Johan Burger CFO FirstRand

It's all about **financial prudence and robust balance sheets** to ensure banks weather the current cycle and are prepared for the future upturn.

CFO'S

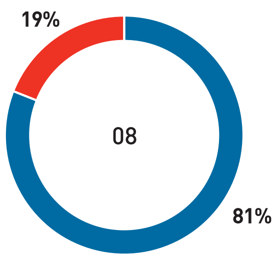
STATEMENT

This report represents a high level overview of FirstRand Limited's results and its balance sheet management ("BSM") strategies.

These results and strategies must be seen in the context of the current global credit crisis and local credit cycle.

The impact of the local credit cycle is reflected in the absolute increase in bad debts whilst the losses in the offshore equity trading portfolio were a direct result of the turbulence in the international markets.

THE PERFORMANCE OF THE MOMENTUM GROUP REFLECTS THE REMARKABLE RESILIENCE OF THE BUSINESS GIVEN THE DIFFICULT TRADING ENVIRONMENT. THIS IS A RESULT OF MOMENTUM'S STRONG MARKET POSITION WITH THE HIGH END CUSTOMER. IN ADDITION, ITS CONSERVATIVE CAPITAL MANAGEMENT STRATEGY IMMUNISES MOMENTUM AGAINST VOLATILITY IN EQUITY MARKETS.



Banking Group
Momentum

* *Based on normalised earnings, excluding the FirstRand centre, NCNR preference shares and Discovery.*

Financial review

FirstRand Limited comprises two main operating entities, the FirstRand Banking Group and the Momentum Group. The included chart illustrates the relative contribution by each of these entities to the normalised earnings of the Group.

Key financial ratios for the Banking Group and Momentum are as follows:

BANKING GROUP

	June 2008	June 2007	% change
Normalised earnings[1] (R millions)	**8 814**	10 089	(13)
Return on equity[2] (%)	**21**	31	
Return on assets (%)	**1.4**	2.0	
Credit loss ratio[3] (%)	**1.28**	0.83	
Cost to income ratio (%)	**52.6**	51.7	

1 Before deducting preference share dividends.
2 After deducting preference share dividends and capital.
3 Impairment charge after deducting credit insurance amounted to 1.19% (2007: 0.79%).

MOMENTUM

	June 2008	June 2007	% change
Normalised earnings (R millions)	**2 004**	1 668	20
Return on equity (%)	**30**	25	
Return on embedded value (%)	**15**	28	
CAR cover (times) (before dividend)	**2.2**	2.3	

FirstRand's diverse portfolio of businesses provided some protection from the difficulties in the trading portfolios, but the size of the trading losses combined with the significant increases in retail bad debts resulted in the Group's continuing operations (pro forma) earnings declining 8% to R 10.4 billion, with a normalised return on equity ("ROE") of 22%.

The Banking Group produced a 13% reduction in normalised earnings before preference shares from R10.1 billion to R8.8 billion and an ROE of 21%.

The Momentum Group increased normalised earnings 20% from R 1.7 billion to R 2 billion and delivered an excellent ROE of 30%. The performance of the Momentum Group reflects the remarkable resilience of the business given the difficult trading environment. This is a result of Momentum's strong market position with the high end customer. In addition, its conservative capital management strategy immunises Momentum against volatility in equity markets. Sales via the FNB channels were strong, highlighting the success of its channel diversification strategy.

Overview of operating franchises

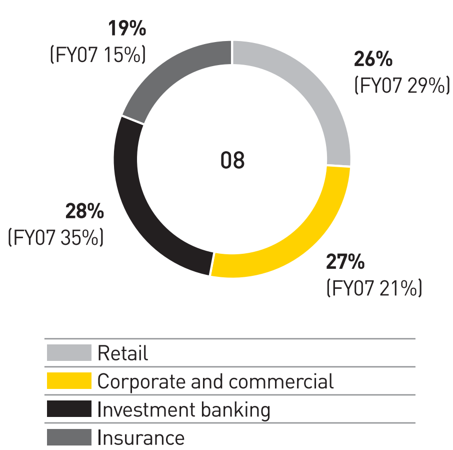
The Group's operational style is to break these legal entities down into a portfolio of autonomous business units ("franchises"), which operate within a broader FirstRand strategic framework.

Franchise normalised earnings from continuing operations

	YEAR ENDED 30 JUNE		
R MILLION	2008	2007	% change
FNB	4 654	4 245	10
FNB Africa	499	437	14
RMB	3 008	3 868	(22)
WesBank	573	918	(38)
Group Support	80	621	(>100)
Banking Group	8 814	10 089	(13)
Momentum Group	2 004	1 668	20
FirstRand Limited	(11)	(100)	89
Dividends to NCNR preference shareholders	(409)	(348)	(18)
	10 398	11 309	(8)

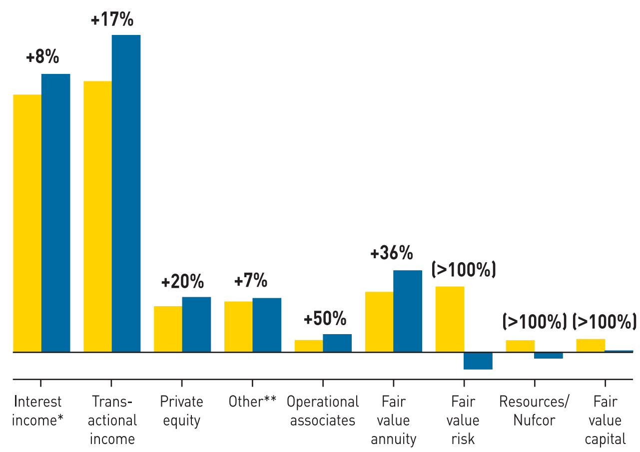
FirstRand's ability to compete and grow in a diverse range of businesses has allowed the Group to add significant value to all its stakeholders from a segment and revenue sources perspective.

Segment diversification



* *Based on normalised earnings, excluding the FirstRand centre and NCNR preference shares.*

Banking Group
(R million)



* *Interest income is shown after deduction of impairments.*
** *Other income excludes VISA revenue.*

Insurance operations

	YEAR ENDED 30 JUNE		
R MILLION	2008	2007	% change
Insurance	1 459	1 145	27
Momentum insurance	1 184	1 000	18
FNB insurance	275	145	90
Asset management	282	326	(13)
Group operating profit	1 741	1 471	18
Investment income	263	197	34
Normalised earnings	2 004	1 668	20

Balance Sheet Management strategies

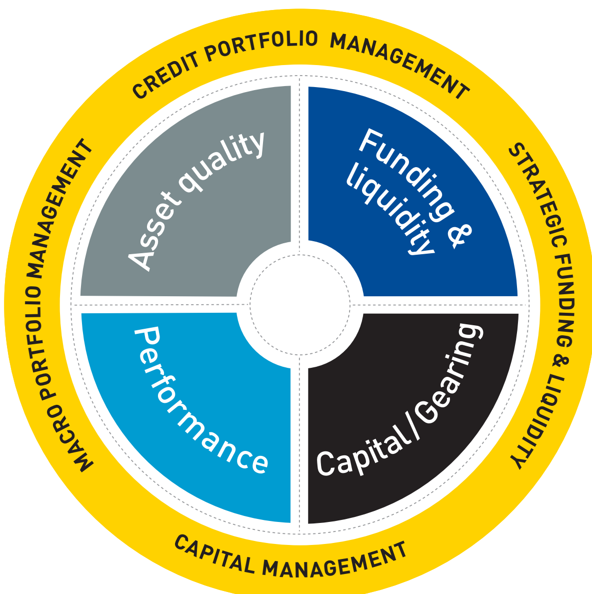
FirstRand's approach to Balance Sheet Management has always been to manage the Group through all business cycles.

The Group formulates a "core" macro economic outlook. The purpose of this view is to ensure there is alignment between the business credit, capital and funding strategies within the appropriate risk appetite. This is reviewed on a regular basis.

In the current environment, within the strategic framework developed for BSM, there are a number of critical focus areas:

- Asset quality
- Funding and liquidity
- Capital/Gearing
- Performance

The objective is to ensure a robust balance sheet through the cycle, and to protect the operating franchises so that they are well positioned for improved conditions.

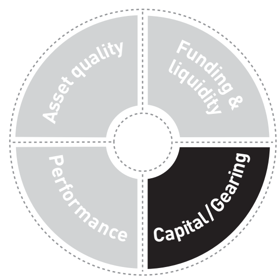


CAPITAL MANAGEMENT

The objective of capital management is to maintain the optimal level of capital in the most cost efficient way, given the Group's risk profile and targeted credit counterparty rating. The optimal capital level is achieved through balancing the needs of regulators, rating agencies, depositors, shareholders and debt holders. Gearing is monitored on a Group wide basis in line with limits set by the board.

The focus continues to be on ensuring capital strength after taking into account the expected capital utilisation, new initiatives, planned issuance of capital instruments, appropriation of profits and dividend payments, and general contingency planning for dealing with divergences, unexpected events and stress scenarios. The approved capital plan is reviewed and tested on an ongoing basis. More recently, the newly developed BSM economic outlook (produced for a 24 month time horizon), has been used in forecasting capital. This outlook incorporates both a core and a risk view. The Group is appropriately capitalised under a range of normal and severe scenarios and stress events.

Capital is an input into decision making at all levels within the organisation. In order to ensure that the Group achieves its performance targets, capital management monitors performance to ensure that the capital deployed into the business units meets these targets. Support is also provided in formulating expansion plans for Greenfields, accelerated Greenfields or acquisitions to ensure that new initiatives meet both the strategic and financial expectations of stakeholders.

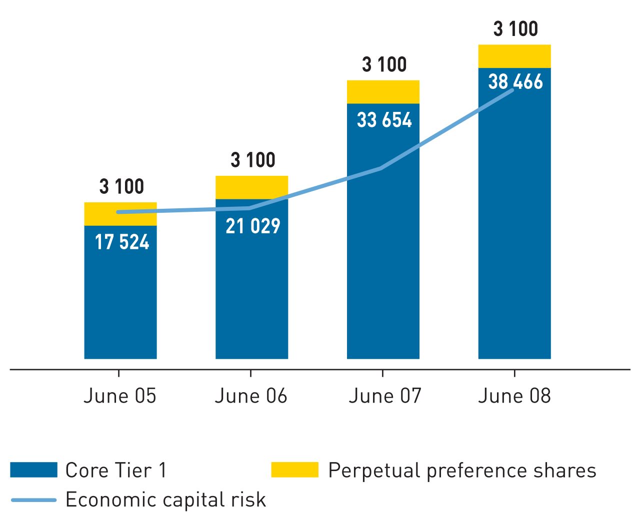


Capital/Gearing

The Group's policy is to capitalise at the higher level of economic or regulatory capital, and to provide an appropriate capital buffer to give confidence to debt holders, depositors, regulators, shareholders and rating agencies. The focus of the Group remains on core capital (normalised net asset value) by ensuring that economic risk is backed by core capital. Capital is invested in low risk assets and the profile of these assets depends on the Group's interest rate view.

The table below indicates the level of economic risk which is backed with core Tier 1 capital.

Economic capital risk – FirstRand Bank Holdings
(R million)



Going forward it is critical for CFOs to manage the relationship between risk, capital and performance

Basel II was implemented from 1 January 2008 and had very little impact on the capital requirements of the Group. The Group has also increased the required buffers thereby increasing the targeted capital ratios for 2009. As at June 2008, both the overall and core capital ratios were within the new targeted levels.

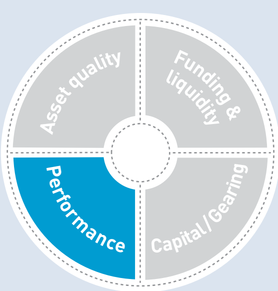
The table below illustrates the strong capitalisation ratios of FirstRand Bank Holdings and FirstRand Bank.

	FRBH		FRB		Regulatory Minimum*
	Actual	Target	Actual	Target	
Capital adequacy ratio (%)	13.75	12.0 –13.5	12.28	11.5 – 13.0	9.50
Tier 1 ratio (%)	11.13	10.00	9.44**	9.50	7.00
Core Tier 1 ratio (%)	10.30	8.25	8.41	7.75	5.25

* *Note, the regulatory minimum excludes the pillar 2b add-on.*
** *The Tier 1 targeted ratio for FirstRand Bank is exceeded if unappropriated profits of R185 million are included.*

Momentum's decision to back its regulatory Capital Adequacy Requirement ("CAR") with cash assets, while the balance of the shareholders' assets is invested in a combination of strategic investment and interest bearing assets, has shielded the CAR ratio in declining investment markets. Momentum targets an economic capitalisation level range of 1.7 to 1.9 times CAR (based on the current formulae used to quantify CAR). As at June 2008, Momentum's CAR was covered 2.2 times by the excess assets over liabilities. Momentum will be subject to revised regulatory capital requirements from 31 December 2008. The impact is still being quantified but Momentum expects to be well capitalised under the new requirements.

Credit growth has slowed, offering some respite after a sustained period of intensive capital consumption; while the de-risking of the Banking Group's international balance sheet will further lower the capital requirements. Given the deterioration in the credit environment over the past 12 months, the Group remains vigilant to the effects of pro-cyclicality introduced by Basel II and continues to focus on the level of core equity.



Performance management

FirstRand's performance management strategy remains a key component of the Group's overall strategy. Its focus is to deliver superior, sustained returns to shareholders.

The Group continues to monitor the effectiveness of its long term performance management strategy using two financial targets, namely real growth in normalised earnings and return on equity of 10% above FirstRand's weighted average cost of capital.

The Group believes normalised earnings most accurately reflect the sustainable operational performance of the business given the non-operational and accounting anomalies that impact headline earnings. The table below shows the reconciliation between normalised earnings and headline earnings in the current and prior year.

	YEAR ENDED 30 JUNE		
R MILLION	2008	2007	% change
Headline earnings	9 737	10 298	(5)
Adjustments	661	1 011	(35)
IFRS 2: Share based payments	141	390	
Treasury shares	520	593	
Listed property adjusted to NAV	–	28	
Normalised earnings	10 398	11 309	(8)

At FirstRand, net income after capital charge ("NIACC") – a derivative of Economic profit, has been in place as a performance measure since July 2005. Economic profit and risk adjusted performance measurement principles are embedded in the management culture of the organisation through economic profit contribution measurement. Economic profit is a function of the normalised headline earnings and capital utilised in the businesses.

The table below provides a summary of the ROE numbers for the Group.

	YEAR ENDED 30 JUNE	
	% ROE	
	2008	2007
FNB	33	35
FNB Africa	34	33
RMB	25	40
WesBank	12	23
Banking Group	21	31
Momentum	30	25
FirstRand	22	29

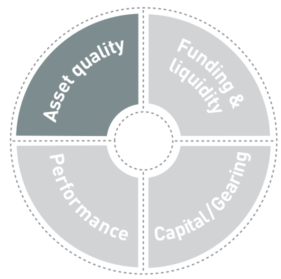
CREDIT PORTFOLIO MANAGEMENT

Credit Portfolio Management ("CPM") has a dedicated focus on the analysis, interpretation and initiation of appropriate actions on the credit portfolio and is key in the management of the Group's targeted balance sheet. The portfolio management takes place in consultation and close co-operation with the credit business owners and credit segment heads and focuses on the entire credit portfolio, ie retail, corporate and commercial and investment banking. Portfolio management takes place on both the existing credit portfolios (ie "in-force" business) as well as new business origination.

CPM influences the balance sheet via active participation in credit origination and pricing forums. The existing credit portfolios are managed through in depth scenario analysis and stress testing. This results in credit structuring, macro hedges or single name credit protection and is done in conjunction with the BSM Macro Portfolio Management as well as RMB divisions.

In the past the key focus from a Credit Portfolio Management perspective was to understand and analyse the Group's credit portfolio, with the specific aim to identify significant credit concentrations arising within or across credit portfolios, as well as potential portfolio vulnerabilities. As part of the process, detailed forecasting of portfolio results in terms of expected losses and portfolio sensitivities were conducted. The objective was to address these either through changes in origination strategy or financial markets hedging. An example of this, is for instance the interest rate hedges on the retail credit portfolios in 2006/7 and 2007/8, which reduced the reported bad debt charge.

The strategic focus has now shifted to focus more on the new business origination strategy. At the core of this is the new BSM economic outlook that is produced for a 24 month time horizon, which sets out "likely" and "risk" expectations on a range of key variables (eg interest rates, GDP and asset growth) which impact the balance sheet and the credit portfolio. This view is updated on a monthly basis, and is complemented by a set of credit lead indicators to isolate potential impacts on the individual credit portfolios. Targeted risk appetite loss thresholds have been defined for all the major credit portfolios, and origination strategies are articulated against the backdrop of the macro economic outlook and the targeted credit appetite. It is the focus of the CPM team to facilitate this strategy articulation process, to challenge the business decisions, and to ensure consistency across various portfolios in their application of the BSM economic outlook.



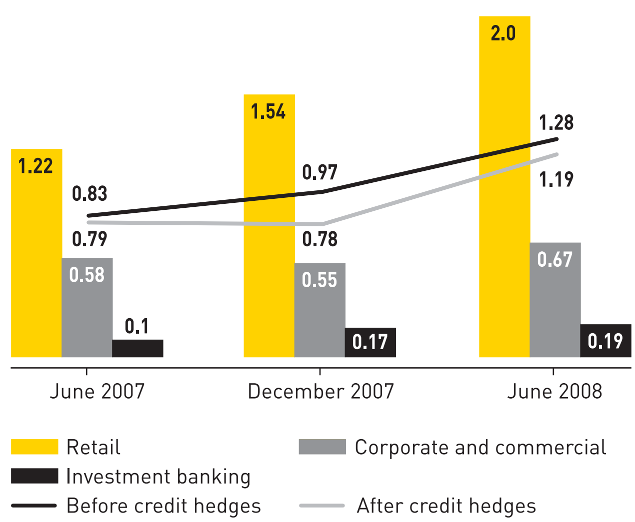
Asset quality

The retail lending operations of the Group were severely impacted by the dramatic increase in bad debts from R2.6 billion to R4.7 billion. This was a direct result of the deteriorating consumer credit cycle with the significant increase in interest rates, combined with higher inflation, placing serious strain on disposable income and eroding household affordability levels. The absolute level of bad debts in the year under review highlights the severity of the current cycle. It is not a reflection of structural asset quality issues such as those experienced in other markets (ie sub prime exposure), however the Banking Group underestimated the overall extent of interest rate increases.

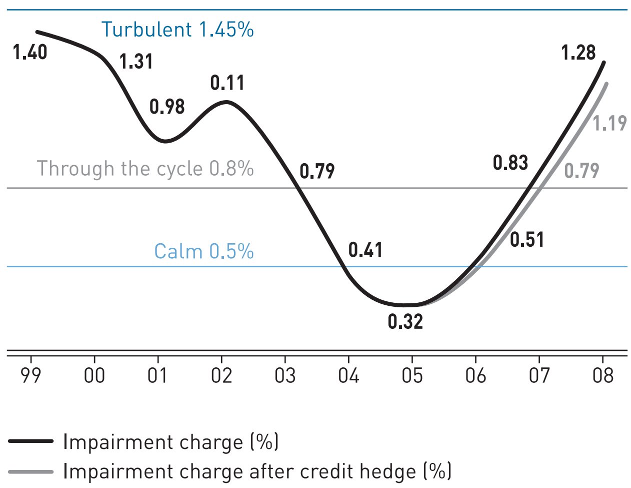
FirstRand's diverse corporate portfolio is well represented across the strongest sectors of the economy. The Group is comfortable with its corporate asset mix and current levels of impairments.

The graph below illustrates FirstRand's bad debt ratios by segments.

Impairment charge
(%)

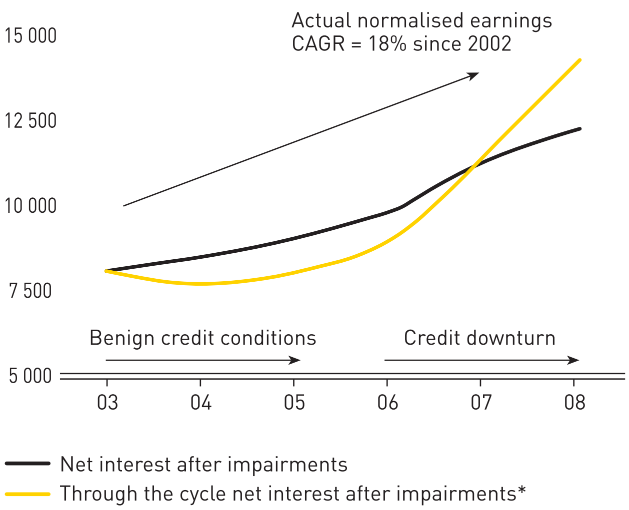


Although bad debt ratios are continuing an upward trend, this is still within the risk reward profile as illustrated below.

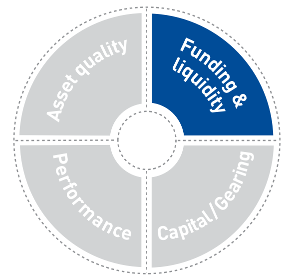


Given the current cycle, FirstRand's bad debt levels are in line with expectations, are priced for and are not out of line with the South African industry, taking into account the different asset mixes of the local banks' portfolios. With the introduction of IFRS, banks' earnings with reference to bad debts are now more reflective of the economic cycle, and can therefore be more volatile. The graph below illustrates the effect of bad debts through the cycle.

Effects of bad debts
(R million)



* *Through the cycle net interest after impairments calculated assuming long run average bad debt ratio of 0.8.*



FUNDING AND LIQUIDITY

Given the current uncertainty in the international and domestic markets, funding and liquidity is a primary focus.

The South African banking system has effectively been insulated from the global financial crisis mainly as a result of the prevailing Exchange Control regulations. The interbank market in South Africa has functioned normally throughout the global financial crisis. The rand liquidity therefore moves between the domestic clearing banks. FirstRand Bank is one of the clearing banks and is predominantly a domestic player.

FirstRand Bank's funding position remains robust and it has low reliance on funding in the international markets. There are appropriate liquidity buffers in place given the level of uncertainty in financial markets. The international balance sheet has been significantly derisked and the excess liquidity buffers are sufficient to deal with roll-over risk in the international balance sheet.

Key focus areas are:

- Grow deposit franchise
- Limit dependence on wholesale funding
- Lengthen the funding profile
- Minimise roll over risk
- Limit off balance sheet activities
- Introduce marginal matched maturity transfer pricing

CONCLUSION

In the current macro economic environment it is all about financial prudence. The objective is to ensure a robust balance sheet that can weather the current cycle, and to protect the operating franchises to ensure that FirstRand is well positioned when business conditions improve.

Johan Burger
Chief financial officer