
- **Banking Group (ROE 27%)**

- **10% plus FirstRand WACC**
### Insurance outperforms banking

<table>
<thead>
<tr>
<th>Normalised earnings</th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Group</td>
<td>5 283</td>
<td>4 783</td>
<td>10</td>
</tr>
<tr>
<td>Momentum Group</td>
<td>913</td>
<td>768</td>
<td>19</td>
</tr>
<tr>
<td>FirstRand*</td>
<td>(49)</td>
<td>(69)</td>
<td>29</td>
</tr>
<tr>
<td>Preference Dividend</td>
<td>(194)</td>
<td>(163)</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>FirstRand proforma</strong></td>
<td>5 953</td>
<td>5 319</td>
<td>12</td>
</tr>
<tr>
<td>Discovery</td>
<td>185</td>
<td>220</td>
<td>(16)</td>
</tr>
<tr>
<td><strong>FirstRand actual</strong></td>
<td>6 138</td>
<td>5 539</td>
<td>11</td>
</tr>
</tbody>
</table>

* Includes elimination of intergroup profit between Momentum and Banking Group on Swabou life
Slower earnings growth but targeted returns maintained

<table>
<thead>
<tr>
<th>ZAR millions</th>
<th>Dec ’07 Proforma</th>
<th>Dec ’06 Proforma</th>
<th>Proforma Change %</th>
<th>Dec ’07 Actual</th>
<th>Dec ’06 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalised earnings</td>
<td>5 953</td>
<td>5 319</td>
<td>12</td>
<td>6 138</td>
<td>5 539</td>
</tr>
<tr>
<td>Normalised earnings per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Basic</td>
<td>105.6</td>
<td>94.4</td>
<td>12</td>
<td>108.9</td>
<td>98.3</td>
</tr>
<tr>
<td>- Diluted</td>
<td>105.6</td>
<td>94.3</td>
<td>12</td>
<td>108.9</td>
<td>98.2</td>
</tr>
<tr>
<td>Headline earnings per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Basic</td>
<td>106.5</td>
<td>89.6</td>
<td>19</td>
<td>110.1</td>
<td>94.1</td>
</tr>
<tr>
<td>- Diluted</td>
<td>103.9</td>
<td>87.1</td>
<td>19</td>
<td>107.4</td>
<td>91.4</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>26</td>
<td>29</td>
<td></td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Interim dividend per share (cents)</td>
<td>44.25</td>
<td>39.5</td>
<td>12</td>
<td>44.25</td>
<td>39.5</td>
</tr>
</tbody>
</table>
Premium returns over cost of equity

ZAR billions

* Based on normalised NAV
Banking Group remains well capitalised

- Raised EUR150m in dated Tier 2 – Nov/Dec 2007
- Launched Fresco II, a corporate synthetic securitisation programme of EUR2bn (August ’07)
- Concluded the 2nd home loans securitisation programme, iKhaya 2, of EUR280m (July ’07)
- Plan to issue Hybrid Tier 1 and innovative Tier 2 instruments locally and internationally in 2008, depending on market conditions
- SARB approved advanced internal ratings-based (AIRB) approach for credit and internal model approach for market risk
- Applied for advanced measurement approach (AMA) for operational risk from Jan 2009

<table>
<thead>
<tr>
<th>Banking Group ratios</th>
<th>Regulatory requirement</th>
<th>Target Dec ’07</th>
<th>Actual Dec ’07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Tier 1 (equity)</td>
<td>&gt;5.25</td>
<td>&gt;7.25</td>
<td>10.0</td>
</tr>
<tr>
<td>Tier 1</td>
<td>&gt;7.00</td>
<td>&gt;9.25</td>
<td>10.8</td>
</tr>
<tr>
<td>Total capital adequacy</td>
<td>&gt;9.50*</td>
<td>&gt;12.0</td>
<td>13.8</td>
</tr>
</tbody>
</table>

* Excludes Pillar 2b add-on, currently 0.25%

Exchange rate (31 Dec 07): EUR1 = ZAR10.002
Insurance group well capitalised

Target:
1.7 - 1.9 times

0.9 x CAR

1 x CAR

Jun '07

Dec '07

Termination
Investment
Credit
Mortality and morbidity
Expense
Other risks
Available for distribution

ZAR millions
## Lower growth from the bank

<table>
<thead>
<tr>
<th></th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>% change</th>
</tr>
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<tbody>
<tr>
<td>Normalised earnings* (ZAR millions)</td>
<td>5 283</td>
<td>4 783</td>
<td>10</td>
</tr>
<tr>
<td>Return on equity** (%)</td>
<td>27</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>1.82</td>
<td>1.98</td>
<td></td>
</tr>
<tr>
<td>Credit loss ratio*** (%)</td>
<td>1.00</td>
<td>0.69</td>
<td></td>
</tr>
<tr>
<td>Cost to income ratio (%)</td>
<td>52.6</td>
<td>53.0</td>
<td></td>
</tr>
</tbody>
</table>

* Before deducting preference share dividends
** After deducting preference share dividends and capital
*** Before deducting credit protection
## Mixed performance from franchises

<table>
<thead>
<tr>
<th></th>
<th>Profit before tax</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>FNB</td>
<td>ZAR3.4 billion</td>
<td>22</td>
</tr>
<tr>
<td>FNB Africa</td>
<td>ZAR0.5 billion</td>
<td>23</td>
</tr>
<tr>
<td>RMB</td>
<td>ZAR2.4 billion</td>
<td>8</td>
</tr>
<tr>
<td>WesBank</td>
<td>ZAR0.6 billion</td>
<td>(17)</td>
</tr>
<tr>
<td>Other</td>
<td>ZAR0.2 billion</td>
<td>(63)</td>
</tr>
<tr>
<td><strong>Total profit before tax</strong></td>
<td><strong>ZAR7.1 billion</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>
## Results in context

<table>
<thead>
<tr>
<th>ZAR millions</th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net interest income</strong></td>
<td>8 134</td>
<td>7 130</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Credit impairment charge</strong></td>
<td>(1 625)</td>
<td>(1 151)</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Net interest income after impairments</strong></td>
<td>6 509</td>
<td>5 979</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Non interest revenue</strong>*</td>
<td>10 802</td>
<td>9 983</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Transactional</strong></td>
<td>6 567</td>
<td>5 230</td>
<td>26%</td>
</tr>
<tr>
<td><strong>Fair value and risk</strong></td>
<td>1 419</td>
<td>2 419</td>
<td>(41%)</td>
</tr>
<tr>
<td><strong>Private equity (including private equity associates)</strong></td>
<td>1 452</td>
<td>1 001</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Associates (Wesbank and Outsurance JV’s)</strong></td>
<td>269</td>
<td>189</td>
<td>42%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>1 095</td>
<td>1 144</td>
<td>(4%)</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(9 957)</td>
<td>(9 076)</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Taxation expense</strong></td>
<td>(1 434)</td>
<td>(1 572)</td>
<td>(9%)</td>
</tr>
</tbody>
</table>

* Non interest revenue in this presentation includes associate earnings
# Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>Change</th>
</tr>
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<tbody>
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<tr>
<td><strong>Non interest revenue</strong></td>
<td>10 802</td>
<td>9 983</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(9 957)</td>
<td>(9 076)</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Taxation expense</strong></td>
<td>(1 434)</td>
<td>(1 572)</td>
<td>(9%)</td>
</tr>
</tbody>
</table>
Advances growth levels off

Advances are shown net of interest in suspense (ISP)
**Liability mix adds pressure to margins**

<table>
<thead>
<tr>
<th>ZAR millions</th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>Change %</th>
<th>Dec ’07 mix %</th>
<th>Dec ’06 mix %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>107 733</td>
<td>90 507</td>
<td>19</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Corporate</td>
<td>201 000</td>
<td>166 000</td>
<td>21</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td><strong>Professional funding</strong></td>
<td>172 439</td>
<td>115 710</td>
<td>49</td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td>Trading liabilities</td>
<td>61 652</td>
<td>65 605</td>
<td>(6)</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>22 869</td>
<td>21 376</td>
<td>7</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Mezzanine funding (debt capital)</td>
<td>11 469</td>
<td>10 485</td>
<td>9</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Core equity</td>
<td>41 364</td>
<td>32 951</td>
<td>26</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>618 526</td>
<td>502 634</td>
<td>23</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Customer deposits & endowment support margin
## Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net interest income</strong></td>
<td>8,134</td>
<td>7,130</td>
<td>14%</td>
</tr>
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<td><strong>Credit impairment charge</strong></td>
<td>(1,625)</td>
<td>(1,151)</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Non interest revenue</strong></td>
<td>10,802</td>
<td>9,983</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(9,957)</td>
<td>(9,076)</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Taxation expense</strong></td>
<td>(1,434)</td>
<td>(1,572)</td>
<td>(9%)</td>
</tr>
</tbody>
</table>
NPL’s and bad debts continue upward trend

*Credit protection strategy gives rise to 20bps reduction (Jun ’07: 4bps)
Retail worse, Wholesale steady

- NPL Ratio
- Impairment Ratio

- NPL% Retail: 1.76, 2.30, 3.09, 3.09
- Impairment charge % Retail: 0.94, 0.82, 0.74, 0.28
- NPL% Wholesale: 0.97, 1.22, 1.53, 1.53
- Impairment charge % Wholesale: 0.29, 0.25, 0.28, 0.28

- Total impairment charge: 1.0, 2.0
- Total NPL Ratio: 1.0, 2.0
Sensitivity of bad debts

Base case

Long run expected loss: 0.8

Revised estimate 1.2% – 1.3% for year end (up from 1% – 1.2%)
## Retail main contributor to bad debts and negative trend continues

<table>
<thead>
<tr>
<th>Non performing loans</th>
<th>Dec '07</th>
<th>Dec '06</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Retail mortgages</td>
<td>2.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>- Retail non-mortgages</td>
<td>3.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>- Commercial</td>
<td>1.3%</td>
<td>1.4%</td>
</tr>
<tr>
<td>- Wholesale</td>
<td>0.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.0%</strong></td>
<td><strong>1.4%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bad debts</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Retail mortgages</td>
<td>0.44%</td>
<td>0.36%</td>
</tr>
<tr>
<td>- Retail non-mortgages</td>
<td>2.59%</td>
<td>1.53%</td>
</tr>
<tr>
<td>- Commercial</td>
<td>0.62%</td>
<td>0.79%</td>
</tr>
<tr>
<td>- Wholesale</td>
<td>0.23%</td>
<td>(0.05%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>**1.00%*</td>
<td><strong>0.69%</strong></td>
</tr>
</tbody>
</table>

* Post credit mitigation impairment ratio = 0.80%
## Financial highlights

<table>
<thead>
<tr>
<th>Statement</th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
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<td>(1,434)</td>
<td>(1,572)</td>
<td>(9%)</td>
</tr>
</tbody>
</table>
Diversification in non interest revenue

- Fair value: 13%
- Transactional income: 61%
- Private equity: 13%
- Other investment: 2%
- Other: 8%
- WesBank and OUTsurance: 3%
- Resources: 0%

* Associate income split into appropriate non interest revenue categories
Diversification in non interest revenue

Transactional income: 61%
Economic activity drives transactional income

ZAR millions

4,000
5,000
6,000
7,000

Dec '06
Jun '07
Dec '07

26%
120%
76%
4%

FNB
FNB Africa
RMB
WesBank

9%
11%
4%
76%
Diversification in non interest revenue

13% Private equity
Good balance between annuity income and realisations

Dec '06

- Annuity income: 52%
- Profit on realisations: 48%

Dec '07

- Annuity income: 56%
- Profit on realisations: 44%

ZAR millions

Private equity

- Dec '06
- June '07
- Dec '07

45%
Unrealised profits maintained

Assets, unrealised value and profit before tax

ZAR millions

2002 2003 2004 2005 2006 2007 H1 08

Profit before tax
Unrealised profits
Assets (excl debt)

Associate Earnings
Diversification in non interest revenue

13%

Fair value
Annuity showed strong growth but risk income volatile

<table>
<thead>
<tr>
<th>ZAR millions</th>
<th>Dec '07</th>
<th>Dec '06</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Annuity</td>
<td>1 518</td>
<td>1 140</td>
<td>33</td>
</tr>
<tr>
<td>Lending</td>
<td>875</td>
<td>646</td>
<td>35</td>
</tr>
<tr>
<td>Client flows</td>
<td>643</td>
<td>494</td>
<td>30</td>
</tr>
<tr>
<td>• Risk</td>
<td>(325)</td>
<td>1 212</td>
<td>(&gt;100)</td>
</tr>
<tr>
<td>Equities</td>
<td>(774)</td>
<td>667</td>
<td>(&gt;100)</td>
</tr>
<tr>
<td>Commodities</td>
<td>30</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Interest rates</td>
<td>452</td>
<td>189</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Credit</td>
<td>(49)</td>
<td>45</td>
<td>(&gt;100)</td>
</tr>
<tr>
<td>Forex</td>
<td>52</td>
<td>13</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Resources*</td>
<td>(36)</td>
<td>268</td>
<td>(&gt;100)</td>
</tr>
<tr>
<td>• Capital</td>
<td>226</td>
<td>67</td>
<td>&gt;100</td>
</tr>
<tr>
<td>Total</td>
<td>1 419</td>
<td>2 419</td>
<td>(41)</td>
</tr>
</tbody>
</table>

* Included in associate income
# Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>Dec ’07</th>
<th>Dec ’06</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>8 134</td>
<td>7 130</td>
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<td>(1 625)</td>
<td>(1 151)</td>
<td>41%</td>
</tr>
<tr>
<td>Non interest revenue</td>
<td>10 802</td>
<td>9 983</td>
<td>8%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(9 957)</td>
<td>(9 076)</td>
<td>10%</td>
</tr>
<tr>
<td>Taxation expense</td>
<td>(1 434)</td>
<td>(1 572)</td>
<td>(9%)</td>
</tr>
</tbody>
</table>
Positive jaws maintained

ZAR millions

- Income growth +11%
- Cost growth +10%
- Jaws = 1%

Dec '00 Dec '01 Dec '02 Dec '03 Dec '04 Dec '05 Dec '06 Dec '07

Total income
Total costs
Cost to income
## Improving efficiencies remains a focus

<table>
<thead>
<tr>
<th></th>
<th>Top line growth</th>
<th>Cost growth</th>
<th>Dec ‘07</th>
<th>Dec ‘06</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>Cost to income ratio</td>
<td>Cost to income ratio</td>
</tr>
<tr>
<td><strong>FNB</strong></td>
<td>22.2</td>
<td>15.0</td>
<td>56.5</td>
<td>60.0</td>
</tr>
<tr>
<td>- Retail</td>
<td>23.3</td>
<td>17.3</td>
<td>57.8</td>
<td>60.8</td>
</tr>
<tr>
<td>- Corporate &amp; Commercial</td>
<td>20.2</td>
<td>10.9</td>
<td>54.1</td>
<td>58.6</td>
</tr>
<tr>
<td><strong>FNB Africa</strong></td>
<td>19.7</td>
<td>20.0</td>
<td>46.5</td>
<td>46.4</td>
</tr>
<tr>
<td><strong>WesBank</strong></td>
<td>18.1</td>
<td>20.6</td>
<td>53.4</td>
<td>52.3</td>
</tr>
<tr>
<td><strong>RMB</strong></td>
<td>12.9</td>
<td>13.9</td>
<td>38.8</td>
<td>38.4</td>
</tr>
<tr>
<td><strong>FirstRand Banking Group</strong></td>
<td>10.7</td>
<td>9.7</td>
<td>52.6</td>
<td>53.0</td>
</tr>
</tbody>
</table>
Key focus areas for balance sheet management
Balance sheet management focus areas

- Capital
- Funding & liquidity
- Asset quality
Capital

- Conservative gearing levels
- Robust core equity
- Buffer for off-balance sheet activity
- Prudential limits for off-balance sheet vehicles
- Core equity backs economic risk and buffers
- Targeted credit rating
- Limited exposure to refinancing risk
- Own originated assets for off-balance sheet vehicles
Asset quality

- Underwrite to keep on balance sheet
- Limited exposure to highly leveraged deals
- Credit hedging strategies
- No exposure to sub-prime
- Prudential limit for equity exposure
- Origination strategy in line with macroeconomic outlook
- Marginal pricing for assets
- Collection capacity
Funding & liquidity

- Appropriate liquidity buffers (local & offshore)
- Actively lengthening funding profile
- Matched maturity marginal funds transfer pricing
- De-risking offshore balance sheets
- Assuming no roll-over in next 12 months, still liquidity surplus internationally
- All off-balance sheet vehicles managed as part of on-balance sheet liquidity & funding limits
- Prudential limits for money and capital markets (wholesale)
Q & A session
Panel discussion: Balance sheet management

London, March 2008
Introduction

Johan Burger
Rationale for creation of Balance Sheet Management

- Business model of decentralised owner-manager culture operating off one balance sheet
- Had to create a framework for the use of the balance sheet
- Balance Sheet Management is the custodian of
  - Capital management
  - Asset quality
  - Funding & liquidity
  - Counterparty status
  - Performance management
  - Macroeconomic view
  - Equity and investment analysis (internal & external)
Structure & activities

Balance sheet management

**Macro portfolio management**
- Capital investment
- Interest rate positioning on net group profile
- Credit financial markets macro hedging
- Currency and translation hedging
- Macro economic outlook

**Credit portfolio management & advisory**
- Portfolio and credit loss analysis
- Credit stress testing
- BSM structured credit transactions, including securitisations
- Management of group credit concentration risk and group credit risk reduction
- Credit economic capital measurement

**Strategic funding & capital management**
- Capital and senior debt raising
- Capital adequacy, forecasting and planning
- Economic capital process
- ICAAP and buffers
- Managing the funding profile
- Performance measurement framework
- Rating agency relationships
- Internal view on corporate actions

**Equity & investment analysis**
- External view on corporate strategy & corporate actions
- Market/competitor analysis
- Investment proposal assessments
- Support strategic positioning of the business units

Business performance and risk management frameworks, including capital risk, funding risk, liquidity risk, interest rate risk, etc.

Protecting the franchise
Macro Portfolio Management

Jaco van der Walt
Macro portfolio management

Macro impacts → Financial markets → Balance sheet

MPM uses financial markets to protect & enhance the return on capital

Portfolios linked within BSM (common macro view)

**Capital**
- Investment of capital (domestic & int’l)
- SA capital profile managed via liquid assets

**Banking book**
- Management of interest rate & FX mismatch
- The book includes debt capital, funding, retail books (e.g. auto loans)

**Credit**
- Macro hedges for credit
- Tail risk

Protect & enhance the return on capital through the cycle within an appropriate risk-return framework
Market reaction to macro events

ZAR has weakened 20%

CDS pricing probability of a downgrade

Inflation breakeven above 6.5%

Equities battling, except resources

Asset markets pricing a lot of bad news

Sources: SARB, Bloomberg, INet
Level remains under pressure

Longer end offering little value

Swap spreads to stay wide

Strategy focused on protection

- Focused on the protection of earnings
- Positioned to participate maximally from the endowment effect
- Protecting against inflation (real return) and MtM volatility
- Long end offering little value
- Positioned to minimise the cost of swap spreads on liquid assets
- Avoiding complex, low-liquidity structures

Sources: Bloomberg, INet
Banking book mismatch

**SA curve to remain inverted**

- Curve steepness: 2s10s government spread (bp)

**Inflation breakeven at fair value**

- R157/R189 spread (bp)
- R153/R189 spread (bp)

**BoE may cut beyond expectations**

- Market implied 3-month Libor (%)
- MPM forecast (%)

**Strategy remains cautious**

- Performance of risk positioning measured against the return on capital
- Careful to put capital at risk without large margins of safety
- SA assets is priced for a lot of bad news
- Opportunities in the UK curve, but swap spread pressure

*Sources: Bloomberg, INet*
Tail risk & macro hedges for credit

Distribution of monthly rand changes

ZAR to be escape valve if no hikes

Protected retail credit against rate spike

Strategy

- Use financial markets for macro hedging for credit and management of tail risk
- Always looking for cheap insurance against tail events in the balance sheet
- Interest rate protection paid off
- ZAR remains vulnerable, although adjustments since 2006 comparable to 2001 event

Sources: Bloomberg, INet
SA housing market

SA housing market slowing

Fall in real disposable income a concern...

...as is the high debt service burden

...and the negative “carry” in housing

Sources: SARB, Bloomberg, INet
Credit Portfolio Management & Advisory

Gert Kruger
CPMA functions overview

New business
- Influence origination strategy
  - Risk appetite
- Measurement & pricing advisory

CPM
- Macro economic outlook on credit risk
- Measurement & Optimisation
  - Expected losses, stress / volatility capital management

In force business
- Portfolio management
  - Hedges – cycle smooth
  - Event risk protection
Strategic responses to current market conditions
Response 1:
Assess external environment for new vulnerabilities

**Tools**
- Segment specific lead indicators
- Credit risk indices
- Market based lead indicators
- Scenario and stress testing

**Example: Retail mortgage risk index**

**Corporate lead indicators**
Net cash flow lower but still high

- Average net cash to debt

**Repayment to income rate in historical stress range (11.2%)**
- Average repayment to remuneration
- Repayment to income (rhs)
Response 2:
Hedge or de-risk positions with higher cyclical or event risk potential

Example: Bad debt cycle smoothed with credit hedge

- Long run expected loss: 0.8
- Insurance benefit

<table>
<thead>
<tr>
<th>Month</th>
<th>NPLs (%)</th>
<th>Impairment charge (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun '99</td>
<td>5.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Jun '00</td>
<td>1.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Jun '01</td>
<td>3.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Jun '02</td>
<td>3.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Jun '03</td>
<td>2.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Jun '04</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Jun '05</td>
<td>0.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Dec '05</td>
<td>0.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Jun '06</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Dec '06</td>
<td>0.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Jun '07</td>
<td>0.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Dec '07</td>
<td>0.8</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Response 3:
Focus on quality of new business origination

Risk drivers
- Ratings
- Target market
- Approval rates
- Affordability
- Collateral levels

Example:
Appetite levels

Impact
- Expected loss
- Volatility
- Capital levels
- IFRS provisions
- ROE

Lever that influence credit quality
Loss rates for market scenarios
Outcome of loss levels and business impact
Response 4:
Ensure appropriate re-pricing of new transactions

5-year Industrial Spreads above 5-year swaps

Spread in bps

<table>
<thead>
<tr>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td>Pricing Wizard</td>
<td>90th Percentile</td>
<td></td>
</tr>
</tbody>
</table>

Spread example
Response 5:
Improved communication to internal and external stakeholders on credit delinquency and trends
Strategic Funding & Capital Management

Andries du Toit

FIRSTRAND Banking Group
Strategic funding & capital management

Funding activities (senior unsecured)
- Debt holders’ requirements (rating agencies, targeted rating)
- Deposit holders and key funders
- Minimise regulatory intervention (to prevent business disruption)

Mezzanine funding (structured credit & subordinated debt)
- Term funding
- Optimise capital structure
- Meet regulatory and ratings agency requirements
- Diversify funding sources

Core equity
- Optimise and manage
- Covers economic capital
- Reduce volatility in income statement
Importance of core equity

- **Core equity**
  - Three year forecast (dividend is seen as annuity)
  - All buffers kept in this category
  - Back internal economic capital
  - Accumulating buffers for acquisition/ expansion / pro-cyclicality
  - Buffer sufficient for downturn (exceed internal targets) and severe downturn (exceed regulatory minimum)

- **Mezzanine funding (debt capital)**
  - Meet regulatory and ratings agency requirements
  - Enough capital underpin to obtain a credit counterparty rating
Funding the growth

Growth in South Africa
Corporate capacity building/ infrastructure expansion

+ 

Recent developments in global financial markets
(bank lending to stay on balance sheet)

= 

Need to create capacity to fund anticipated advances growth on balance sheet
(give investment bank flexibility)

- Opportunity to issue more innovative instruments under new regulatory regime
- Funding strategy – extend term profile of funding and diversify funding sources
Understanding the flow of funds in SA

• Structural liquidity position in South Africa
  • Contractual vs discretionary savings
  • Banks disintermediated due to large portion of individuals’ savings flows that are recycled through money market funds
  • = contractual liquidity risk

• Exchange control prudential limits and constraints
  • Only 4 clearing banks (FRB one of them)
  • Rand account holding
  • = protection, reduces liquidity risk
Reliance on wholesale funding

Extend term profile & diversify funding sources
Response to funding challenges

Action plan

- Internal prudential limit for money & capital markets (wholesale)
- Review of regulatory platforms
- Instruments to be issued
  - Money market
  - Capital markets
  - Bi-lateral
Active liquidity risk management

- Started accumulating liquidity buffers in 1Q 2007

- International
  - Assess current liquidity status, market conditions and risk appetite
  - Monitor market events, assess similar events and consider impact
  - Limited funding pool and marginally priced for all assets
  - De-risking of the balance sheet

- Domestic
  - Manage & maintain appropriate buffers
  - New business risk assessment & limit approvals
  - Lengthen term funding profile in line with framework
  - Marginally pricing for funding and liquidity (limited prudential funding pool)
Panel discussion: Balance sheet management