



# FirstRand

US Roadshow – May 2004



The environment



# Improving macro environment

- Prime interest rate expected to remain unchanged at **11.5%** for 2004
- CPIX Inflation expected to peak at **6%** by December 2005
- GDP growth of **±3%** is expected in 2004 & 2005
- Do not expect a collapse of the rand
- Expect asset values to continue to improve



# What does this mean for Banking?

- Continued strong:
  - New business growth
  - Transactional and trading income
  - Income from merchant banking fees
- Low bad debts and NPLs
- Margins
  - Maintain core margins
  - No further erosion of endowment effect



# What does this mean for Insurance?

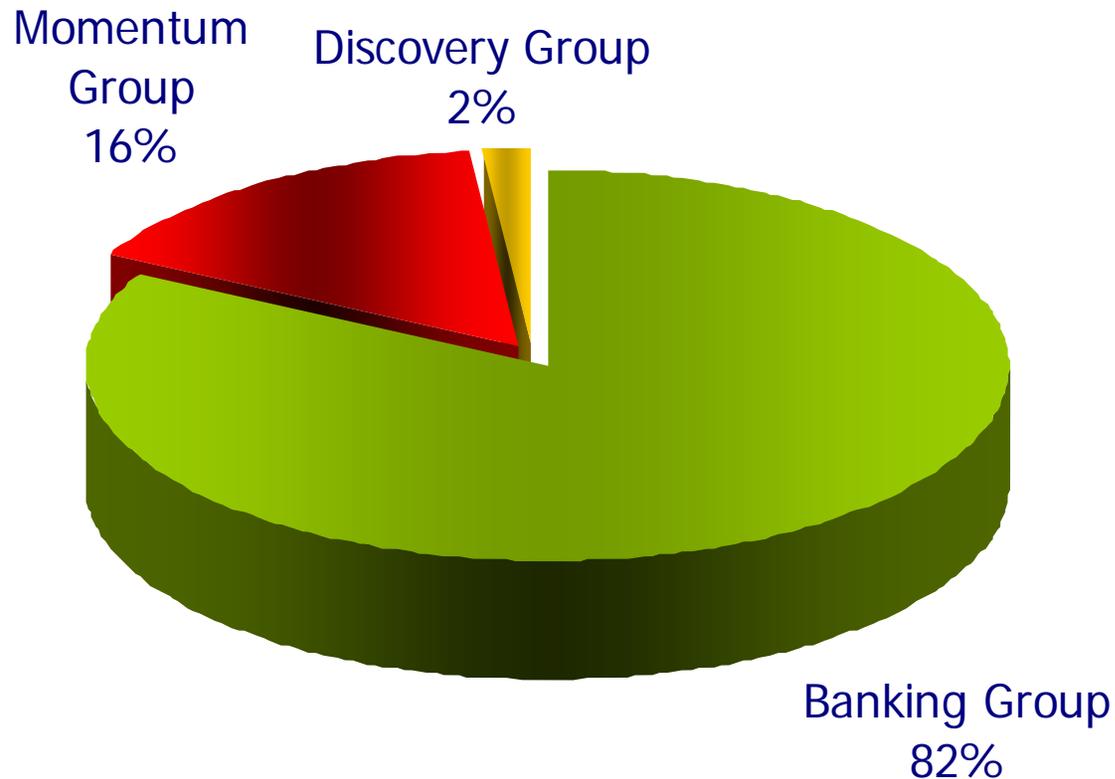
---

- Improved
  - Equity markets
  - Investment performance
- Continued strong growth in unit trust and linked product sales
- Improved demand for equity linked savings and retirement products of insurance companies



# Environment currently favours banking

## Headline earnings



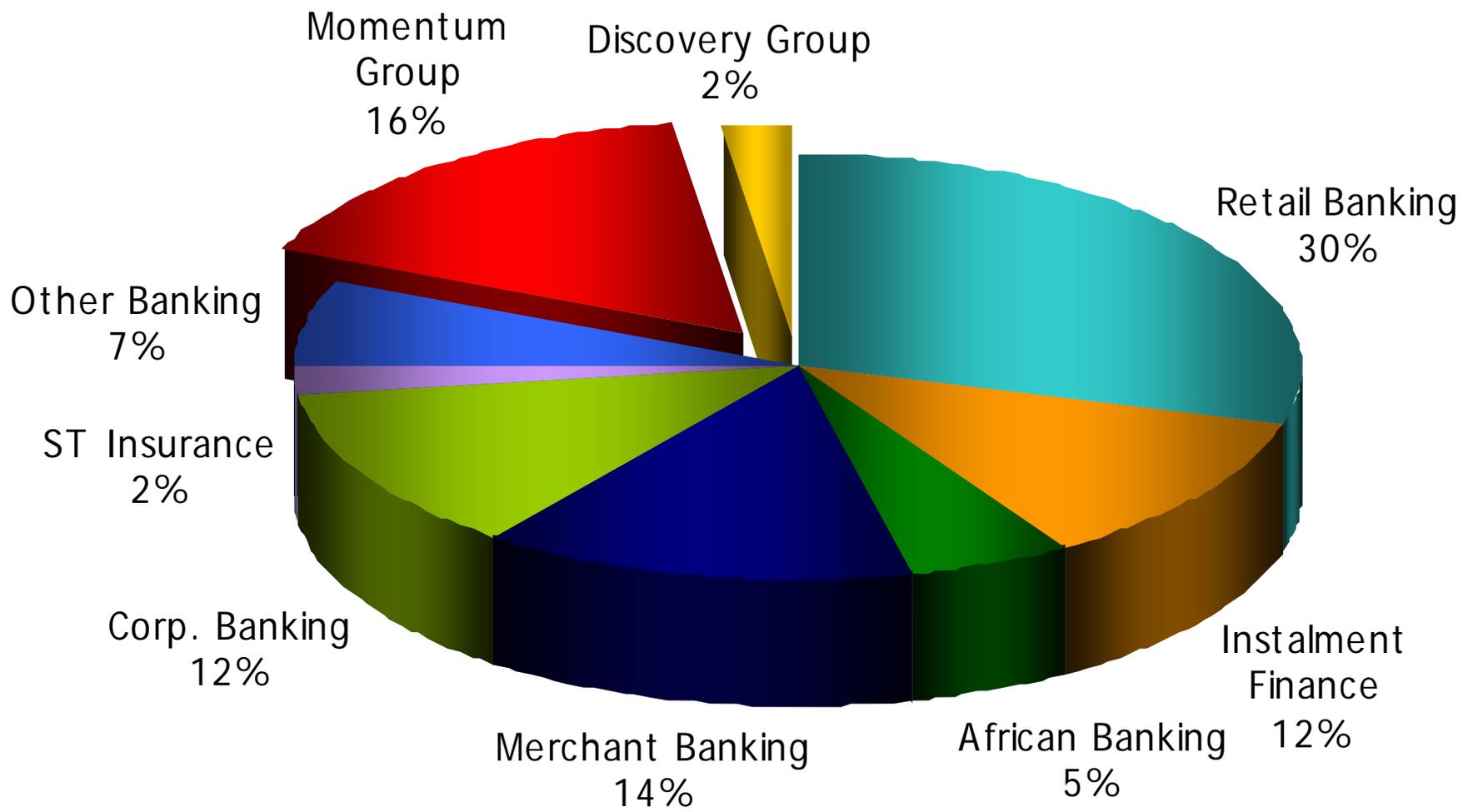
Financial results for the 6 months ending 31 December 2004



How is FirstRand positioned?



# Diversity provides robustness



Financial results for the 6 months ending 31 December 2004



# Integration unlocks value

- Diversified outside banking successfully due to:
  - Entrepreneurial culture
  - Building blocks
    - Infrastructure (IT and distribution)
    - Intellectual and product
    - Brand
    - Client base
- Created new sources of revenue
- Discovery
  - Leveraged Momentum's brand and distribution
- Retail – leveraged insurance intellectual skills (eg: Embedded Value)

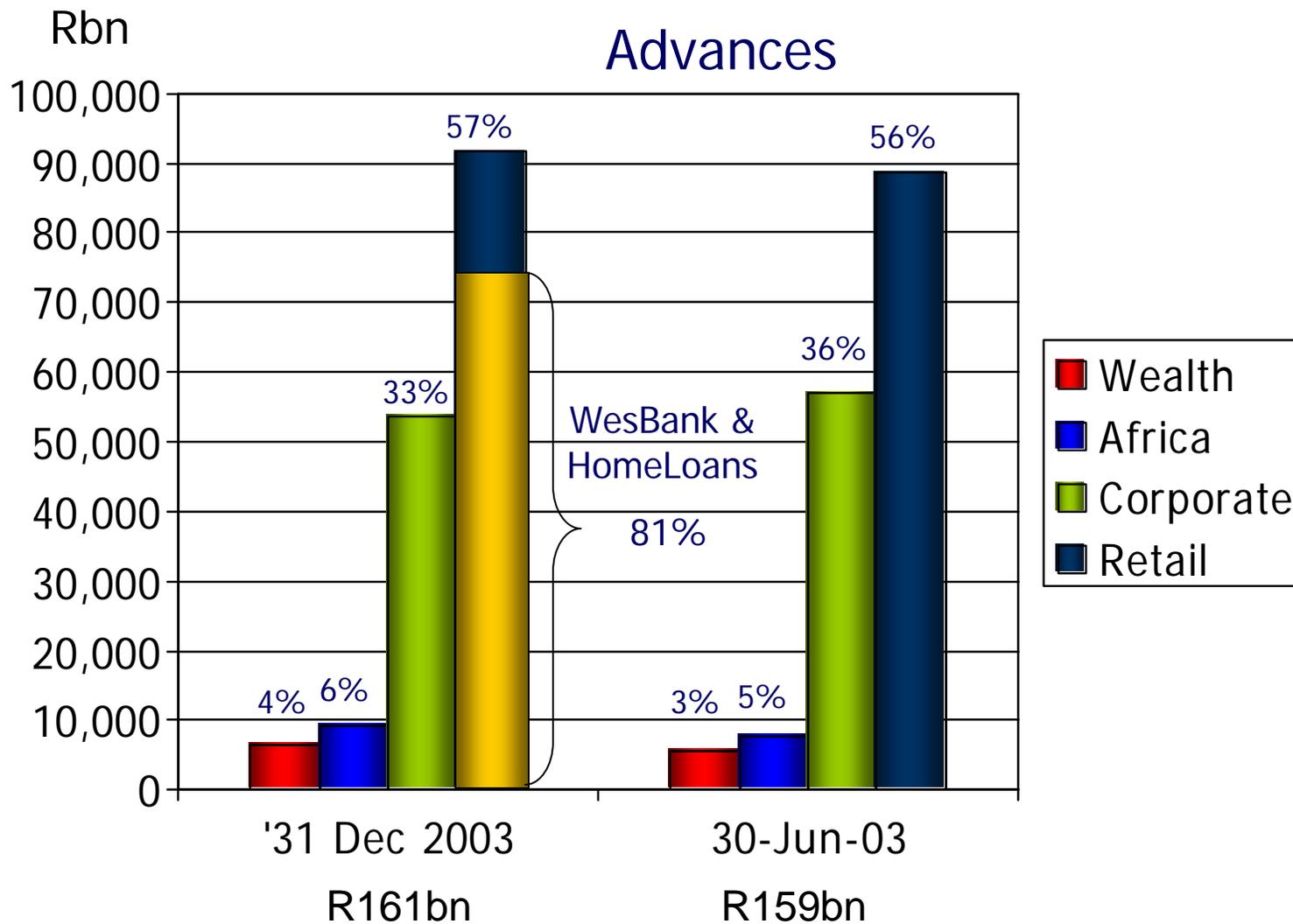


# Key focus areas

- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Biggest chunks of the book....





## ...showing impressive growth

	New business	Total advances
WesBank	+24%	+23%
FNB HomeLoans	+37%	+6%

- Retail asset growth +12%
- Corporate asset growth:
  - Medium corporate +20%
  - Large corporate +3%



# Key focus areas

- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Collaboration facilitates new business growth

## FNB Life

- Low hanging fruit in credit life (new business)
  - Embedded in products (eg: credit cards, overdrafts, etc)
  - Credit life / homeloans penetration:
    - 2003 1%
    - Currently 19%
    - Targeting 35%
  - Funeral policies:
    - Currently 10% of Smart accounts
    - Targeting 40% of Smart accounts
- Distribution of low advice products through banking channels
- Utilises Momentum's licence and actuarial skills



# Growth through collaboration

Retail income from insurance operations up **68%** year on year

Rm	Dec 02	Dec 03	June 03	% change YOY
OUTsurance	40	68	85	70%
FirstLink	18	25	62	39%
WesBank	75	100	160	34%
Homeloans	-	35	46	
FNB Life	(5)	0	5	>100%
FNB Consultants	18	17	33	-6%
<b>Total</b>	<b>146</b>	<b>245</b>	<b>381</b>	<b>68%</b>

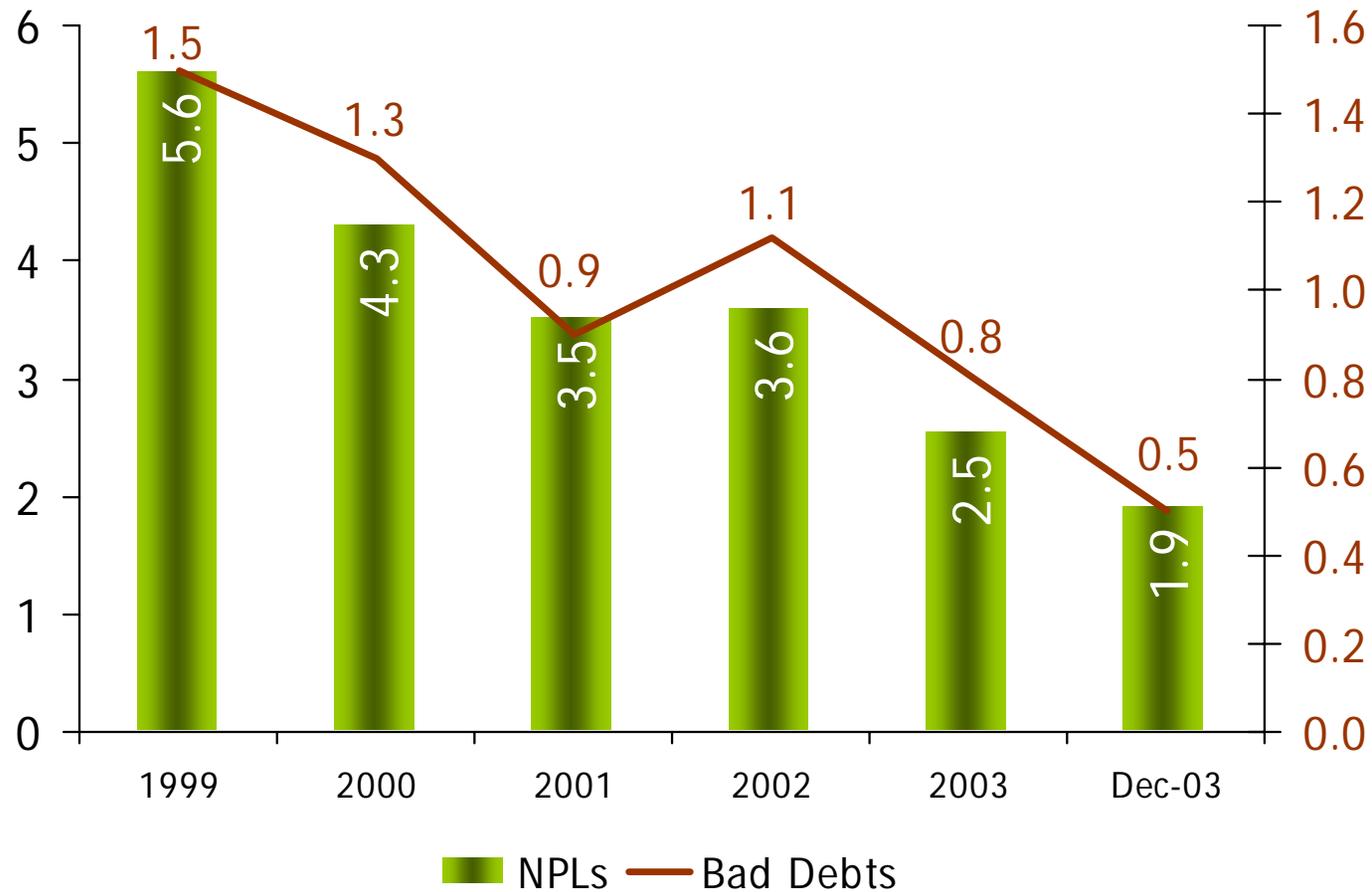


# Key focus areas

- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Bad debts and NPLs at all time lows

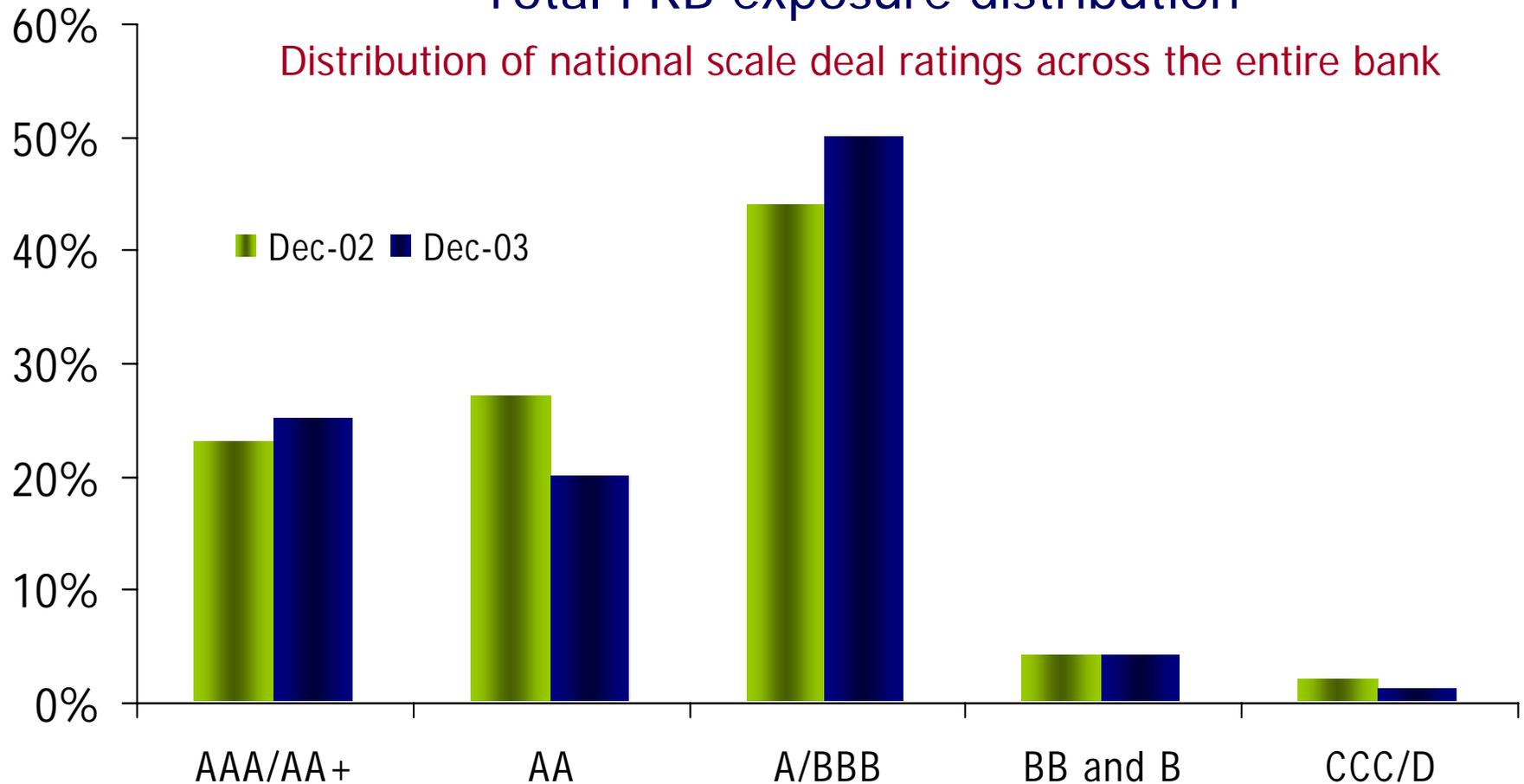




# Improved credit profile

## Total FRB exposure distribution

Distribution of national scale deal ratings across the entire bank



- Corporate loans average deal rating remained static at FR22 (A+)
- Retail loans average deal rating improved from FR33 (A-) to FR30 (A)

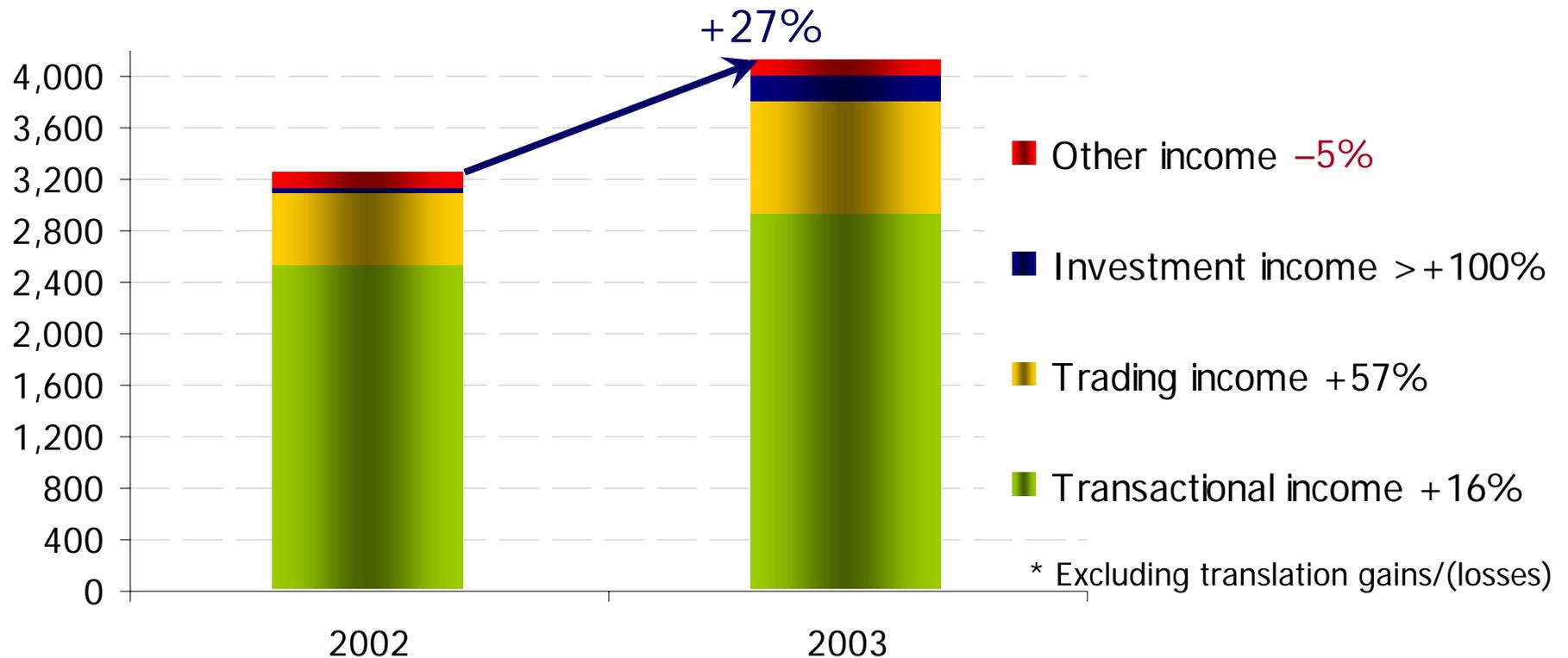


# Key focus areas

- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Excellent growth in NIR



- Transactional income driven by strong client acquisition and volume growth
- Much improved trading environment off low base

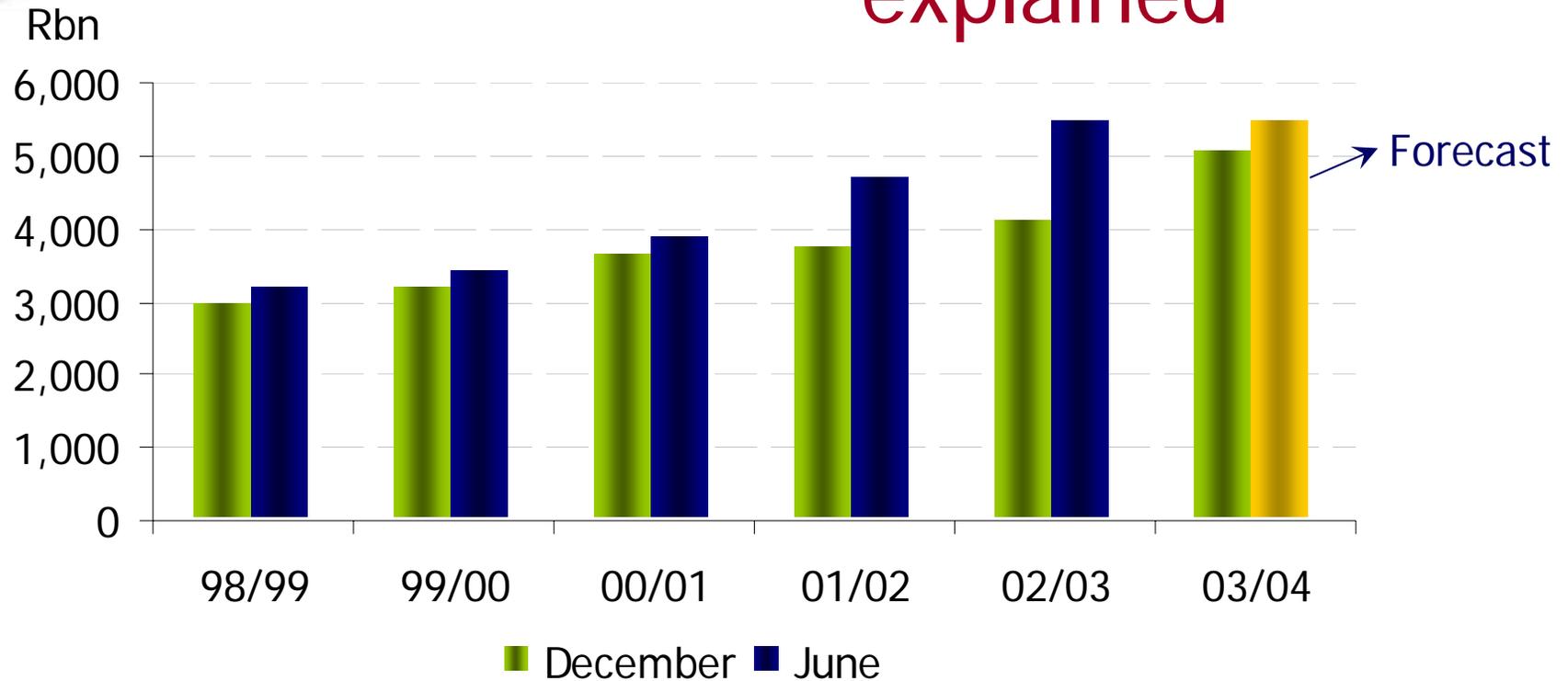


# Key focus areas

- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Expenditure anomalies explained

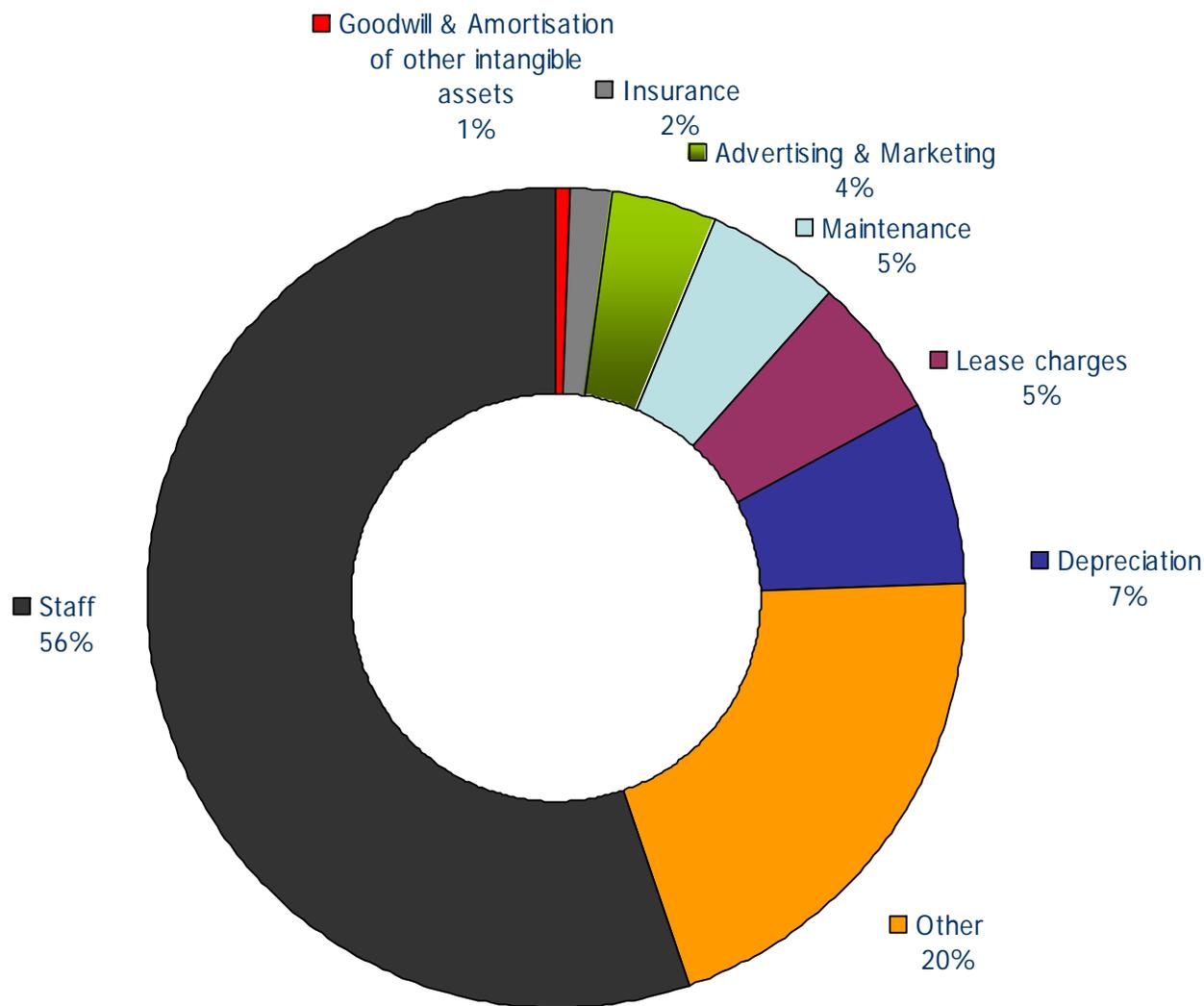


- Two sets of salary increases included to align to new increase dates
- Second half expenses **not** expected to show similar increase
- Cost increase YOY if we spend budget, between 10% and 11%



# Analysing the non-interest expenditure

FirstRand Banking Group: R5bn





# Key focus areas

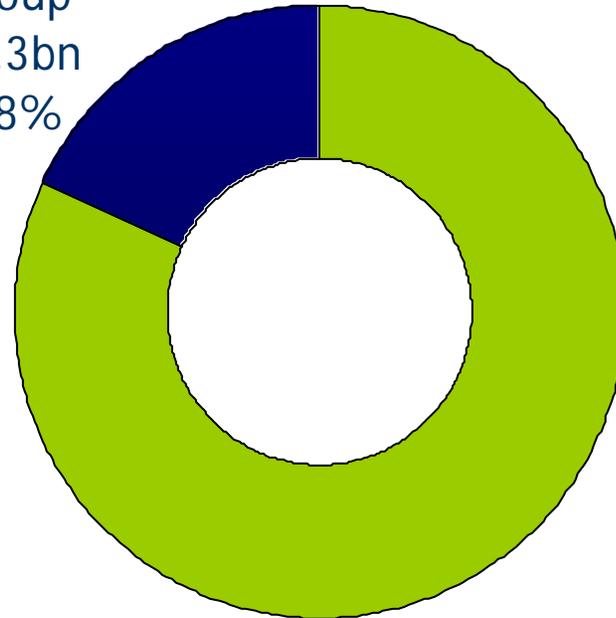
- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Where is our capital?

Capital adequacy 2X CAR

Insurance  
Group  
R4.3bn  
18%



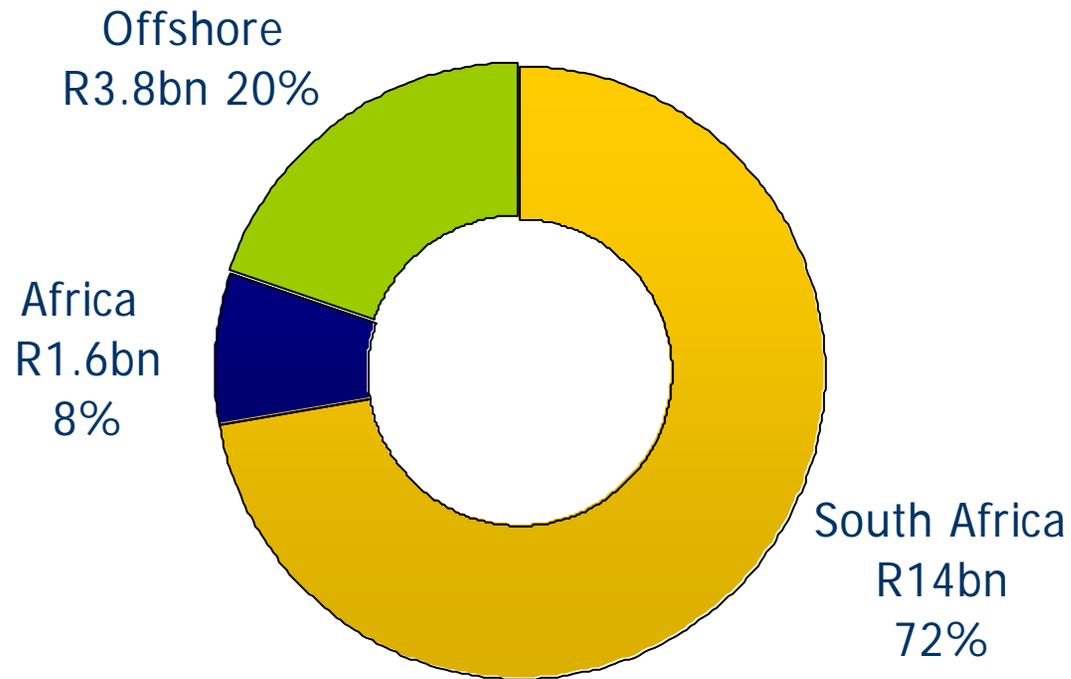
Banking  
Group  
R19.4bn  
82%

Capital adequacy 12.5%



# Allocated.....

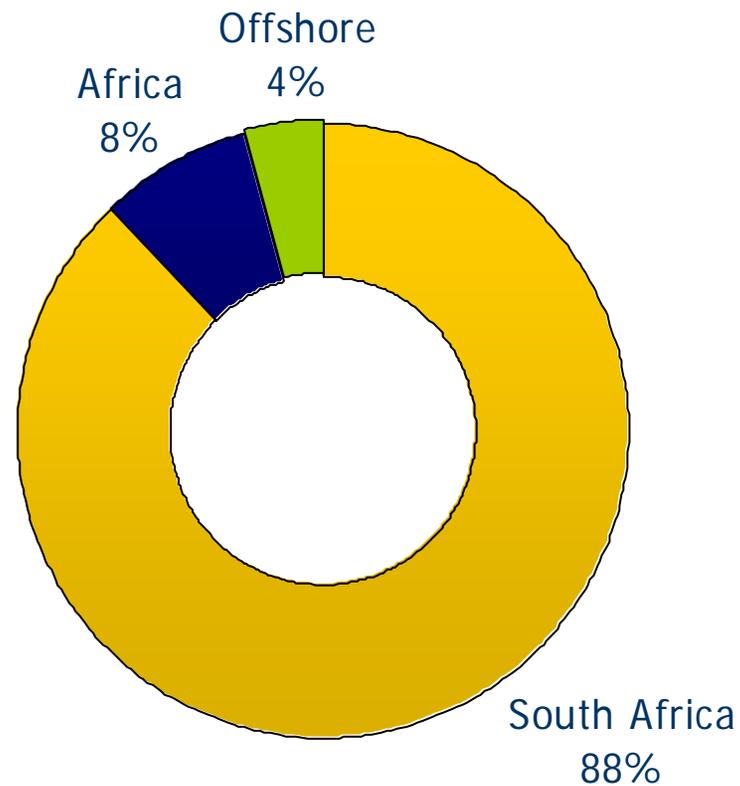
Total capital FirstRand Banking Group: R19.4bn





..... for optimal return

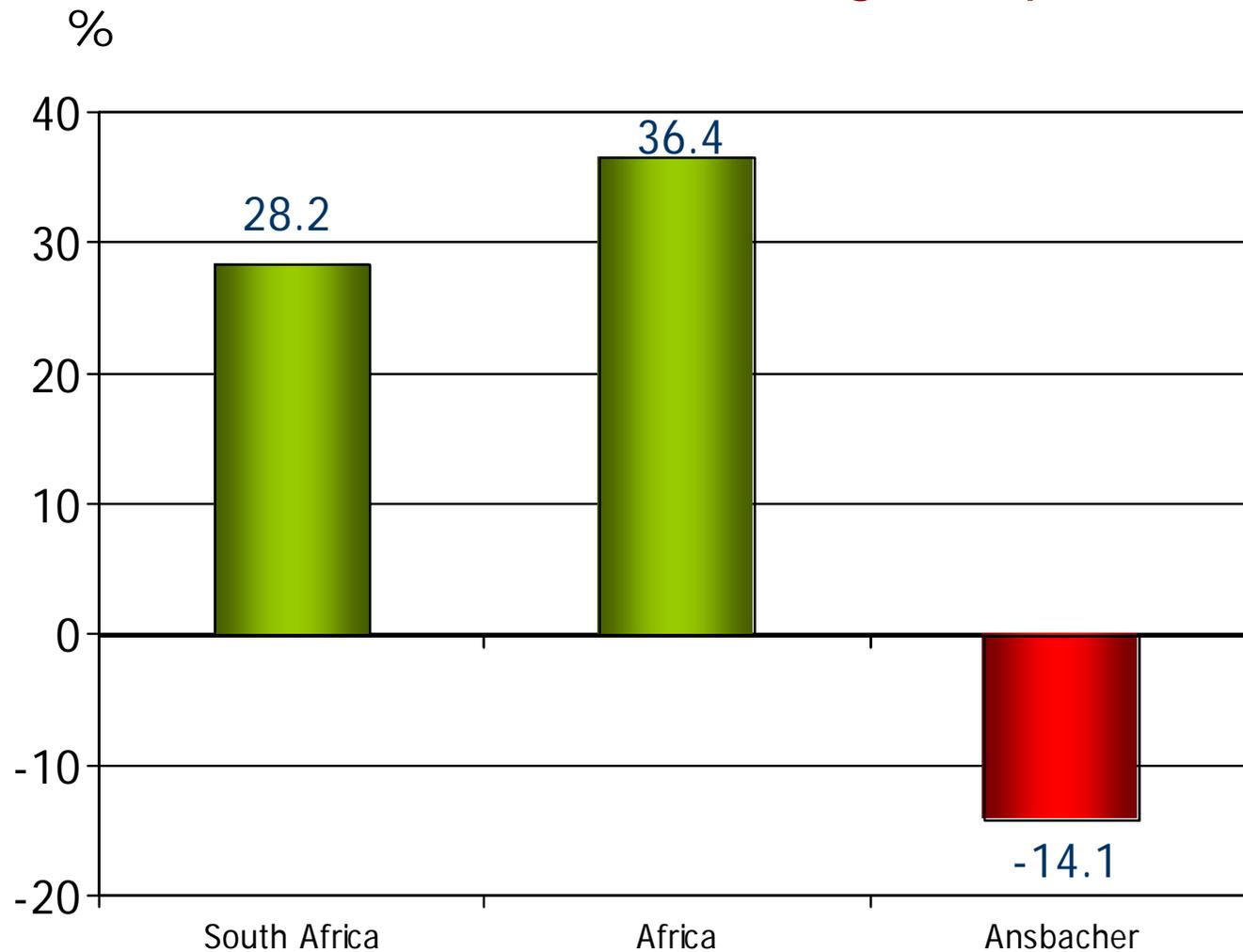
## FirstRand Banking Group attributable earnings





# Strong ROEs a priority

FirstRand Banking Group



\* Based on core headline earnings



# Sources of surplus capital

## Generated by

- Banking group
- Sale of Ansbacher (£100m)
  - Capital adequacy
    - Tier 1 14%
    - Tier 2 7%
  - Expected to be concluded by June 2004
- African Subsidiaries
  - Capital adequacy
    - Tier 1 16%
    - Tier 2 3%

## Possibilities

- New initiatives by business units
- De-gearing of FirstRand
- Revise dividend policy

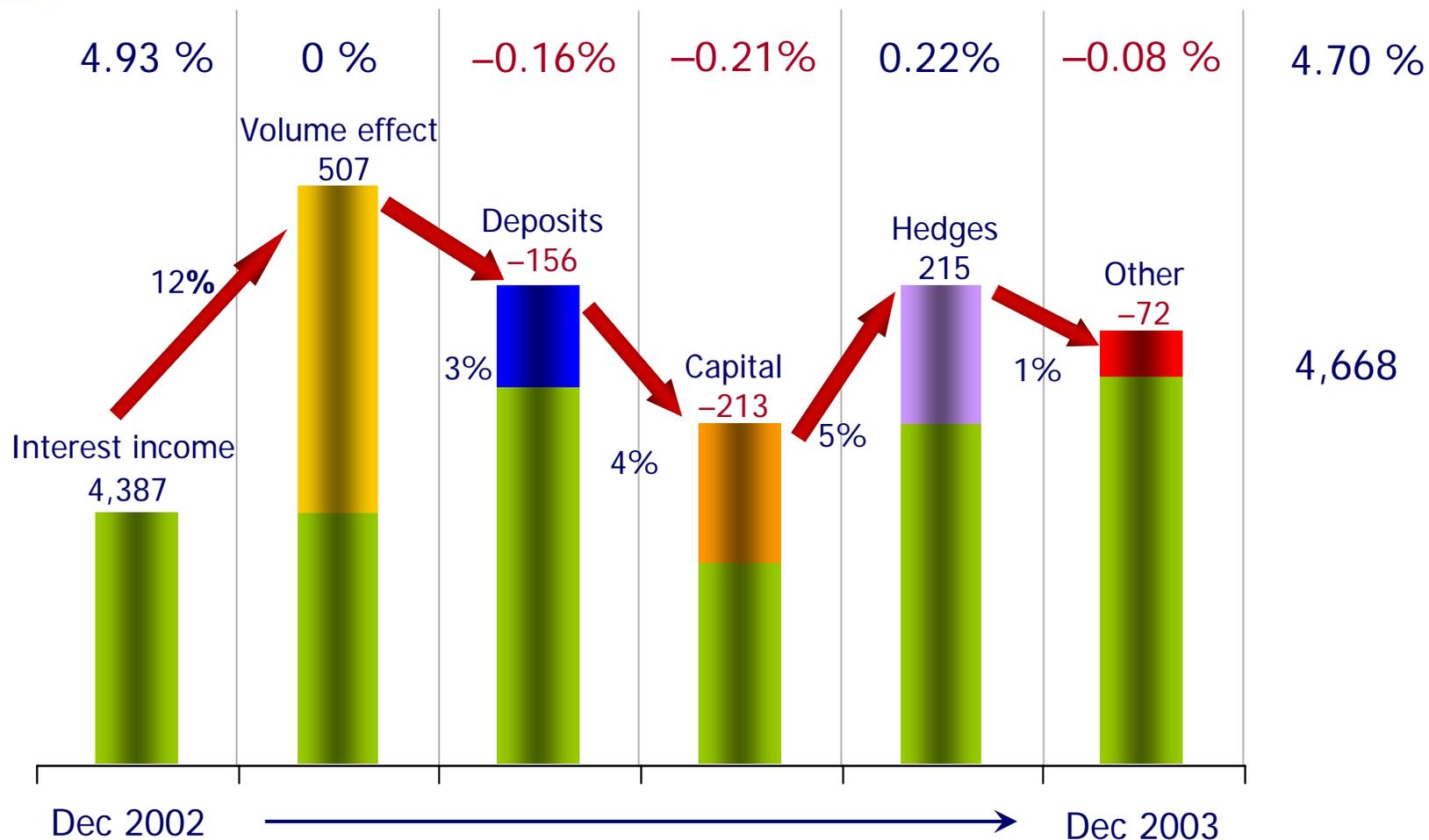


# Key focus areas

- New business growth
  - Inculcating sales culture
  - Product innovation
  - Collaboration
- Credit quality
- Growing Non-interest revenue
- Productivity improvement and cost containment
- Optimal capital management
- Margin protection through hedging
- Greenfields providing “sweeteners”



# Protecting the margin



- Volume growth more than compensates for margin squeeze
- Hedging provides satisfactory protection

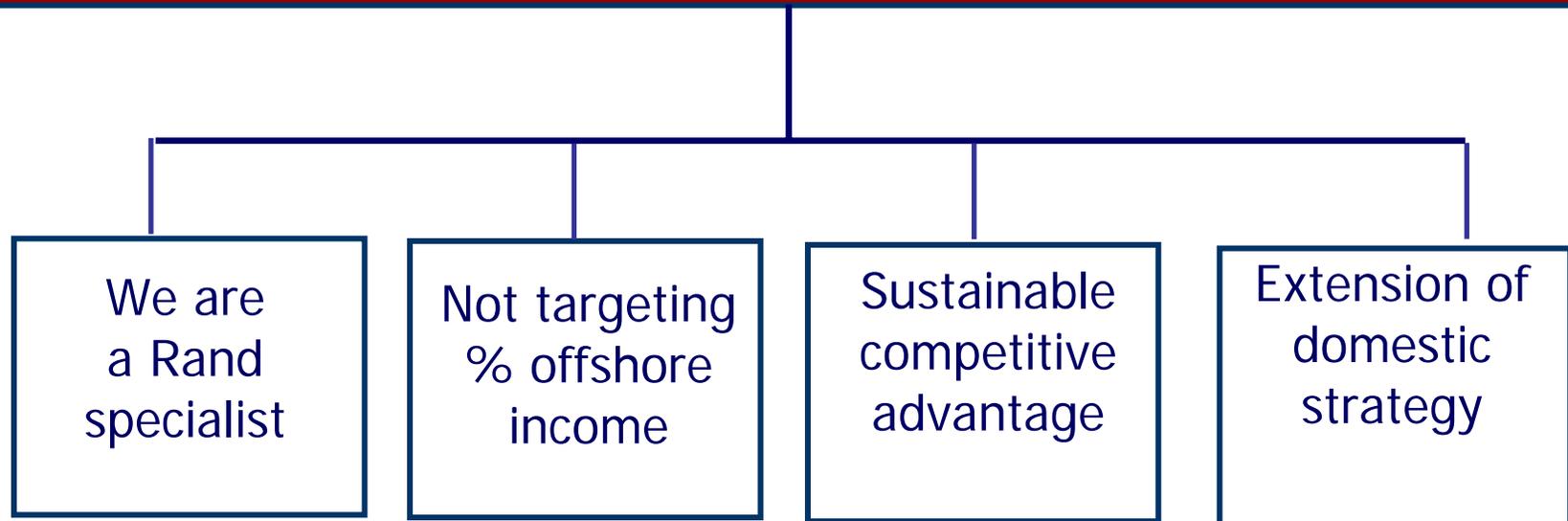


Africa and international



# FirstRand provides strategic alignment

## Components of strategy





# Africa is a strategic priority

---

- Natural extension of core business
  - Current Retail operations have shown good growth/ROE's
  - Successful Corporate "briefcase banking"
  - Preference is for "greenfields" expansion but will not rule out acquisitions
- Recently appointed a senior "Mr Africa"
- Currently re-focusing strategy
  - Ensuring existing operations running optimally
  - Identified key new territories



# Africa in perspective

Percentage contribution Africa to group core headline earnings

	Prior year annual results	Most recent annual results
Stanbic	9.2%	8.2%
FNB Africa	7.3%	8.1% <sup>**</sup>
Nedbank	3.3%	4.3%
ABSA	2.6%	3.8% <sup>**</sup>

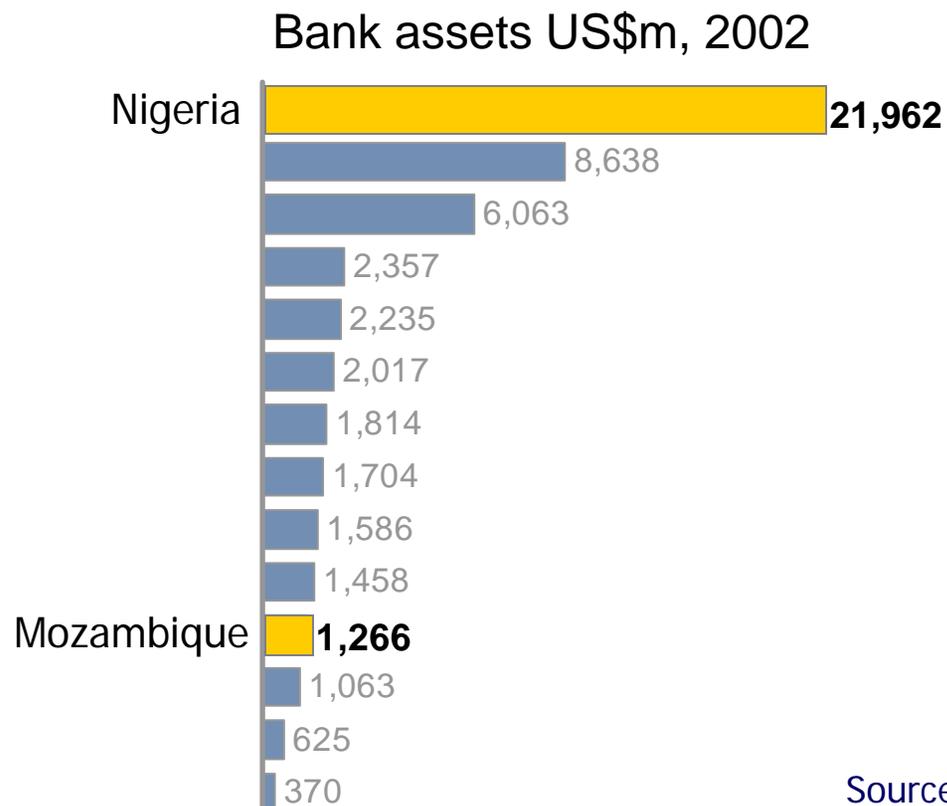
\* Only retail operations

\*\* Half year results



# Africa in perspective

- SA banking assets US\$200bn
  - Mozambique 0.6%
  - Nigeria 11%



Source: Bank scope; Team analysis



# US Health Market

- Discovery entered the US market, through Destiny Health brand, in 2000
- Broke-even in February 2004
- Partnerships with Guardian Life and Tufts Health Plan provide **brand credibility, reach and distribution** capability





# Financial Services Charter



# The components.....

Charter Component	Scorecard	Grade
HR Development	20	
Junior		
Executive		
Senior		
Ownership	22	
Procurement and Enterprise Development	15	
Access to Financial Services	18	
Corporate Social Investment	3	
Empowerment Financing	<u>22</u>	
	100	



Strategy



# Our unique structure and value proposition

- Owner-manager culture
- Separate profit centres
- Portfolio of brands
- Supported at the centre
  - Capital
  - Strategic alignment
  - Business philosophy

Lots of little growth stories



# Growth strategy remains the same

---

- Combination of
  - Continuous improvement
  - Acquisitions
  - Collaboration
  - Promoting and nurturing “greenfields”