



Growing profits in a declining interest and low inflation environment

Wendy Lucas-Bull



FirstRand

- Retail banking



- Corporate market





FirstRand

- Insurance (Life & Health)

momentum

 Discovery



- Short-term insurance

O U T
S U R A N C E



Agenda

- **Environments are always changing**
- Natural hedges in financial services
- Broad responses
- Specific FirstRand strengths
- Conclusion



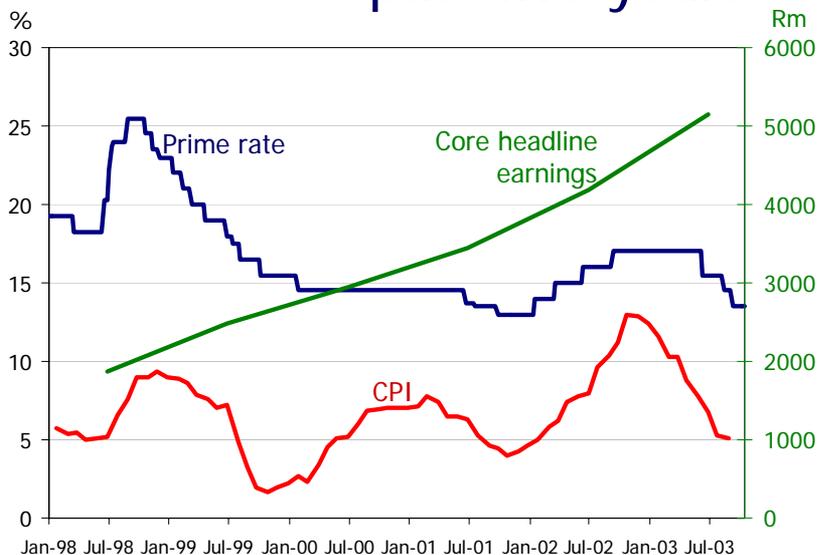
What's our preferred interest rate?

"If Fed Chairman Alan Greenspan were to whisper to me what his monetary policy was going to be over the next two years, it wouldn't change one thing I do."

Warren Buffett



Environment over the past five years



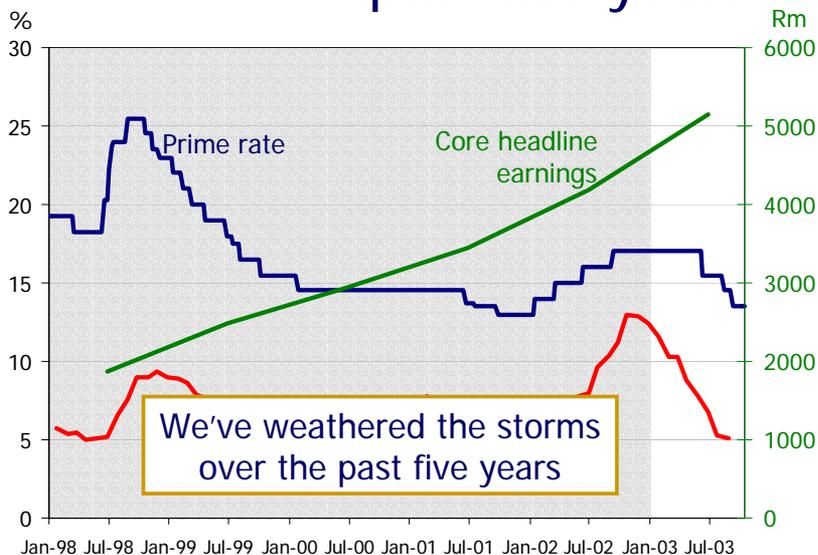


Environment over the past five years

Year	Major Events
1998	Asian banking / emerging market crisis Interest rate spike
1999	World braces itself for Y2K
2000	Dotcom implosion & commencement of the bear market
2001	September 11 th Corporate accounting scandals US corporate debt default spike Rapid depreciation of the rand
2002	Rand recovery Demise of 2 nd tier banks



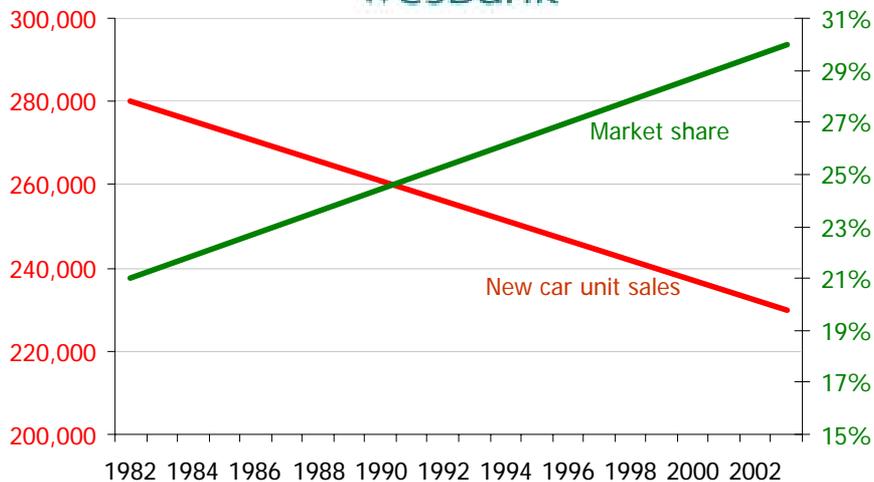
Environment over the past five years





Growing in a declining market

WesBank



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Natural hedges in financial services

- 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

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



Natural hedges in financial services

- Retail banking
 - Lower margins
 - Higher credit demand (volume increases)
 - Increased asset values (home loans)
 - Improvement in bad debts





Natural hedges in financial services

- Merchant banking
 - Improved equity markets
 - ♦ More corporate activity
 - ♦ More capital raising (debt & equity)
 - Large generator of non-interest income



RAND MERCHANT BANK

A division of FirstRand Bank Limited



Natural hedges in financial services

- Insurance
 - Insurance profits linked to equity markets
- Costs
 - Salaries
 - ♦ Approximately half of expense base
 - ♦ Inflationary increases

All of this assumes we do nothing

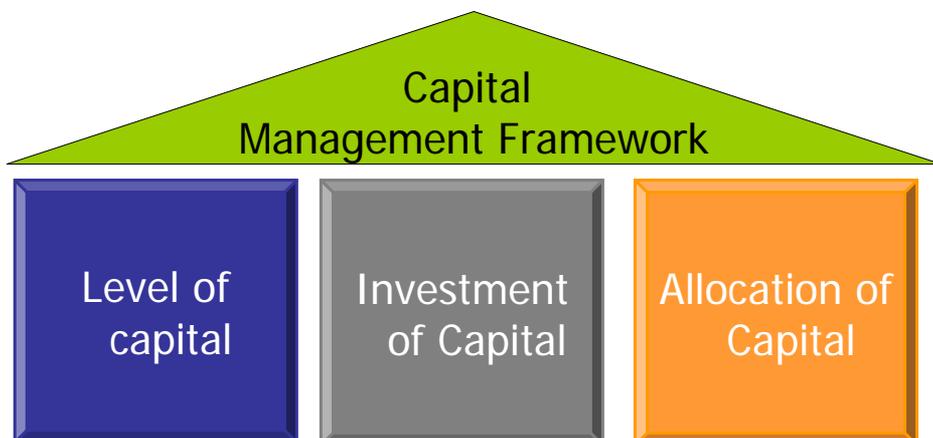


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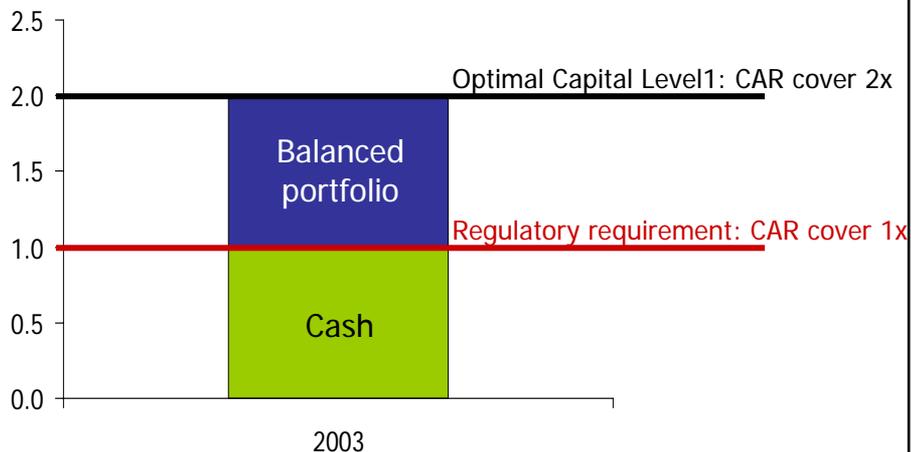


Broad responses Capital management





Capital management Momentum Group



This strategy delivers optimal ROE, given risk profile



Broad responses Non-interest revenue

- Increased focus on non-interest revenue
- Drivers of non-interest revenue
 - Price/fee increases ✗ Reduced ability to increase fees
 - Volume increases ✓ Customer acquisition
 - New products ✓ Innovation
 - Deals ✓ More activity



Broad responses Credit management

- Credit management
 - Increased affordability
 - Lower defaults
 - Lower loss given defaults
(e.g. increased property values)

Bigger credit market



Broad responses Insurance

- Insurance **momentum**  Discovery
 - FirstRand well positioned in risk and health
 - ♦ Pressure on savings products
 - Margin pressure increase
 - ♦ Momentum – efficiencies and focus
 - ♦ Further consolidation likely
 - Product innovation
 - Multiple distribution





Broad responses

Cost management

- Cost management
 - Sweat assets and infrastructure
 - Converting fixed costs to variable costs

Our track record speaks for itself



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Specific FirstRand strengths

- FirstRand has 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 affected differently and will have own response/strategy



Specific FirstRand strengths

- We have more business potential than is generally recognised, e.g.
 - Insurance profits in retail
 - Untapped potential of life insurance in FNB HomeLoans
 - Largest Private Equity player in South Africa
 - Proven ability to appropriately manage costs
 - Significant roll-out of systems enhancements



Specific FirstRand strengths

- Culture
 - Empowering culture allows speed and flexibility
 - ♦ One of few emerging market banks that invested capital and transactional deposits proactively
 - ♦ NBS, Saambou, SWABOU
 - Owner-managers understand their cost and revenue dynamics
 - ♦ Efficiency gains, e.g. reducing component of cheque processing cost from R7 to below R1



Specific FirstRand strengths

- Ability to create new sources of revenue





Specific FirstRand strengths

- FirstRand growth in 2003: +23%
 - Greenfields operations contributed 4%

	Growth
 eBucks.com	+265%
 Discovery	+42%
 EBS PER LIFE	+69%
 DUT	+206%



Specific FirstRand strengths

- Management are strong implementers
 - Southern Life
 - Consolidation of banking operations
 - NBS, Saambou & SWABOU
 - Saambou integration
 - Retail exposures
- Management depth

Proven ability to spot opportunities and absorb shocks



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Back to Buffett...

“If Fed Chairman Alan Greenspan were to whisper to me what his monetary policy was going to be over the next two years, it wouldn't change one thing I do.”

Warren Buffett

- It's all about:
 - Business fundamentals
 - Management
 - Our empowering culture

Bring it on...



FIRSTRAND