Creating and protecting shareholder value

Johan Burger (CEO: FirstRand)

29 January 2016
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
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**MEASURE THROUGH PERFORMANCE MANAGEMENT**
## How we think about long-term franchise value

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

Franchise value = resilient earnings
Shareholder value creation driven by consistent and unique approach

THINK AND BEHAVE LIKE SHAREHOLDERS

How is this operationalised?

DEPLOYMENT OF FINANCIAL RESOURCES

FRANCHISE VALUE

BUSINESS MODEL AND CULTURE

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**

<table>
<thead>
<tr>
<th>WHAT?</th>
<th>WHY?</th>
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</thead>
<tbody>
<tr>
<td>Group Treasury manages financial resources (capital, funding, liquidity, risk appetite)</td>
<td>Allows operating franchises to focus on operational profits</td>
</tr>
</tbody>
</table>
| 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

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**MEASURE THROUGH PERFORMANCE MANAGEMENT**
Business model allows franchises access to all platforms within appropriate governance frameworks

<table>
<thead>
<tr>
<th></th>
<th>Banking</th>
<th>Africa and Emerging Markets</th>
<th>Other Activities</th>
<th>Investment Management</th>
<th>Insurance</th>
</tr>
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<tbody>
<tr>
<td>FirstRand Bank Limited (FRB)</td>
<td>✔️</td>
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<td>FirstRand EMA (Pty) Ltd (FREMA)</td>
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<td>FirstRand Investment Holdings (Pty) Ltd (FRIHL)</td>
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<tr>
<td>Ashburton Investments Holdings Limited</td>
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</tbody>
</table>
Model also facilitates cross-sell and up-sell for franchises

<table>
<thead>
<tr>
<th>FISTRAND ACTIVITY VIEW PER FRANCHISE</th>
<th>TRANSACT</th>
<th>LEND</th>
<th>INVEST</th>
<th>DEPOSITS</th>
<th>INSURANCE</th>
<th>INVESTMENT MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>FNB</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>RMB</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>WesBank</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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</table>
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
Agenda

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- HOW IS THE GROUP POSITIONED FOR THIS CYCLE?
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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%
Agenda

- Track record of superior returns
- Tough cycle rapidly emerging
- How is the group positioned for this cycle?
- Focus remains on delivering sustainable returns
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…

**RETURN**
Premium above cost of capital

**RISK**
Volatility of return profile

**GROWTH**
Above nominal GDP over the long term

- ROA 2007: 1.95%
- ROA 2007: 2.47%
- ROA: 2.13%
- ROA: 1.03%
…resulting in structurally higher and more sustainable ROA

RETURN
18% – 22%

RISK
Volatility of return profile

ROA 1.82%

ROA 2.12%

2015 ROA

ROA 3.32%

GROWTH
Nominal GDP + 3% to 5% over the long term

ROE and ROA at cyclical highs

FNB  RMB  WesBank

2015 ROA 2.12%
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

- **2007**
  - Client activities: 39%
  - Investing activities: 29%
  - Proprietary trading activities: 32%
  - Investment management: 2%

- **2015**
  - Client activities: 33%
  - Investing activities: 23%
  - Proprietary trading activities: 24%
  - Investment management: 18%
  - Investment banking and advisory: 2%
  - Markets and structuring: 18%
  - Corporate and transactional banking: 33%

**Total client = 75%**

*Based on gross revenue. Excludes RMB Resources, legacy and head office portfolios.*
WesBank improved risk-adjusted returns and diversification

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

* MotoNovo was previously known as Carlyle Finance.
# ‘Other International’ includes WorldMark Australia and MotorOne Finance Australia.
FNB grew its transactional and deposit franchises

- FNB grew its transactional and deposit franchises

- 17% CAGR

- Strategy shift from credit-led to transactional- and liability-led
Adjusted credit appetite and improved pricing across retail portfolios

(e.g. FNB HomeLoans)

Average DISCOUNT to Prime: – 1.50%

Average PREMIUM above Prime: 0.25%
Advances portfolio rebalanced for more appropriate mix between corporate and retail

Gross advances (R billion)
Started early with prudent provisioning

Portfolio impairments (R million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Franchise portfolio impairments</th>
<th>Franchise overlay</th>
<th>Central overlay</th>
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<tbody>
<tr>
<td>2013</td>
<td>1.00%</td>
<td>6 600</td>
<td>2 400</td>
</tr>
<tr>
<td>2014</td>
<td>0.77%</td>
<td>5 000</td>
<td>1 800</td>
</tr>
<tr>
<td>2015</td>
<td>0.83%</td>
<td>4 000</td>
<td>1 400</td>
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<tr>
<th>Year</th>
<th>Portfolio impairments (R million)</th>
<th>Bad debt charge</th>
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<tbody>
<tr>
<td>2015</td>
<td>7 760</td>
<td>0.77%</td>
</tr>
<tr>
<td>2014</td>
<td>7 259</td>
<td>0.83%</td>
</tr>
</tbody>
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Balance sheet more liquid…

Total assets (R billion)

- 2008: 658
- 2015: 1059

CAGR 7%

Cash and liquid assets (R billion)

- 2008: 60
- 2015: 155

CAGR 15%

9% of total assets
14.7% of total assets
…with reduced reliance on institutional funding and improved funding mix.
Stronger capital position despite more punitive RWA requirements

CET1 ratio as at 30 June 2015

CET1 target range: 10% – 11%

FSR management buffer 2.5%

SARB end-state minimum requirement 8.5%

14.0%

R12.2bn surplus

Economic view of surplus adjusted for:
- Volatile reserves
- Trapped capital
- Regulatory changes
Agenda

- Track Record of Superior Returns
- Tough Cycle Rapidly Emerging
- How is the Group Positioned for This Cycle?
- Focus Remains on Delivering Sustainable Returns
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