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FirstRand's investment case: strength and quality of franchise will drive sustainable growth and returns

Johan Burger (COO & CFO)

Agenda

- Headwinds
  - Macro – “new normal”
  - Regulation – capital and liquidity
- FirstRand investment case
  - What is required to outperform, given headwinds

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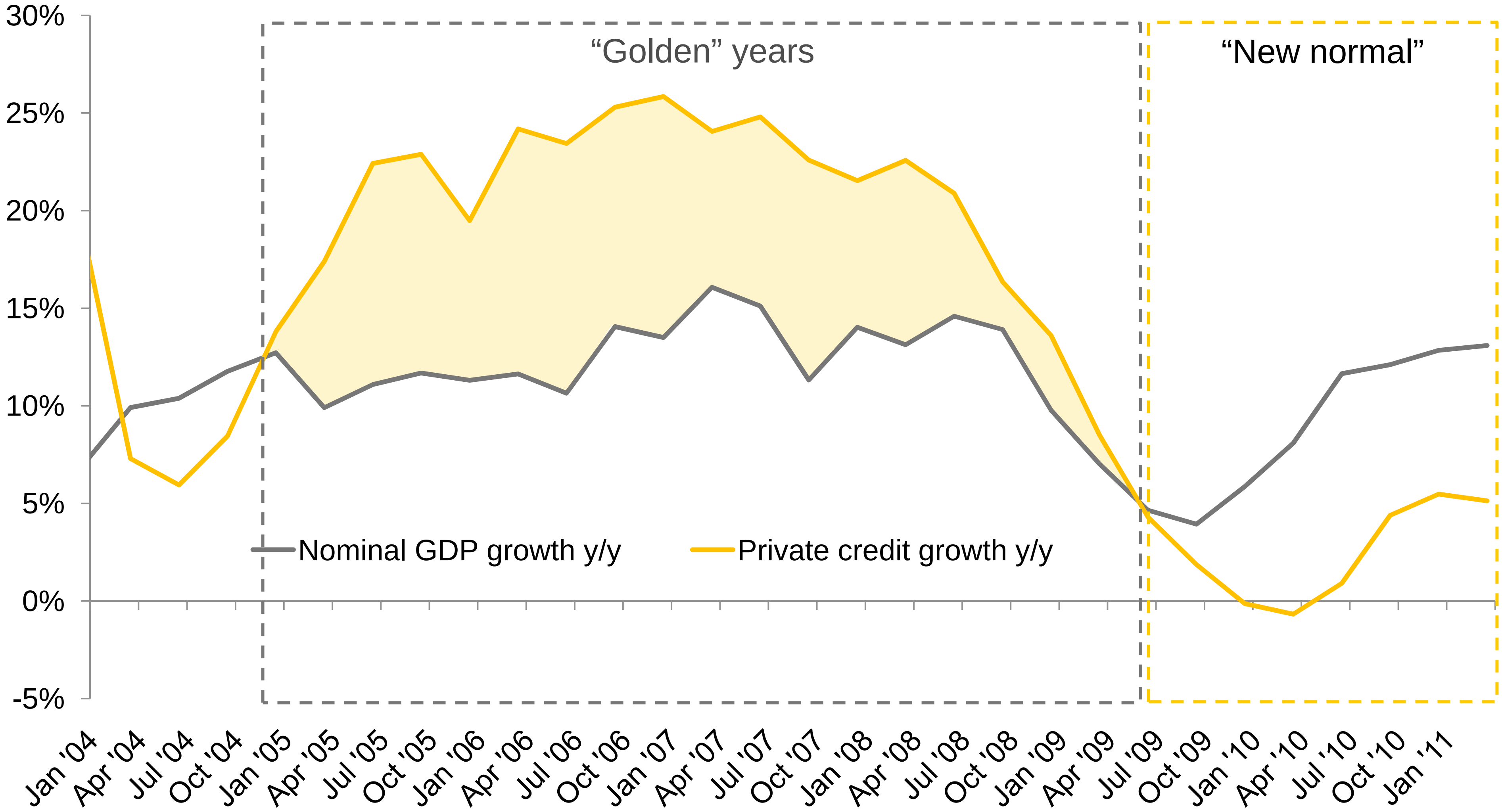
Cumulative build-up of leverage

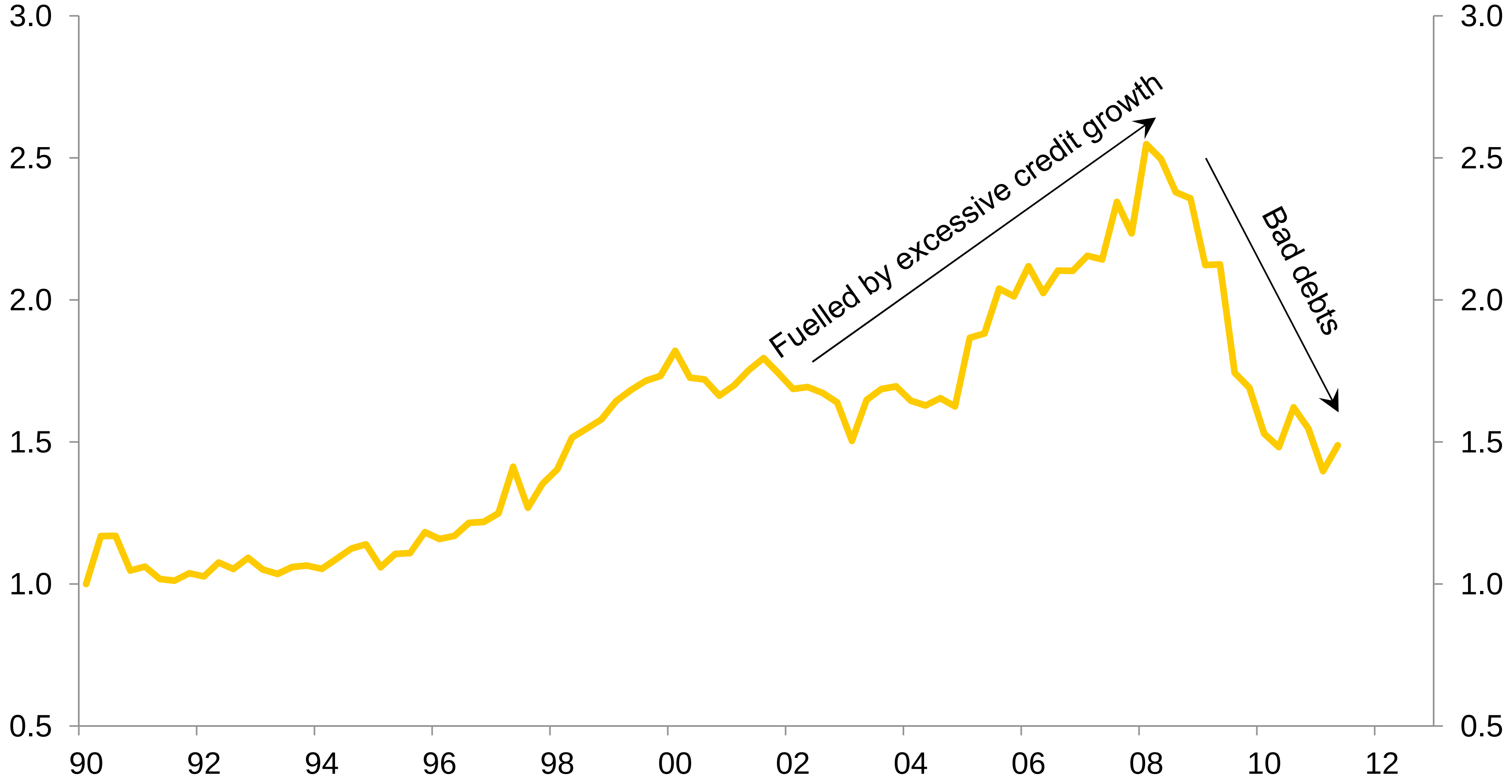


Long on credit, short on wealth

Source: I-Net Bridge

Growth in bank earnings outpaced nominal GDP growth

Bank earnings to nominal GDP (Jan 1990 = 1.0)



Source: I-Net Bridge

Characteristics of “new normal” environment

- Sluggish GDP growth
- Rising inflation
- Rising unemployment
- Flat or declining property values
- Disposable income under pressure
- Low levels of business confidence and activity
- Interest rates to remain low

Lower growth and more volatility

Macros impact banks

- Asset growth
  - Expected to lag nominal GDP growth
  - Retail expected to outpace corporate
- Margins
  - Risk of rate cuts could reduce endowment margin
  - Increased cost of liquidity
- Bad debts
  - Further benefit of monetary policy intervention limited
  - But asset quality much improved
  - Post write-off recoveries
- Transactional revenues
  - Market share gains required to exceed nominal GDP

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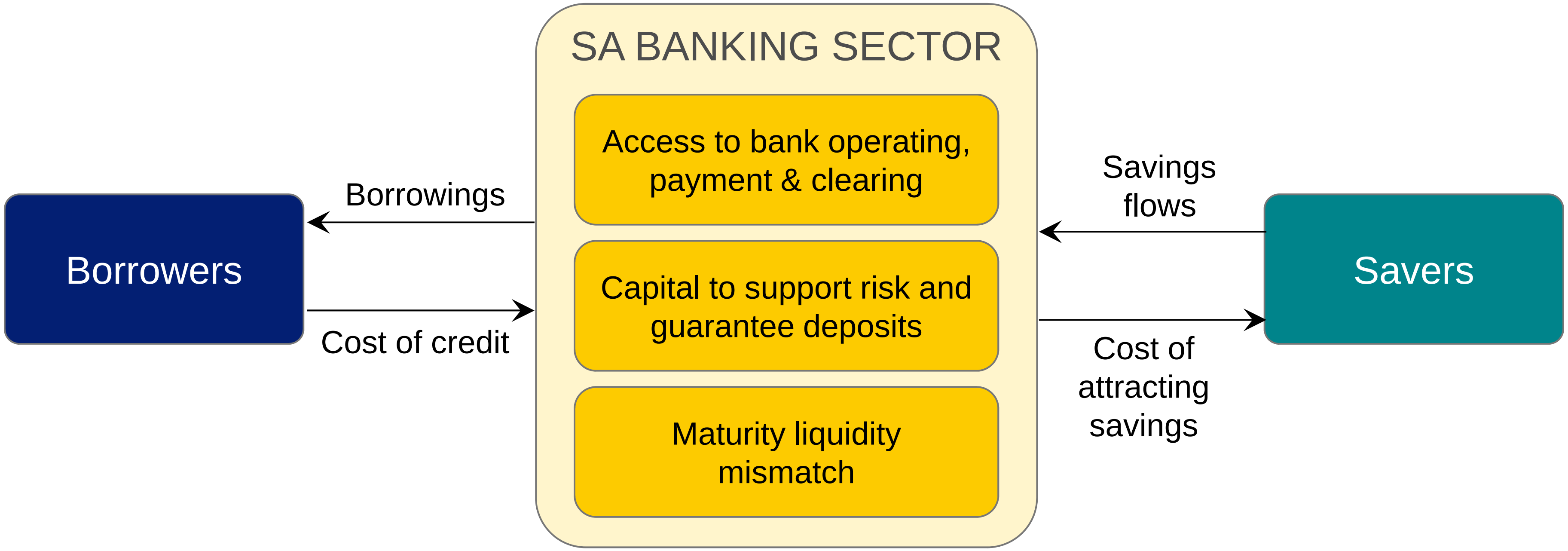
Regulation and the role of banks in the economy



Increased regulatory cost

Cost of capital

Cost of liquidity requirements

Shareholders require minimum returns

The FirstRand investment case

- Short-term – earnings growth should outperform macros
- Medium to long-term – deliver superior, sustainable ROEs

What is required to deliver on these objectives?

Financial strength

Earnings resilience

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Earnings resilience

Financial strength...

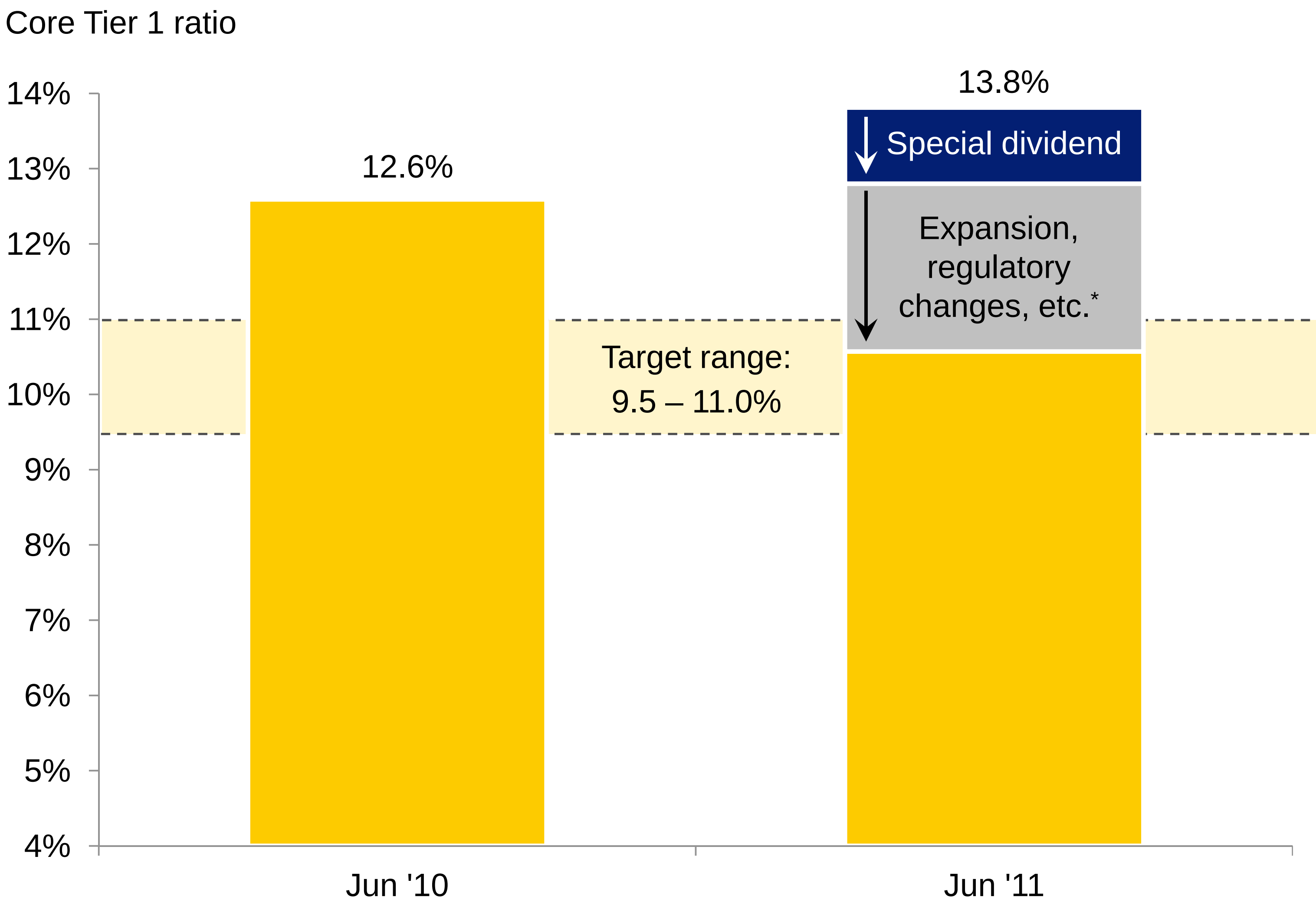
- Capital position and management
- Asset quality
- Funding strategies

... but be competitive

Financial strength

- Capital position and management
- Asset quality
- Funding strategies

Strong capital position



* *Illustrative*

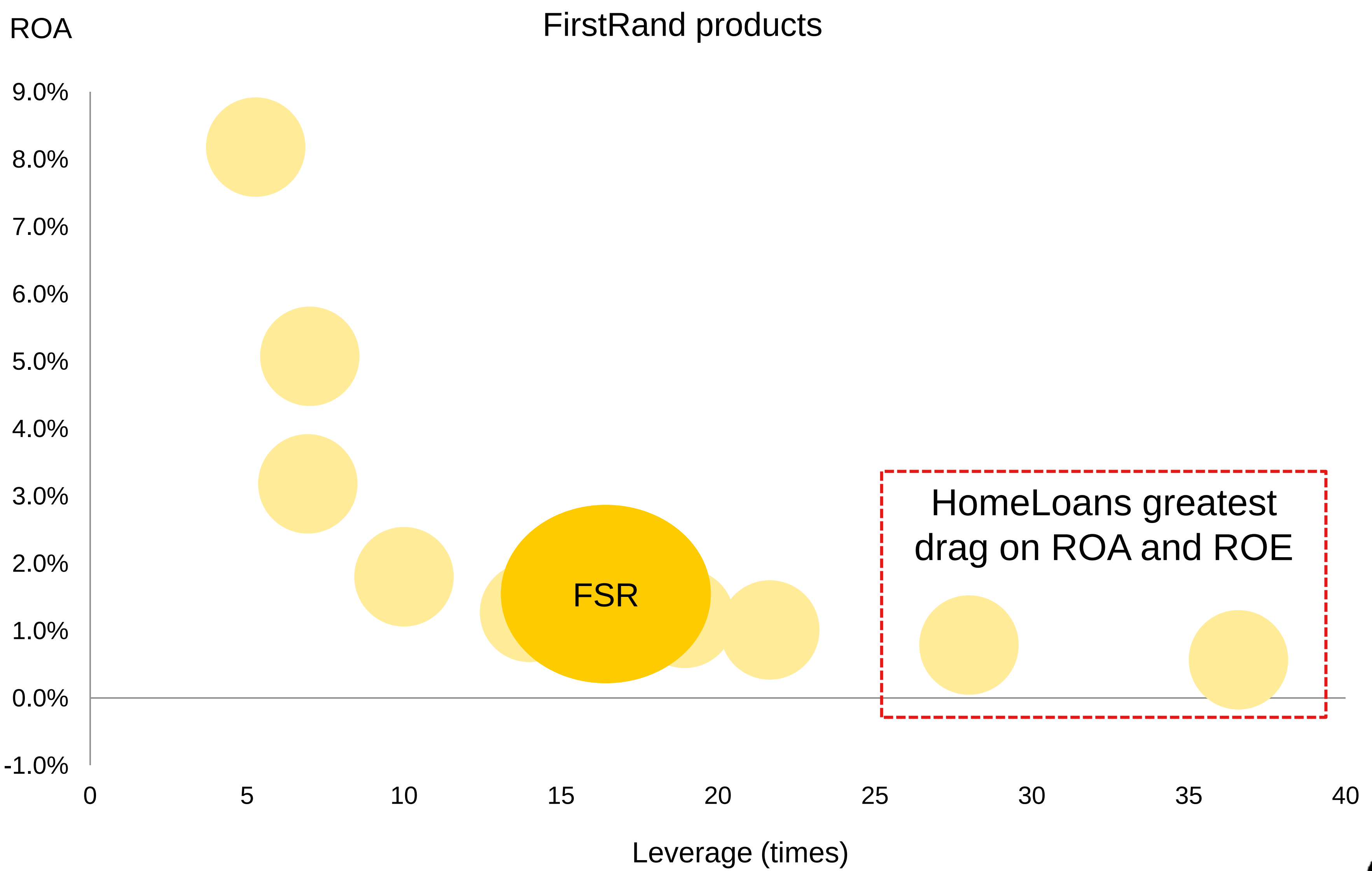
We understand the implications of regulatory changes

- Assessed impact of Basel 2.5 and Basel III changes
- 2011 returns and targets (18% – 22%) already reflect increased levels and quality of capital
  - Uncertainty remains regarding SARB interpretation (expect clarity in Q1 2012)
- Comfortable that 18% to 22% range is sustainable
  - Private equity businesses already capitalised at higher economic capital level
  - Lending businesses – started repricing (and agreements allow repricing for regulatory changes
  - Subsidiaries capitalised appropriately (no buffer in centre)
  - Liquidity changes will impact ROEs in term assets – consider new performance metrics, e.g. liquidity-adjusted ROE
  - Africa expansion – punitive treatment of minorities introduces asymmetry

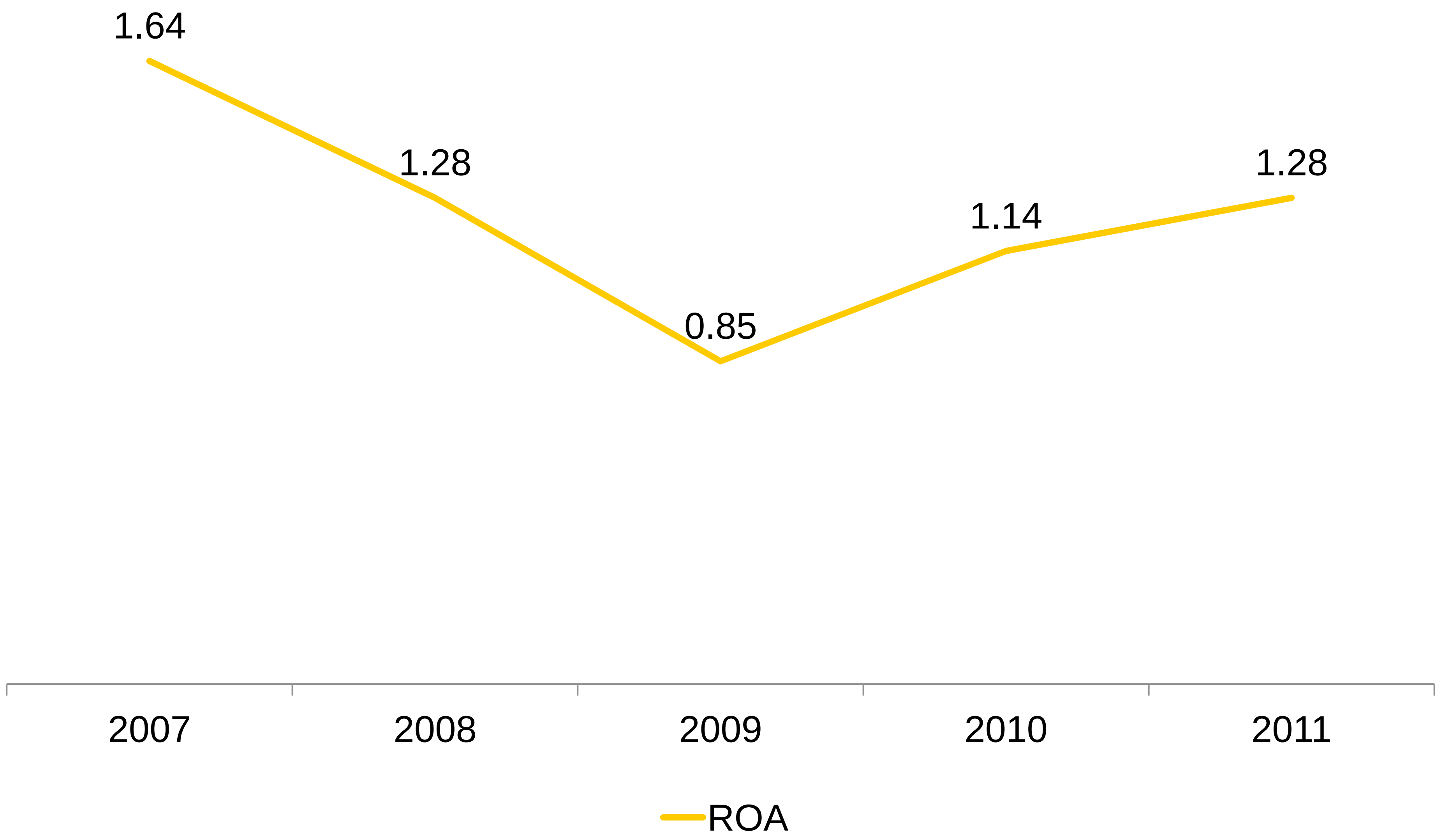
Consistent capital management strategy

- Continue to deploy capital to businesses that meet the required return
  - Strategic investments that breakeven within an appropriate period
  - Businesses required to meet minimum hurdle rates
- Internal capital generation sufficient for domestic growth and African expansion initiatives
- If no alternative investment or deployment, capital will be returned to shareholders
- Disciplined approach to growth allows protection of returns
- No incremental currency risk, equity risk or credit risk is taken in the capital investment portfolio
- No double-gearing

FirstRand's portfolio – ROA and leverage ratio



Focus on improving ROA to deliver superior ROE



Change in mix will drive NII growth despite low new business volumes

- Higher growth in unsecured in retail portfolios results in better risk-adjusted margins

	Projected portfolio margin ranges	Advances growth projected trend
Secured		
FNB HomeLoans	1.5%	0%
VAF (WesBank Motor)	5.5%	10%
Unsecured		
Mass (Smart & EasyLoans)	35%	25%
Consumer (Personal loans)	25%	35%

- Despite low retail asset growth (5% – 7%), lending margins could increase 15% – 20% per annum over 3 years

Dealing with possible excesses

- Don’t look at capital point-in-time – we take a 3-year view
- Given expected low growth in RWAs, current expansion requirements and ongoing strong capital generation we expect to generate excess capital
- Whilst philosophy is not to hold “war chest” for acquisitions, have appropriate “buffer” for expansion, however, cognisant of ROE drag
- Mechanisms for returning capital?

Once-off surplus

Special dividends
or share buybacks
(consider costs to company
and shareholders)

Ongoing surplus generation

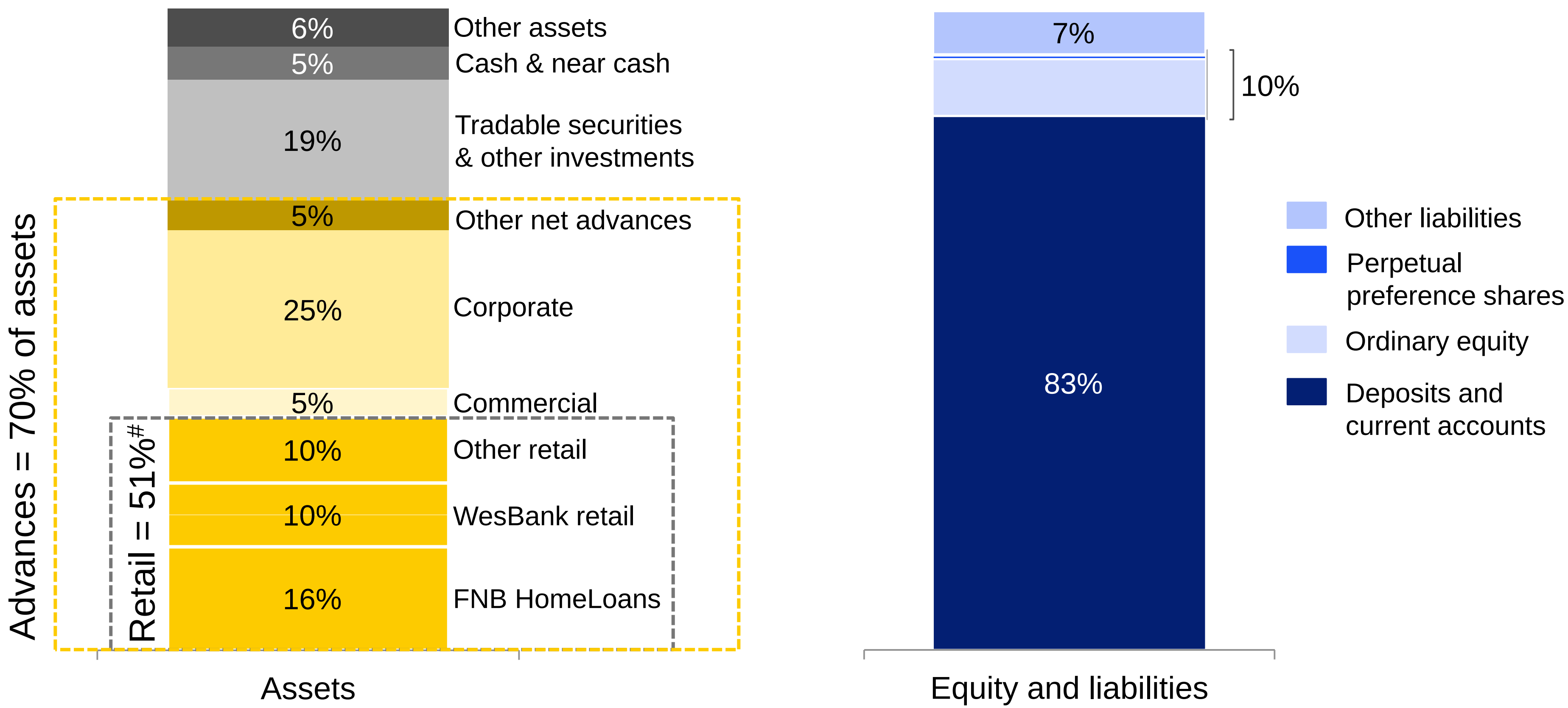
Dealt with through adjustment
in the payout ratio
(must be sustainable)

Financial strength

- Capital position and management
- Asset quality
- Funding strategies

Balance sheet reflects financial soundness

Nominal* gearing 12 times
RWA/Total assets* = 55%



of advances

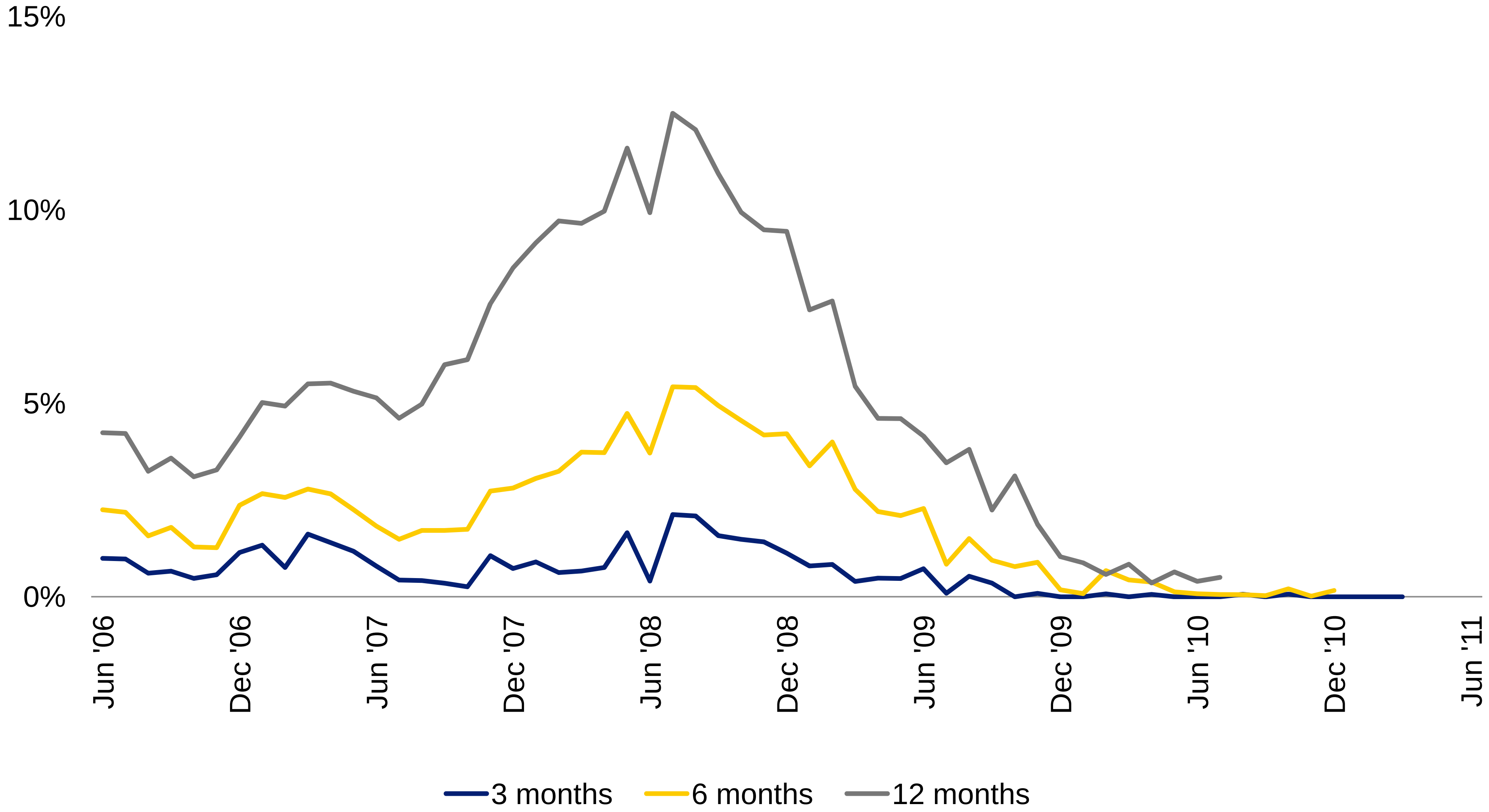
Based on normalised continuing statement of financial position (Note: derivative assets and liabilities netted off)

We took the pain earlier and faster

- First loss is best loss
  - No restructuring of NPLs to performing
  - Focus on workout
  - QuickSell process in FNB HomeLoans resulted in 50% higher recoveries on asset values
  - Properties re-valued at default
- Conservative LGDs
- Write-off policies
  - Secured: Upon final recovery on the sale of the asset held as security
  - Unsecured: Write off 6 months after date of default
- Coverage significantly impacted by underlying mix of NPL portfolio
- Portfolio impairments were prudent

Lowest market share of NPLs

FNB HomeLoans vintage analysis shows quality of new business



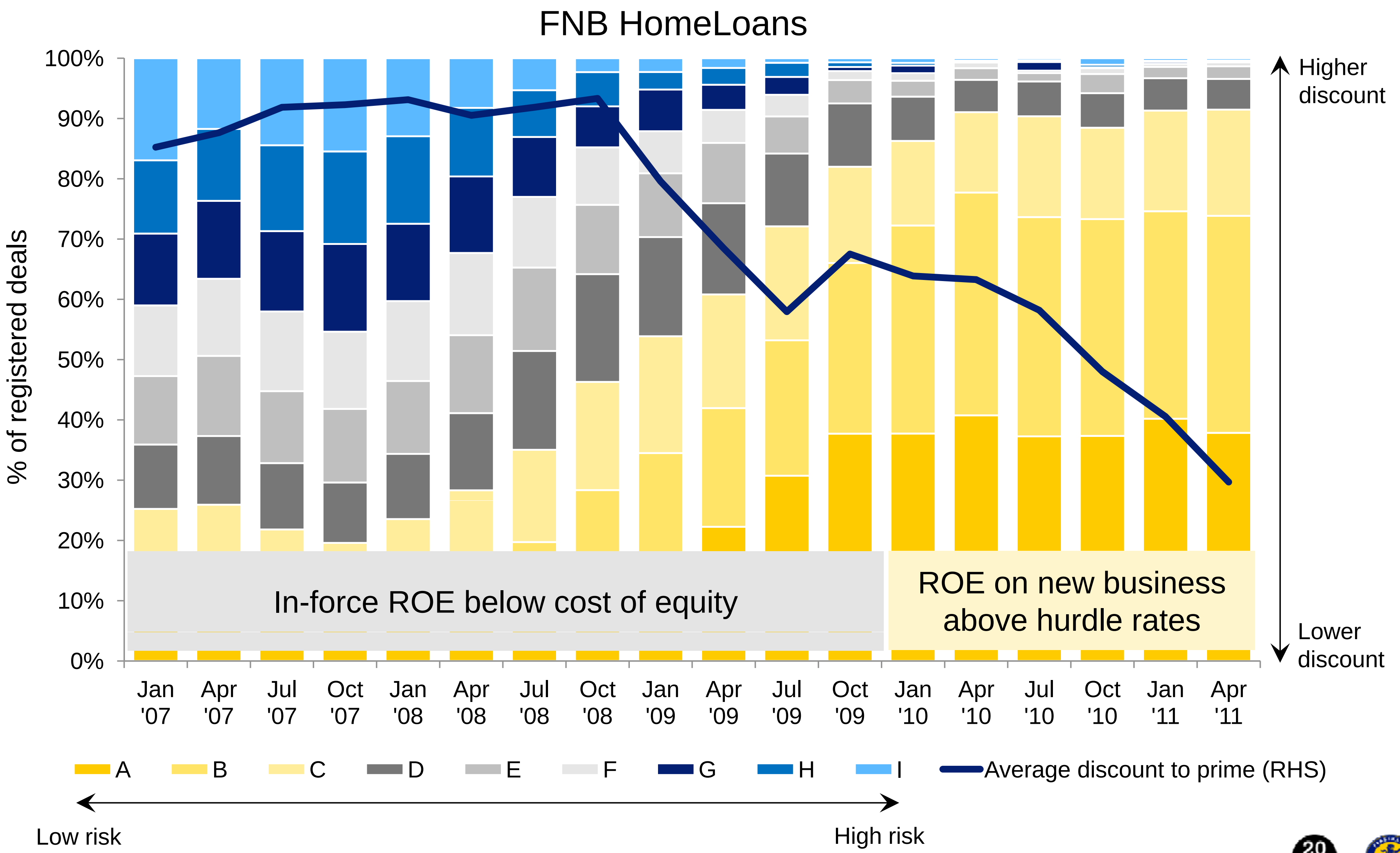
How to achieve good returns in residential mortgages

- Client risk
  - Repayment-to-income (RTI)
  - Expected losses (bad debts)
- Asset risk
  - Loan-to-value (LTV)
  - Area
- Liquidity mismatch
  - Short vs long
- Non-interest revenue
- Cost-to-assets

→

- Pricing
- ROE
- Market share
- Earnings volatility

We are improving risk profile and pricing



Financial strength

- Capital position and management
- Asset quality
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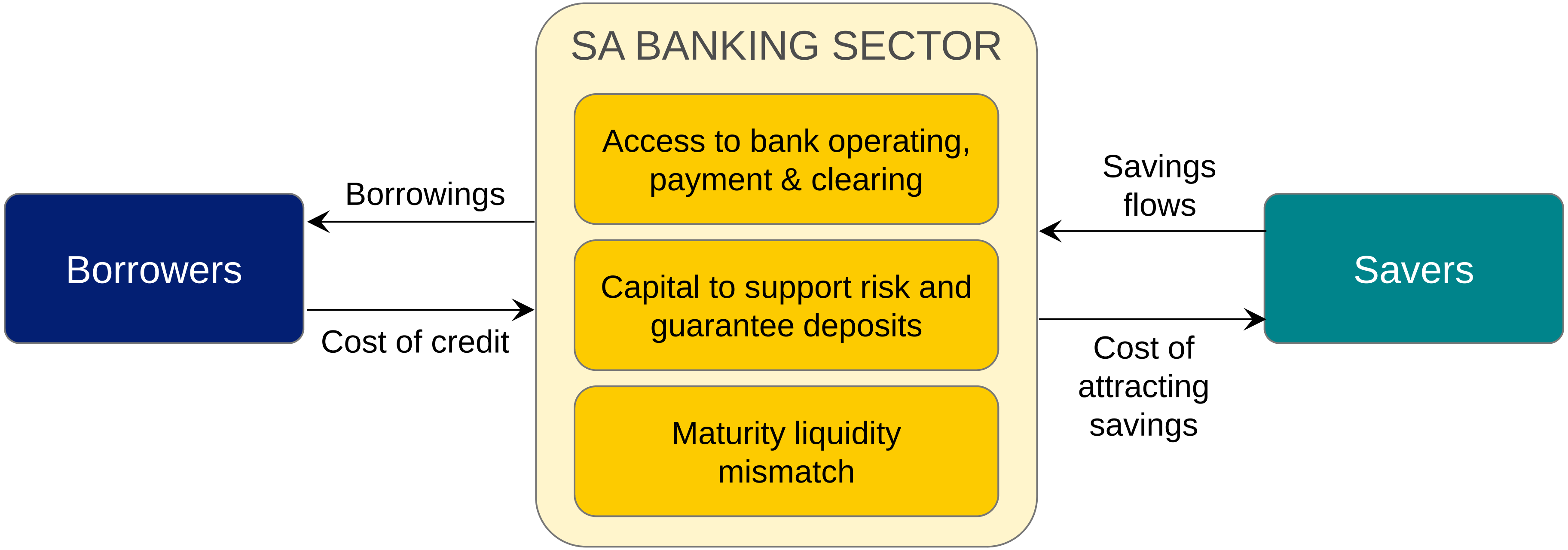
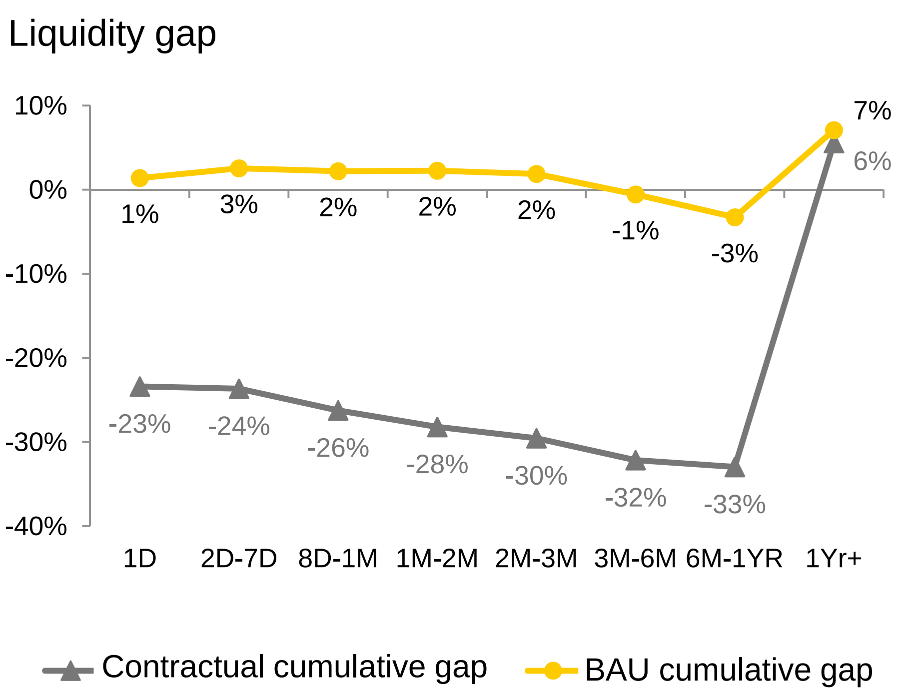
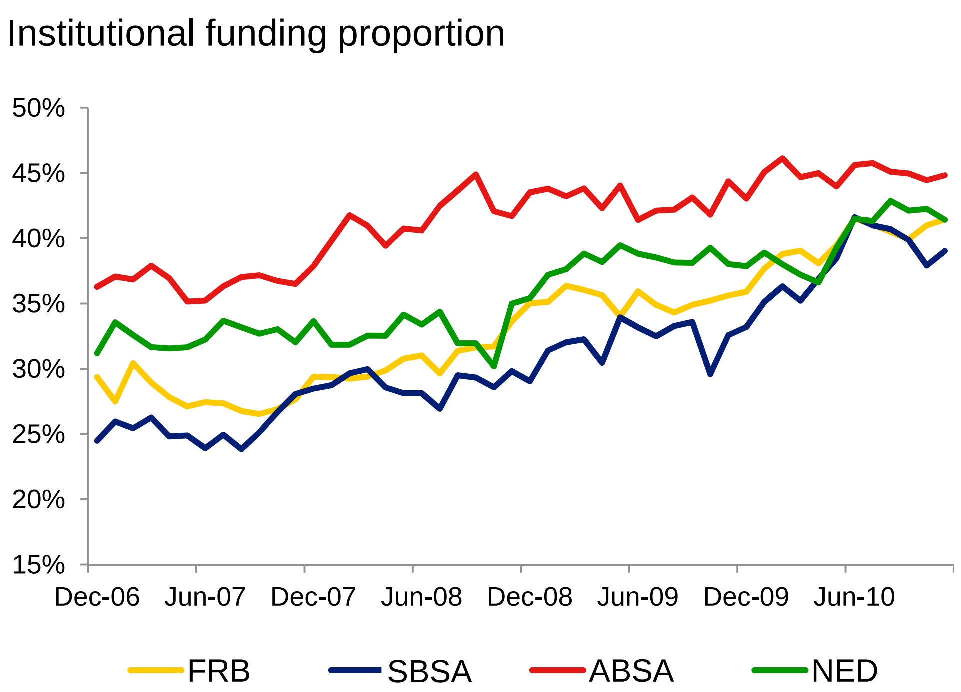
We need to understand who will pay for the increased cost of liquidity?



Increased regulatory cost	**Cost of capital** We don't see further reduction in returns as ROE targets already take higher requirements into account	**Cost of liquidity requirements** Potential future cost

SA banking system liquidity gap

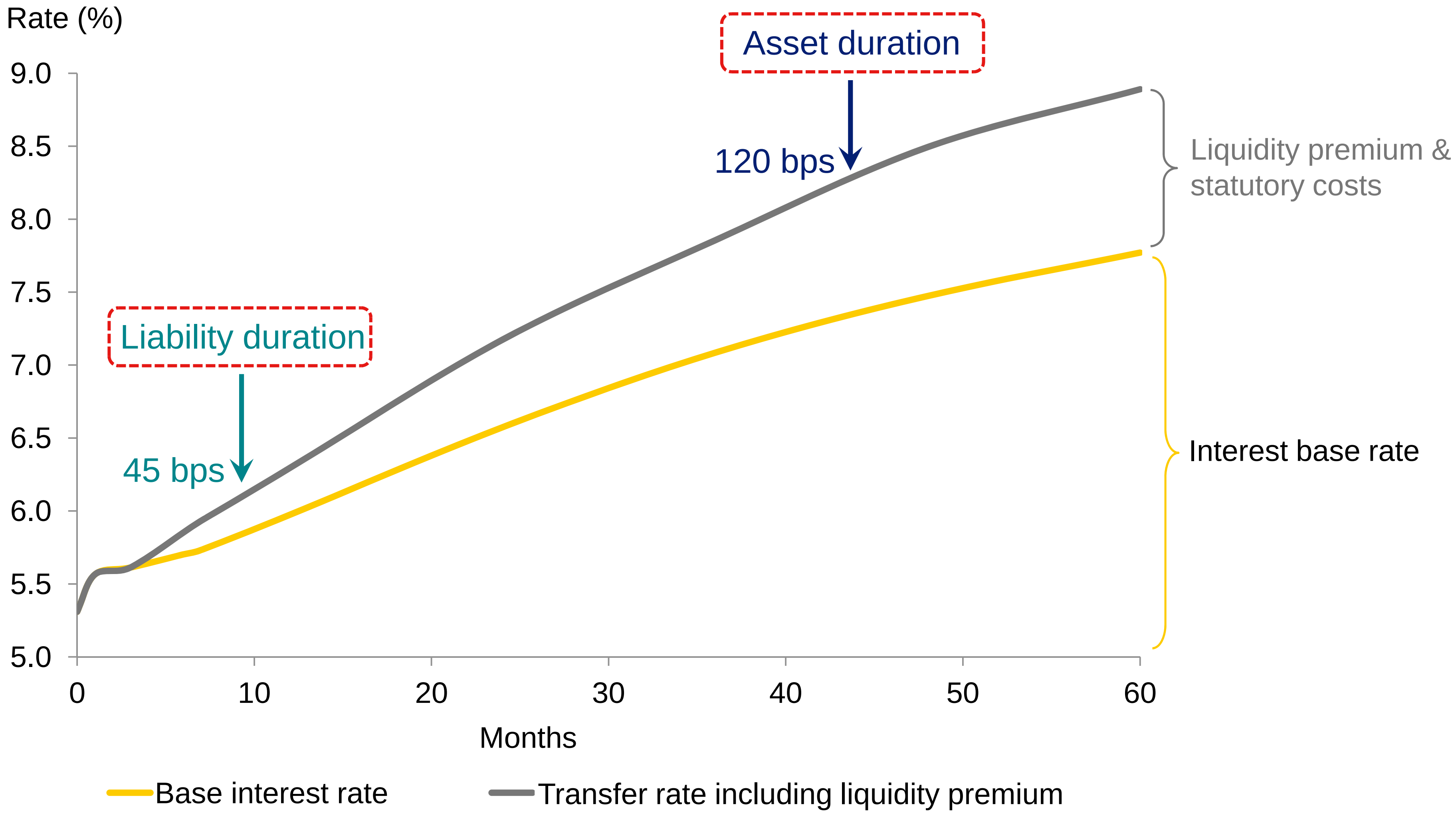




- 28% of liabilities mature within 2 months
- Average duration of assets = 44 months
- Banks have an over-reliance on short-term institutional funding

Sources: SARB BA Returns (December 2010), FirstRand Research

Increased cost of structural liquidity mismatch



A “matched system” will be costly

FirstRand's response

- Funds transfer pricing
  - Behavioural pricing for liquidity and deposits
  - Match-funding for illiquid long dated assets
  - Minimum client pricing on both sides of the balance sheet
  - Repricing business for current and potential future costs
- Funding strategy
  - New measurement on deposit franchise
  - New product offering and development
  - Capital market issuance to extend term of institutional funding
- Prepare for convergence
  - Banks vs principal vs asset management

The FirstRand investment case

- Short-term – earnings growth should outperform macros
- Medium to long-term – deliver superior, sustainable ROEs

What is required to deliver on these objectives?

Financial strength

Earnings resilience

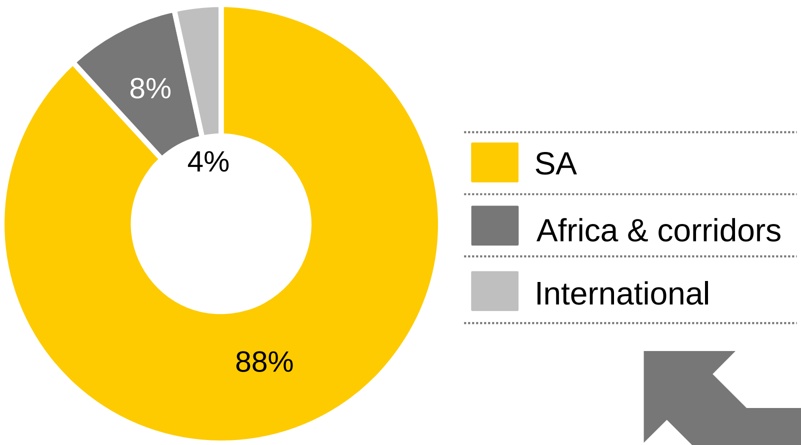
What underpins earnings resilience

- In 2008/09 the Group embarked on process to rebalance earnings profile
- Objectives: to reduce volatility, but continue to deliver superior returns
- Diversity
  - Income streams that provide natural hedges through the cycle
  - Fee income vs interest income
  - South Africa vs rest of Africa
- Quality
  - Portfolio composition – appropriate balance between annuity income from client franchises and income driven by trading and investing activities

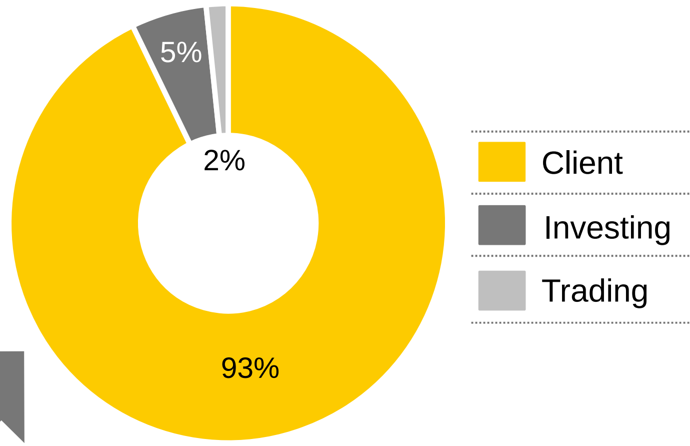
Diversity + quality = lower volatility

Diversity of earnings

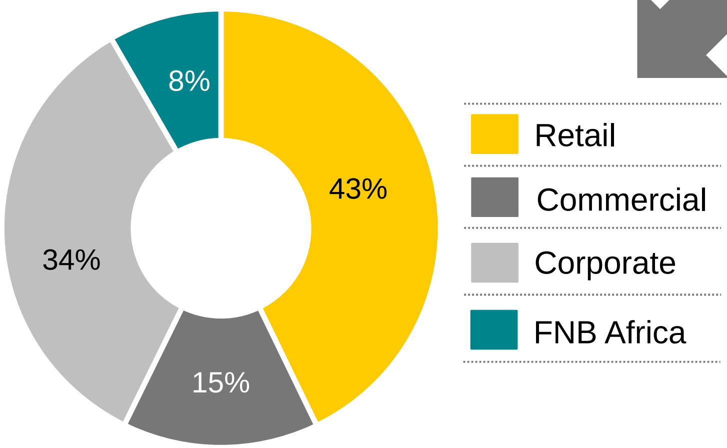
Geography*



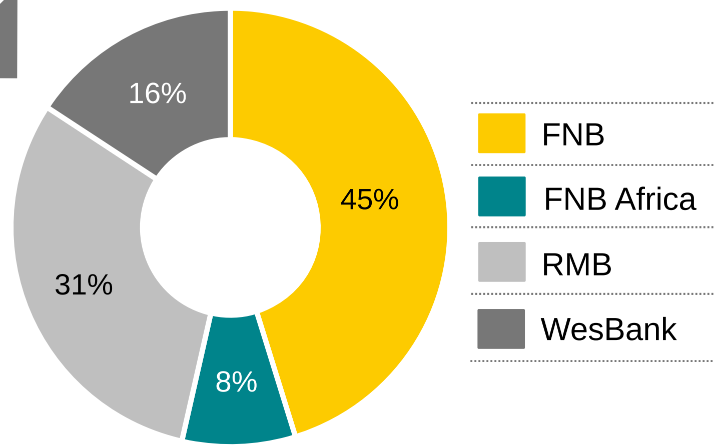
Activity*



Segment†



Franchise†

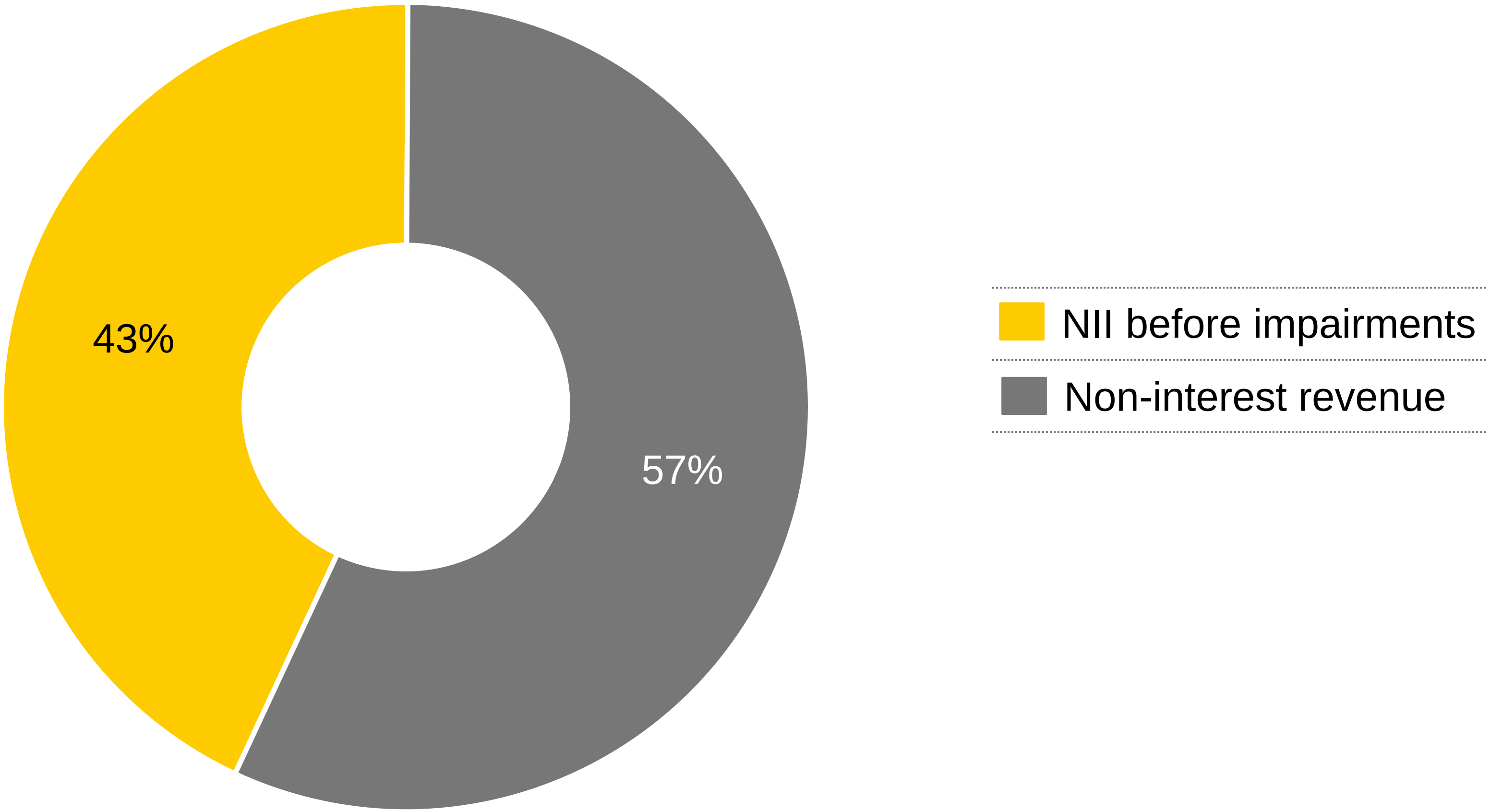


* *Based on gross revenue*

† *Based on PBT, excluding Corporate Centre & consolidation adjustments*

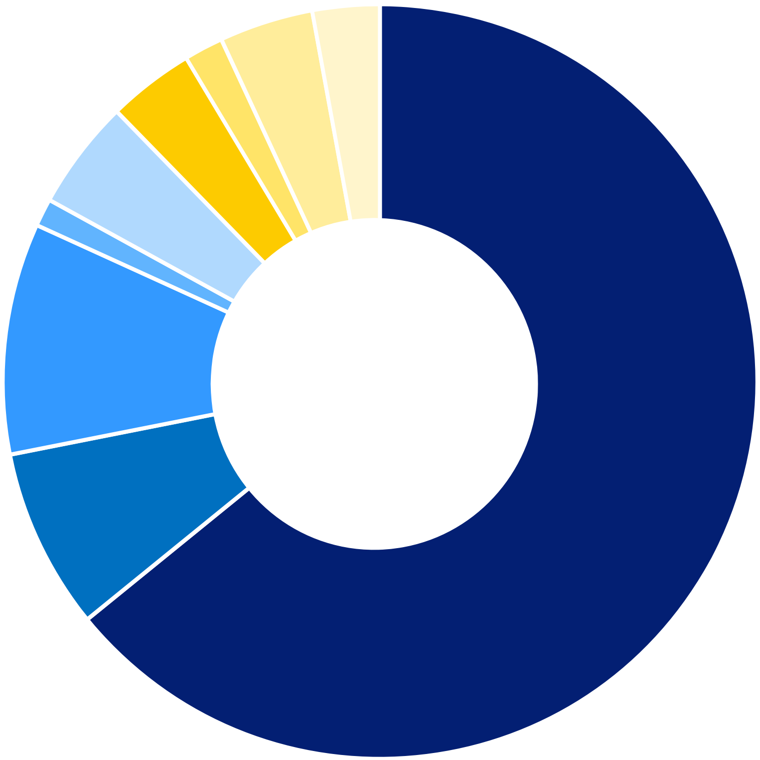
Balance between NII and NIR

Normalised gross revenue breakdown



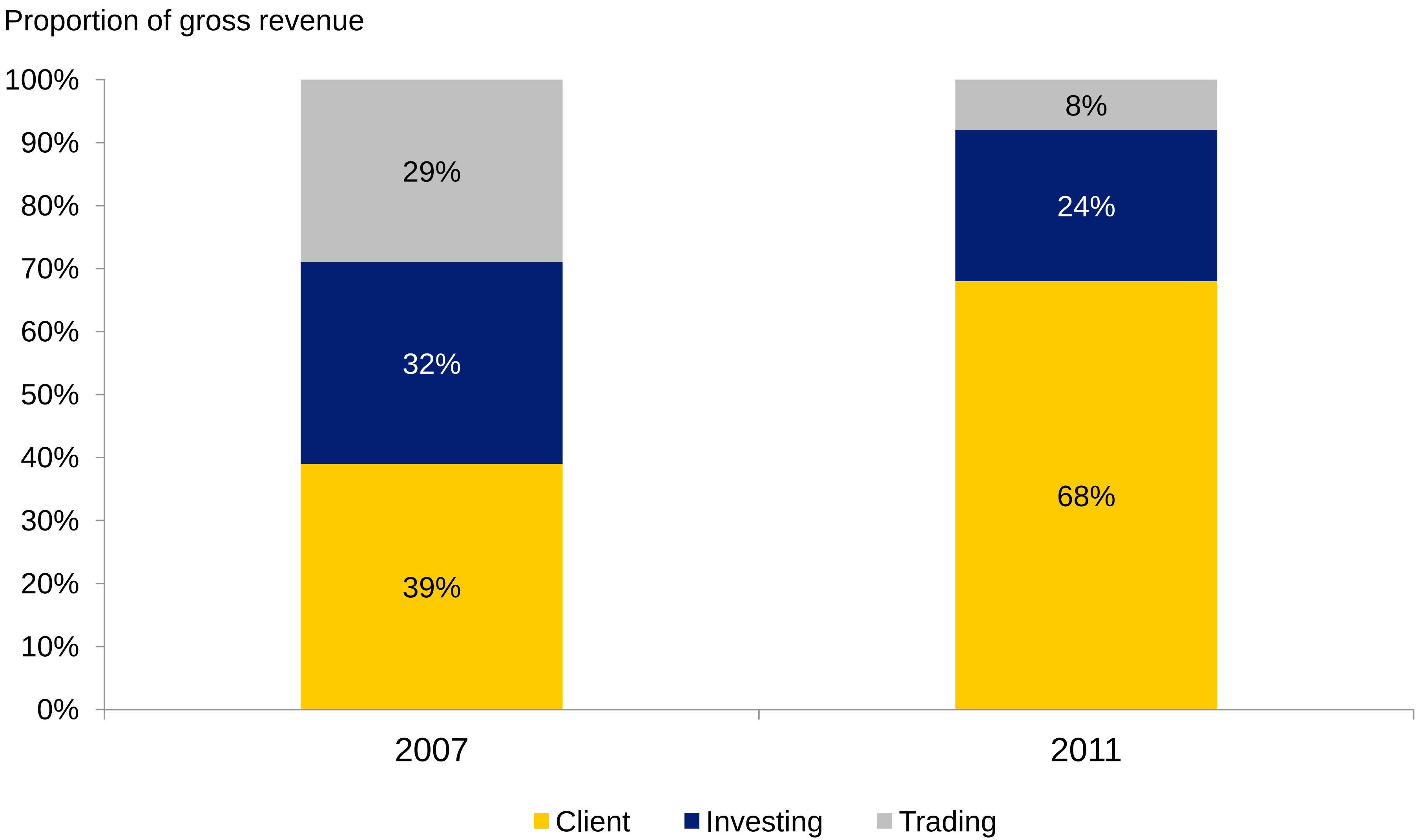
Quality of NIR underpinned by client franchises

Normalised NIR breakdown



64%	Transactional income	Client activity 88%
8%	RMB client flows	
10%	Insurance	
1%	WesBank associates	
5%	Other client	
4%	Private equity	Investment & trading 12%
2%	Resources	
3%	Other investment	
3%	Trading	

RMB rebalanced its portfolio



Quality franchises...

- FNB – most innovative, best ROE
- RMB – leading investment bank in SA
- WesBank – market leader in instalment finance
- ... with compelling growth strategies aligned to Group objectives
  - In South Africa, grow in existing markets and those where currently underrepresented
  - To grow African franchises in key markets and mine the investment and trade corridors

FNB – innovation key to growth in customers and volumes

- In tougher times, innovation becomes a key differentiator
  - 10 years of relentless focus on innovation is now contributing to bottom line
  - Supported by entrepreneurial, owner-manager culture
- Current strategy
  - Focus on building its diversified franchise
    - Customer acquisition and retention supported by appropriate innovative products and delivery channels
    - Repositioning footprint – emphasis on electronic channels
    - Value propositions for customers, i.e. loyalty programmes
  - Enter those market segments where currently under-represented
    - Mass segment – FNB EasyPlan, eWallet, cellphone banking
    - Wealth – BJM, Ashburton
    - Commercial – property finance
  - Africa and India – on track

RMB – excellent franchise will weather tough macros

- Strengthening client franchise
  - Scale trading and investment activities appropriately
- Better service large corporates through creation of CIB, but protect integrity of investment banking franchise
  - Coverage provides integrated approach
  - Improving GTS platform a 3-year process
  - FICC should benefit from increased client flows
- Africa and corridors
  - RMB benefitting from deployment into FNB's African platforms
  - African deal pipeline supported by rep offices in Nigeria, Kenya and Angola
  - India platform supports African deal pipeline through focus on clients active in African / India Corridor and profitable niches

WesBank – unique model underpins market leadership

- Core strategy to protect and grow current local franchise – dominate point of sale through industry partnerships
- Target segments where under-represented
  - Mid corporate
    - Identified over 1 000 potential customers not currently serviced in wholesale segment
    - Collaboration with FNB
  - Large corporate
    - Collaboration with CIB creating good leads
  - Full maintenance rentals
    - Signed initial strategic alliances with Imperial and Toyota
    - Opportunities in retail private leasing
  - Africa
    - Deploying resources into FNB Africa subsidiaries

The Group is making progress on cost management

- No cost-to-income target, but managing core costs has received significant focus
  - WesBank reduced headcount by 32% since 2009
- Not a one-size-fits-all strategy – facilitated by business model
  - Down-sizing in low-growth businesses, i.e. HomeLoans
  - Significant investment in growth opportunities such as EasyPlan and Africa
- When aligning C:I methodology with peers, our cost-to-income ratio is 53.3%

To sum up

- Can we deliver?
  - Short-term – earnings growth should outperform macros
  - Medium to long-term – deliver superior, sustainable ROEs

- We believe we can:
  - Balance sheet strength
  - Improved ROA
  - Diversity and quality of earnings profile
  - Franchise strength – real competitive advantages in many market segments
  - Disciplined approach to growing in Africa
  - Appropriate strategies to deal with the increased cost of regulation

“Bearish” on macros, “bullish” on franchise outperformance