



# Presentation to Counterparty Banks

London, November 2003

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CFO FirstRand Ltd



# Agenda

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- What is FirstRand?
- Growth strategy
- International strategy
- The numbers
- Risk management
- Capital management
- Prospects in a changing environment



# FirstRand's strategic intent

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- An integrated financial services company
- Comprehensive range of products and services to all segments in the South African market
- Niche products in certain international markets
- FirstRand is differentiated by:
  - Its unique business philosophy
  - De-centralised structure
  - Owner-manager culture
  - Portfolio branding strategy



# Key stats

## FirstRand Ltd

• Total assets	R396bn	\$49.5bn
• Net asset value	R22bn	\$2.75bn
• Core headline earnings	R5.2bn	\$638m

Exchange rate used: 1 USD = 8 ZAR



# SA's top 10 listed companies

Company	Market Capitalisation	
	ZAR (bn)	USD (bn)*
Anglo American Plc	208.8	26.1
BHP Billiton Plc	134.0	16.8
Richemont Securities AG	81.0	10.1
Anglo American Platinum Corp	62.4	7.8
Sasol Ltd	61.6	7.7
AngloGold Ltd	60.2	7.5
SABMiller Plc	58.9	7.4
Old Mutual Plc	45.9	5.7
Standard Bank Group Ltd	44.9	5.6
<b>FirstRand Ltd</b>	<b>44.4</b>	<b>5.6</b>

\* Exchange rate used: 1 USD = 8 ZAR



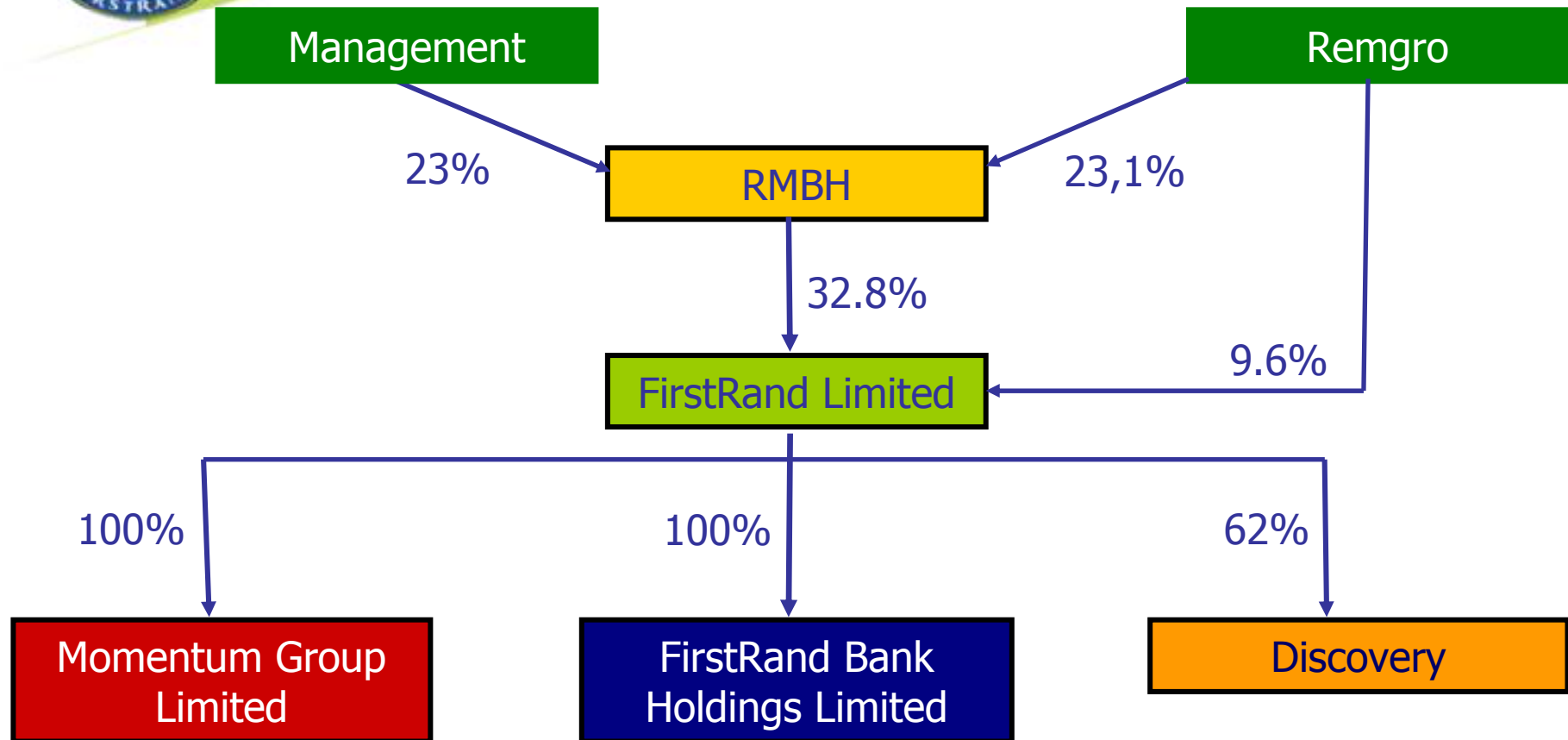
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Remgro Ltd	31.2	3.9
Absa Group Ltd	25.6	3.2
Liberty International Plc	23.6	3.0
Sanlam Ltd	22.9	2.9
Nedcor Ltd	18.8	2.3
Liberty Group Ltd	14.7	1.8
RMB Holdings Ltd	14.3	1.8

\* Exchange rate used: 1 USD = 8 ZAR



# Group structure



- Individual life
- Employee benefits
- Investments

- Investment banking
- Corporate banking
- Retail banking
- Private banking
- Short term insurance

- Discovery Health
- Discovery Life
- Destiny Health



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# Growth strategy

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- Classic organic growth



# A fully diversified earnings base

- Not a single growth story
- Less reliance on profits from any single business unit, which provides a measure of protection
- Each business unit formulates own response/strategy for each segment





# Growth strategy (cont.)

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- Classic organic growth
- Acquisitions
- Collaboration
- More greenfields



# Ability to create new sources of revenue



RMB PRIVATE BANK  
— A division of FirstRand Bank Limited —



eBucks.com

OUT  
SURANCE

 Discovery

Destiny  Health  
Comprehensive Consumer Driven Healthcare™



# Agenda

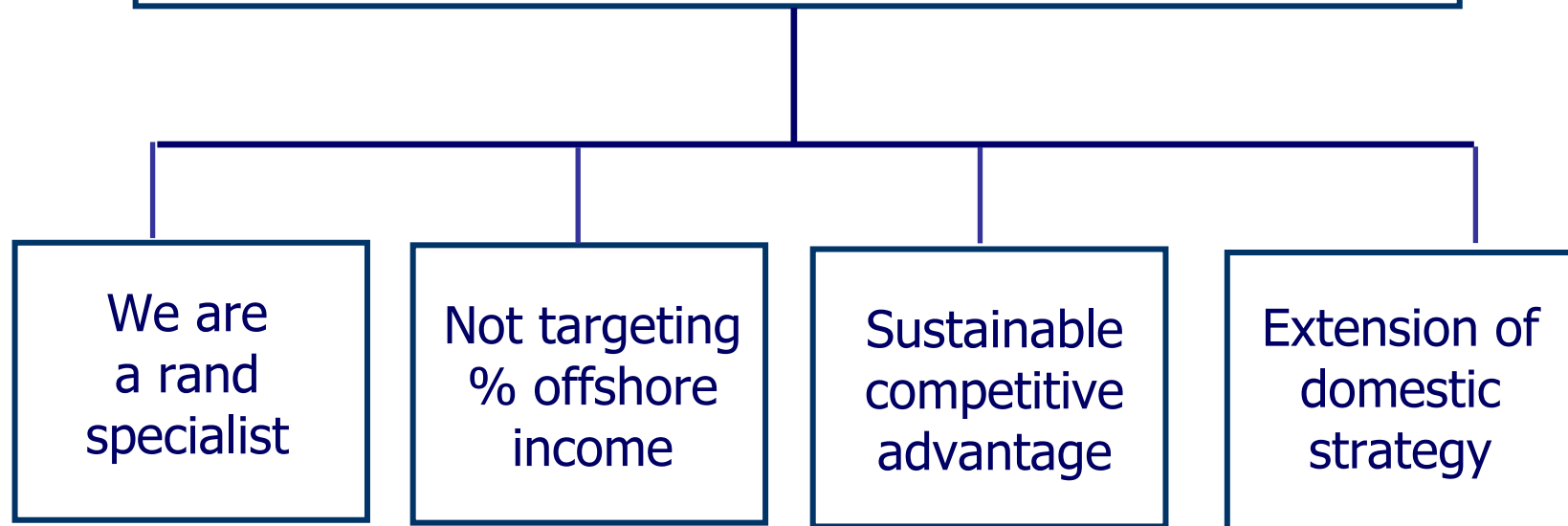
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# Our view on international

## Components of strategy



FirstRand provides strategic alignment



# Strategic decision on international activities

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- Ansbacher disengagement
- Good opportunities for Retail in Africa
- Our plan to expand in Africa



# Rationale for Ansbacher disengagement

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- Does not fit our international strategy
- Requires scale
- Underperforming capital
- Historical investment





# Ansbacher disengagement

## Timetable

Information Memorandum to prospective bidders	End November 2003
Identify & shortlist bidders	End November 2003
Receive final bids	Early December 2003
FirstRand selection of final bidders	Mid December 2003
Advise selected bidders to proceed with due diligence	Mid December 2003

Unlock £100m of NAV



# Good opportunities for Retail in Africa

- SA now largest source of FDI into Africa
- 20% of SA exports go to Africa
- Superior ROEs
- Good track record (3 year CAGR = 38%)



# Our plans to expand

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- Retail
  - Grassroots
  - Acquisition of local banks
  - Would consider purchasing a network
- Corporate
  - Origination of project finance and trade finance assets



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- International strategy
- **The numbers**
- Risk management
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# Another year of superior growth

FirstRand Ltd	Pre-AC133	Post-AC133
Core headline earnings	+23%	+30%
Dividend per share	+23%	+23%
ROE (core headline)	+27%	+28%
Compound NAV incl. dividends (4 years)	+24%	+25%



# Unpacking the growth

Growth 2003 = R965m = +23%

## Contributors:

Retail	10%	}		Growth:
Capital	6%			+265%
Corporate	6%			+42%
Greenfields	4%			+69%
Momentum	1%			+206%
	<hr/> 27%			

## Non-contributors:

Ansbacher UK	(2%)
RMBAM	(2%)
<b>Total Growth</b>	<hr/> 23%



# Profit contribution

22% (2002: 24%)



78% (2002: 76%)

■ Banking Group

■ Insurance

Pre-AC133:

Insurance +10%

Banking +26%

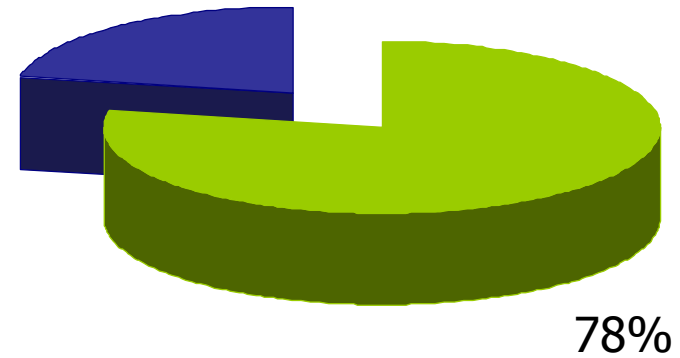
Post-AC133:

Insurance + 9%

Banking +35%



# Banking Group







# Key indicators

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	Pre-AC133	Post-AC133
Core headline earnings	+ 26%	+ 35%
Return on equity	+ 25%	+ 26%
Total assets	R302bn	
Total advances	R189bn	
Total capital	R18.7bn	



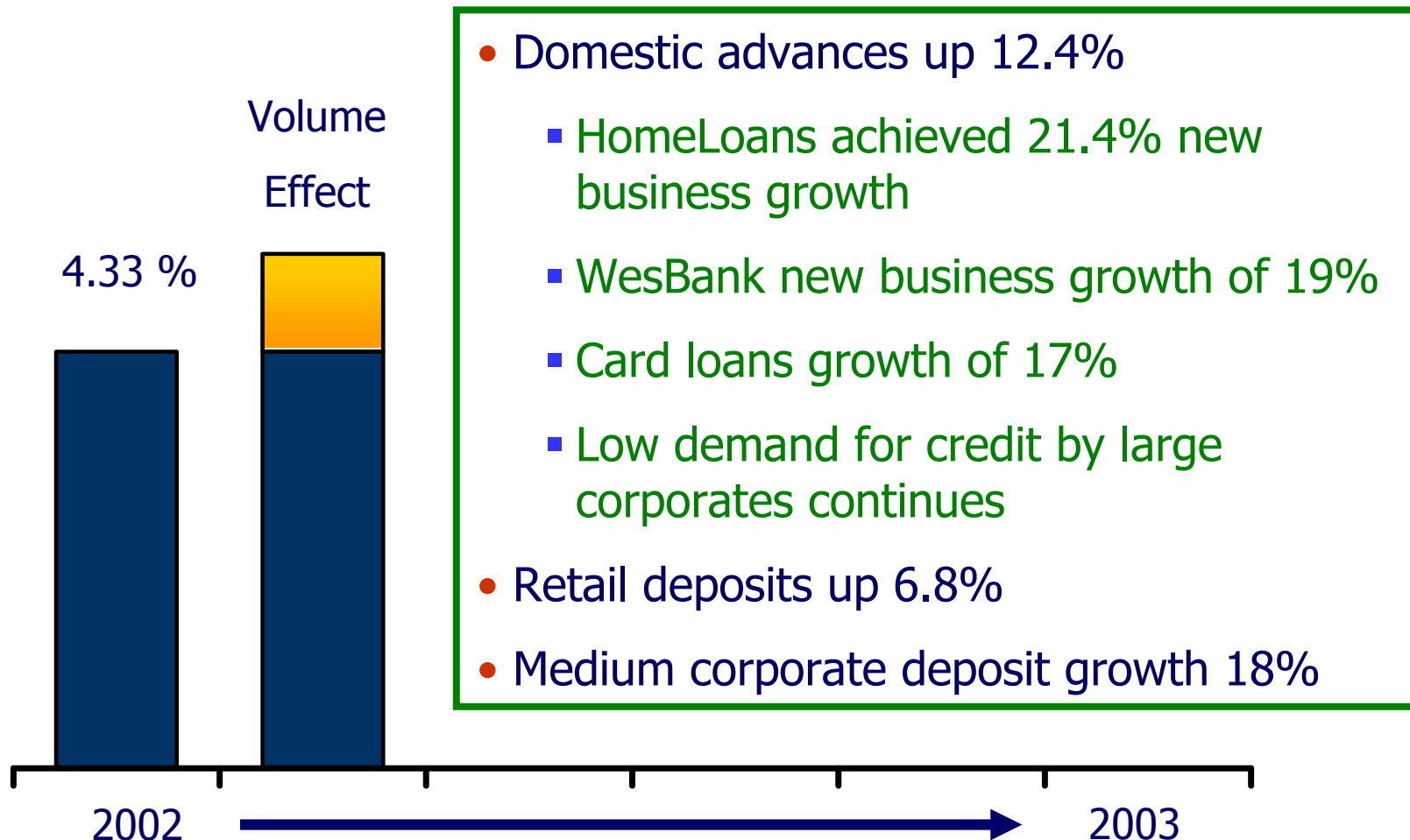
# The strategy is delivering

- Strong net interest income growth
  - Load acquisitions deliver
  - Strong deposit and asset growth
  - Endowment benefit on retail deposits and capital
- Improved credit result
  - Lower CDO losses
  - Credit environment improved
- Non interest revenue subdued
  - Strong growth in transactional income
  - Trading income declined
  - Lower investment income
- Costs contained



# Strong organic & load growth

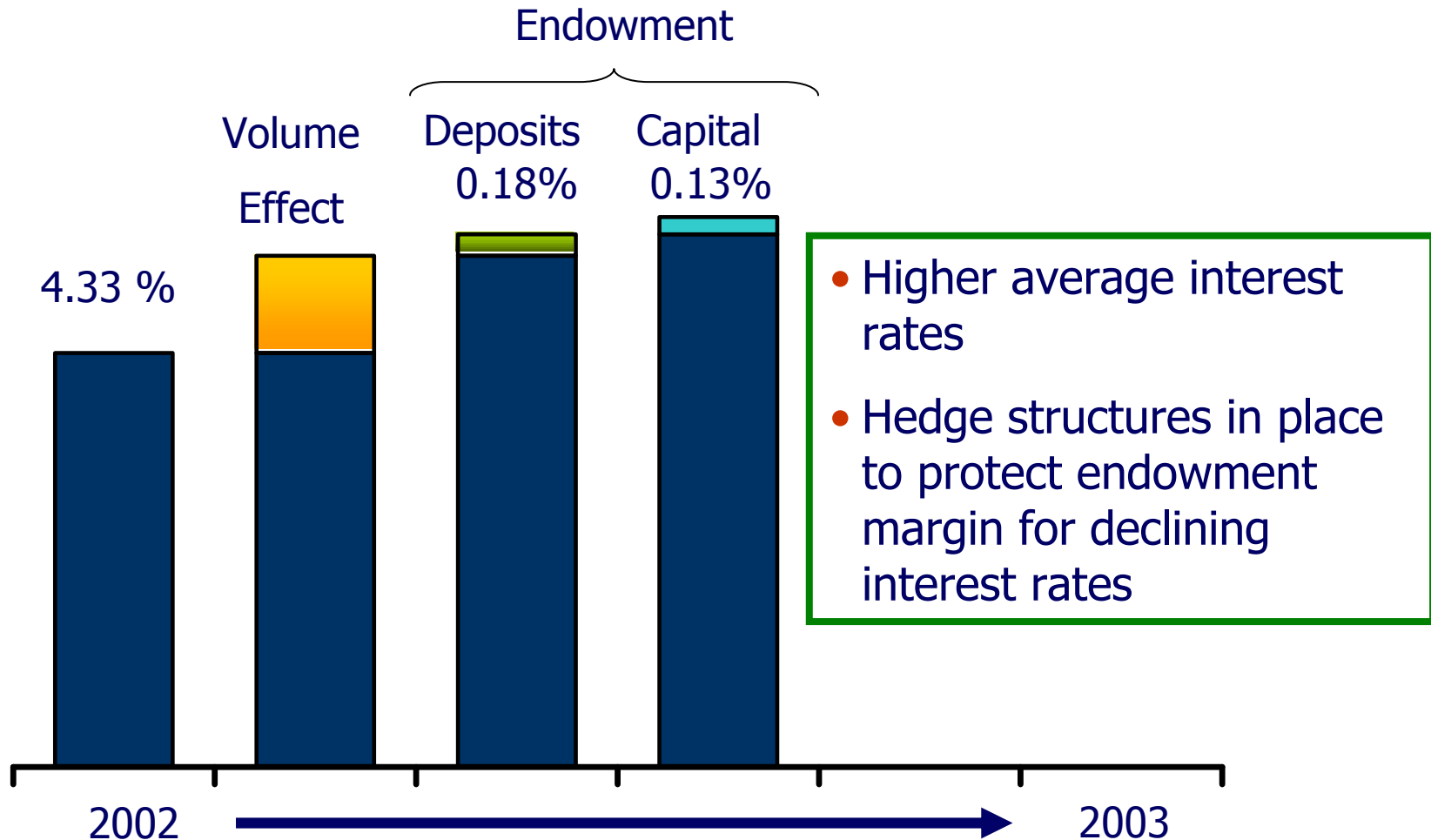
## Margin analysis





# The market helped

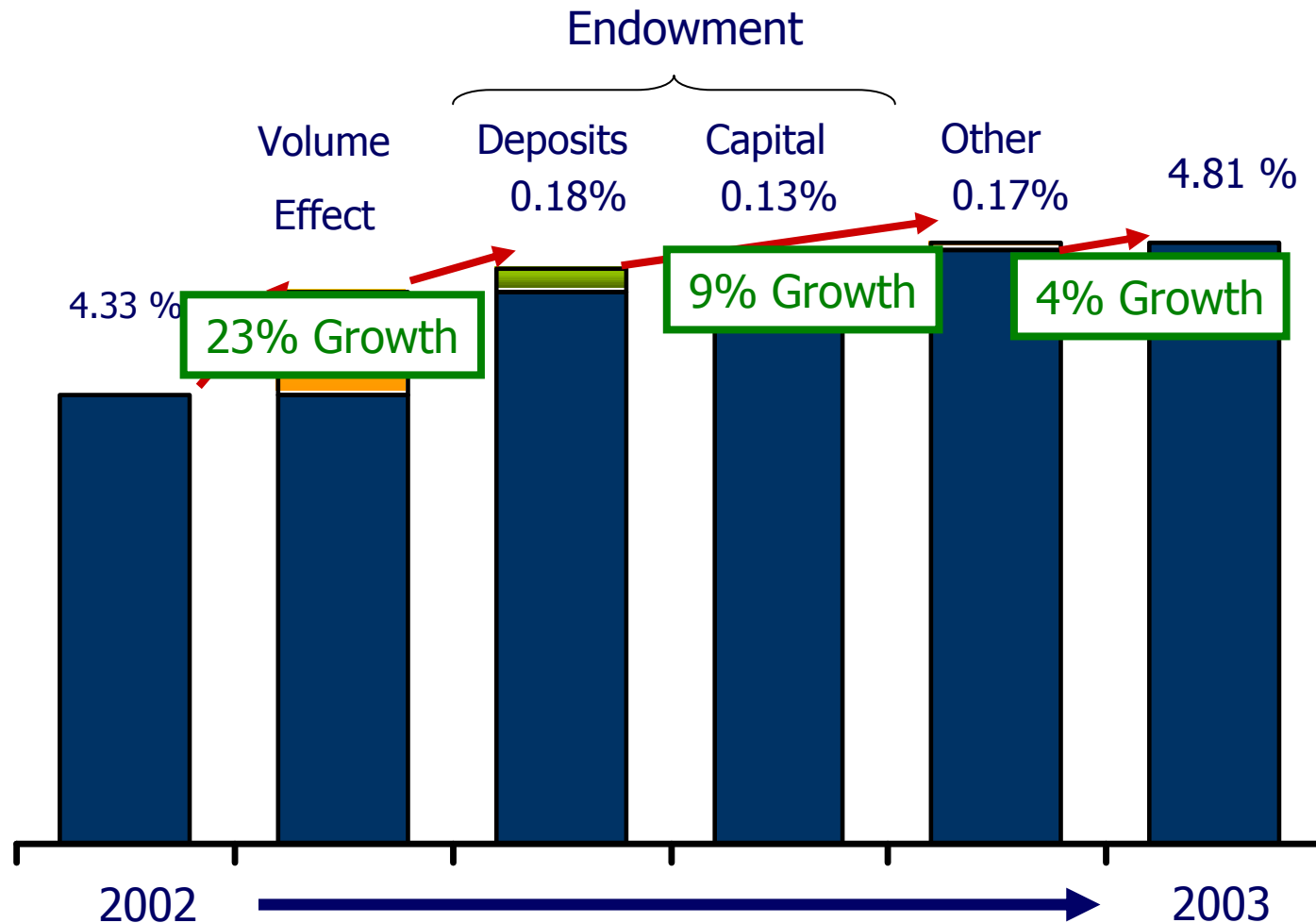
## Margin analysis





# Total picture

## Margin analysis





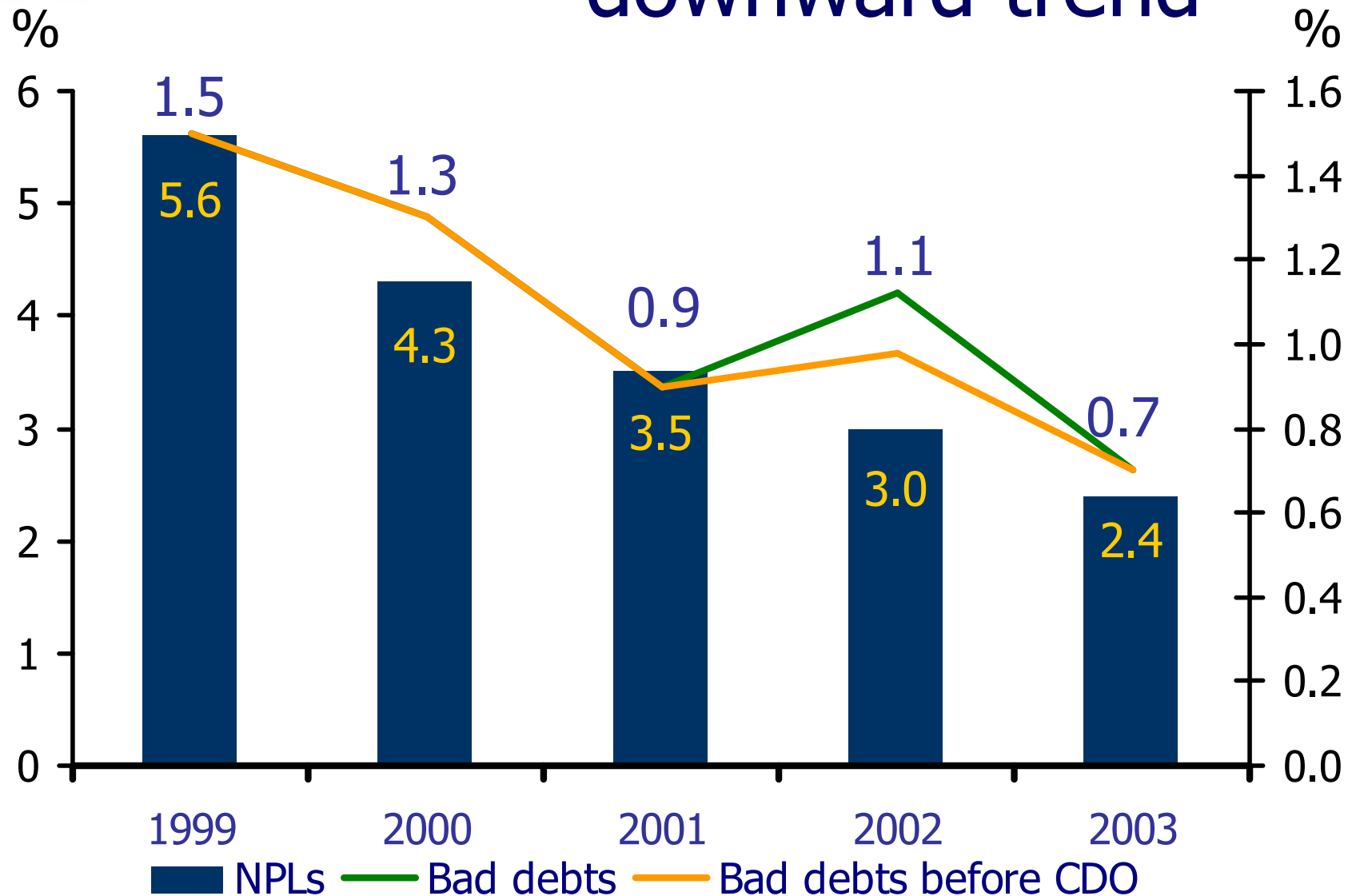
# Credit contributes to growth

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- Credit environment
  - Local and international credit markets improved
  - Improved CDO result of R206 million
  - More conservative provisioning
- Credit strategy (credit grading and scoring)
  - Improved risk profile
  - Price for risk



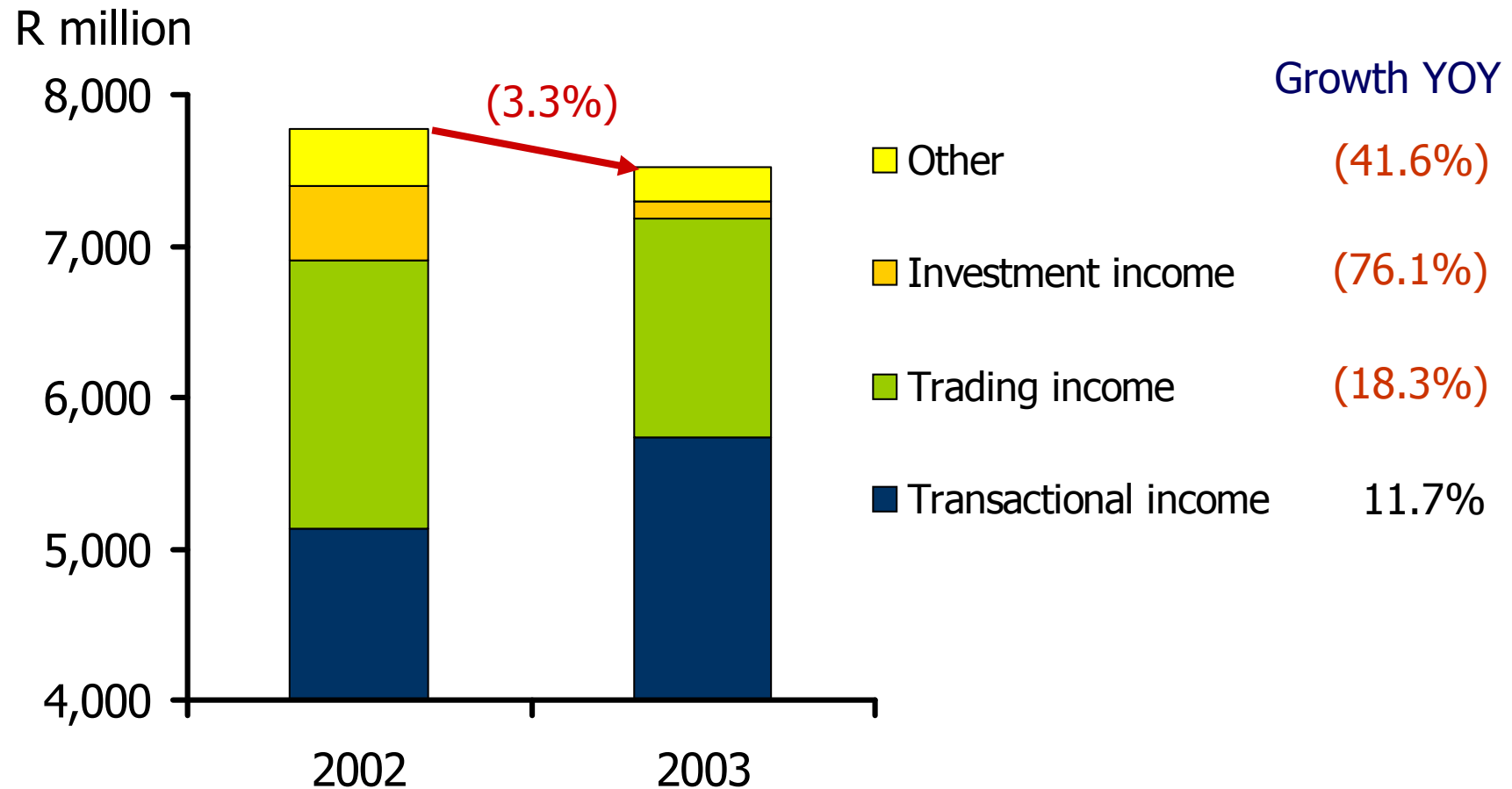
# Continuing downward trend





# A mixed picture

## Non interest revenue



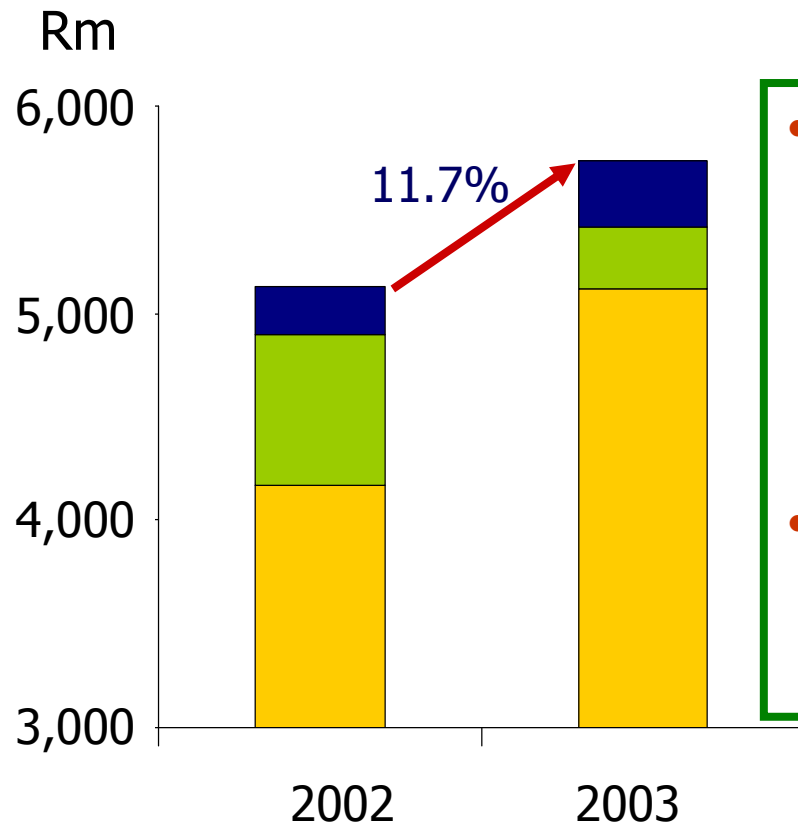
Pre-AC 133

Excluding translation gains/losses





## ... but transactional income strong



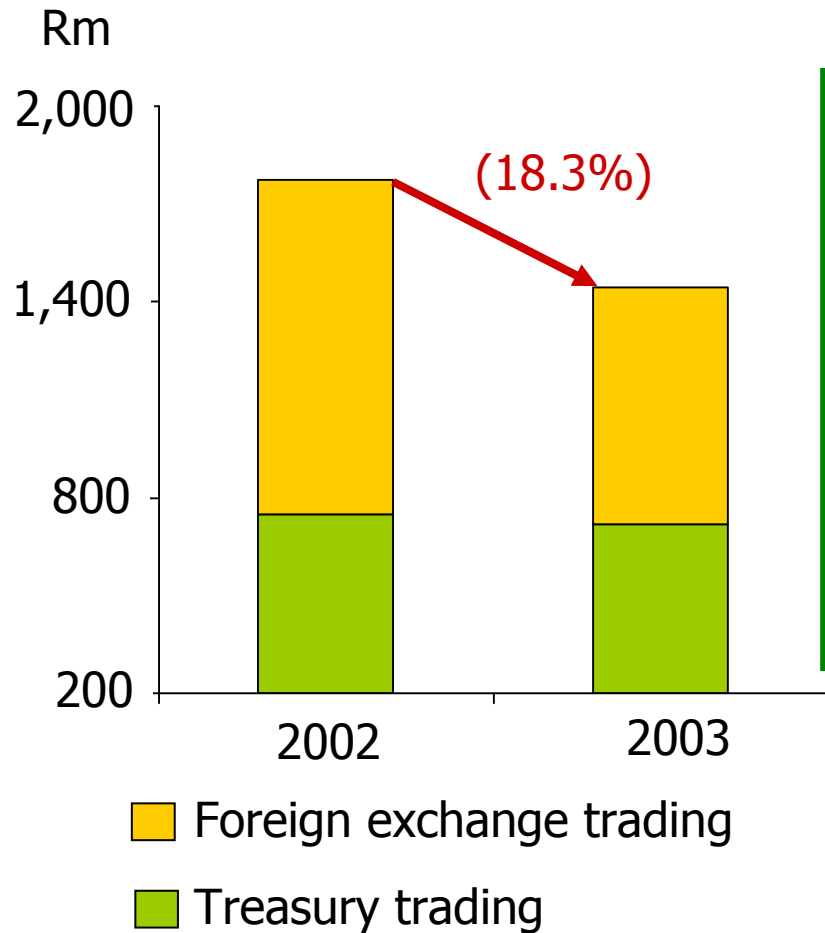
- Banking fees increased by 22.7%
  - Steady growth in volume: 8.2%
  - Broadening of product offerings: 4.7%
  - Pricing increases: 7.2%
  - Cash handling fee: 2.3%
- Knowledge-based fees decreased by 58.7%
  - Lower M&A activity
  - Lower structured finance income

■ Banking fee & commission  
■ Non-banking fee & commission

■ Knowledge-based fee & commission



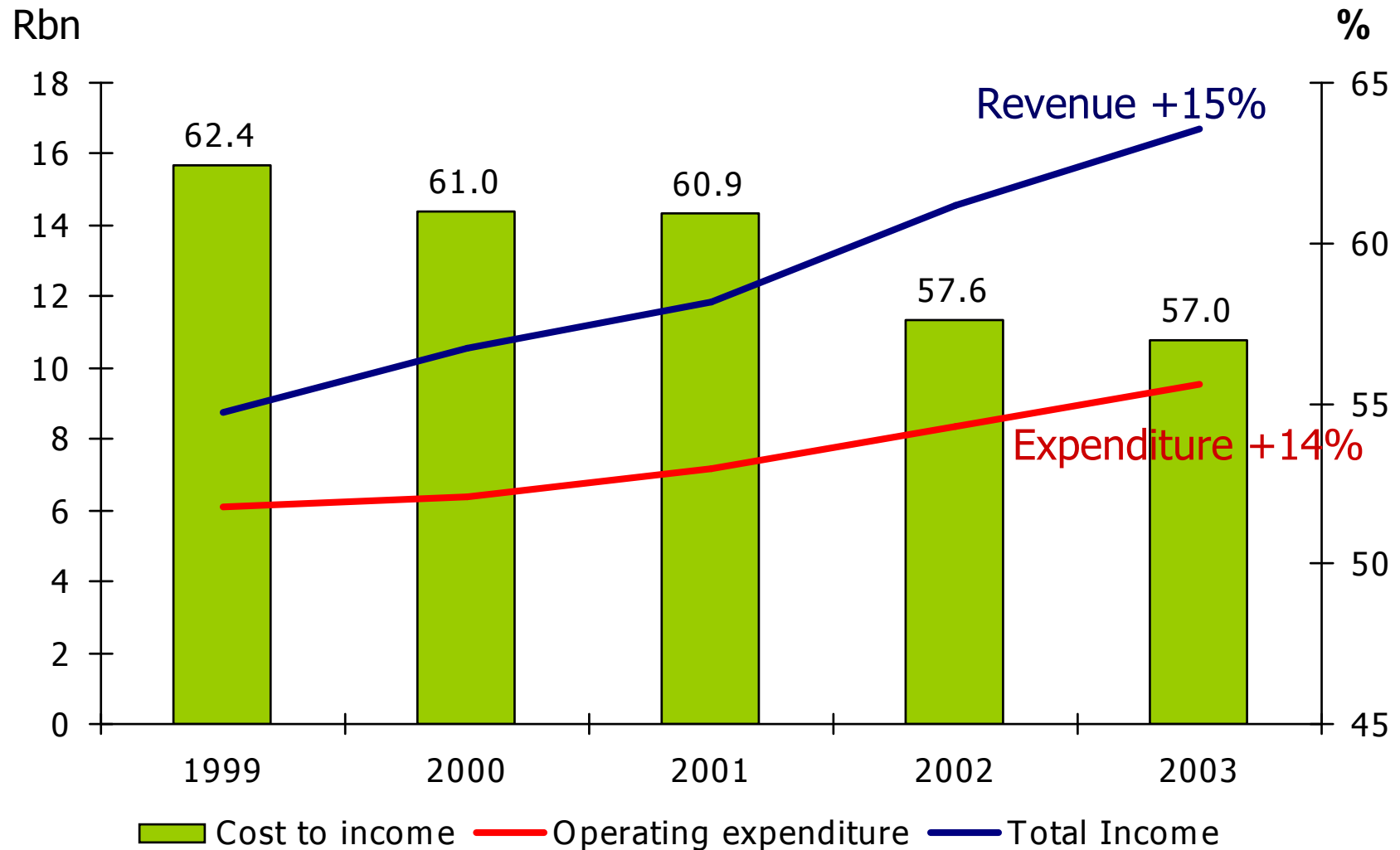
# Difficult trading period



- Treasury trading income down by 4.3%
  - Difficult trading conditions
- Foreign exchange trading down by 28.6%
  - Lower volatility
  - Lower volumes
  - Smaller margins



# Operational leverage is still improving





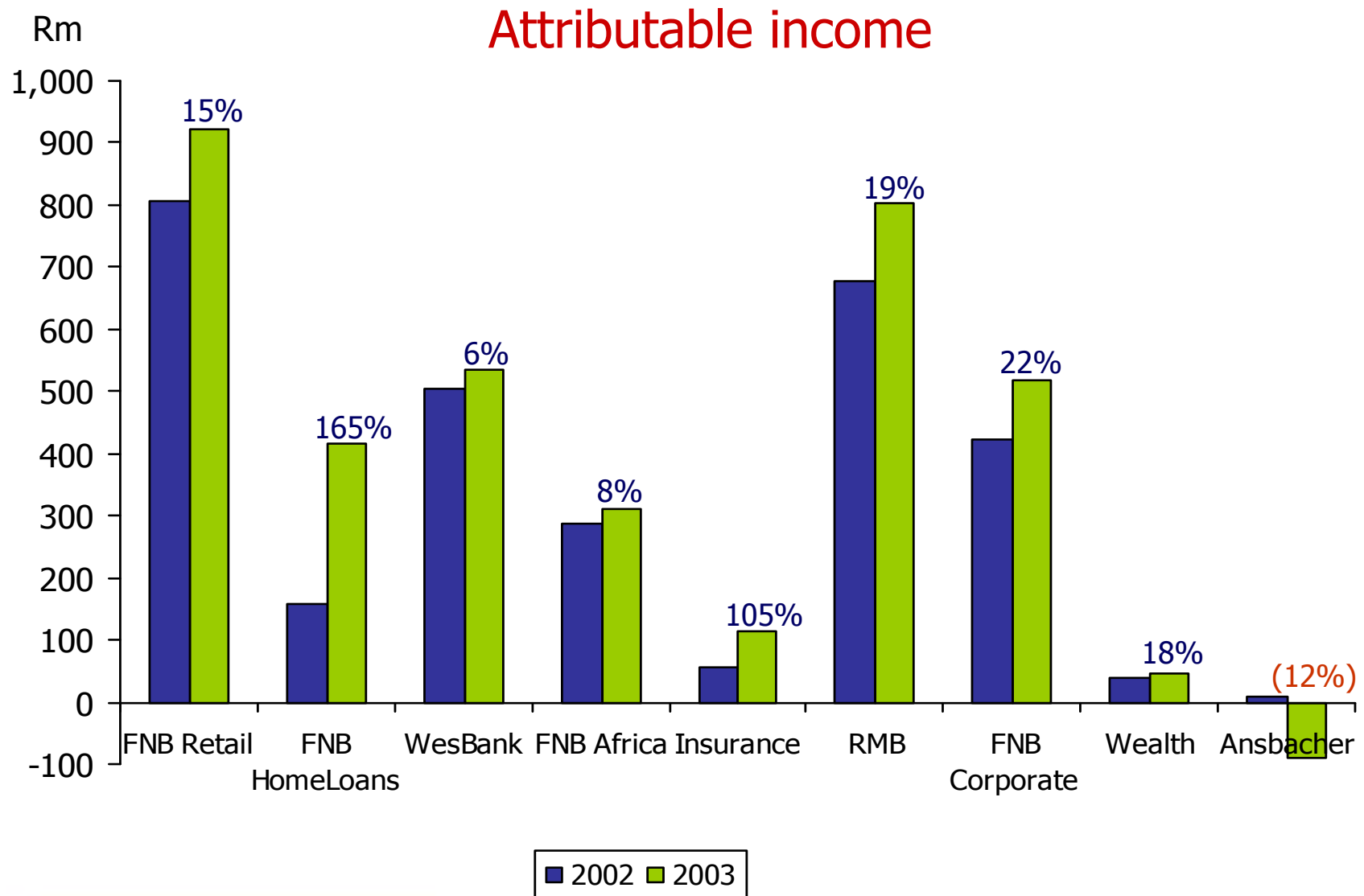
# Conservative tax charge

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- Changes in legislation relating to foreign subsidiaries
- Changes in foreign dividend legislation
- Lower earnings contribution from favourable tax jurisdictions



# Diverse earnings base





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**FirstRand's risk management supports the business units to achieve desired objectives and avoid adverse outcomes**



# Improved credit strategy

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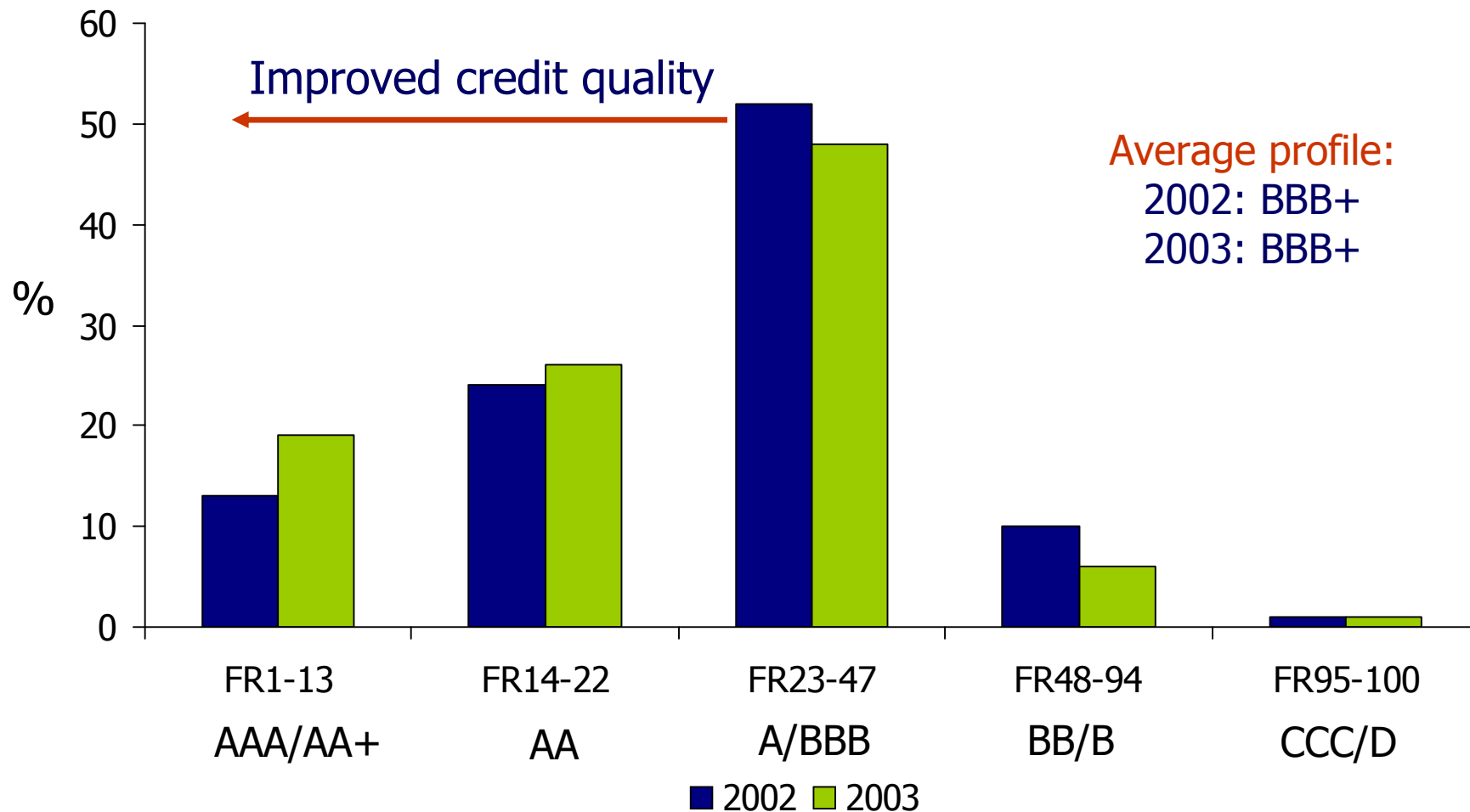
- Credit scoring and grading  
(internal rating scale)
- Risk pricing
- Work-out and debt restructuring process
- Collection process
- Portfolio management





# Improved credit profile

## Distribution of deal ratings across the Banking Group





# Interest rate risk strategy

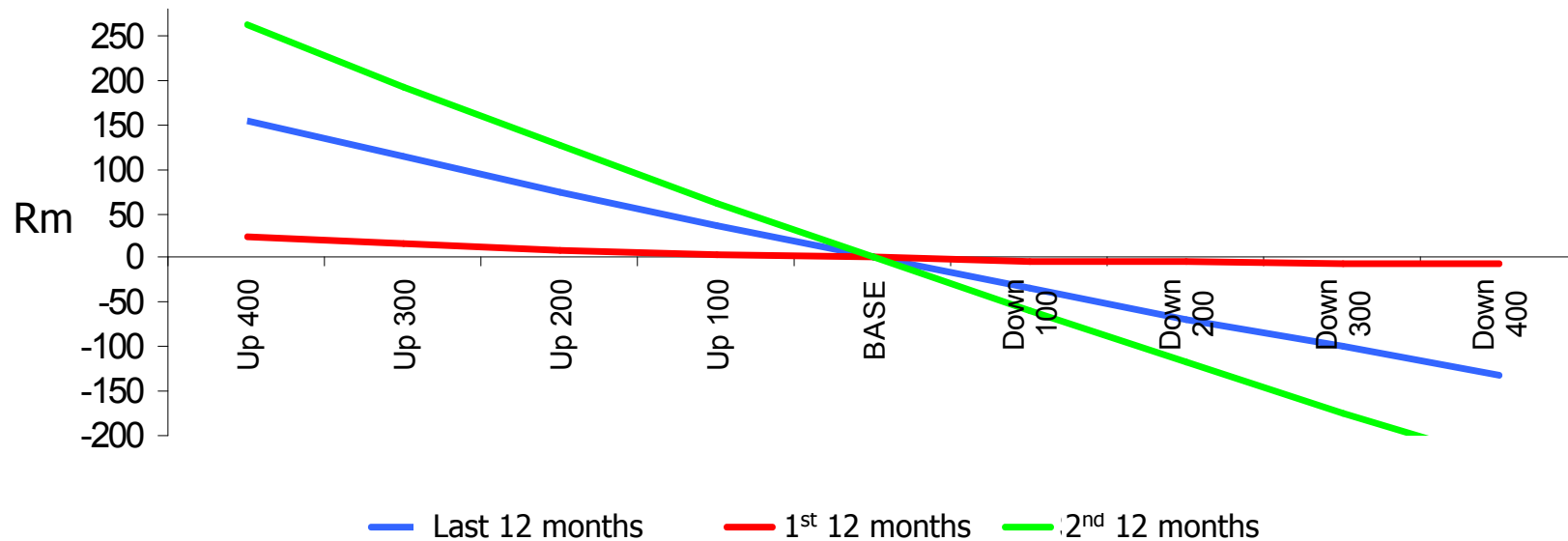
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- Income / margin protection
- Reduce volatility in margin
- No aggressive positioning of book for interest rate view
- Portfolio management by interest rate sensitivity portfolio



# Hedging to protect margin

## Net interest income shock Change (Rm)





# Market risk strategy

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- Value at risk
- Primary measure is a stress loss limit
  - Per trading desk
  - For the bank
- Not correlated, but all risks aggregated over a 10-day period without any intervention



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# FirstRand's capital strategy enhances shareholder value



# CAPITAL MANAGEMENT FRAMEWORK

Level of  
capital

Investment  
of capital

Capital  
allocation



# CAPITAL MANAGEMENT FRAMEWORK

Level of  
capital

- Highest of regulatory or economic capital
  - Current Rating (BBB, AA)
  - Buffer
  - Acceptable gearing (66% : 33%)
- Economic capital
  - Based on Basel II principles
  - Prepare for Basel II
  - Focussed on risk sensitive basis





# CAPITAL MANAGEMENT FRAMEWORK

Investment  
of capital

- Acceptable risk profile
- Reduce volatility in investment income
- Invest along the yield curve



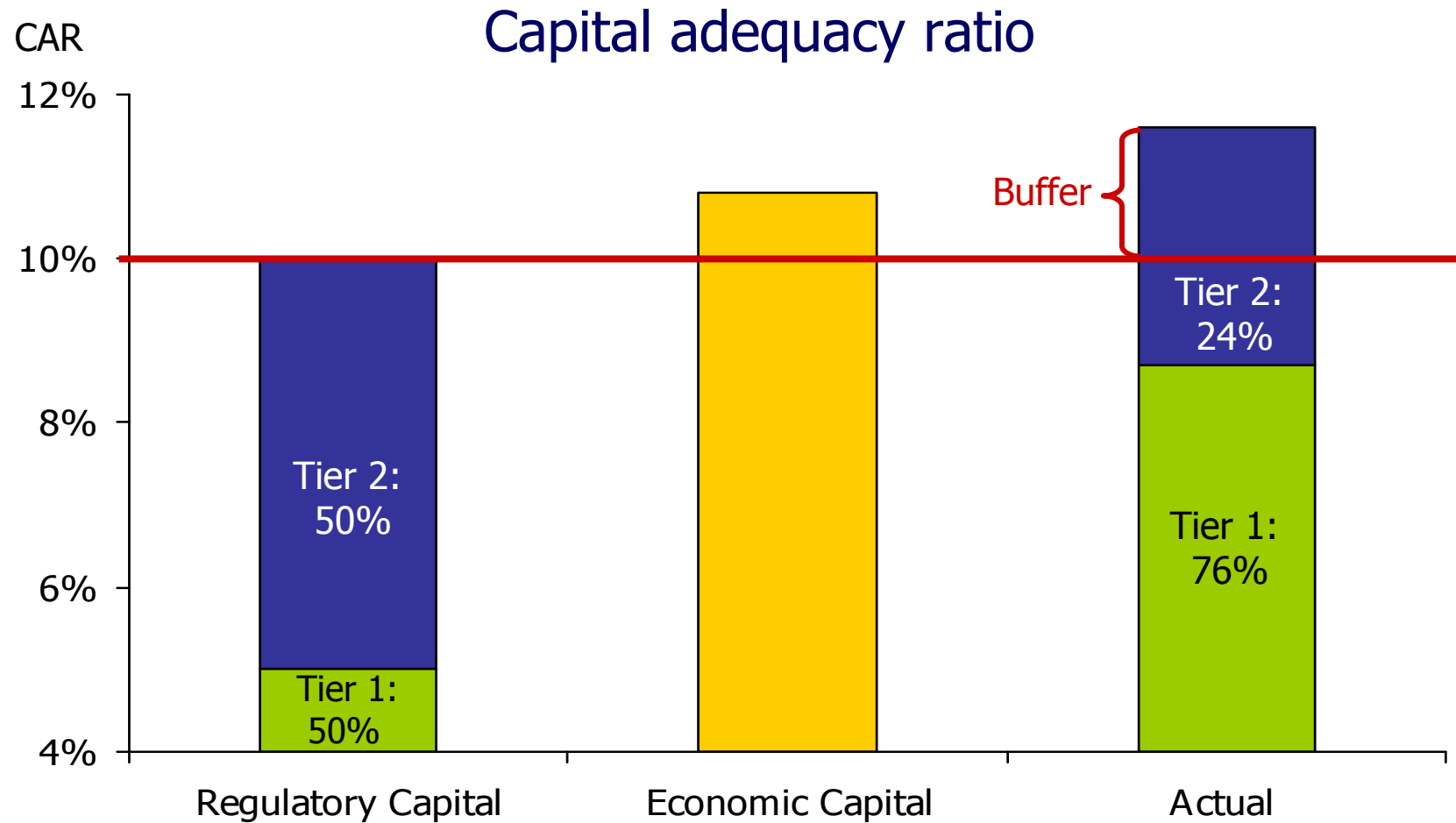
# CAPITAL MANAGEMENT FRAMEWORK

Capital  
allocation

- Price and reserve for risk
- Strategic decision making
- Performance measurement (alignment)
- Basel II requirement



# The strategy at work

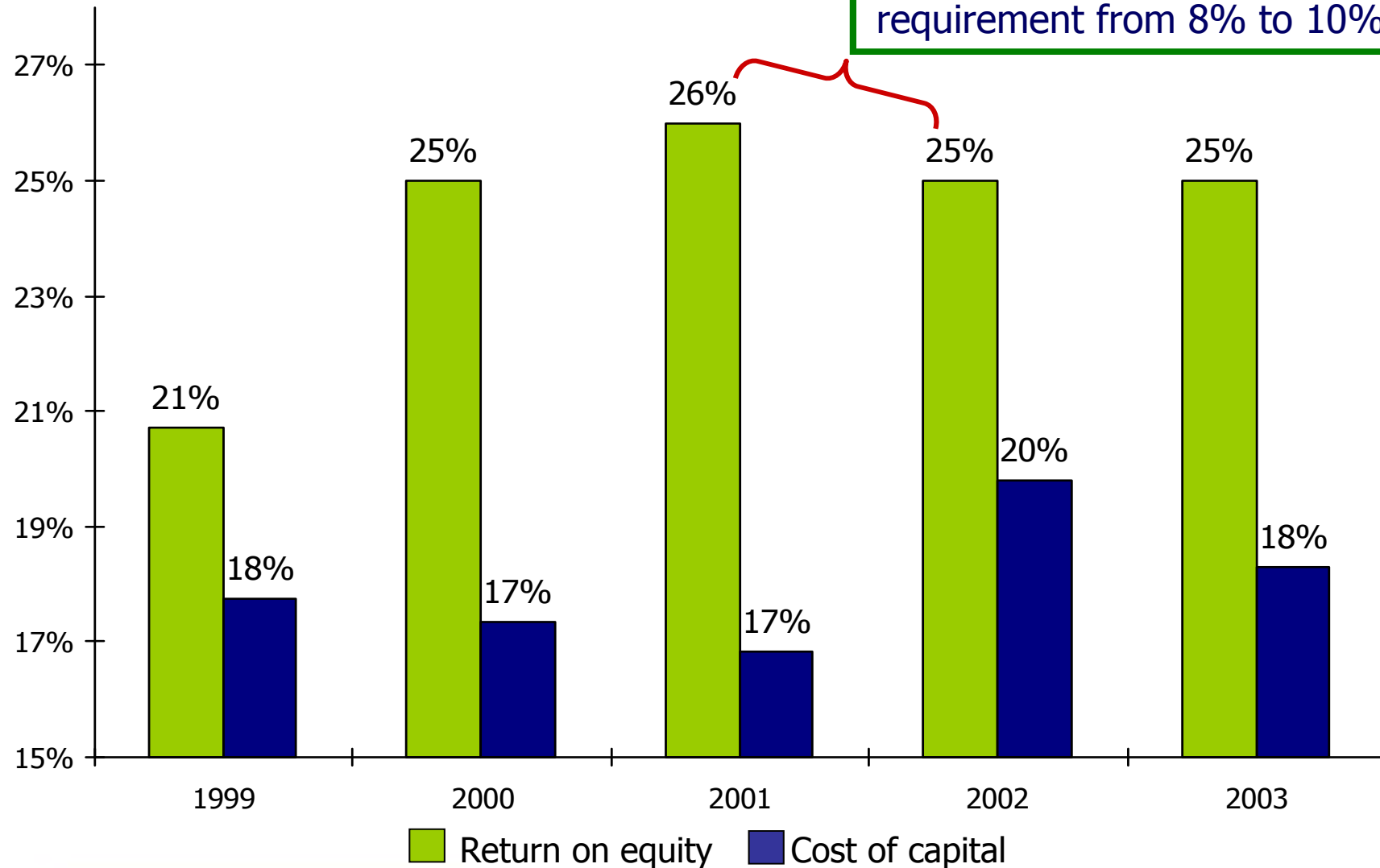




# The strategy at work

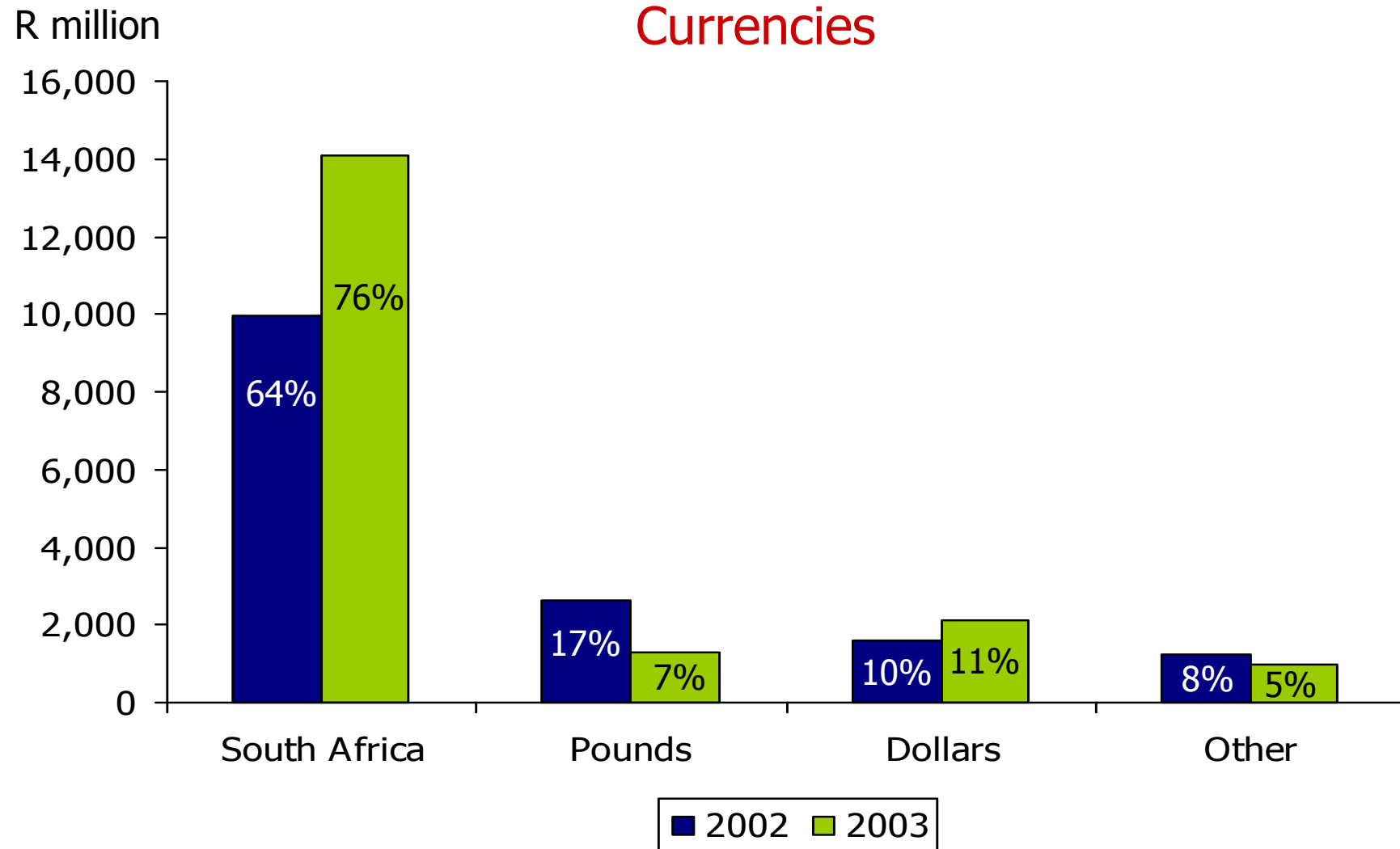
## Return on equity

Increased regulatory requirement from 8% to 10%



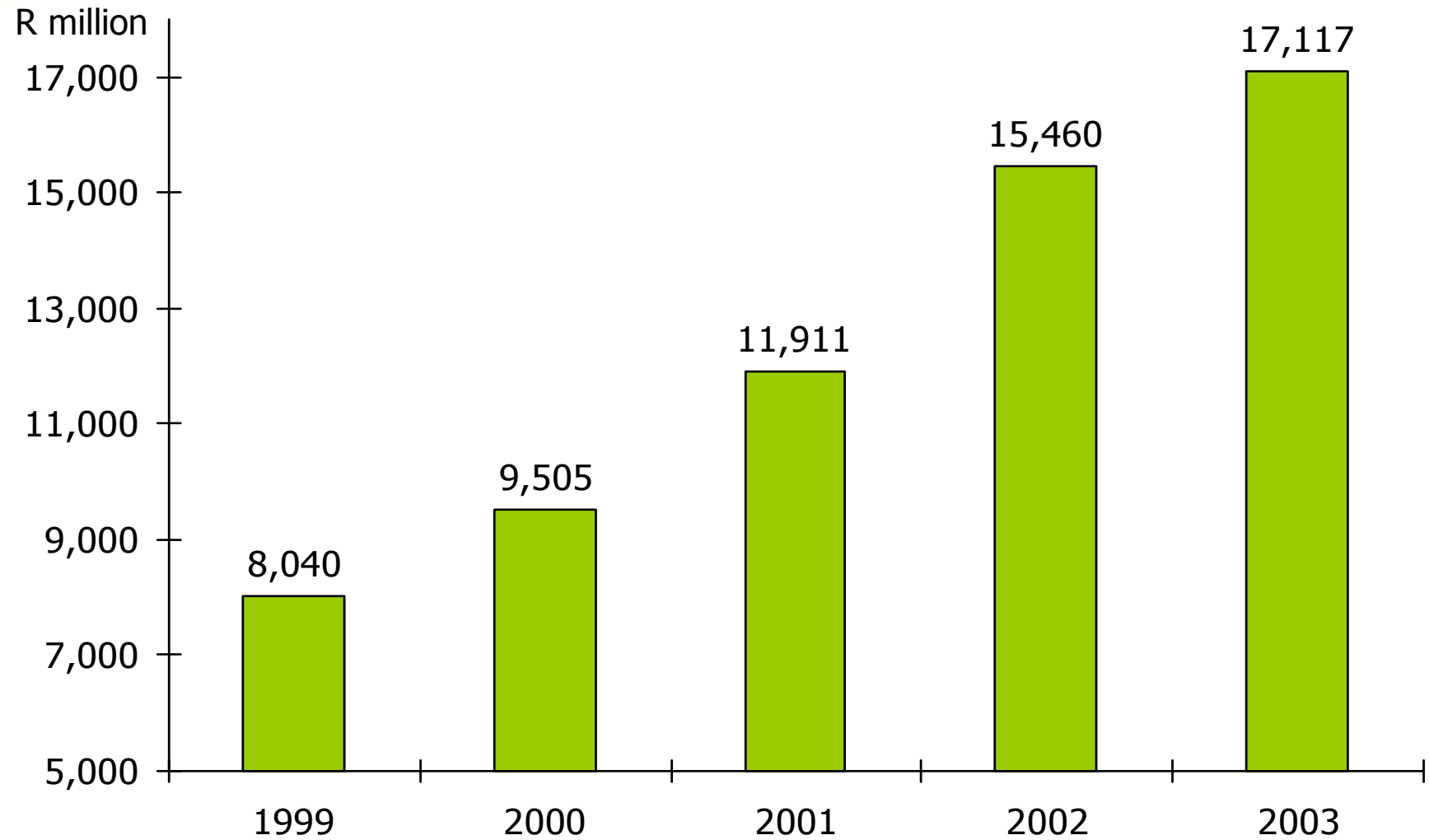


# Net asset value





# Net asset value



**CAGR over 4 years: 21%**



# Accounting complexity

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- AC133 / IAS39
  - Provision
  - Hedging
  - Insurance contracts



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# Financial charter overview

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- Voluntary and proactive engagement between industry and government
- Referee is Charter Council
- Achievable targets
- Opportunities for growth



# The scorecard

## Charter Components:

1. HR Development

2. Ownership

3. Procurement and development

4. Access to financial services

5. Corporate social investment

6. Empowerment financing

## Scorecard:

$$15 + 5 = 20$$

$$14 + 8 = 22$$

**15**

**18**

**3**

$$17 + 5 = \underline{22}$$

**100**

**FirstRand well-positioned**



# Changing environment

- Generally speaking, lower interest and inflation rates lead to:
  - Improved equity markets
  - Increased property values
  - Countries with lower interest and inflation rates have higher economic growth rates
  - Higher demand for credit
  - Improvement in bad debts
  - Increased level of economic activity

In the long term, banking and insurance businesses will benefit from higher economic growth rates



# Positive picture looking forward

- Expect lower interest rates and improved economic outlook to impact favourably on new business growth
- Greenfield operations will continue to provide earnings growth “sweetener”
- Hedge strategies in place to protect endowment margins
- Release of under-performing capital by Ansbacher Plc

**Our strong brands, talented people and proven business philosophy, remain the pillars supporting our growth**



**FIRSTRAND**