CFO'S REPORT

The banking franchises, FNB, RMB and WesBank, delivered strong operational performances and continued to outperform the market.

Harry Kellan | *CFO*

FirstRand produced good results for the year to 30 June 2014, achieving normalised earnings of R18 663 million, an increase of 21% year-on-year and a normalised ROE of 24.2%, which in the Group's view remains at a cyclical high given the slower than expected emergence of the credit cycle.

The Group's banking franchises, FNB, RMB and WesBank, delivered strong operational performances and continued to outperform the market. The key drivers of that outperformance are as follows.

FNB benefited from:

- its proactive workout strategy in residential mortgages, resulting in lower NPLs, together with good advances growth in line with property price increases and repricing benefits;
- ongoing customer acquisition in targeted segments and increased cross-sell;
- migration of customers to electronic channels continued to drive growth in volumes;
- counter-cyclical origination actions taken in personal loans in 2011 has paid dividends in that bad debts have materially reduced; and
- strong growth across the African footprint with both established and new subsidiaries performing well.

RMB benefited from:

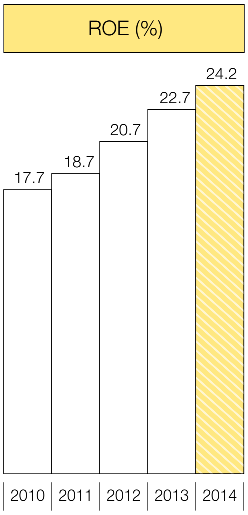
- its positioning as the leading advisory and origination franchise in South Africa;
- strong growth in corporate advances, both in South Africa and cross border, whilst further improving overall portfolio quality;
- very strong earnings from underlying investments in private equity including the benefit of a significant investment realisation; and
- a growing contribution from activities in the rest of Africa.

WesBank benefited from:

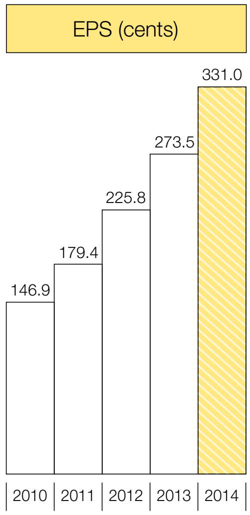
- its consistent point of sale presence and partnership model, which ensured resilient new business volumes;
- an excellent performance from MotoNovo, which grew strongly in GBP terms; and
- discipline in origination which resulted in better than expected cost of credit.

FirstRand uses the following key financial performance indicators to measure the Group's performance against its core purpose to create long-term franchise value.

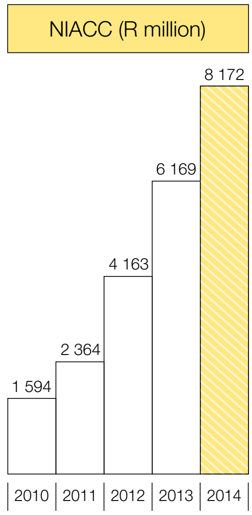
Key performance indicators



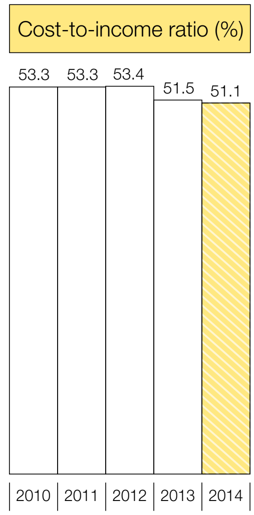
When the Group analyses ROE, it also takes into account the relationship between ROA and gearing levels. The Group's long-term ROE target range is 18% to 22% for normal economic cycles.



The Group targets earnings growth of 3% to 5% in excess of nominal GDP growth over the long term, as this will vary from year-to-year dependent on economic cycles.



Growth in NIACC is the Group's internal benchmark for assessing performance.



The Group monitors efficiency through the cost-to-income measure. Whilst the Group views the cost-to-income ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth are key to value creation.

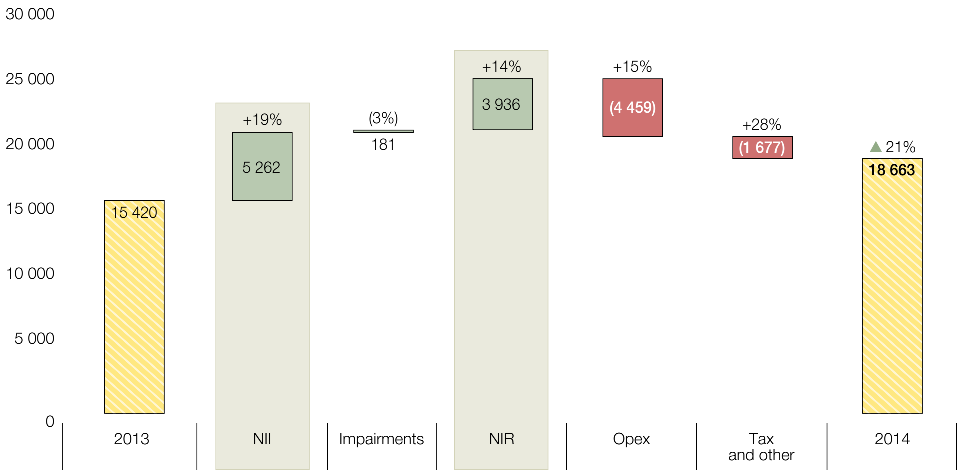
The Group measures its performance against its core purpose which is to create long-term franchise value.

STRONG TOPLINE DRIVES EARNINGS GROWTH

The following chart illustrates that the Group's performance was underpinned by strong topline growth with net interest income (NII) increasing 19% and non-interest revenue (NIR) up 14%.

Normalised earnings

R million



NET INTEREST INCOME

Net interest income grew 19% on the back of good advances and deposit growth and margin expansion. There was also a marginal endowment benefit resulting from the 50 bps increase in interest rates in January 2014.

The table below shows that both the lending and deposit franchises contributed to growth in NII. There was a large shift in the contribution from Group Treasury year-on-year as a result of certain strategies to hedge capital, investment risk and liquidity risk which further positively impacted NII.

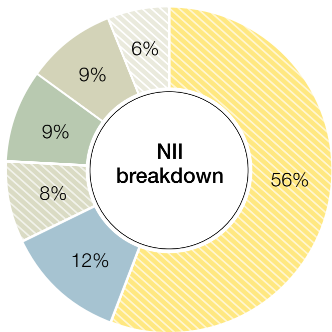
Breakdown of NII by activity

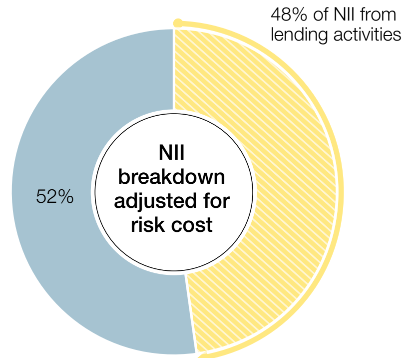
Net interest income* (R million)	2014	2013	Movement	% change
Lending	**18 830**	16 153	2 677	17
Deposits	**4 046**	3 748	298	8
Deposit endowment	**2 704**	2 295	409	18
Capital endowment	**2 833**	2 463	370	15
African subsidiaries**	**2 858**	2 335	523	22
Group Treasury and other	**2 091**	1 106	985	89
Total net interest income	**33 362**	28 100	5 262	19

* *After taking funds transfer pricing into account.*
** *Reflects legal entity view.*

The chart below illustrates that lending still dominates NII, contributing 56%, however, the picture is more balanced after adjusting for bad debts.

Net interest income breakdown





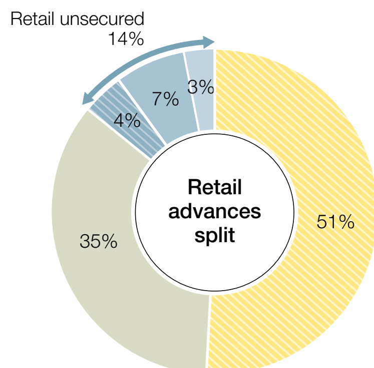
* *Reflects legal entity view.*

Retail advances growth

Retail advances growth of 11% was robust year-on-year with good new business volumes in WesBank's VAF portfolio and in the transaction account-linked overdrafts and revolving term loans on the back of client acquisition and cross-sell. Secured lending, which comprises of residential mortgages and VAF, still represents 86% of the retail book. Personal loans growth was muted at 7% driven by the reduction in mass segment advances.

Retail advances breakdown

R million	2014	2013	% change
Residential mortgages	**170 677**	163 046	5
Vehicle and asset finance	**119 120**	100 565	18
Credit card	**14 634**	13 001	13
Personal loans	**21 670**	20 185	7
– Mass segment (FNB)	**4 219**	4 987	(15)
– Consumer segment	**17 451**	15 198	15
FNB	**8 297**	7 898	5
WesBank	**9 154**	7 300	25
Transactional account-linked overdrafts and revolving term loans	**10 596**	6 909	53
Retail advances	**336 697**	303 706	11



The table below provides insight on risk appetite and certain actions the Group took, which explain below- or above-market trend growth in the underlying retail products.

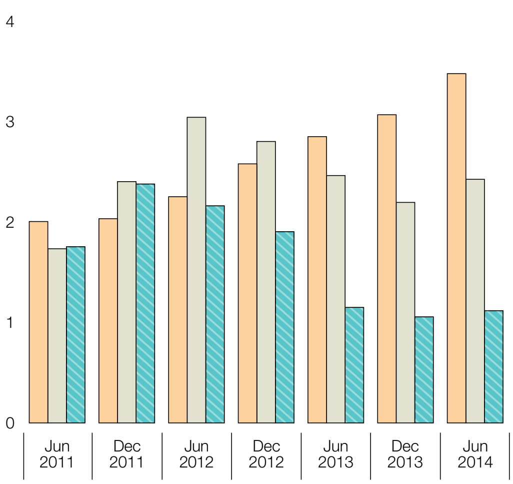
Risk appetite actions in the retail portfolios

Retail			
Mortgages	**Affordable housing**	**SA VAF**	**UK VAF (MotoNovo)**
→	↗	→	↑
Remaining conservative with focus on low-risk FNB customers; gradual improvement in demand	Continued strong demand and credit performance	Gradual reduction of higher-risk with volumes tracking vehicle sales and coming off a high base	Strengthening market position and benefiting from economic recovery
Card	**Personal loans**	**Rest of Africa**	**Other**
→	↓	↗	→
Conservative, but growing in line with FNB customer base and transactional spend growth	Cut back risk in 2011 and 2012 and tightened affordability as lower-income segment is highly geared	Strong growth across all markets focusing on FNB-banked customers	Risk neutral, strongly targeting FNB customer base as currently under-represented

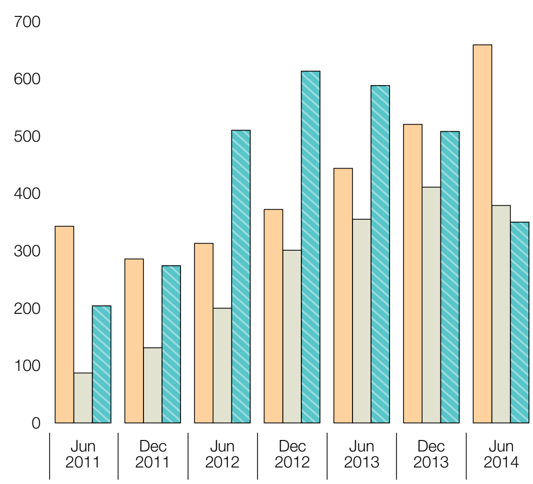
The Group's personal loan portfolio consists of a number of subsegments and each segment behaves differently through the cycle. As such, there are different origination strategies for each segment.

The graph on the left below shows the new business origination across the Group's three different personal loans portfolios on a six-monthly basis whilst the chart on the right reflects how NPL balances have reacted to the various origination strategies.

New business origination
R billion



NPLs
R million



WesBank consumer loans FNB consumer loans FNB mass loans

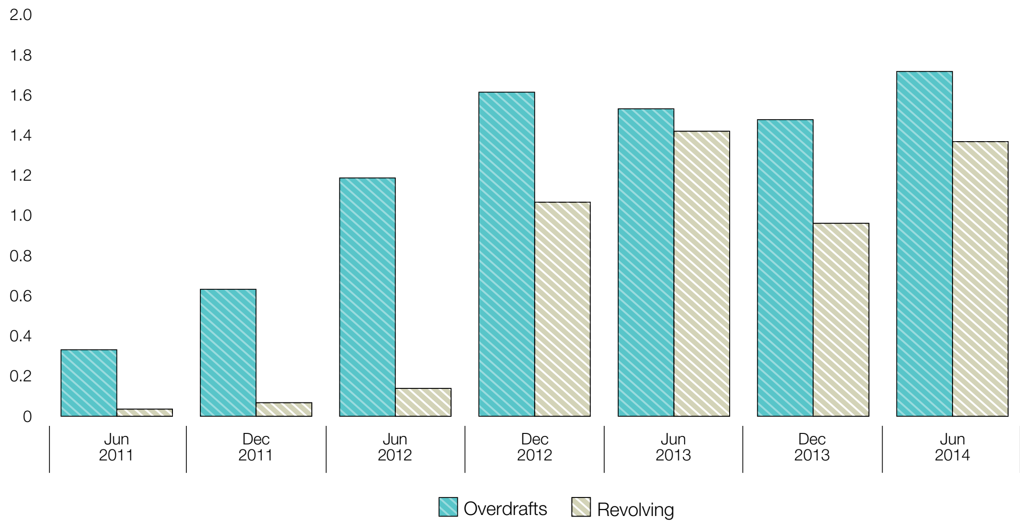
The impact of the pull-back in late 2011 in the higher-risk mass segment loans can be clearly seen, with production in this segment starting to decline from June 2012 onwards. Since January 2012, the Group tightened affordability criteria and this is also evident in the FNB Consumer loans portfolio.

Origination in WesBank consumer loans is based on the same credit criteria and appetite, however, the growth in this portfolio reflects market dynamics as customers have been pre-scored and proactively selected and as WesBank has had access to new customer bases given alliances concluded recently.

In line with FNB's retail strategy to capture the transactional account and then offer credit, overdrafts and revolving loans also showed strong growth. The chart below shows new business origination since January 2011. The size of this portfolio has grown to approximately R10 billion at 30 June 2014.

New business origination

R billion



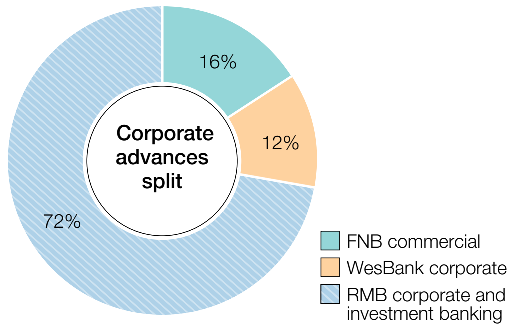
RMB and FNB have delivered good growth in corporate and commercial advances.

Corporate and commercial advances growth

Successful lending strategies in RMB corporate and investment banking (CIB) and FNB commercial have delivered good growth of 17%. CIB is the largest component of the portfolio at 72%. Growth has been achieved whilst maintaining credit quality.

Corporate advances breakdown

R million	2014	2013	% change
RMB core South Africa	**160 509**	129 941	24
RMB core cross-border	**28 502**	19 121	49
RMB core advances	**189 011**	149 062	27
Repurchase agreements	**32 753**	40 502	(19)
RMB investment banking	**221 764**	189 564	17
RMB corporate banking	**6 441**	5 101	26
WesBank corporate	**38 763**	34 293	13
FNB commercial	**50 642**	42 834	18
Corporate advances	**317 610**	271 792	17



RMB core advances were up 27% with substantial growth in cross-border advances, although the actual growth rate has reduced in the last six months given the higher base.

Both WesBank corporate and FNB commercial produced good advances growth. The largest contributor to the commercial portfolio came from the growth in overdraft loans, which, as previously mentioned, is aligned to FNB's transactional strategy.

The following table again illustrates risk appetite and certain actions taken in the corporate and commercial portfolios, which provides insight on the asset growth numbers.

Commercial				
Commercial property finance	**Agri finance**	**Asset-backed finance**	**Small businesses (SMEs)**	**Rest of Africa and India**
→	→	→	↗	↗
Focus remains on banked owner-occupied and selective multi-tenanted deals	Continued to diversify exposure across commodities and geographically	Growth focus on banked customers across targeted industries	Cross-sell to relationship base (low credit product penetration)	Continue to target Africa-India corridor clients and introduce specialised product offerings

Corporate			
Working capital finance	**Infrastructure finance**	**Cross-border rest of Africa**	**South African corporates**
→	↗	↗	→
Tracking nominal SA GDP	SA renewable energy projects with strong drawdown pipeline projected	Primarily resource finance and structured financing in hard and soft commodities in strategic countries in the rest of Africa	Lead arranger of the larger acquisition, leveraged finance and listed property transactions

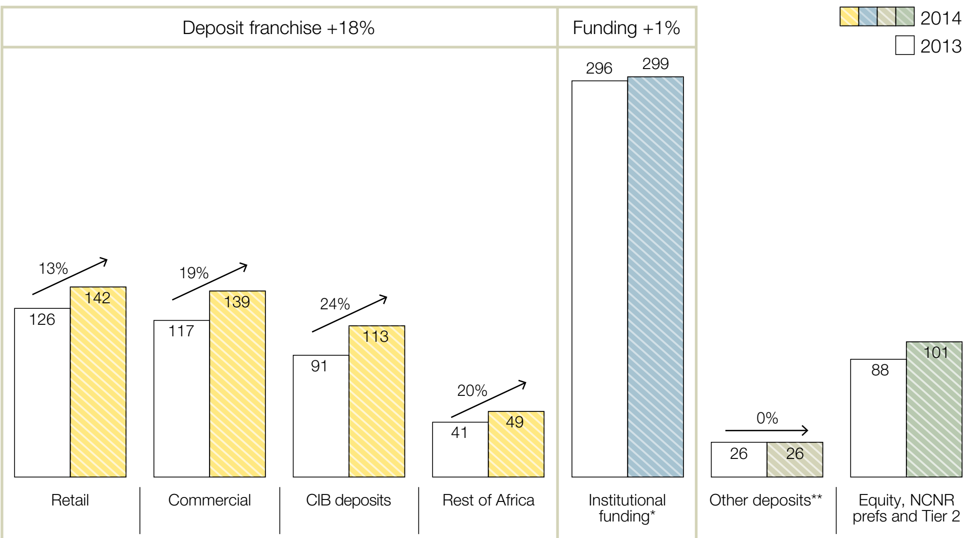
For more detail on the credit portfolio, refer to pages 179 to 211 of the *risk and capital management report*.

Deposit franchise growth

NII also benefited from solid deposit growth of 18% across the deposit franchise. This ultimately resulted in only a marginal increase in institutional funding over the year.

Equity and liabilities

R billion



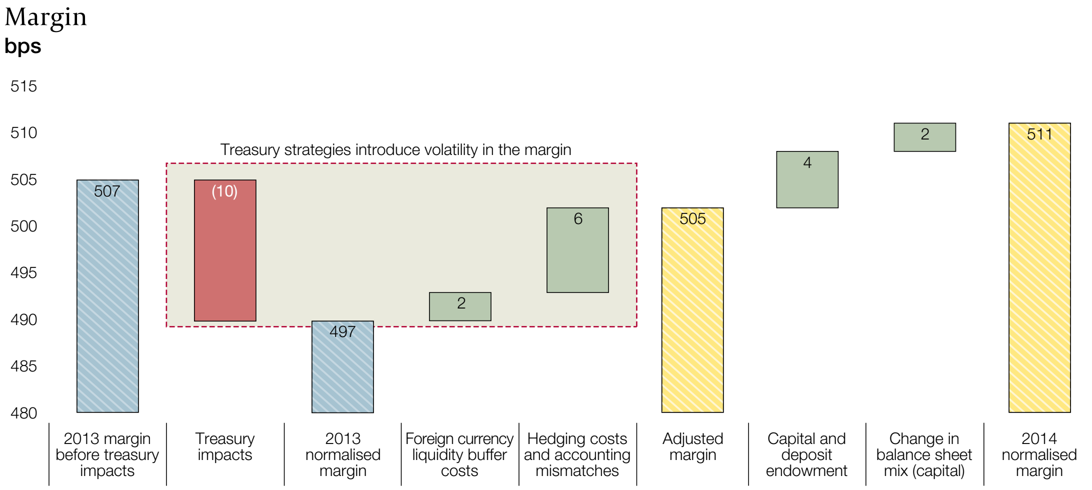
* *Includes CIB institutional funding.*
** *Includes liabilities relating to conduits and securitisations.*

Margins

Net interest margin improved from 4.97% to 5.11% year-on-year. The positive endowment on capital and deposits was the main driver of the margin expansion from an operational perspective.

The chart on the following page illustrates that the Group's treasury strategies introduce volatility in the margin with the significant negative impact on last year's margin largely reversed this year. The 8 bps improvement in the current year margin compares to a 10 bps decline in the prior year and relates to:

- the non-repeat of hedging costs of R215 million associated with the capital investment in RMB Nigeria in 2013;
- the unwind of the majority of the mark-to-market losses in 2013 of R304 million on fair value term funding instruments relating to the narrowing of term funding spreads in the prior year, as these instruments pull to par (the result of accounting mismatches relating to different treatment of assets and liabilities (fair value vs accrual); and
- reduced dollar funding carry costs associated with dollar excess liquidity compared to the prior year.

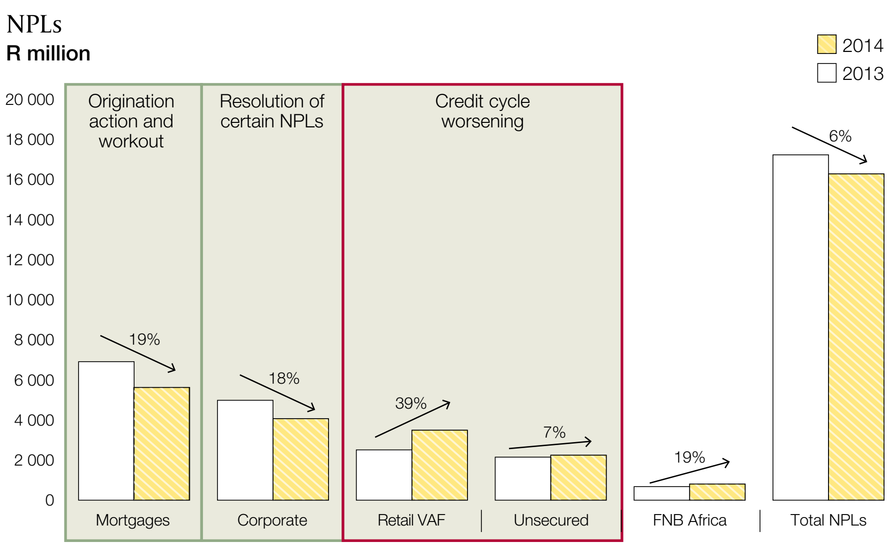


IMPAIRMENTS

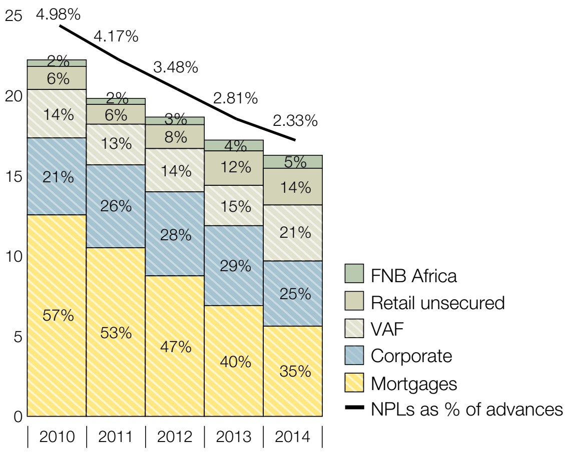
Bad debts continued to trend down from 95 bps (excluding the impact of the merchant acquiring event in 2013) to 84 bps, however, NPLs showed a mixed picture.

The following charts show that lower mortgage and corporate NPLs offset new inflows in other portfolios driving a continued reduction in overall NPLs.

- Mortgage NPLs declined further this year by 19% clearly benefiting from workout actions and origination strategies, whilst the decline in corporate NPLs was the result of the resolution of a number of NPL accounts.
- VAF NPLs increased 39% and unsecured NPLs are up 7%. Personal loan NPLs benefited from the pull-back in the mass segment in FNB. Whilst the increase in VAF and personal loan NPLs remains within expectations, it is an indication that the credit cycle is turning negative.
- Strong book growth resulted in an increase in NPLs in the FNB Africa portfolio.



NPLs
R billion



Coverage ratios (%)	**2014**	**2013**
Retail – secured	**24.0**	25.3
Residential mortgages	**19.9**	21.7
VAF	**30.6**	35.0
Retail – unsecured	**68.7**	75.5
Credit card	**73.0**	71.9
Personal loans*	**65.9**	74.5
Retail – other	**73.1**	80.8
Corporate	**63.3**	52.9
FNB Africa	**37.5**	39.1
Specific impairments	**40.8**	40.1
Portfolio impairments**	**44.6**	33.5
Total coverage ratio	**85.4**	73.6

* *Includes FNB and WesBank loans.*
** *Includes portfolio overlays.*

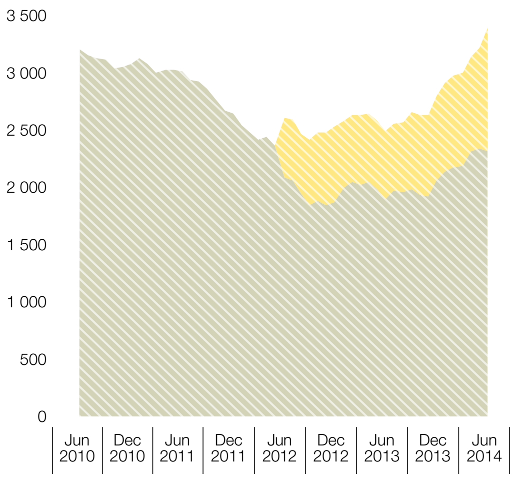
Absolute levels of NPLs decreased 6%, however, total coverage increased from 73.6% to 85.4% driven by a slight increase in specific coverage reflecting the change in mix of NPLs, but the bulk can be attributed to higher levels of portfolio impairments which resulted from the Group's proactive provisioning approach.

Portfolio overlays at a franchise level increased 40% year-on-year. This reflects the Group's view that the negative retail credit cycle will continue to emerge, already reflected in the higher levels of arrears being experienced in the VAF, WesBank personal loans and card books. In addition, portfolio overlays increased on the back of deteriorating macroeconomic indicators, resulting in the creation of an additional R450 million of central portfolio overlays.

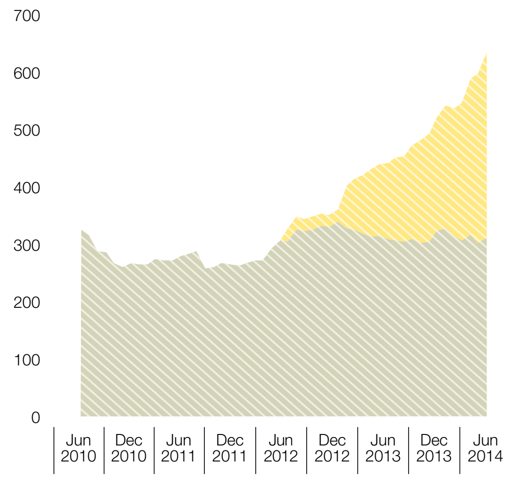
The reduction in the specific coverage ratios for VAF and personal loans is explained by the charts on the following page, which provide some insight as to why this is appropriate. The graphs reflect the growing proportion of restructured debt review accounts in NPLs. This conservative treatment is in line with Group practice to not reschedule paying NPLs to performing unless all outstanding arrears have been paid up. 33% of NPLs are currently under debt review (compared to 23% in the prior year), a high percentage of which have never defaulted, or reflect balances lower than when they went into debt review, which results in lower coverage.

> Increased portfolio overlays reflect the Group's view that the negative retail cycle is emerging.

Local retail VAF NPLs
R million



WesBank personal loans NPLs
R million



NPLs   Debt review restructured NPLs

The income statement impairment charge per product is outlined in the table below:

- the 9 bps impairment charge for residential mortgages is at a cyclical low and is expected to normalise going forward;
- the card impairment charge is still benefiting from high levels of post-writeoff recoveries; and
- a further R450 million portfolio overlay at the centre added 9 basis points to the charge.

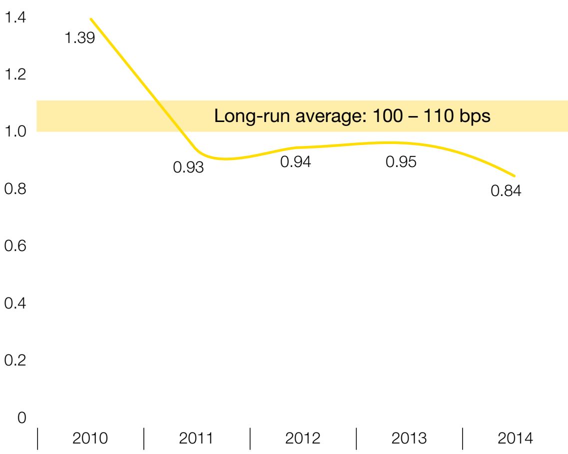
The Group believes that provisioning is appropriate given the continued emergence of the credit cycle.

Credit loss ratio ratios (%)	2014	2013
Retail – secured	**0.54**	0.62
Residential mortgages	**0.09**	0.32
VAF	**1.22**	1.14
Retail – unsecured	**5.20**	6.19
Credit card	**0.64**	0.19
Personal loans*	**7.56**	9.67
Retail – other	**6.76**	7.47
Total retail	**1.18**	1.32
Corporate and commercial	**0.31**	0.58
FNB Africa	**0.72**	0.65
Franchise impairment charge	**0.75**	0.95
Central portfolio overlay	**0.09**	–
Total credit loss ratio**	**0.84**	0.95

* *Includes FNB loans and WesBank loans.*
** *2013 credit loss ratio excludes impact of merchant acquiring event.*

As can be seen from the following chart, impairments are still below the long-run average of 100 to 110 bps, however, bad debts are expected to move into and/or above the long-run average going forward.

Credit loss ratio*
%

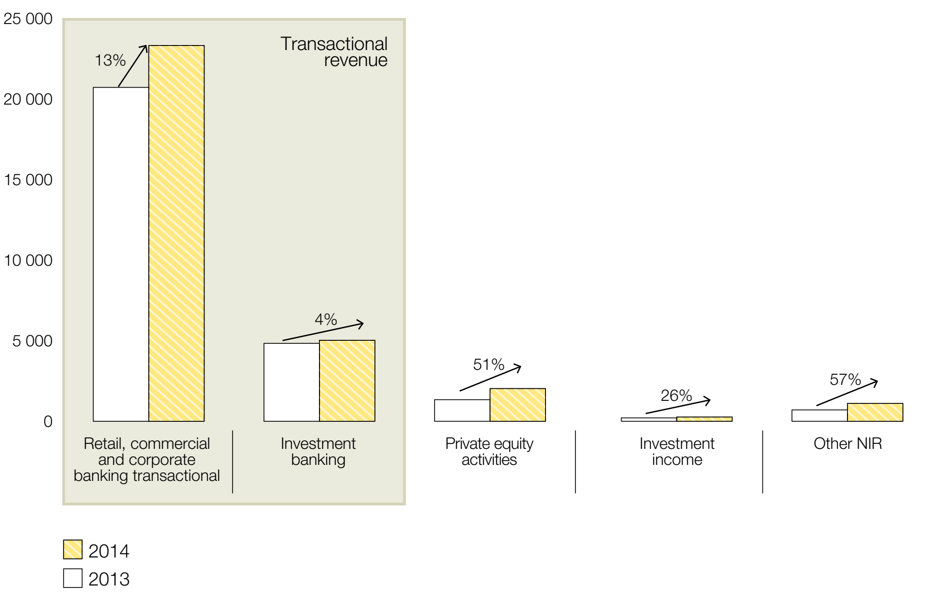


* *Excluding the impact of the merchant acquiring event.*

NON-INTEREST REVENUE

NIR growth continues to be driven by client-franchise strategies, which is reflected in the chart below.

Activity breakdown of non-interest revenue
R million



Total non-interest revenue (NIR) increased 14% year-on-year, with another strong contribution from FNB, which grew NIR 10%. This performance was driven by both the retail and commercial segments and resulted from increases in fee and commission income. FNB's ongoing strategy to encourage customers to migrate onto electronic platforms continued to produce good growth in electronic volumes of 15% year-on-year.

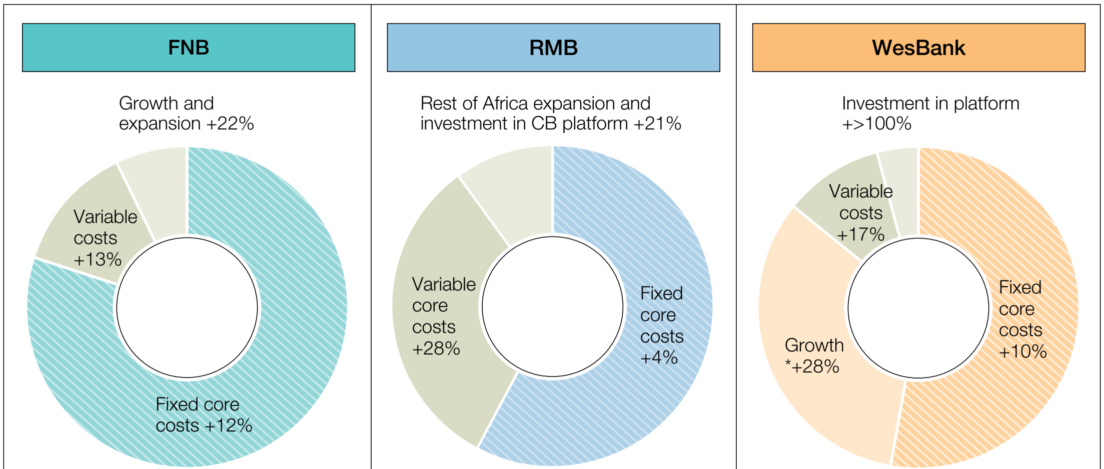
NIR growth was also driven by RMB's client franchises, particularly in the rest of Africa. In addition, RMB's investing activities produced an excellent performance, with good growth from equity-accounted income generated by the private equity portfolio. Investment income was boosted by realisations, including a significant investment realisation emanating from a debt restructure in prior periods.

WesBank's NIR (including share of profits from associates and joint ventures) increased 13%, in line with new business volumes and benefited from continued growth in the full maintenance rental (FMR) book.

For more insight on the individual franchises' strategies to grow NIR, please refer to the *review of operations*.

OPERATING EXPENSES

Overall operating expenses increased 15%, reflecting the continued investment in platforms and the Group's operating footprint in the rest of Africa. Core costs increased 12%.



* *For the purpose of calculating y/y growth rates, R155m writedowns relating to prior financial years were excluded from 2013 costs.*

* *Includes costs relating to FMR depreciation, Direct Axis, MotoNovo and RentWorks.*

Cost-to-income ratio (Group: 51.1%)		
FNB: 54.9%	RMB: 43.5%	WesBank: 43.3%

FNB's core costs grew 12% on the back of salary increases and additional staff. Variable costs which are linked to revenue grew 13% and costs related to growth and expansion initiatives were up 22%.

RMB's core costs were up 4% year-on-year, with variable costs (directly linked to revenue) up 28% and costs associated with the investment related to the expansion rest of Africa and the corporate banking platform up 21%.

A major portion of WesBank's cost growth can be attributed to growth initiatives, such as FMR, MotoNovo, RentWorks, etc. as well as ongoing investment in its IT platform.

FirstRand does not target a cost-to-income ratio as it believes this to be an outcome of its ability to utilise its business model effectively in order to deliver on its growth strategies. The Group rigorously assesses cost structures at both a franchise and business unit level, but will always consider costs incurred to run the business versus costs incurred to build the business.

The Group believes that should topline come under pressure, costs could be flexed if required given the level of expenditure linked to revenue and the current levels of investment.

TAXATION

The effective tax rate increased to above 21% which was driven by a change in income mix, with strong growth in NII and standard-rate taxable NIR, e.g. fee and commission income.

CONCLUSION

The Group delivered resilient, high quality earnings on the back of strong topline growth, which has translated into a strong return profile and it is well-positioned for the continued emergence of the credit cycle.

Harry Kellan
CFO