

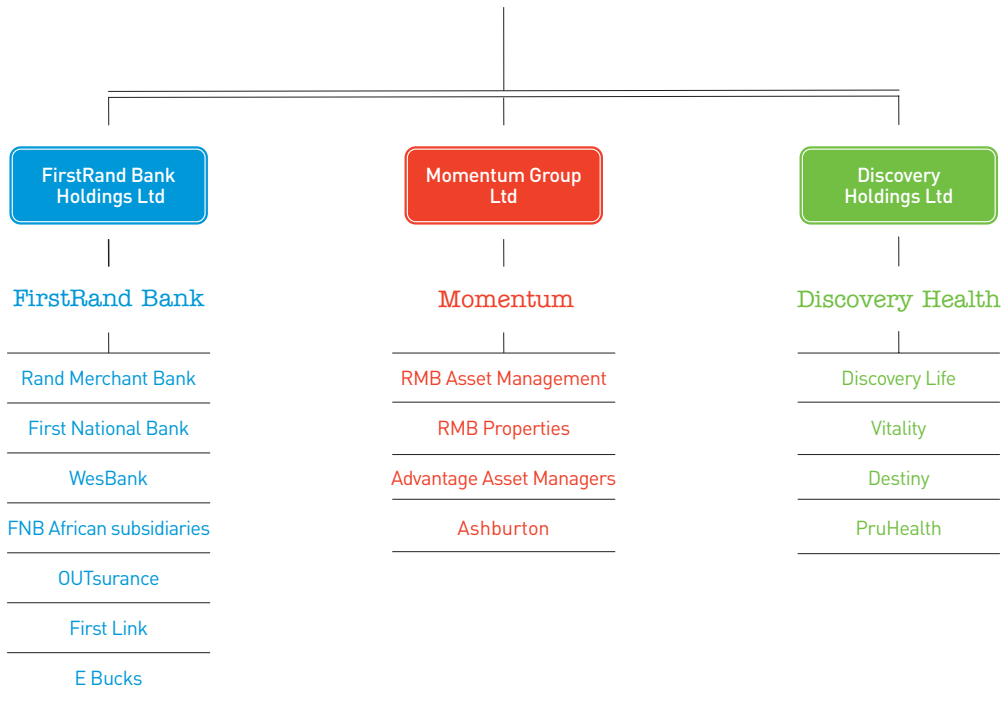


# 2006 SUSTAINABILITY SUMMARY



**FIRSTRAND**

INTEGRATED FINANCIAL SERVICES



## Contents

- 1 Letter from the CEO
- 2 About this report
- 4 Indicator table
- 5 Corporate governance
- 6 Our people
- 10 Our supply chain
- 11 Our customers
- 13 Our regulatory environment
- 14 Our work with the community
- 16 Our environmental impact
- 18 Our economic impact
- ibc Global compact

Corporate citizenship is hardwired into our business model at FirstRand, as is a focus on innovation. We think that this combination helps us approach sustainability issues in a fresh way – FNB’s mini-ATMS, our new company Makalani Holdings, Discovery’s Vitality programme and countless other examples, demonstrate the value to us, our customers and to society, of this powerful combination.

This is our third Sustainability report and the first to pass the scrutiny of our internal auditors. I am proud of the progress we have made this year.

We have signed the UN Global Compact, the principles of which you can find at the back of this report. We have also decided to integrate sustainability issues into our Business Risk Management Framework and we have centralised our procurement functions with a view to better managing the impact of the R6.4 billion we spend with our suppliers. These are fundamental changes.

It was good to see our progress acknowledged when Deloitte and Touche named FirstRand Ltd. first for Sustainable Development in their awards this year, and BusinessMap named us the most Progressive Established Company in their BEE rankings. At the same time, we are aware that the market and our world are not static – there is a need to be constantly responding to new realities.

On the environmental front, WesBank took the opportunity of building new premises on the West Rand which focus on being environmentally friendly, expanding on their recently awarded ISO14001 accreditation. In our interaction with the community, we know that our Corporate Social Investment spend, which this year exceeded R70 million, can be a major force for good.



We also know that to get the most from this investment we need to better understand its impact. With this in mind we have initiated processes to improve impact measurement and to deepen our engagement with some of the hundreds of organisations who receive funding from us.

This report includes information about the focus areas of the Financial Sector Charter. The FSC provides us with a solid framework against which to measure our progress in key social and economic sustainability issues. I have had the opportunity this year to invest time in speaking to Government departments, corporate clients and our staff about how we are dealing with transformation and the opportunities it affords us. The Charter and other changes in the regulatory environment invite us to keep our focus on innovation and to ensure that we remain profitable and responsive to stakeholder’s issues, always conscious of our social impact and our role in South Africa’s development.

Finally, I want to acknowledge our people, who make everything you see in this report possible. They volunteer their time in their communities and not only focus on efficiency and innovation in our operations, but also support us in our efforts to create a better workplace and a better country.

It is their work that you see here.

**PK Harris**  
Chief Executive Officer  
FirstRand Limited



FirstRand is an integrated financial services group structured as a ‘federation’ of business entities structured to take advantage of the blurring of boundaries in the financial services sector and the convergence of products and services. It is listed on the JSE and the Namibian Stock Exchanges.

FirstRand Limited is the holding company of the Group. The three major subsidiaries in the FirstRand Group are FirstRand Bank Holdings Limited, Momentum Group Limited and Discovery Holdings Limited.

Operational responsibility lies within business units - most easily recognised by their brands - which have direct customers and large staff complements. These brands are united in a shared business philosophy rooted in an entrepreneurial culture which recognises the company’s broader direct and indirect impacts. Central to our philosophy is an owner manager culture, which empowers business unit heads and holds them accountable for their actions. The major brands are First National Bank, Rand Merchant Bank, WesBank, Momentum, Discovery and OUTsurance.

FirstRand believes that in order for the Group to be sustainable, its business units must defend their markets and brands against local and foreign competition and requires its business units to have in place systems and controls to understand and monitor the economic, social and environmental impacts of their actions.

**At FirstRand, we believe there are five pillars of transformation, all equally important, which are:**

- **Creating a better macro environment**
- **Addressing investment imbalances**
- **Ensuring Employment Equity**
- **Facilitating emergence of black businesses**
- **Facilitating equitable ownership and control**

### **Our Approach to Reporting**

As a holding company FirstRand recognises its broader role and responsibilities and that of its subsidiaries and business units to a wide range of stakeholders.

Our Annual Report to shareholders includes separate operational reviews from FirstRand Bank Holdings, Momentum Group and Discovery Holdings. This report is aimed directly at our shareholders, financial analysts, legal and regulatory bodies, including the JSE Limited. We meet their information requirements regarding financial performance, corporate governance and our perspective on market conditions through this report. In addition we engage with them at Annual General Meetings, investment presentations and one-on-ones where required.

Our engagement with our broader stakeholder community cannot be accommodated in the FirstRand Annual Report. It is for this reason that our Sustainability Report reflects the performance of the different brands on the issues which matter to our broader stakeholder groups. This summary report highlights key areas which are covered in the detailed brand reports which are available at [www.firstrandusrep.co.za](http://www.firstrandusrep.co.za). These can be accessed on the FirstRand website, [www.firstrand.co.za](http://www.firstrand.co.za) and all of the Group’s brand sites. This year, we have elected to submit each brands sustainability report to a rigorous process of internal auditing, undertaken by the relevant internal audit department. We are pleased that these reports confirmed the reliability of the data and statements made in the reports, and provided valuable feedback to the business unit champions for the future.

The majority of our business activities take place in South Africa with some retail banking and project financing taking place in other parts of Africa. Outside of Africa we have operations in the financial services and health insurance sectors in the United Kingdom, Australia and the United States. This report focuses on our activities in South Africa.

In particular, the South African Financial Sector has a major focus on transformation through the Financial Sector Charter and other relevant legislation. There is substantial overlap between issues that we believe are core to our Sustainability and those addressed through our transformation initiatives. At FirstRand, we believe there are five pillars of transformation, all equally important, which are:

- Creating a better macro environment
- Addressing investment imbalances
- Ensuring Employment Equity
- Facilitating emergence of black businesses
- Facilitating equitable ownership and control

You will see information about our transformation initiatives and progress throughout this summary, and we have included here the Group’s Financial Sector Charter scorecard:

Charter component	Max points	Dec 2005 target	FRL actual points
HR development	20	11.00	12.62
Employment equity	15	8.25	8.49
Skills development/learnerships	5	2.75	4.13
Procurement and enterprise development	15	8.25	11.94
Access to financial services	18	9.90	9.11
Empowerment financing	22	12.10	16.00
Ownership and control	22	12.10	18.80
Corporate social investment	3	1.65	3.00
	100	55.00	71.47

*(Discovery is a separate signatory to the FSC, as such their scorecard is not reflected in these figures)*

In 2006, FirstRand Group was ranked as the Most Progressive Established Company by BusinessMap.

**Format of the Report**

This summary includes examples from across the Group illustrating our approach to the different Sustainability issues covered. Since each business unit has operational independence there is diversity in our approaches. The examples are intended to illustrate how the broad frameworks and principles described at the Group level operate in practice. For fuller detail on each brand’s activity, please refer to the website. You will see quotes from our philosophy in the boxes above each section, to highlight its roll as a framework for the business.

Mindful of the diversity that our holding company structure creates, we have used the principles of the Global Reporting Initiative (GRI) as a guide in deciding on the inclusion of relevant information. We have also taken cognisance of the JSE Social Responsibility Index, King II and the Financial Sector Charter. See indicator table for details.

**Contact details**

To provide feedback on this report, please send your comments via our feedback section on the website, or by post to:

**Adrian Arnott**

FirstRand Limited, 4 Merchant Place, Sandton.  
Adrian.Arnott@firstrand.co.za

If you would like further information about FirstRand’s FSC credentials contact:

**Patsy Down**

011 282 1902  
transformation@firstrand.co.za

Since each business unit has operational independence there is diversity in our approaches. The brand examples are intended to illustrate how the broad frameworks and principles described at the Group level operate in practice.



*First National Bank provided substantial support to the Heartlines values programme this year.*

## 4 INDICATOR TABLE

“FirstRand believes in good housekeeping and corporate governance; prudent and accurate score-keeping.”

The schedule below shows the key indicators we have used for our reporting, their source and where to find the relevant data.

Topics and indicators	JSE SRI criteria	King II	GRI #	FSC	FirstRand strategy	Where to find it	Page
<b>Strategy</b>							
Group strategy	x		1		x	Annual Report	9, 15
Structure including significant changes	x		2.3	x		Annual Report	25, 285
<b>Sustainability reporting approach</b>							
Philosophy	x		2.11 – 2.13; 2.17	x		Annual Report	22
Key non-financial risks and opportunities					x	Annual Report	35, 38, 41, 45, 55, 62
<b>Corporate governance</b>							
Corporate governance overview	x	x	3.1 – 3.8; 3.19; SO3; LA11			Annual Report	69
Board composition		x				Annual Report	64
Regulatory environment	x	x	3.14			Annual Report	84
Compliance	x	x		x		Annual Report	84
Risk management	x	x	3.17; SO1			Annual Report	15, 84
Non-financial risk management	x	x	3.17	x		Annual Report	22, 84
<b>Stakeholders</b>							
Stakeholder list	x		2.9			Annual Report	22
Stakeholder engagement	x		3.9-3.12			Website	
<b>Regulatory environment</b>	x		3.15			Website	
						Annual Report	4, 84
<b>Our people</b>							
Scope	x				x	Website	
Major Issues identified	x			x	x	Website	
Policies	x		HR1; HR2; HR5 – 7	x		Website	
Workforce breakdown	x		LA1; LA2; LA11	x		Website	
Transformation	x		LA10	x		Website	
Staff satisfaction	x					Annual Report	76
Staff consultation	x					Website	
Health and safety including HIV/AIDS	x		LA3; LA4; LA5; LA6; LA7; LA8			Website	
Training	x		LA9	x		Website	
Remuneration	x		EC5			Website	
						Annual Report	63, 74
<b>Supply chain</b>							
Scope including total expenditure	x		EC3		x	Website	
Strategy	x			x	x	Website	
Policies	x		3.16; HR3	x		Website	
Supplier satisfaction			3.9-3.12			Website	
Transformation	x			x		Website	
<b>Environment</b>							
Scope					x	Website	
Policies	x		3.14			Website	
Direct energy usage; initiatives	x		EN3			Website	
Reduce, recycle, reuse; initiatives	x		EN5; EN 11			Website	
Transport; initiatives	x		EN8			Website	
<b>Community</b>							
Scope					x	Website	
Major issues	x					Website	
Policies	x		3.14			Website	
Total contribution	x		EC10	x		Website	
Community satisfaction	x		3.9-3.12			Website	
Impact assessment	x				x	Website	
<b>Customers</b>							
Scope			EC2		x	Website	
Major issues	x		3.17; EN14; SO1				
Policies	x		PR2; PR3; 3.14	x		Website	
Current performance	x			x		Website	
Distribution	x			x		Website	
Transformation	x			x		Website	
Customer satisfaction						Website	
Health and safety			PR1			Website	
<b>Economic impact</b>							
Statement of economic Value-added	x		EC5 – EC8; EC10			Annual Report	63
Financial performance	x		EC1		x	Annual Report	1, 15

Although the FirstRand Group operates on a 'federal structure', FirstRand and all its subsidiaries endorse the Code of Corporate Practices and Conduct, commonly known as the King II Code. We are satisfied that the Group has in all material respects complied with the provisions and the spirit of the King II Code. Corporate Governance is, where practical, standardised across the Group to ensure that the high standards set by FirstRand are implemented and monitored in a consistent manner in all operations. Where the Group conducts business internationally, appropriate best practice is adopted and monitored accordingly.

FirstRand's Board of Directors meet four times a year. It is ultimately accountable and responsible to its shareholders for the performance and affairs of FirstRand. This requires that it retains full and effective control over the Group and approves its strategic direction and monitors the impact thereof. It is also responsible for ensuring that there is proper management of risk and compliance with all relevant laws, regulations and codes.

The role of chairman and chief executive are separate. The Board has established five committees: the Executive Committee, the Remuneration Committee, the Audit, Risk and Compliance Committee, the Director's Affairs and Governance Committee and the Financial Sector Charter and Transformation Monitoring Committee. The Boards of our major subsidiaries are similarly structured with appropriate committees and governance practices. For a detailed description on the company's governance structures you are referred to page 69 of the Annual Report.

### Governance Structures

The Board of Directors of FirstRand and all of its subsidiaries are signatories to a Code of Ethics. The behaviour of the directors is overseen by the various Directors' Affairs and Governance committees.

Policies and procedures exist to promote ethical behaviour and to communicate these values to the Group's stakeholders.

**The FirstRand Code of Business Ethics forms part of the standard terms and conditions of our tender documents and contracts and is also available in the form of a simplified booklet to all employees and stakeholders.**

A range of channels for reporting unethical or questionable behaviour exists and employees can consult an intranet site with case studies of what to do in a case of potential or suspected fraud.

Our workforce, suppliers, contractors and their employees are regularly informed and reminded of the existence of these reporting channels and are briefed on how to report breaches of our ethical code and corporate values. The FirstRand Code of Business Ethics forms part of the standard terms and conditions of our tender documents and contracts and is also available in the form of a simplified booklet to all employees and stakeholders. Incidences reported are recorded and investigated.

### Risk management

Risk management is central to good governance and, in many ways defines our ability to operate profitably and sustainably. We do not avoid risk; we embrace it but ensure that it is managed, priced and measured effectively. The FirstRand Audit and Risk Committee monitors the corporate risk environment, reviews the findings and reports of the subsidiary company audit committees and addresses matters of a Group nature. The Committee is further mandated to assess the effectiveness of the Group's risk management structures, controls and interventions on an ongoing basis to manage risk in the broadest sense.

The table below provides examples of some of the risks managed by the Group.

Key Generic Business Risks	Key Generic Non-Financial Risks and Opportunities
Credit risk	Reputational risk – service, pricing etc.
Liquidity risk	Employee health and safety
Operational risk	Transformation
Insurance-related risk	Environmental risk impact
Interest rate risk	Customer satisfaction
Market risk	Actions of a third party that could effect competitiveness

*(For a more detailed understanding of the Group's risk management structures and practices, readers are referred to page 84 of our 2006 Annual Report.)*

For FirstRand to generate long-term sustainable profits, it is important that our employees are empowered to do their work, are held accountable for their actions and are appropriately remunerated. Our owner-manager approach and a passionate belief in the entrepreneurial culture of the Group are central to the FirstRand Business Philosophy. To this end we constantly engage, survey and communicate with our staff to determine levels of employee satisfaction.

We pay market-related salaries but reward exceptional performance, effort and initiative. Although remuneration structures are specific to each business unit and the industries in which they operate, they all share a common framework of pension and health related benefits, salary review periods, performance linked bonuses and salary review criteria. Certain senior employees participate in share incentive schemes thereby ensuring an alignment of shareholder and employee interests. The FirstRand Remuneration Committee oversees all remuneration strategies and practices across the Group business units, for further information please refer to page 74 of the Annual Report.

As part of FirstRand's Black Economic Empowerment transaction, which was approved by shareholders in April 2005,<sup>a</sup> a Black Employee Share Trust was established for the benefit of all previously disadvantaged employees working in the South African companies. This share trust owns 136,4 million shares in FirstRand Limited. The benefits of this share trust accrue in 2014. At the same time, the company established the FirstRand Staff Assistance Trust. This trust holds 20 million FirstRand shares. 5% of the dividends in respect of these shares is available to assist black employees with their health and education needs and those of their immediate family.

The workforce profile of the FirstRand Group at 30 June 2006 was as follows :

South African workforce	AIC		White		Total		Grand total
	Male	Female	Male	Female	Male	Female	
1 Top management	19	10	111	22	130	32	162
2 Senior management	190	98	636	320	826	418	1 244
3 Professionally qualified and experienced specialists and mid-management	1 034	1 162	2 349	1 865	3 383	3 027	6 410
4 Skilled technical and academically qualified workers, junior management, supervisors	2 544	4 732	1 820	4 465	4 364	9 197	13 561
5 Semi-skilled and discretionary decision making	4 405	8 322	1 022	3 666	5 427	11 988	17 415
6 Unskilled and defined decision making	548	278	5	1	553	279	832
<b>Total</b>	<b>8 740</b>	<b>14 602</b>	<b>5 943</b>	<b>10 339</b>	<b>14 683</b>	<b>24 941</b>	<b>39 624</b>



**Discovery**



## Our focus on engaging people

Discovery has recently introduced a more conversational approach to performance reviews. Whereas our focus in the past has been on giving managers the tools needed to lead this process, we have now shifted it to empower employees with tools to help them initiate meaningful dialogue with their manager about their performance. For example, during our May/June 2006 review process, each employee received a set of conversation cards to keep on their desk, which they could use as a practical prompt during their performance appraisal.





### FNB moves ahead on employee issues

During 2005 a major survey was undertaken across FNB’s staff, to determine key areas where action was needed on staff related issues. The three priorities identified by staff are listed below, alongside the management action that has taken place in response to them thus far and what we intend to do in the coming year.

FOCUS AREA	OBJECTIVE	WHAT WE DID	WHAT WE NEED TO COMPLETE
<b>Reward &amp; Recognition</b> Score: 6.2/10	To modernise our people practices in line with market standards and current practices	<ul style="list-style-type: none"> <li>Implemented Broadbanding (consolidating employees into 6 clearly defined business bands). The result is greater flexibility to retain and attract staff, facilitate pay for performance, reduce job grades and standardised remuneration practices across different business units</li> </ul>	
<b>Satisfaction with Management/ Performance Management</b> Score: 7.2/10	To strengthen performance management in all key aspects	<ul style="list-style-type: none"> <li>A “Contribution contract” for managers was developed for managers to ensure accountability for staff growth and development</li> </ul>	<ul style="list-style-type: none"> <li>The delivery of soft-skills training for performance management (mentoring, feedback, etc.)</li> <li>The evaluation of Outcomes-Based Remuneration, which recognises individual performance, contributions and capabilities</li> </ul>
<b>Leadership, talent management, skills development and succession planning</b> Score 7.2/10	To build a sustainable pool of talent and business leaders at all organisational levels who are suitably-skilled and globally competitive	<ul style="list-style-type: none"> <li>Tested the “Business Leadership DNA” approach to develop a stronger leadership pipeline with FNB Exco</li> <li>Through a “Care and Growth” programme, increased emphasis on coaching by line managers</li> <li>Formulated a Skills Development Strategy</li> </ul>	<ul style="list-style-type: none"> <li>Develop a Business Leadership pipeline process for practical actions to grow management and leadership skills at all levels with an increased focus on black leadership</li> <li>Roll-out the Skills Development strategy by identifying core and competitive edge skills, enhancing the Human Resources MIS processes, and accelerating the training and skills development for black staff</li> </ul>

FNB accounts for 68% of FirstRand Group permanent staff.

During the calendar year to December 2005, the data collection period for our FSC scorecard, the Group including Discovery spent 1.89% of payroll or R115 million on skills and development training.

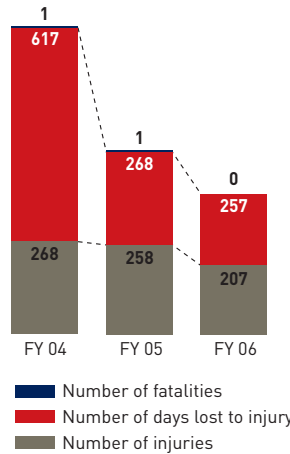
Our support for the Financial Sector Charter means that we are fully committed to increasing the ratio of staff from previously disadvantaged backgrounds. While the greatest challenge to meeting our targets remains at the senior management and executive level, we believe that our on-going investment in training, education and targeted employee development programs will assist us in meeting our objectives. During the calendar year to December 2005, the data collection period for our FSC scorecard, the Group including Discovery spent 1.89% of payroll or R115 million on skills and development training.

**Health & Safety**

Although financial services companies operate in a relatively low-risk environment for health and safety issues, committees exist across the Group to monitor policies in respect thereof on

our premises to ensure comprehensive precautions and procedures are in place for emergencies. External audits designed to ensure standards and identify potential new risks are conducted on a quarterly basis.

**FirstRand Banking Group**  
Working environment FY 04 – FY 06



We are happy to report that the recommendations of these audits, supported by continued staff awareness initiatives continue to reduce the level of workplace injuries across our business units as the graph above demonstrates.

**HIV/Aids**

Group companies have HIV/Aids steering committees which drive the implementation of the HIV/Aids policy and oversee compliance with legislation and staff education.

**momentum HIV/Aids Management remains a priority at Momentum**



In 2004 Momentum conducted an HIV/Aids prevalence study among its staff which indicated a prevalence rate of 1,6% - low compared to the sectors infection rate. This low rate could have potentially moved HIV/Aids down the list of priorities, when in fact it should be the ideal time to encourage preventative lifestyles in staff. To maintain a high level of staff awareness, a Knowledge, Attitude and Practices (KAP) survey was commissioned in 2006, which will also provide information on internal and external support programs. The impact of HIV/Aids on Momentum will be modelled based upon statistics from VCT.

*Momentum accounts for 12% of FirstRand Group permanent staff.*

## Extract from FNB GRI HIV/Aids Report



PERFORMANCE INDICATORS	TOPIC	DESCRIPTION
HIV 1	Description of HIV/Aids policy	HIV/Aids is a challenge that must be managed strategically and pro-actively. Our HIV/Aids policy, written in simple English, ensures that the rights of HIV/ Aids employees are protected in the workplace, in accordance with existing South African laws and the Southern African Development Community (SADC) Code on HIV/Aids and Employment. The policy emphasises non-discrimination, confidentiality, support for Voluntary Counselling and Testing (VCT) and Employee Assistance Programmes (EAP), incapacity management, safety measures to prevent spread in the workplace, and empowering employees.
HIV 2	Strategy for managing HIV/Aids risk	<ul style="list-style-type: none"> <li>We developed a Workplace HIV &amp; AIDS programme based on guidelines from the Department of Health. The programme represents our stance and policy on preventing the spread of HIV/ Aids amongst our staff, and supportively assisting those employees who are already infected.</li> <li>Our strategy is targeted at all bank employees and their families. Our intervention is both direct (through our education, training and support) and indirect through third party service providers such as Bankmed and Discovery, our medical aid service providers.</li> <li>In previous years, FNB participated in a joint study with other banks to determine industry prevalence. This year we conducted an actuarial exercise to assess the impact of HIV/Aids on FNB directly. The study provided us with a view of the real HR impact and risk exposure, including financial considerations and succession planning.</li> </ul>
HIV 3	Preparedness and contingency planning in anticipation of expected HIV/Aids impacts	<ul style="list-style-type: none"> <li>The actuarial analysis indicated in HIV2 above will help us fully understand the impact of HIV/AIDS and assist the leadership team in understanding the prevalence by stages, financial impact of prevalence found and by skills profile. The skills profile results will guide the HR team in succession planning, leadership pipeline and training and development interventions.</li> <li>The actuarial analysis also provides a cost benefit analysis. Through scenario analysis and determining the impact of both implementing effective interventions and not doing anything, we derive cost-benefit information to act strategically.</li> <li>The Knowledge, Attitudes and Practices (KAP) study that is currently being undertaken helped us benchmark the knowledge, attitudes and practices within FNB. The KAP survey identifies gaps in the HIV/Aids programme, and acts as a monitoring and evaluation tool (determine the effectiveness and success of our HIV/Aids management initiatives).</li> <li>Training and development programmes, along with the leadership pipeline, are designed with an understanding of the prevalence and skills profile.</li> <li>HIV/Aids educational programmes are structured to motivate HIV negative staff to stay negative and HIV positive individuals to change their lifestyle and live positively.</li> </ul>
HIV 4	Monitoring of progress and reports in respect of indicators 1-3 above	<ul style="list-style-type: none"> <li>HIV/Aids issues and disclosure, initiatives and commentary appear in the Group's Annual Financial Statements.</li> <li>HIV/Aids is a standing item (either directly on through associated topics) on every Board meeting and / or Leadership team meeting.</li> <li>HIV/Aids is identified as a risk in the FirstRand Banking Group Business Performance and Risk Management Framework.</li> <li>The Steering and Working Committees are responsible for ensuring initiatives are rolled out and reported upon.</li> <li>The KAP study will also be utilised as a key monitoring and evaluation tool: it will be repeated in 18-24 months to assess differences in knowledge, attitudes and practices/behaviour.</li> </ul>
HIV 5	Stakeholder involvement in formulation of policy, strategy and implementation	<ul style="list-style-type: none"> <li>The HIV/Aids committees comprise different functions across the bank, including HR, Risk, Finance, Brand &amp; Communication, Health Services and two executive members. The forum convenes every second month. It provides direction and input on how to leverage initiatives for sustainability to the working committee.</li> <li>The working committee comprises business unit co-ordinators, wellness managers, HR managers and the Brand and Health services of each business segment/business unit.</li> <li>Two Executive FNB members are co-opted onto the AIDS Strategy Steering Committee to provide the committee with legitimacy and priority status.</li> </ul>

FNB accounts for 68% of FirstRand Group permanent staff.

“FirstRand only seeks win/ win relationships with all stakeholders in which traditional values apply and it follows the spirit, not the letter, of agreements.”

Suppliers form a key stakeholder group for FirstRand. They have the ability to influence our cost base, our ability to achieve strategic objectives regarding process and cost efficiencies and our transformation credentials. Many suppliers are also customers of our banking and investment businesses and have additional expectations of us. For instance, should we not pay our suppliers within contract terms, we could be affecting their ability to operate and this can result in dissatisfied customers.

Conversely, the scale and scope of our procurement spend provides us with the ability to contribute towards broad-based supplier transformation and the growth of those businesses. Given the size of our procurement spend R6.4 billion (including Discovery) and spread of operations nationally, we have the capacity to contract with smaller suppliers, providing them with the opportunity, credentials and assistance to set up and grow their businesses. Through this process and through engaging in discussions with larger suppliers, we can influence the distribution of wealth.

Although procurement across the Group remains decentralised, First Rand business units apply a Group-wide set of procurement guidelines to ensure that we are in a position to meet our targeted commitment of 50% spend being placed with BEE suppliers by 2008. We developed our online procurement tool, BUYIT, at an early stage, and are currently using two platforms to house our BEE supplier database. As we continue to increase our BEE procurement spend, we are mindful of the reality that this effort, in order to be sustainable, must be commercially driven and that considerations such as quality, cost, reliability, occupational health and safety standards must remain core criteria for all suppliers to the Group. To oversee this, the FirstRand Procurement Forum, which includes representatives from all major business units, regularly reviews progress, selection criteria and supplier adherence to our requirements.

All business units maintain regular dialogue with our active suppliers. This involves operational discussions on a wide range of issues, from service level agreements to issues affecting payments and process flows. We recognise that small businesses and BEE suppliers benefit from this engagement which results inter alia in substantial adherence to payment terms - critical if we are to grow and sustain the list of BEE and small business suppliers among our supplier base. Some business units also make use of a rotation system and apply shorter term contracts for suppliers, to allow more BEE suppliers to access opportunities over time.

FirstRand Group Total BEE Spend as a proportion of discretionary expenditure is 40%.

#### Group total BEE spend to 31 December 2005 (Calendar year as per FSC requirements)

R million spend	2005
- Discovery	326
- FNB	1 306
- Momentum	98
- OUTsurance	150
- RMB	441
- WesBank	216
- FirstRand Other	59
<b>Total</b>	<b>2 596</b>

*Please note that for FSC reporting purposes Discovery is a separate signatory; the total given here is therefore based on the FirstRand Group as it reports to the FSC plus Discovery.*

During 2005, the Financial Mail/ Empowerdex Top Empowerment Companies report ranked FirstRand as the leading Bank, with procurement spend as a key measure. FirstRand was rated 23rd of 200 SA organisations, 3rd in the Financial Services Category and 1st of the large financial institutions.

“Procurement is probably the most important component of transformation... has a cascading effect that filters down throughout the economy and benefits black businesses all the way down”.

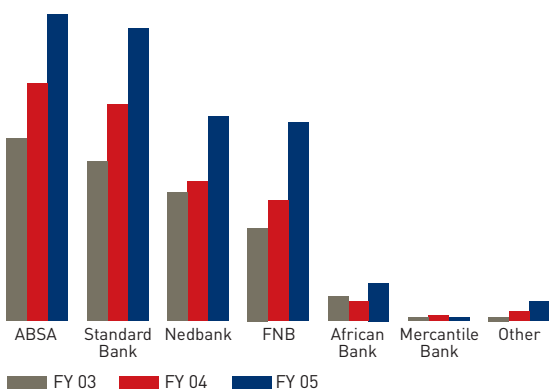
Paul Harris, FirstRand CEO

Customers are our core stakeholder group; it is their response to our business model that will determine the sustainability of FirstRand. Our customers represent the complete spectrum of the South African population ranging from low-income individuals opening their first bank account, or buying their first insurance policy to the country’s largest corporates. We estimate that the total customer base for our products exceeds 6 million users.

All business units are signatories to the various codes of ethics, which govern best practice and ethical behaviour in their sectors. These include the Code of Banking Practice and Policyholder Protection Rules to ensure the effective handling of compliments and complaints as well as access to industry ombudsmen for equitable dispute resolution.

A key mechanism through which we receive feedback from this core stakeholder group is customer satisfaction surveys. These are conducted on an on-going basis in-house and through independent external research.

Ombudsman annual report 1 July 2005 to 30 June 2006



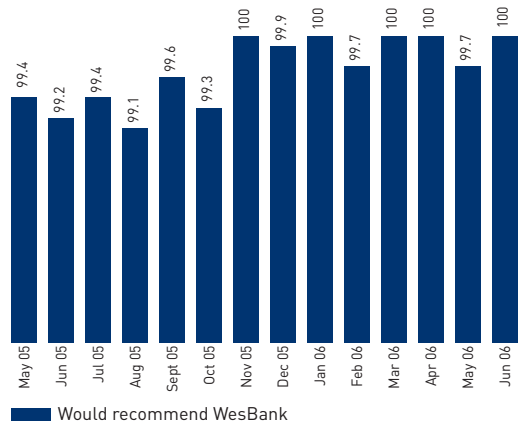
The number of complaints must also be assessed in terms of the individual banks market share. FNB has the 3rd largest market share.

**WesBank**  
A division of FirstRand Bank Ltd.

**Customer Service and Satisfaction at WesBank**

Since 1992, WesBank has actively engaged both new and existing customers on their perceptions on the organisation’s service experience by means of a customer satisfaction survey (CSI) administered through a questionnaire. WesBank, believing the current CSI to have become inadequate embarked on a process of re-vamping the entire programme. This resulted in the implementation of the One Question loyalty survey which asks the question: ‘Would you recommend WesBank as your first choice of finance to a friend or colleague?’ this survey is currently being rolled out within the various business units.

One question CSI (%)



**Discovery stays in touch with its customers through a variety of sensing tools**

Discovery has thousands of interactions with its clients every day. For example, in Discovery Health’s case alone, we:

- Receive 95 000 claims every day
- Pay R6 million in claims every hour
- Answer 35 500 calls per day
- Process 1 000 new business application daily
- Bill a total of R18 billion annually
- Our website generates 16 million page impressions every month



### Extending services to the poor and rural communities

FirstRand supports the Financial Sector Charter objective of taking financial services to rural communities and unbanked individuals. While we continue to work on ways in which to extend the infrastructure required for the achievement of this goal in a cost-effective and sustainable manner, we believe that we are making good progress. For example in conjunction with the Department of Labour, FNB has launched a facility for customers to access their UIF payments via ATMs and electronic channels at certain municipalities. Prior to this UIF beneficiaries were required to join long queues at Department of Labour offices.

## Expanding banking services to Low-income Areas



In addition to these cost-containment efforts for the customer we have continued to expand and improve our infrastructure across the country, investing R 540 million over the past 18 months. This has played a central role in placing an FNB Branch, ATM, or Mini-ATM within 10 km of 74% of the lower income groups, substantially ahead of the other commercial banks whose comparable figures are between 42% and 68%. In addition, one in four of FNB's 651 branches is situated in a previously disadvantaged area allowing us to exceed our FSC target to provide banking services to low income areas and outlying areas.



## Managing Bank Charges

Just about everyone has an opinion on how much to charge for bank services, and which facilities to charge for. On the one hand, a perception exists that bank charges are too high, and fees are charged for services that are not necessarily paid for in other countries. On the other hand, banks need to continuously invest significantly in physical, regulatory and technology infrastructure, while seeking to contain costs and improve customer service.

While the recent convening of the Competition Commission inquiry into the level of bank fees levied by the industry could further increase competitive activity in South Africa, we already compete intensely with the other players in our market, and being strongly entrepreneurial in nature, we believe that any further competition will drive innovation, and is therefore healthy for both the industry and for customers. Our banks service charges have remained largely unchanged over the last year. More than 80% of the fees remain the same and prices that have been amended are predominantly below inflation.

We were the first bank last year to inform customers how their banking behaviour could be used to reduce their bank charges. The "How Low Can You go" campaign we help customers identify how they currently bank what their preferred banking channels are, how frequently they transact, and where. Our media campaign also informs customers on how to save on debit interest, avoid penalty fees, and how to save when using a credit card.

**Are you here?**

**Pay-as-you-use**  
Charged per transaction

**Fee Manager**  
Fixed monthly fee

**Electronic Pricing Option**  
Maximum R85 per month

**Fee Saver Option**  
35 qualifying transactions FREE

**...now could be here**

**HOW LOW CAN YOU GO?**  
HOW TO TAKE CHARGE OF YOUR BANK FEES.

**Pay as you use\***  
You will be charged separately for each transaction on your account. It includes a DEBIT ORDER ACCOUNT FEE (R60), which includes the processing of a Debit Order Card, a Visa/First Card and/or card processing.

**Fee Manager\*\***  
Choose one of three fee options that will give you a fixed number of transactions for a fixed monthly fee.  
Option 1: 10 transactions (R85)  
Option 2: 20 transactions (R170)  
Option 3: 35 transactions (R255)  
If you exceed the allocated number of transactions, you will be charged as per the applicable fee structure for each transaction.

**Electronic Pricing Option\***  
The fees for all electronic transactions performed on your account (FNB ATM, Online, Interactive, Internet Banking, point of sale transactions, debit orders, etc) will be capped at a maximum of R85 per month (excluding usage charges). Any non-FNB ATM transactions or other non-electronic transactions (e.g. clearing cash at a branch, issuing cheques, etc) will be charged as normal.

**Fee Saver Option\***  
If you need at least R80 000 in your account each month, you will not be charged for the first 35 qualifying transactions. Certain types of transactions (e.g. cash deposits) will be charged as normal.

\*Terms and conditions apply

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services Provider.

To help you work out the best pricing option for you or to switch to one of these pricing options, call our Pricing Helpline on 0860 11 22 44.

How can we help you?

The Financial Sector Charter (FSC) was the result of a consultative process between all stakeholders in the Financial Services industry and Government. FirstRand's approach to meeting the targets set by the Financial Sector Charter has become integral to our way of doing business. We therefore do not report segmentally on progress against FSC targets but have chosen instead throughout this report to use illustrative examples from the various business units.

FirstRand and its business units engage with the South African Regulatory authorities at all levels to ensure that our strategic goals as far as possible are aligned with those of the nation. This engagement also forms part of the wider risk management process of all business units as it affords them the opportunity to provide and receive input on major regulatory issues pertaining to their business. In all cases the relationship we seek is one of compliance and constructive participation in committees to improve the effectiveness and application of standards within the respective industries in which we operate. Key partners in this engagement are the Financial Services Board, South African Reserve Bank, the Registrar of Pension Funds, Registrar of Medical Aid Funds, Financial Intelligence Centre and National Credit Regulator, all of which afford us the opportunity to raise our concerns and provide constructive input on matters of policy and compliance. In addition, we maintain open lines of communication with the Pension Fund Adjudicator (PFA) and the Long term Insurance Ombudsman in order to resolve matters of mutual concern.

While FirstRand business units engage with regulators in their own right, they also do so through their respective industry associations and organised business groupings, such as the South African Banking Council, the Life Offices' Association, the Association of Collective Investment Schemes, the Investment Management Association of South Africa, Council of Medical Schemes, and the Medical Schemes Council.

Through the FirstRand Foundation we are involved in initiatives, which promote learning and understanding of democracy. We are members of Business Against Crime and the Business Trust. We are not aligned to and do not make donations to any political party.

Group companies are involved in a number of nation-building initiatives, these include support for South Africa "The Good News", the Homecoming Revolution, the Heartlines Values programme on local television and as a sponsor for the 2010 World Cup.

## Momentum and the Pension Funds Adjudicator

Through continued product innovation and service excellence, Momentum aims to address our customer's increasing demand for improved products and services. During the past financial year, the life insurance industry received negative publicity stemming from rulings made by the Pension Fund Adjudicator on cases involving retirement annuities. Most of these cases involved early terminations and reductions in premiums. In December 2005, the Life Offices Association (LOA), of which Momentum is a member, reached an agreement with the National Treasury on certain minimum standards for the early termination of retirement annuities and savings policies with a long-term savings objective. The impact of the agreement on Momentum was small relative to the other life insurers, as we had already addressed improved early termination values in our Investo product range, which was launched at the end of 2000. This demonstrates Momentum's commitment to listen to our customers and to continue working with other stakeholders like the government, to seek solutions to industry-wide problems.

## momentum



“FirstRand should be a good corporate citizen.”

FirstRand group companies annually contribute 1% of after tax profits to the FirstRand Foundation. In 2006, the total allocation for CSI related activities was more than R70million.

A Board of Trustees consisting of employees and independent community representatives oversees the Foundation's operations. Its day-to-day activities are administered by an independent, not for profit corporate consultancy, Tshikululu Social Investments (TSI). While the majority of our giving is done through the Foundation, we also have formalised employee volunteer programmes at business unit level through which our staff continue to respond to identified needs both locally or nationally; this is administered by an internal FirstRand unit.

Some business units elect to allocate further funding to community related initiatives, such as the OUTsurance traffic assistance programme, example below. The feedback we receive through the Foundation and the volunteer programmes plays a significant role in the development and marketing of appropriately priced and structured products and services for those communities which we service.

While the need most often expressed by communities is for financial support, it is not the only area where they appreciate support. Our FirstRand Volunteer Programme has grown across all business units, because of the mutual need expressed by the communities we work with, and by our employees, for support that extends beyond grant-making. This allows us to develop an ongoing relationship with the community projects we support, and amplifies the impact significantly. We receive positive feedback regularly from both our employees and the community about the benefits of this approach.

In line with last year's objective of moving towards an impact assessment model, TSI has employed a monitoring and evaluation practitioner. Given the numerous and varied projects and programs falling under the umbrella of the Foundation, an effective monitoring system will not only strengthen corporate governance of the projects but also

improve the Foundation's ability to work with recipients to improve delivery and project sustainability.

As a result of the diverse focus of our business units, we support a broad range of initiatives across South Africa. At a strategic level our focus areas are Education which remains the primary focus of the Foundation, Community Health (including HIV/Aids), Skills training and Community Care. In line with our Group philosophy, the four brand funds (Discovery has created a separate fund for their CSI activities) each focus on different community needs.

WesBank's focus is on literacy, including the provision of classrooms in rural areas, community care and giving for the homeless, aged and destitute.

RMB's focus is on increasing the quality and capacity of mathematics teaching in South Africa, environmental conservation aimed at more low-profile threatened species and arts, culture and heritage issues.

OUTsurance's work is aimed at making the greater community a safer place through support for anti-crime and road safety initiatives.

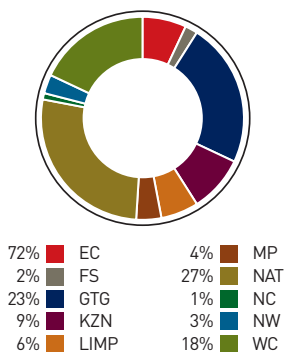
Momentum's grant-making continues to favour flagship projects on supporting people with disabilities, and HIV/Aids Community Care initiatives.

FNB seeks to achieve broader coverage over all four focus areas with an increasing emphasis on flagship projects such as its Hospice support programme, and Heartlines

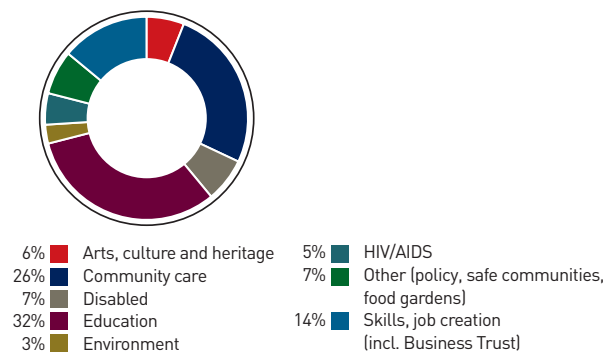
Discovery's fund continues to focus on support for primary healthcare initiatives, HIV/Aids programs, healthy lifestyle interventions, and educational support for health disciplines.

The FirstRand Volunteers Programme concentrates on maximum employee participation - 30% of group employees worked with communities during the last year. Employees are encouraged to support organisations that fall into the brand fund focus areas, when looking for opportunities.

FirstRand Foundation – funding by province  
Year ending 30 June 2006



FirstRand Foundation – funding by sector  
Year ending 30 June 2006



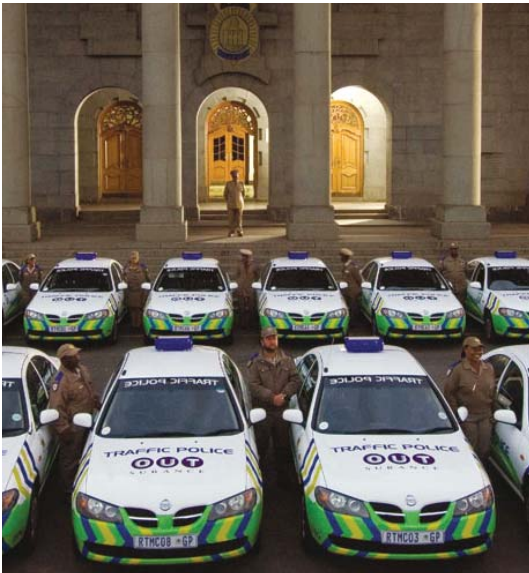


The Volunteer Programme piloted its first impact study this year and commissioned a focus group with a small sample of beneficiaries, which provided useful feedback and will be expanded in the next year.

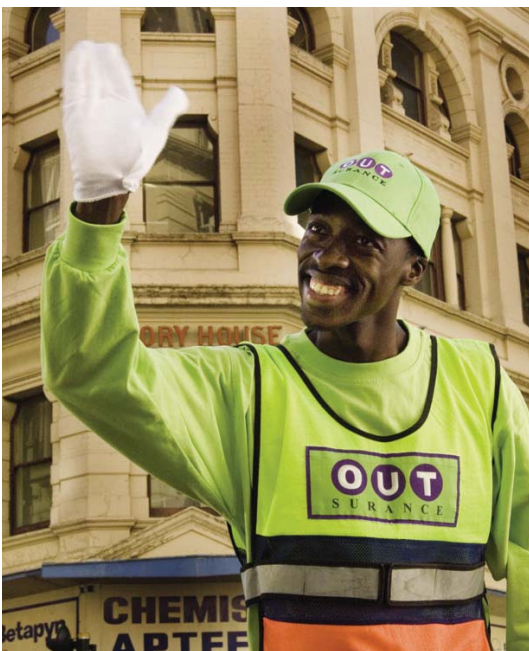
The focus areas of the Volunteer Programme for the next year continues to be that of maximum staff participation, encouraging employees to work with a smaller, more focused number of beneficiary organisations, with the ultimate goal of sustainability. Employee giving is evolving from handouts to giving employee time and sharing knowledge and skills. Increasing the numbers of employees who give time in their professional capacity is our main challenge for the coming year.



## Support for Business Against Crime (BAC) and the Gauteng Anti-Hijack Unit



OUTsurance has partnered with South African Police Service and Business Against Crime in sponsoring the Gauteng Anti-hijacking Task Teams. These have been successful in intercepting syndicates and individuals resulting in the reduction of hijackings of vehicles by 33% as well truck hijackings by 26%. Since the formation of the Anti-Hijacking Task Teams in 2002, we have seen 2385 suspects arrested, 113 firearms and more than 5000 vehicles worth billions of Rands confiscated. This was over a 29 month period. Several chop shops and scrap yards were also closed during the same period. In addition to this, Gauteng police also arrested 37 people for reporting false hijacking cases, 14 of them have already been convicted and other cases are still pending. The seven specialised courts dealing with hijacking cases, also contribute positively toward the successful and speedy convictions in hijacking cases. These successes augur well not only for our country and our industry, but also putting the minds of motorists at ease and creating an environment of safety and security for all.



## Pointsmen

Thanks to a truly innovative collaboration effort between the Johannesburg Metropolitan Police Department and OUTsurance, 21 pointsmen are OUT on the streets of Johannesburg. Their initial purpose was to relieve traffic congestion on roads leading to Sandton, which is the economic hub of Johannesburg. However, the project has since extended to the Midrand and Randburg areas, and there is ongoing demand to cater for more areas within and beyond the borders of Gauteng.

This initiative not only gives OUTsurance an opportunity to actively give something back to the community by alleviating traffic problems, but most importantly, has created employment and skills transfer for these youths who were previously unemployed. They all hail from Alexandra, and have gained experience and motorists have come to rely heavily on their presence. A number of the youths who joined at the onset of the project have since moved into the traffic department, which has meant further growth and career opportunities.

“All business units are expected to clearly understand and monitor the cost and revenue and social and environmental implications of all actions.”

As a financial institution we recognise that our direct environmental impacts are associated primarily with the operation of our office infrastructure but our business, through our lending practices, also impact indirectly on the environment.

### Direct Impacts

Systems aimed at reducing resource consumption over time are in place at all of our business units. We view these activities as part on an on-going business objective rather than once-off projects. All business units continuously explore ways in which to reduce paper, energy and water usage and these considerations are taken into account when considering investments in new technology. So, for example, OUTsurance invested in video conferencing infrastructure to reduce the costs and energy usage associated with business travel between its South African offices.

**WesBank**  
A division of FirstRand Bank Ltd.



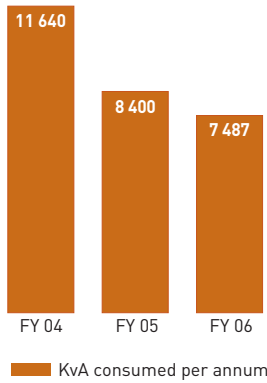
### WesBank's new head office

In an effort to make its contribution to the environment, WesBank has ensured that its new premises, to be occupied in 2008, are as environmentally friendly as possible.

Listed below are some of the features of the new building that reduces energy consumption and takes efficient use of resources to the next level:

- Lighting control – an effective digitally controlled energy saving mechanism is in place that senses when a room is empty and automatically switches off the lighting system. This system will be evaluated by Eskom, in order for WesBank to avail of energy saving discounts.
- Also included in the plans for the new building is an energy saving method called “peak loading”, where during periods of peak energy consumption, rather than drawing on electricity, the system will function off diesel generators. This reduces electricity consumption and the associated costs.
- Water from the air conditioning cooling system will be retained and used for irrigation of the landscape.
- The building will be insulated to reduce the amount of energy required for heating and cooling.
- The air conditioning system in the new building will not contain any chlorofluorocarbon (CFC) gases, contributing to the protection of the Ozone layer.
- Solar energy will be used for the water heating system in some areas.
- Facilities are in place to ensure the recycling of waste products.
- No earth excavated from the building site was removed, this reduced the number of vehicles involved in transportation for the project and hence reduced the amount of exhaust fumes emitted into the environment.

**Bank City electrical consumption  
FY 04 – FY 06**



### Electricity Savings

Since 2004 FNB has maintained a partnership with Eskom seeking ways in which to reduce energy consumption at its Bank City complex. This included the installation of new control equipment for lights, air conditioning and fans. We are pleased to report that we have continued to realise new energy and cost savings from this partnership on an annual basis. The lessons learnt from this initiative are also being applied to other FNB infrastructure and where appropriate have been shared with other business units in the FirstRand Group.

The Bank's environmental risk policy, enforced at executive level and reviewed quarterly, covers all FirstRand Banking Group products. It is consistently applied in the Bank's lending criteria, irrespective of the sums of money involved.

### Environment a Factor in all Lending Criteria



FirstRand Bank accepts that the activities of some of its clients may have a direct impact on the environment. Through considered lending criteria and adherence to environmental guidelines and best practice, the Bank aims to minimise its indirect impact on the environment. The Bank's environmental risk policy, enforced at executive level and reviewed quarterly, covers all FirstRand Banking Group products. It is consistently applied in the Bank's lending criteria, irrespective of the sums of money involved. This policy is available on request. The policy is most relevant in RMB's infrastructure development funding operations and those relating to mining operations.

The various FirstRand Bank credit committees determine the financial and reputational risks of a transaction, and whether these risks are adequately managed. The lending criteria allow the bank to ascertain whether a client has complied, or is able to comply with relevant legislation. In the absence of legislation or any other criteria that may apply in local jurisdictions, transactions are classified according to World Bank criteria. Business units are guided by the recommendations of an Environmental Impact Assessment (EIA), which may incorporate recommendations as a condition of the loan. The FirstRand Bank credit committee or any of its sub-committees may impose additional conditions. Credit facilities may be reviewed quarterly, bi-annually or annually. Any revisions could result in the Bank deciding to monitoring the client's environmental performance. Employees know that loans are not approved for clients who do not comply with the relevant environmental legislation.

“The primary objective of the FirstRand group is the generation of sustainable profits.”

The challenges of sustainable development require us to think about our financial performance more broadly than the traditional financial indicators and shareholder returns. We divide our total economic contribution into direct and indirect impacts.

Direct impacts are best described as the conventional financial indicators that measure the monetary flows between the organisation and its material stakeholders. Intangible benefits are those that do not appear in our financial statements. Our annual report to shareholders deals comprehensively with our financial results, our growth in earnings and dividends since 1998, corporate governance and risk management and should be read in conjunction with this report. Approximately 15% of FirstRand's shareholders are based outside of South Africa. An analysis of our shareholder profile is set out below.

**Shareholder Analysis**

Shareholder type	Share %
- Corporates (RMB Holdings & Remgro)	38.62
- Pension Funds	15.47
- Insurance Companies and Banks	15.94
- Unit Trusts	7.57
- Other Managed Funds	1.90
- Individuals	1.99
- Empowerment Funds	9.50
- Employee Share Trusts	5.01
<b>Total</b>	<b>100.00</b>

**Black ownership**

FirstRand's R7,9billion BEE transaction, which became operative in May 2005, placed 6.5% of FirstRand share capital in the hands of three broadbased empowerment trusts, Kagiso Trust Investment, Women's Development Bank Investment Holdings, and Mineworkers Investment Company. A further 3.5% is with FirstRand Black Staff Trusts. This from Patsy and the figures above do not tally.

Value added is the wealth created by the group from the provision of financial products and services. We believe this provides an appropriate format to illustrate some of the wider economic contributions made by FirstRand to society and the economy.



**Discovery Health's customer base and the broader impact of Vitality**

The Discovery Health medical scheme has approximately 780 000 principal members, with a further 65 000 belonging to administered schemes.

In South Africa, close to 1,2 million people enjoy the health and lifestyle benefits associated with Vitality. The DiscoveryCard, our credit card offering linked to Vitality, has been independently rated the best value consumer credit card (Razor's Edge Business Intelligence Survey 2005) in South Africa and there are more than 350 000 cards in issue.

Among Vitality members, we have 250 000 gym members who collectively work out 350 000 times a month. Vitality members fill 100 Ster-Kinekor movie theatres a night, book 4 000 days of car hire every month and board 4 000 flights a month.

**Advantage Asset Management and the PRI**



In August 2006, Advantage Asset Managers became the third South African signatory (after the Government Employees Pension Fund and Fraters Asset Management) to the UN's finance initiative known as Principles for Responsible Investment (PRI). The PRI has formulated a set of global principles that can guide investors towards more sustainable investment practices that address better long term investment returns and align investment practices with the goals of the UN. These goals are to enhance the quality of life everywhere through their focus on social, governance and environmental considerations.

**Value Added Statement for the year ending 30 June 2006**

	2006		2005	
	R million	%	R million	%
<b>Value added</b>				
Net interest income earned by FirstRand Banking Group	9 304	11.2	8 791	16.0
Net premium income and fees earned by Momentum	40 621	49.0	19 606	35.6
Net income earned by Discovery	2 676	3.2	2 369	4.3
Net loss by FirstRand Limited	(127)	(0.1)	(290)	(0.5)
<b>Value added by Group</b>	<b>52 474</b>	<b>63.3</b>	<b>30 476</b>	<b>55.4</b>
Non-operating income	38 056	45.9	32 904	59.8
Non-operating expenditure	(7 631)	(9.2)	(8 375)	(15.2)
<b>Valued added by Group</b>	<b>82 899</b>	<b>100</b>	<b>55 005</b>	<b>100</b>
<b>To employees</b>				
Salaries, wages and other benefits	10 230	12.3	7 882	14.3
<b>To providers of capital</b>				
Dividends to shareholders	4 988	6.0	2 835	5.2
<b>To Government</b>	4 306	5.2	2 387	4.3
Normal taxation	3 068	3.7	1 191	2.2
Value-added tax	578	0.7	502	0.9
Regional services levy	70	0.1	120	0.2
Capital gains tax	410	0.5	293	0.5
Other	180	0.2	281	0.5
<b>To policyholders</b>				
Policyholder claims and benefits	57 348	69.2	34 362	62.5
Insurance contracts	5 811	7.0	8 662	15.8
Investment contracts	23 488	28.4	10 413	18.9
Adjustment to liabilities under investment and insurance contracts	28 049	33.8	15 287	27.8
<b>To expansion and growth</b>	6 027	7.3	7 539	13.7
Retained income	4 220	5.1	5 179	9.4
Depreciation	892	1.1	721	1.3
Deferred taxation	915	1.1	1 639	3.0
	<b>82 899</b>	<b>100</b>	<b>55 005</b>	<b>100</b>



## THE GLOBAL COMPACT

### Global Compact

In FY 2006, FirstRand became a signatory to the UN Global Compact. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

#### Human Rights

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and  
**Principle 2:** make sure that they are not complicit in human rights abuses.

#### Labour Standards

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;  
**Principle 4:** the elimination of all forms of forced and compulsory labour;  
**Principle 5:** the effective abolition of child labour; and  
**Principle 6:** the elimination of discrimination in respect of employment and occupation.

#### Environment

**Principle 7:** Businesses should support a precautionary approach to environmental challenges;  
**Principle 8:** undertake initiatives to promote greater environmental responsibility; and  
**Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

**Principle 10:** Businesses should work against all forms of corruption, including extortion and bribery.

[www.firstrandsusrep.co.za](http://www.firstrandsusrep.co.za)

#### First Rand Limited

(Registration No 1966/010753/06)

Share Code: FSR

ISIN code ZAE0000 14973 ('FSR')

#### Registered office

4th Floor, 4 Merchant Place  
Cnr Fredman Drive and Rivonia Road  
Sandton 2196

#### Postal Address

PO Box 786273, Sandton 2146

#### Telephone

National (011) 282 1808

International +27 (11) 282 1808

#### Telefax

National (011) 282 8088

International + 27 (11) 282 8088

[www.firstrandsusrep.co.za](http://www.firstrandsusrep.co.za)



**FIRSTRAND**

# First National Bank – Sustainability Report 2006

## Introduction to FNB Sustainability Report

For FNB, sustainable business practice and public accountability to a range of stakeholders by means of reports such as this is a continual imperative. We are committed to addressing issues that are important not only to our shareholders and regulators, but also to our staff, our customers, suppliers as well as to the broader community and environment in which we operate. This is a key consideration in our business planning.

We are in the second year of our quest to transform FNB from being a good company to one that is Great. For us, a Great company is one that people would like to work for, buy from and transact with. We want to be accessible and approachable to broader communities that need our assistance and mindful of physical environments that need to be respected. This ambition, which is reflected in our report, shows why our stakeholders are important to us, what matters to them and how we try to address their issues.

This report acknowledges our strengths and challenges transparently and enthusiastically. We reflect on a few of our successes, such as our role in increasing the availability and affordability of decent housing, our efforts to provide suitable financial literacy education in order to address key macro challenges facing the under-banked population. In addition, the report highlights employment equity and procurement transformation successes.

We also acknowledge where we must improve. We need to pay more attention to some areas of our business such as helping reduce bank charges and encouraging increased national savings.

We are vigilant in our activities and remain aware that, being a large corporate, we have an ethical responsibility towards South African society. Our continued engagement with all relevant stakeholders in this regard is critical. Over the last year, we have maintained dialogue with all our stakeholders through numerous forums, both formal and informal. Surveys, dialogues and published communications are just some of the mediums used to help us understand what is important, focus our efforts and plan for the future. We are inspired by our successes and take up the challenge to become Great in areas where we still have much to do.



## Our People

This section explains our new philosophy about our people, why they matter to us and what we are doing in each of our key HR strategic focus areas.

The data pack at the end of this document provides a view of our transformation, our training and learnership performance as well as our working environment (satisfaction, health and safety).

We also append a detailed HIV/Aids report explaining our strategy and related activities.

### *Why our people matter to us*

People are one of the three key pillars of the FNB strategy, which focuses on building “enduring, rewarding relationships”. As far as our customers are concerned, this strategy depends on our people and we need to ensure that we, in turn, build enduring and mutually rewarding relationships with our staff.

Many of the initiatives reported below started from within a “human resources investment” paradigm. Over the past few years we commenced a number of projects, including improvements in our recruitment and retention capabilities, performance management processes as well as our staff wellness programs. These have yielded various results, some of which are described in *Table 1* below. These initiatives continue to be rolled out and implemented. However, they do not necessarily reflect the culture and values shift currently under way at FNB.

This shift involves the introduction of a new overarching *people philosophy*. We are moving away from seeing people as ‘human capital’ (a means to an end) to focusing on people *first*. We call this philosophy “**Care and Grow**”.

“Care and grow” believes that people are internally motivated and want to make a meaningful contribution to their company and to society. The principle of respect underpins “Care and Grow”. We think people will be most satisfied in their work environment when they work with managers who are interested in them personally (rather than as a business resource) and who wish to see them succeed. We believe that results can be achieved when we demonstrate respect for people’s potential, remove bureaucratic obstacles to exercising this potential and give them the space to take responsibility and develop their true potential. We believe business results will naturally follow from this focus.

By introducing and rolling out this philosophy through a series of HR interventions, we believe we will be able to build the enduring, rewarding relationships central to our strategy.

## Who are our people?

FNB's staff composition as at 30 June 2006 is summarised here.

Our position on transformation and feedback on what we are doing to recognise diversity. The data section of this document provides a more detailed view of how we address the need for a balanced, skilled and equitable staff base.

### FNB Staff Composition

- Permanent Staff = 23 800 (6% increase from previous year)
- Average age = 31-40 years
- Black Staff % of Total = 65%
- Female Staff % of Total = 65%



At a Glance

## What matters to our people

We provide feedback from last year's report and summarise what mattered over FY '06.

### Feedback from FY '05 Report

We identified key issues of importance through various forms of staff dialogue. A series of projects were run to address these issues and tested through updated staff surveys. The results revealed that we improved in some areas, especially where we executed specific actions, but there is still room for improvement.

**Feedback on Staff Satisfaction based on People-Pillar Survey, Branch Banking Culture Management Survey and smaller studies. See data from People-Pillar Survey on page 10.**

- 👍 Recognised individual contributions in performance management
- 👍 Modernised remuneration practice, aligned to the market
- 👍 Provided exciting culture of innovation and "owner-manager"
- 👉 Enabled greater staff accountability and decision-making
- 👉 Promoted based on individual contributions
- 👉 Improved management coaching skills to assist staff performance
- 👉 Improved work-life balance



At a Glance

The Staff Satisfaction diagram on page 10 summarises our performance based on the results of the People-Pillar Survey. This survey is undertaken company-wide biannually. Results from each survey are analysed by a host of criteria, including business unit, staff performance category and gender. Management then develop implementation plans or update strategies based on staff feedback. Following the subsequent survey, we also gauge the success of our HR strategies against the baseline feedback from the previous set of results.

## What Mattered to Staff over FY '06

- **Performance Management:** improve management coaching and feedback skills, and demonstrate a better link between effort, results and pay.
- Recognising **talent** and managing the growth of talent are vital. Skills development continues to remain important.
- More attention must be paid to **work-life balance** issues.

## ***Our Key Strategic Focus Areas & What We Are Doing About Them***

We identified HR issues that needed to be addressed from three sources of information:

- Staff feedback
- Strategic planning that informed HR requirements
- Macro imperatives driven by government or indicated by the external environment

We explain our thoughts around Employment Equity below. Thereafter we summarise our activities regarding our key focus areas over this year.

### ***Our Position on Transformation***

One of the key aspects of our overall business is the strategic and social imperative of Broad-Based Black Economic Empowerment. Human Resource Development, one of the seven pillars of transformation, comprises 20% of the Financial Sector Charter (FSC) scorecard.

Through initiatives such as our Vuka Diversity Programme, FNB demonstrated the spirit of transformation well before the FSC was signed in 2003. We maintain this approach and, while we attempt to exceed FSC targets, we also set our own internal benchmarks and stretch targets. By applying this principle we have achieved some notable results, for example, our black women representation objectives, which exceed agreed Charter targets.

It is important to note that, at FNB, we recognise talent and award opportunities based on people's contributions, not their title, seniority or race. Our approach to employment equity is therefore holistic and built on principles of HR sustainability: addressing attitudes, providing learning and development opportunities for existing black staff (rather than paying premiums to attract already skilled talent) as well as identifying black talent from junior positions upwards (rather than filling key senior positions only). The tables below show what we are doing in this respect in each of our key focus areas..

### **Key Focus Area Initiatives**

The programs listed below are prioritised according to importance or frequency of mention by the three sources. They address mainly systemic or historical HR requirements; over time, as we roll out our Care and Growth philosophy, we anticipate greater alignment between HR initiatives and this philosophy.

Table 1 HR Key Focus Areas and Progress FY '05

Focus Area	Objective	What We Did	What We Need to Complete
<b>Reward &amp; Recognition</b>	Modernise our people practices in line with market standards and current practices	<ul style="list-style-type: none"> <li>Implemented Broadbanding i.e. consolidating employees into six clearly defined business bands. Result: greater flexibility to retain and attract staff, “pay for performance”, eliminate job grades / titles in determining contribution, standardised remuneration across different business units</li> </ul>	
<b>Performance Management</b>	Strengthen performance management in all key aspects: framework, systems, management and processes	<ul style="list-style-type: none"> <li>“Contribution contract” for managers developed, ensuring accountability for staff growth and development</li> </ul>	<ul style="list-style-type: none"> <li>Deliver soft-skills training, such as mentoring and feedback, for performance management</li> <li>Evaluate Outcomes-Based Remuneration, recognising individual performance, contributions and capabilities</li> </ul>
<b>Recruitment</b>	Attract talented employees	<ul style="list-style-type: none"> <li>Refined recruiting standards (agreed with unions)</li> </ul>	<ul style="list-style-type: none"> <li>Develop / implement standardised recruitment training programme for FNB</li> <li>Conduct a study to determine FNB's competitiveness as an employer of choice</li> </ul>
<b>Leadership, talent management, skills development and succession planning</b>	Build a sustainable pool of talent and business leaders at all organisational levels, suitably skilled and globally competitive over the longer term	<ul style="list-style-type: none"> <li>Tested “Business Leadership DNA” approach to developing stronger leadership pipeline</li> <li>Through Care &amp; Growth, increased emphasis on coaching by line managers</li> <li>With FirstRand Banking Group, formulated Skills Development Strategy, for both internal staff development and contribution towards development at a national level</li> </ul>	<ul style="list-style-type: none"> <li>Develop Business Leadership pipeline process to allow growth in management and leadership skills at all levels and increase focus on black leadership</li> <li>Roll-out Skills Development strategy by identifying core and competitive edge skills, enhancing HR processes, our Management Information System and training curriculum, as well as identifying skills development acceleration areas, e.g. job shadowing and management coaching for black staff</li> </ul>

Focus Area	Objective	What We Did	What We Need to Complete
<b>HR Transformation</b>	Implementation of Financial Sector Charter (FSC)	<ul style="list-style-type: none"> <li>• Employment Equity and Skills offices closely aligned to improve co-ordination and direction-setting</li> <li>• Closer, customised engagement between business segments and transformation units to guide development of segment focus around people whilst ensuring overall FSC objectives are realised</li> <li>• Developed targets for achievable Learnership levels and skills spend in each business segment / unit</li> </ul>	<ul style="list-style-type: none"> <li>• Work towards realising FSC target of 4.5% of total staff being unemployed black matrics and 1.5% of our payroll spent on black skills development</li> <li>• Continue engaging with BankSeta and Department of Labour to access Learnership subsidy to realise FSC targets</li> <li>• Also see <b>Leadership, talent management, skills development and succession planning</b> above</li> </ul>
<b>Diversity Awareness and Management:</b>	Enhance awareness and consideration of all forms of human diversity	<p><b>Disabilities</b></p> <ul style="list-style-type: none"> <li>• Disability Policy and Guidelines completed</li> <li>• Promoted practitioner dedicated implementation of policy and strategic planning</li> </ul> <p><b>Female Leadership</b></p> <ul style="list-style-type: none"> <li>• Developed 18-month action-learning and study-based Executive Development Programme</li> </ul> <p><b>Cultural Diversity</b></p> <ul style="list-style-type: none"> <li>• Brought Vuka in-house which resulted in improved focus and sustainability. Over 3 500 staff participated last year (13 100 since inception)</li> </ul>	<ul style="list-style-type: none"> <li>• Disability Awareness and Sensitisation Programme (DASP) rolled out within Branch Banking: 20% of staff still need to complete DASP</li> <li>• Branch and head office facilities being upgraded countrywide</li> <li>• Currently runs within branch banking: eight women (seven Senior Managers) commenced programme in April '06</li> <li>• Revisiting diversity management approach through Steering Committee to ensure that it is updated and relevant</li> </ul>
<b>Embedding FNB Values</b>	To inculcate simple values that allow each individual to shine in their role	<ul style="list-style-type: none"> <li>• Launched "Shine Challenge": communicating FNB Vision, Strategy and Values which are Pride, Respect, Accountability, Innovation and Ubuntu, the latter meaning sensitivity to others' needs</li> </ul>	<ul style="list-style-type: none"> <li>• Each FNB business unit / segment / team has commenced interpreting, tailoring and applying values to their area of operations and to their workplace behaviours</li> </ul>
<b>Employee Wellness</b>	To help staff effectively manage	<p><b>Employee Wellness Programme</b></p> <ul style="list-style-type: none"> <li>• Comprehensive stress</li> </ul>	<ul style="list-style-type: none"> <li>• Wellness programme updated</li> </ul>

Focus Area	Objective	What We Did	What We Need to Complete
	<p>stress, physical, emotional and psychological health</p>	<p>management programme which entails confidential clinical counselling, medical, nutritional, exercise and associated services in place. Multilingual counselling support available telephonically 24 hours a day or via face-to-face interactions</p> <ul style="list-style-type: none"> <li>• Analysis of staff health risks undertaken</li> </ul> <p><b>Trauma Management</b></p> <ul style="list-style-type: none"> <li>• Experts assist business units, e.g. branch banking, within one hour of traumatic events (norm is 24 hours)</li> </ul> <p><b>Work-Life Balance: Policies</b></p> <ul style="list-style-type: none"> <li>• Maternity leave benefits increased and period extended from four months to up to 12 months, at business unit discretion</li> <li>• Sick leave policy enhanced: if an employee falls ill during annual leave, available sick leave days no longer reduced</li> <li>• Business units apply discretionary flexible working hours for women with children</li> </ul> <p><b>HIV/Aids</b></p> <ul style="list-style-type: none"> <li>• Permanent leadership agenda issue</li> </ul> <p><b>Avian Flu</b></p> <ul style="list-style-type: none"> <li>• FirstRand (FNB, WesBank, RMB) Pandemic Flu Task Team constituted in September 2005 to address potential business disruption</li> <li>• Completed detailed strategy, business continuity and</li> </ul>	<p>to focus on reducing rate of coronary disease amongst staff</p> <ul style="list-style-type: none"> <li>• For latest position, see GRI table at the end of this document</li> <li>• By September 2006, complete BCP and management processes will be in place</li> <li>• Maintaining awareness of and research into evolution of virus globally. This is an ongoing process</li> <li>• Working with key business</li> </ul>

Focus Area	Objective	What We Did	What We Need to Complete
		<p>succession management as well as risk mitigation plan (human resources, communication, facilities / premises, Business Continuity Plan (BCP))</p> <ul style="list-style-type: none"> <li>• Ensured Credit Risk Policy adequately covers financial impact of customer payment schedules disruption</li> <li>• Commenced staff communication campaign</li> </ul>	<p>partners such as cleaning services, kitchen services, Bankmed, and medical product and service providers to help fight transmission</p> <ul style="list-style-type: none"> <li>• Complete update of HR policy addressing sick leave and if/when a staff member should be present at work if a household member is ill</li> </ul>

## Data Pack

The diagrams below summarise our HR performance over the last year. Detailed commentary on key outcomes appear in the main section of this document. Where available, previous year's data is included for comparative purposes.

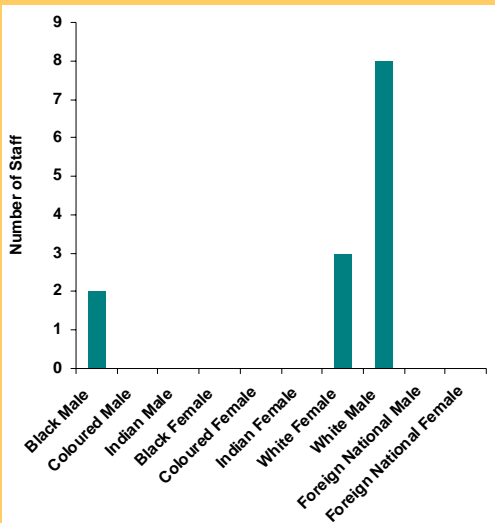
HR Performance FY '06

- Skills Development
- Working Environment
- Staff Satisfaction

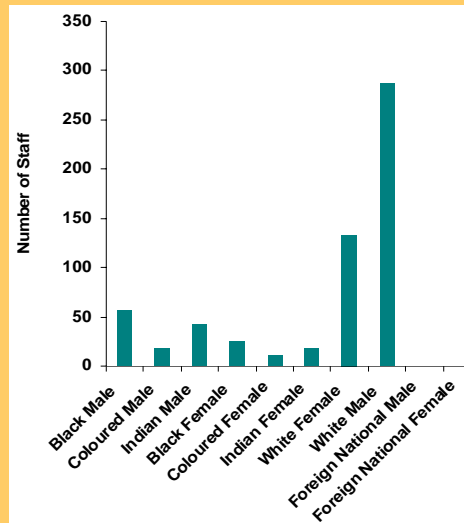
At a Glance

## Employment Equity Data

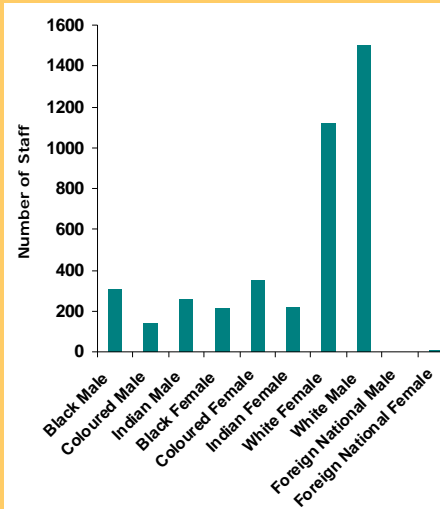
**Top Management Representation by Race FY'06**



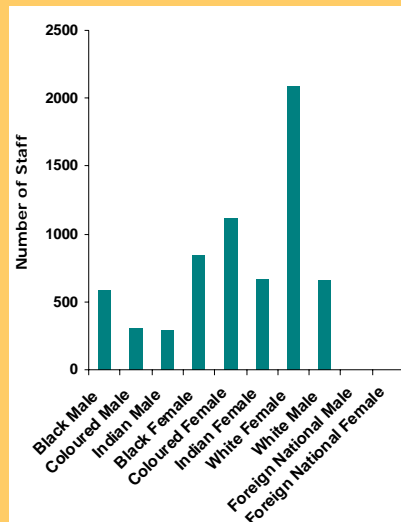
**Senior Management Representation by Race FY'06**



**Middle Management Representation by Race FY'06**

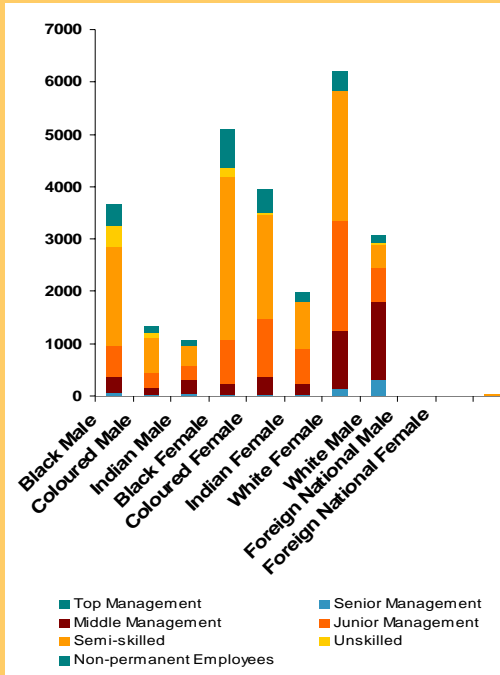


**Junior Management Representation by Race FY'06**

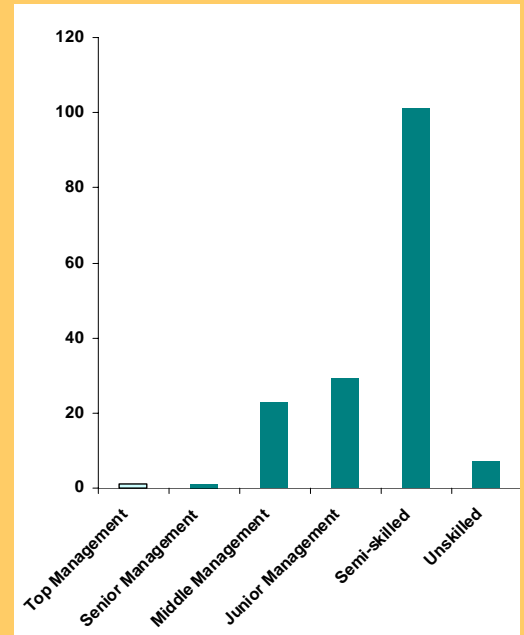




### Total Staff by Race, Gender & Occupational Level FY '06



### Disabled Staff Representation by Occupational Level FY'06



## Skills Development for Non-White Employees and Unemployed People

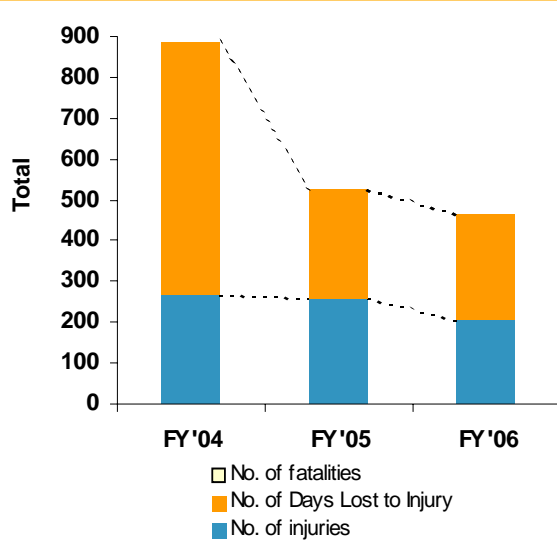
FNB's major learning initiatives focus on developing our internal capacity, while also contributing to a broader skills base within the wider community. This excludes the bursary programme:

- ✓ FNB Learning (an accredited training institution): interventions across a vast spectrum including banking skills, life skills, technical knowledge and leadership.
- ✓ The BANKSETA International Executive Development Programme 2006 allocates 12 slots to the entire financial services industry. It requests nominations for non-white, suitably qualified candidates to participate in an Executive Leadership Programme with the Bank of Montreal Leadership Development Centre and two Canadian Business Schools. An intense assessment is undertaken before candidates are selected. FNB has successfully placed a candidate in the programme for the past two years.
- ✓ FNB Service Representative (CSR) Learnership
- ✓ FNB Information Systems Engineering: a three-year programme for 20 employees (50% black). Outcome: a Masters Degree from The University of the Witwatersrand
- ✓ FNB is involved in FirstRand learning programmes such as the Junior Leadership Programme, Coaching for Superior Performance (all leadership levels), the Business Management Programme, designed by the Gordon Institute of Business Science, which enables unemployed people to obtain skills to earn commission after a two-year period as well as Adult Based Education and Training (ABET) open to both staff and the community

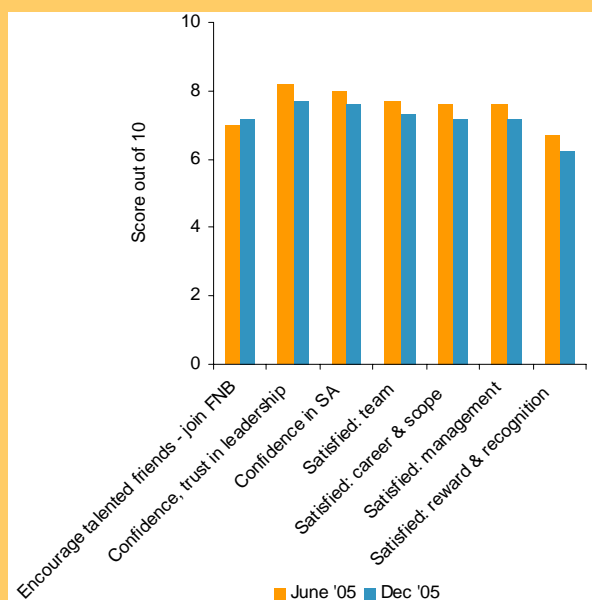
## Working Environment Data

### No. of Injuries, Days Lost to Injury & Deaths FY'04 – FY '06

Note: 1 death in FY '04. Zero deaths in '05 & '06



### Staff Satisfaction (People-Pillar Survey) Jun '05 & Dec '05



## Data Pack: HIV/Aids GRI Report

Our focus over the last six months has been to determine the impact of HIV/Aids on the business, refine our strategy and implementation plan as well as update our communication campaign. Using the GRI reporting format, we describe FNB's HIV/Aids policy, strategy and programme for assisting employees to understand, control and mitigate the impact of HIV/ Aids below.

Performance Indicators	Topic	Description
<b>Good Governance</b>		
HIV1	Description of HIV/Aids Policy	HIV/Aids is a challenge that must be managed strategically and pro-actively. Our HIV/ Aids policy, written in simple English, ensures that the rights of HIV/ Aids employees are protected in the workplace, in accordance with existing South African laws and the Southern African Development Community (SADC) Code on HIV/Aids and Employment. The policy emphasises non-discrimination, confidentiality, support for Voluntary Counselling and Testing (VCT) and Employee Assistance Programmes (EAP), incapacity management, safety measures to prevent spread in the workplace and empowering employees.
HIV2	Strategy for managing HIV/Aids risk	<ul style="list-style-type: none"> <li>• We developed a Workplace HIV/Aids programme based on guidelines from the Department of Health. The programme represents our stance and policy on preventing the spread of HIV/Aids amongst our staff and supportively assisting those employees who are already infected.</li> <li>• Our strategy is targeted at all bank employees and their families. Our intervention is both direct, through our education, training and support, and indirect, through third party service providers such as Bankmed and Discovery, our medical aid service providers.</li> <li>• In previous years, FNB participated in a joint study with other banks to determine industry prevalence. This year we conducted an actuarial exercise to assess the impact of HIV/Aids on FNB directly. The study provided us with a view of the real HR impact and risk exposure, including financial considerations and succession planning.</li> </ul>
HIV3	Preparedness and contingency planning in anticipation of expected HIV/Aids impacts	<ul style="list-style-type: none"> <li>• The actuarial analysis indicated in HIV2 above will help us fully understand the impact of HIV/AIDS and assist the leadership team in understanding the prevalence by stages, financial impact of prevalence found and by skills profile. The skills profile results will guide the HR team in succession planning, leadership pipeline and training and development interventions.</li> <li>• The actuarial analysis also provides a cost benefit analysis. Through scenario analysis and determining the impact of both implementing effective interventions and not doing anything, we derive cost-benefit information to act strategically.</li> <li>• The Knowledge, Attitudes and Practices (KAP) study that is currently being undertaken helped us benchmark the knowledge, attitudes and practices within FNB. The KAP survey identifies gaps in the HIV/Aids programme and acts as a monitoring and evaluation tool to determine the effectiveness and success of our HIV/Aids management initiatives.</li> </ul>

Performance Indicators	Topic	Description
		<ul style="list-style-type: none"> <li>• Training and development programmes, along with the leadership pipeline, are designed with an understanding of the prevalence and skills profile.</li> <li>• HIV/Aids educational programmes are structured to motivate HIV negative staff to stay negative and HIV positive individuals to change their lifestyle and live positively</li> </ul>
HIV4	Monitoring of progress and reports in respect of indicators 1-3 above	<ul style="list-style-type: none"> <li>• HIV/Aids issues and disclosure, initiatives and commentary appear in the Group's Annual Financial Statements.</li> <li>• HIV/Aids is a standing item, either directly or through associated topics, on every Board meeting agenda and / or Leadership team meeting agenda.</li> <li>• HIV/Aids is identified as a risk in the FirstRand Banking Group Business Performance and Risk Management Framework.</li> <li>• The Steering and Working Committees are responsible for ensuring initiatives are rolled out and reported upon.</li> <li>• The KAP study will also be utilised as a key monitoring and evaluation tool: it will be repeated in 18-24 months to assess differences in knowledge, attitudes and practices/behaviour.</li> </ul>
HIV5	Stakeholder involvement in formulation of policy, strategy and implementation	<ul style="list-style-type: none"> <li>• The HIV/Aids committees comprise different functions across the bank, including HR, Risk, Finance, Brand &amp; Communication, Health Services and two executive members. The forum convenes every second month. It provides direction and input on how to leverage initiatives for sustainability to the working committee.</li> <li>• The working committee comprises business unit co-ordinators, wellness managers, HR managers and the Brand and Health services of each business segment/business unit.</li> <li>• Two Executive FNB members are co-opted onto the AIDS Strategy Steering Committee to provide the committee with legitimacy and priority status.</li> </ul>
<b>Measurement, Monitoring and Evaluation</b>		
HIV6	Prevalence rates	<ul style="list-style-type: none"> <li>• 5.3% of FNB staff are HIV positive, based on the results of the recently completed actuarial study. The average South African workforce rate is estimated at 19%.</li> </ul>
HIV7	HIV/Aids-associated costs and losses	<ul style="list-style-type: none"> <li>• The actuarial study has helped FNB quantify associated costs up to 2015. We will be updating the relevant insurance and pension schemes.</li> </ul>
HIV8	Total assumed HIV/Aids associated costs / losses	<ul style="list-style-type: none"> <li>• As per HIV7</li> </ul>
<b>Workplace Conditions and HIV/Aids Management</b>		
HIV9	Workplace-related HIV/Aids programmes and	<ul style="list-style-type: none"> <li>• Please refer to last year's report for a complete list of all our workplace-related HIV/ Aids interventions and programmes. Programmes are holistic and structured, comprising ongoing</li> </ul>

Performance Indicators	Topic	Description
	interventions	<p>awareness, training and education through mass communication, staff training, attitude and sensitivity awareness and videos, staff are encouraged to participate in voluntary and confidential counselling and testing as well as care and treatment for HIV+ employees through our medical aid companies (Bankmed and Discovery). We will also update our interventions and communication to address key issues identified through the KAP study</p> <ul style="list-style-type: none"> <li>• A central component of the strategy last year was to educate, share knowledge, explain legal considerations and provide training with regards to HIV/Aids in the bank. Over 5 000 managers have completed training and more will participate this year.</li> <li>• Our Employee Assistance Programme (EAP) addressing staff wellbeing includes telephonic and face-to-face counselling on various psycho-social issues. HIV/Aids is one of the elements of this programme, ensuring staff are well looked after and have access to a comprehensive, holistic and sustainable programme. Clinical support and counselling is provided for related issues such as emotional and personal difficulties, family and relationship concerns, substance abuse, career, legal and general health concerns, and bereavement and loss. This support is available telephonically 24 hours a day and through face-to-face sessions.</li> </ul>
HIV10 (FNB)	Budget allocation	<ul style="list-style-type: none"> <li>• Financial resources have been made available as indicated in the strategy.</li> </ul>
<b>Depth quality/ sustainability of programme</b>		
HIV11	Voluntary counselling and testing	<ul style="list-style-type: none"> <li>• VCCT (Voluntary Confidential Counselling and Testing) is a key element in the strategy, as it acts as a "behaviour change" model. Once an individual undergoes an HIV test, there is the likelihood of behaviour change. Depending on the outcome of the test, an HIV+ person will be referred to, encouraged or informed of the appropriate disease management programme. The test is funded by Bankmed and Discovery medical aids: <ul style="list-style-type: none"> <li>- Staff can undergo an HIV test at on-site clinics at specific locations (e.g. head office) or at their preferred doctor</li> <li>- Pre-test and post-test counselling are part of the VCCT process</li> </ul> </li> </ul>
HIV12	Other support programmes	<ul style="list-style-type: none"> <li>• See HIV 9 – Employee Assistance Programme</li> </ul>
HIV13	HIV/Aids education and training programmes	<ul style="list-style-type: none"> <li>• One of the main contributing factors to the increasing HIV/Aids prevalence rate in Sub-Saharan Africa is lack of education. We developed an integrated, innovative awareness campaign communicated through various internal media and forums and focused on HIV literacy and training. Once FNB Leadership is educated, the programme is rolled out to all staff. The programme includes Exco briefing, management training, awareness training and peer educator training. The programme has also been rolled out to our operations in</li> </ul>

Performance Indicators	Topic	Description
		<p>the rest of Africa.</p> <ul style="list-style-type: none"> <li>• Topics of education and training include: <ul style="list-style-type: none"> <li>- History and origin of HIV/ Aids</li> <li>- Common myths and misconceptions</li> <li>- The basics i.e. a healthy and HIV infected immune system, stages and opportunistic infections</li> <li>- Modes of transmission</li> <li>- Prevention, including ABCD, universal precautions, post-exposure prophylaxis, mother-to-child transmission, and voluntary counselling and testing (VCT)</li> <li>- Rights and legal aspects</li> <li>- Local and international HIV/Aids statistics and trends</li> </ul> </li> </ul>
HIV14	Condom and Femidom distribution programme	<ul style="list-style-type: none"> <li>• Condoms and femidoms are distributed at BankCity's onsite clinic for employees.</li> </ul>
HIV15	General healthcare provision	<ul style="list-style-type: none"> <li>• Health-days, information drives and communication campaigns that address HIV/Aids or associated issues such as healthy living, weight and stress management as well as correct nutrition are a regular feature of our staff wellness programme.</li> </ul>
HIV16 (FNB)	Additional benefits for employees sick, dying or deceased from HIV-related conditions	<ul style="list-style-type: none"> <li>• VCCT tests are paid for by Medical Aid / Scheme</li> <li>• Treatment (anti-retroviral benefits) is included as a PMB (prescribed minimum benefit).</li> <li>• A comprehensive Disease Management plan that includes the following is available to HIV/ Aids employees: <ul style="list-style-type: none"> <li>- Lifestyle and HIV/Aids-specific education</li> <li>- Highly Active Anti-Retroviral Therapy (HAART) application and approval</li> <li>- Education on HAART and assistance in the member's choice of medication delivery</li> <li>- Compliance monitoring to ensure that the HAART is effective This includes follow-up calls to the member to assist in management of HAART.</li> <li>- Management of hospitalisation for HIV/Aids-related illnesses</li> <li>- Education and counselling for members requiring prophylactic antiretroviral therapy</li> <li>- Ensuring appropriate claims are funded by Medical Schemes</li> </ul> </li> </ul>

# Our Supply Chain

## ***Why our Suppliers Matter to Us***

As our annual financial results attest, a significant proportion of our cost is spent on procurement. Our suppliers are therefore a critical stakeholder in our business. They have the ability to influence our cost base, our strategic objectives regarding process and cost efficiencies and even our transformation credentials. Many of our suppliers are also customers of our bank and therefore have additional expectations. For instance, should we not pay our suppliers within contract terms, we could be affecting their overdraft and interest repayments, resulting in dissatisfied customers.

Conversely, the scale and scope of our procurement spend allows FNB to contribute towards broad-based supplier transformation and the growth of businesses. Given the size of our procurement spend and spread of operations nationally, we have the capacity to take on smaller suppliers, providing them with the opportunity, credentials and assistance to set up and grow their businesses. In this way, and by engaging in discussions with larger suppliers, we can influence the distribution of wealth.

"Procurement is probably the most important component of transformation...[it] has a cascading effect that filters down throughout the economy and benefits black businesses all the way down". *Paul Harris, FirstRand CEO*

We recognise that sustainable, open and active partnerships with our suppliers are mutually beneficial and greatly enhance our ability to realise our strategic objectives.

## ***Who are Our Suppliers?***

Our suppliers range from large corporates to medium and small businesses, as well as emerging enterprises. They span all business sectors, including information technology, services and commodities, properties as well as marketing.

We currently have just over 19 860 suppliers on our database, of which 64% are active. Previously, we focused on our active database of suppliers, but this year we will be inviting our inactive suppliers to participate in procurement opportunities within FNB. The diagram below depicts our main categories of suppliers. The data section at the end of this document provides more information.

Note that the Procurement function does not include staff costs such as salaries and medical aid.

## ***What Matters to Our Suppliers***

FNB Procurement engages in regular operational discussions with our suppliers on a wide range of issues, from service level agreements to payments and process flows. Monitoring and management reporting is done using a Supplier Reporting Dashboard, a daily / monthly view of transactional issues and results by supplier.

The key needs of our suppliers have been determined as follows:

- Both FNB and suppliers require enforceable contracts and assurance that Service Level Agreements are in place and fully met
- Contract terms should be clear to both parties
- Suppliers require FNB to have appropriate processes for smooth operation and for issues to be quickly resolved or escalated

Suppliers who are also customers of FNB have additional expectations. We have recently begun understanding these relationships and, through a Supplier / Customer Reciprocity process, have engaged with these suppliers to understand their specific requirements and offer them additional opportunities, such as enjoying preferential pricing or marketing their products to FNB staff.

## ***Our Strategic Key Focus Areas***

Our procurement strategy is directed towards two outcomes:

- Achieve best-in-class purchasing efficiencies
- Contribute towards sustained economic growth, development and transformation in South Africa

## **Formalising Procurement Governance**

- We implemented our Procurement Centre of Excellence
- We centralised the contracting function
- We worked with business units to set standards, policies and processes

## **Realising Procurement Savings**

- We achieved over R136 million in savings through effective management of our consumption and effective supplier negotiation

## **BEE Transformation**

We influenced transformation amongst our supplier base through:

- Increasing procurement from black suppliers, including regionally-based SMMEs
- Requesting supplier empowerment ratings as evidence of transformation



- Deploying a rotation system and applying shorter-term contracts to allow more BEE suppliers to access opportunities. Through a transparent process, we also invite our inactive suppliers to participate in procurement opportunities with FNB.

An additional element in transforming our supplier base has been an ongoing shift of our BEE spend to non-routine commodities and services such as Marketing and IT..

While we have achieved much success in contributing towards supplier transformation (see data pack at the end of this document), our work in this arena is ongoing.

## **Contribution towards Enterprise Development**

FNB recognises the important role we can play in developing small enterprises which can, in time, increase in size, profitability and economic participation. Through our procurement, we ensure our business practices actively support the development of enterprises through:

- Providing opportunities for smaller suppliers to access our OPEX and CAPEX
- Shifting spend appropriately to regional and provincial suppliers
- Settling SMME invoices on preferential payment terms, starting at payment within 48 hours of invoice

## **Recognising Suppliers' / Customers' Reciprocity**

We started engaging strategically with suppliers who are also customers, or potential customers, of our business. We are rolling out our Reciprocity Model for larger suppliers / customers through close interaction between Procurement and the FNB Commercial and Corporate segments.

## ***Objectives for the Coming Year***

Our objective for the upcoming year is to complete implementation of our activities over the last year, while shifting our focus towards more strategic engagement with our suppliers and internal customers. Driven by our strategic objectives of efficiency and effectiveness along with the broader FNB transformation strategy, our objectives for 2006 include:

- Looking actively for innovative ways to achieve efficiencies by reducing consumption and optimising usage and by further reducing our managed spend costs. We identified **cost saving** opportunities of over R100 million which we hope to realise over this year
- We will roll out the **Reciprocity Model** for larger suppliers / customers through close interaction between Procurement and the FNB Commercial and Corporate segments
- We will review multiple or sub-optimal contracts with single suppliers by different business units to **consolidate and centralise contracting**
- We will conduct a **supplier satisfaction** process
- We will refine the **end-user satisfaction** reporting measurement process and improve the results of surveys conducted amongst users of Buy-It, our procurement system

Our focus on transformation will be maintained. We continue to work with business units and their suppliers to address transformation credentials, particularly for suppliers rated E in other words, suppliers achieving less than 40% in terms of the BBBEE transformation scorecard, and suppliers who have not reported their transformation status to us (unrated suppliers).

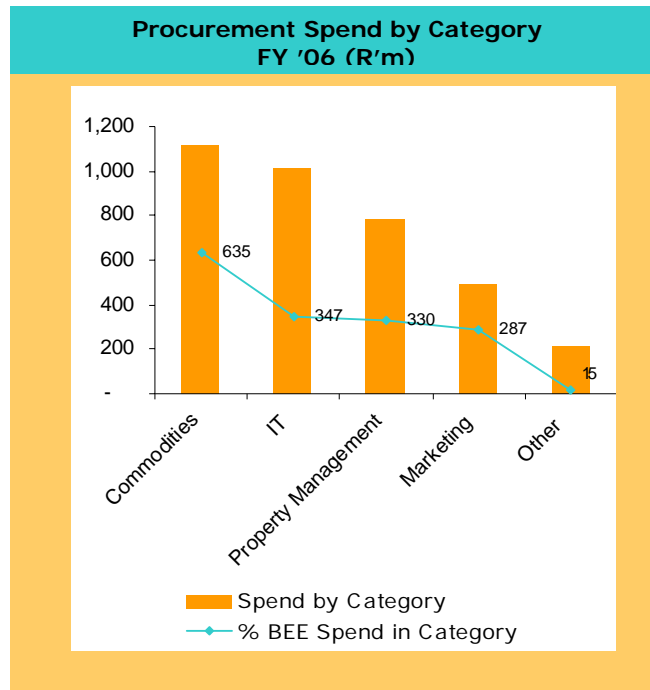
## Data Pack

The diagrams below summarise our supplier performance over the last year. Detailed commentary on key outcomes can be found in the main section of this document. Where available, previous year's data is included for comparative purposes.

**Customer Data Overview FY '06**

**Supplier Transformation**

**At a Glance**



## **Our Environmental Impact (Direct and Indirect)**

Although financial services generally have a lower environmental impact than other types of business, as a business and a financial services provider, our impact on the environment is two-fold: directly through consumption of resources in the course of operations and indirectly through financing or investment in projects that our clients undertake where the social and environmental consequences could be negative.

The first section of this document describes our direct impact and our efforts to reduce this. Data to confirm our efforts is provided at the end of this section. The second section indicates how we address our indirect environmental impact.

# Our Direct Environmental Impact

## *Why the Environment Matters to Us*

Sustainable and responsible consumption of natural resources and reduction of our impact on the environment is a global imperative. Through our employment of a large staff base and our business operations, we believe that we are in a position to reduce our direct impact and make a notable difference.

## *Where is our Direct Impact?*

The following operational areas contribute most significantly to our environmental impact:

- First National Bank Head Office (BankCity) Johannesburg
- FNB branches located nationally
- Our Call Centre and IT Infrastructure centres

## *What are our significant Direct Impacts?*

Our direct impact involves consumption of water, electricity, electrical equipment (e.g. computers) and accessories (e.g. light-bulbs), air-conditioner refrigerants, paper and waste material (e.g. packaging). Our consumption of furniture and cleaning materials also contribute towards impact.

## *What FNB is doing about it*

We are guided by the FirstRand Banking Group Safety, Health, and Environment (SHE) Policy, which ensures compliance with applicable South African and international regulations and standards for responsible environmental practices.

We describe our efforts to reduce our environmental footprint below. This is supplemented by Head Office (FNB BankCity) data at the end of this document, quantifying where possible

the impact of Head Office projects to reduce BankCity's direct environmental impact generated operations.



At a Glance

### **Case Study: Innovation Campaign Leads to Improved Water Supply**

One of the winning innovations in this year's FNB Innovator's Campaign was an initiative to ensure a back-up water supply for FNB branches.

Eastern Cape branches in particular experience inconsistent water supply, often with no water for days on end and staff resorting to drawing water from local rivers. The solution: install up to 3 x 10,000 litre tanks at affected branches. Used sparingly, filter-pumped (for cleanliness), with an alarm in branch administrator offices warning of lowering levels, this allows branches to monitor water use and save for any shortages.

## **SHE and Risk Policy Improvements**

The SHE Policy, which provides business framework for managing our environment, is currently being reviewed. The outcome will be an updated mission statement that informs both the business and the external market of our commitment to responsible environmental practice as far as we can influence this.

## **Knowledgeable SHE Representatives**

SHE representatives are trained in procedures to ensure adherence to all environmental policies. These representatives are tasked with reporting any failure to follow policies, as well as with implementing remedial action, should this be necessary. Each FNB branch has at least one Safety, Health and Environmental Representative (approximately 1,000 representatives throughout the bank).

## **Staff Environmental Sensitivity**

To enhance management responsibility and improve staff sensitivity and awareness of responsible environmental behaviour within the corporate environment, we:

- Included a number of questions regarding business practice in our Risk Management Framework. FirstRand Banking Group Internal Audit will undertake the first audit in this respect in this year, to assist business units to document their environmental positions and to advise on good practice.
- We commenced an Environmental Awareness Training Programme with SHE representatives. This will be rolled out to the rest of the organisation next year.

## **Providing a Healthy Work Building**

We conduct ambient air quality tests at BankCity every two years, through an accredited inspection authority. Specific instances to improve were identified. Overall tests indicated our systems are well maintained and air-quality is within acceptable international standards.

To maintain standards, air-conditioning systems are regularly flushed and treated with anti-bacterials. We also select office plant types that contribute towards a healthy working environment. An external water management practitioner monitors our water systems and water quality and also conducts regular microbiological tests, to ensure that our systems comply with international standards and are free of pathogens.

BankCity maintains a strict smoke control policy. Smoking is only allowed in specially designed and designated areas, with extractor fans to prevent smoke infiltrating the air circulation system.

## Reducing Resource Consumption and Recycling at BankCity

FNB BankCity houses most corporate and head office functions. With between 6,300 and 6,500 permanent and temporary staff utilising the premises daily, this is our largest area of environmental impact. We therefore believe that its scale and scope make it conducive to focused attention to ensure that we “reduce, re-use, extend and recycle” our resources.

Since 2004, we have been engaged in the following:

- **Reducing Electricity:** We achieved financial savings through efficient electricity usage by implementing Eskom’s Demand Side Management Programme. We replaced traditional fluorescent lights with fewer, more environmentally-friendly alternatives which use a fraction of the power. They also last longer and only need to be disposed of every five years. Air-conditioners have been re-programmed to use less electricity, with the remaining capacity reserved for back-ups. Lights are automatically turned off in non-essential areas after working hours and security staff turn off unnecessary lights after hours during their rounds
- **Recycling Paper:** Office paper is shredded and then handed over to Nampak Recycling.
- **Reducing Paper Use:** Programmes are being run to raise awareness of paper wastage and to promote the re-use and recycling of paper. Employees are being encouraged to print fewer documents, relying on electronic versions instead. Alternatively, many printers are available to conduct double-sided printing.
- **Reducing Water:** Various approaches include improving general efficiency of the water management system, reducing water intake, topping up with fresh water only after we have used up the recycled supply, reducing cistern flush pressure, upgrading the air-conditioning system to eliminate water waste through recycle and re-use, using closed reticulation systems and maintaining cooling tower valves weekly, preventing water loss. We receive a monthly rebate of between R20,000 – R40,000 from local municipal authorities based on water savings achieved.
- **Cleaning Materials and Chemicals:** Contractors are required to use only environmentally-safe and biodegradable cleaning chemicals. Disposal of containers and chemicals is strictly monitored. Vehicles are washed in designated areas, using drips trays to prevent chemical seepage during washing.
- **Sorting Wet and Dry Waste:** We sort wet and dry waste for effective disposal.
- **Reducing Landfill Consumption:** We apply a “Sweat IT and Furniture Assets” policy, requiring us to ensure we obtain maximum use of our assets, which results in dual benefits of cost savings and reduced landfill consumption.
- **ISO 14001-Compliant IT Asset Disposal:** We dispose of obsolete computer equipment via a black SME that is currently working towards ISO 14001 accreditation.
- **Recycling Marketing Material (and helping small business):** Our obsolete outdoor billboards are removed and given to a small BEE company that re-uses them to produce items such as bags and file covers.

Other environmentally-friendly initiatives include appropriate disposal of medical waste from on-site health clinics, completion and implementation of recommendations following an Environmental Impact Assessment regarding installation of diesel storage tanks at BankCity, safe disposal of cooking oil from staff kitchens and canteens, return of used batteries to suppliers, as well as use of environmentally-friendly pesticides and irrigation methods. We also reduced our vehicle fleet to the bare minimum throughout FNB in order to reduce harmful emissions.

## Branch Network Recycling

In addition to FNB-wide initiatives, branches also participate in localised initiatives to mitigate their impact and support the community where possible. For example:

- Branches have arranged with Mondi Paper to collect used paper for recycling. In lieu of payment, some branches, e.g. Sunnyside, cede their proceeds to Mondi's own CSI initiatives such as the SPCA and Hospice.
- Branches such as the Northern Cape and Fouriesburg support community recycling centres by delivering their used paper to these centres. The centres pay local entrepreneurs for paper recovered for recycling and therefore benefit both the environment and the community in a sustainable manner.
- Some branches, such as Hout Bay, provide their materials to a local craftworkers initiative.

## *Objectives for the Upcoming Year*

FNB is involved in initiatives aimed at natural resource preservation.

Some of our objectives for the upcoming year include:

- Finalising the FirstRand Baking Group SHE Policy updates
- Continuing roll-out of awareness and training about responsible environmental behaviour within the workplace
- Undertaking the necessary steps to obtain an ISO 14001 accreditation for both FNB and BankCity, however, we may only achieve this in the following financial year.

## *Data Pack*

We are currently only able to provide comparable data for our electricity utilisation. As part of our plans to achieve ISO accreditation, our environmental measurement systems will be able to provide comparable and detailed data in future.

### Environmental Impact Performance FY '06



Electricity Saving

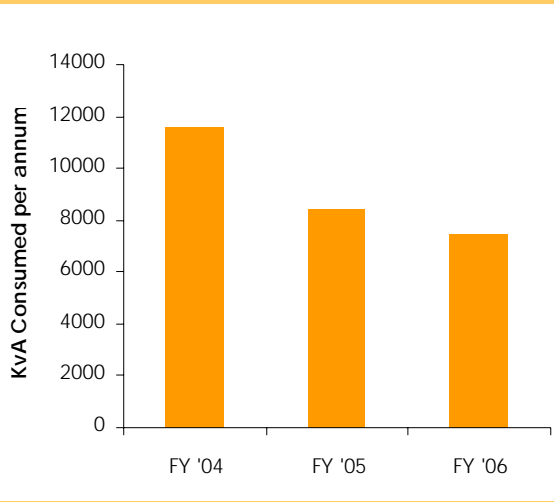


Water Saving (reduced BankCity water bill by over R300,000)



At a Glance

**BankCity Electricity Consumption  
FY '04 - FY'06**





# Our Indirect Environmental Impact

## *Our indirect environmental impact*

As a financial institution, our environmental impact is also enabled through business activities such as partnerships with, or financing of, business operations that impact the environment. We therefore have a responsibility to ensure that we encourage environmentally-sustainable behaviour amongst our customers and partners. This responsibility is exercised through dialogue and the development of suitable incentives and products.

## *What are we doing about it*

### **Policies**

FNB is striving towards compliance with legislative requirements. The FirstRand Banking Group Environmental Risk Policy currently in place is being reviewed: FNB will apply this as an internal policy to ensure that we comply with macro environmental policies as appropriate.

### **Practices**

Over the last year, we have begun paying greater attention to how we can encourage sustainable environmental behaviour amongst our current and potential customers. One example is the Electronic Statements Project. By reducing the monthly fees of retail customers, we offer them the option of receiving their monthly card and transaction statements electronically, rather than in paper format.

#### **Paper Saving Through Electronic Options (FY '06)**

- Average Customer Paper Consumption = 18 pages
- No. of pages saved = 4,562, 690
- Total Kg's Paper Saved = 22,354
- Total ZAR saved (including postage) = R 4,956,482



At a Glance

We also introduced the Electronic Service Option, to encourage customers to move to electronic banking channels (including ATMs, the internet and telephone banking). Card customers, for instance, now save over R55 per annum on card fees alone if they select the Electronic Service Option, which includes electronic statements.

# Our Work with the Community

## *Why the Community Matters to us*

FNB's motto of "How can we help you?" governs our involvement with the community. For FNB, Corporate Social Investment (CSI) is helping people in less fortunate circumstances lead more productive lives. Our support for the community is based on identifying opportunities to help people help themselves. We believe that we can contribute towards greater economic participation in South Africa by assisting in poverty alleviation and social development through enabling people.

## *Who is the Community*

The community with whom we interact is defined by the focus areas of the two mediums we use to achieve our CSI objectives:

- The FNB Foundation: an FNB-funded community support programme that focuses on providing finance. It is also referred to as the FNB Fund within this document.
- The FNB Volunteers Programme: a staff-driven initiative jointly supported and funded by FNB and the staff. The programme focuses on donations of time, materials and expertise.

Having both a "financial giving" mechanism and a "helping hand" process enables us to provide a complete, holistic solution to meaningful and sustainable community support. Over time, integration between these two approaches to community support is increasingly complementary.

## **FNB Foundation (Fund) Community**

We allocate 1% of our post-tax profits towards financially assisting the community. The primary beneficiaries of the Fund are public benefit organisations working for and with the youth, as well as with women, teachers and the unemployed. In total, we partnered with over 165 community partners and provided financial assistance to the value of R23 million during FY '06.

**A unique initiative in providing the catalyst for a renewed focus on values for South Africa**

**HEARTLINES**

FNB is proud to be associated with Heartlines, the Mass Media edutainment project run jointly on SABC 1, 2 and 3. While it's not the usual kind of project that our CSI Fund supports, it brings together a mix of innovation, success and a powerful way of promoting values-based living. It promotes strong individual accountability amongst the wider South African public, through promotion of eight values: honesty, compassion, accepting differences, self-control, perseverance, forgiveness, responsibility and second chances. We consider this as a flagship nation and bridge-

Over the past year, two aspects of the Fund were amended:

- The principles governing the Fund were refined to include measurability and to focus on the sustainability of our CSI development efforts
- The Fund mandate was to include an increased focus on HIV/ Aids through the Hospice Association, as well as a specific focus on youth and greater focus on flagship projects

We also adopted a more pro-active approach to identifying community partners.

The FNB Fund's focus areas are depicted below.

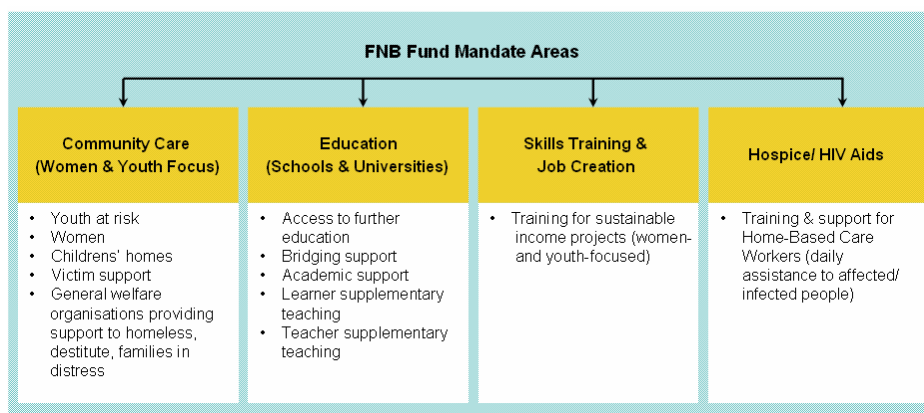


Figure 1: FNB Fund Areas of Support

Please refer to [www.firststrandfoundation.org.za](http://www.firststrandfoundation.org.za) for detailed examples of community projects that we have supported through the FNB Foundation.

## FNB Community Volunteers Programme

The FNB Volunteers Programme focuses on any worthwhile local and national Community-Based Organisations (CBOs) as well as communities that are vulnerable, in need of assistance or supportive of indigent people or environments. These communities are selected in one of two ways. Staff can partner with communities already identified by the FNB Volunteers Programme. Alternatively they can form long-term and sustainable relationships with organisations in their local communities and bring these under the umbrella of the Volunteers Programme.

Please refer to [www.firststrandvolunteers.co.za/initiatives/](http://www.firststrandvolunteers.co.za/initiatives/) for examples of community projects that we have supported through the FNB Volunteers Programme.

## ***What Matters to the Community***

Last year, we provided over R25 million in financial assistance (through both programmes) to communities around South Africa. Community requirements centre on many resources such as money, time, assistance and expertise. We have realised that pro-activity is crucial in meeting community requirements more effectively and sustainably. From an approach of waiting for requests for assistance and simply writing out cheques, FNB has slowly moved to a more sustainable approach of working with communities to identify their issues and requirements. Examples of this include:

- Acknowledging the lack of tertiary study bursaries for potential B.Comm Accounting students in rural areas. To this end we supported 114 students who have a strong academic track record. We track the progress of bursars, reflect on lessons learnt and tackle the challenges of integrating rural bursars into an urban tertiary setting through a networking workshop. 81 students are also considered for possible vacation work where opportunities are available.
- Formally undertaking a focus group discussion and semi-structured interviews with HIV/Aids Hospices throughout the country in order to strengthen our support of these hospices through a Monitoring and Evaluation pilot project.

## **How we Determine what Matters to the Community**

- **FNB Fund:** In addition to assessing formal proposals for assistance, our current Monitoring and Evaluation pilot (described on page 8 of this document) will place us in a better position to evaluate community issues.
- **FNB Volunteers Programme:** Staff involvement with the community involves communicating and working with the beneficiary organisation to understand and prioritise their needs before rendering support. This allows us to channel our resources in the best manner to provide the assistance that the community has requested.



## ***Our Strategic Key Focus Areas***

- Develop longer-term relationships with community partners aligned to our strategic focus areas
- Ensure we are making a genuine impact by assessing our involvement with the community and identifying opportunities for improvement
- Since the FNB Volunteers Programme has gained momentum and achieved successes, greater emphasis will be placed on governance, improved planning, internal communication and staff recognition

## ***What we are doing about it***

Key Focus Area	What We Are Doing About It
<p><b>Longer-Term Community Partnerships</b></p>	<ul style="list-style-type: none"> <li>• <b>FNB Fund:</b> Increasing focus on flagship projects within the areas of Community Care, Skills Training and Job Creation, Education and HIV/Aids. Our target is for 50% of the community support that we provide to be directed to these by June 2006. Flagship projects include Hospice (HIV/ Aids), the bursary programme and Heartlines (a national television-based programme discussing key values for South Africa, including grace, responsibility, forgiveness, perseverance, self-control, acceptance of diversity, compassion and honesty)</li> <li>• <b>FNB Fund:</b> Extending financial support from project-specific or annual grants to three-year programmes where possible, thus improving planning by beneficiaries and enhancing the sustainability of programmes</li> <li>• <b>FNB Volunteers:</b> Provided financial support to and forged closer relationships with Business Trust Long Run Initiative, Education Africa, Habitat for Humanity and Charities Aid Foundation of Southern Africa (CAFSA)</li> <li>• <b>FNB Fund and Volunteers:</b> Ensuring greater alignment between the focus areas of the FNB Fund and the FNB Volunteers Programme to increase the sustainability of staff initiatives</li> </ul>
<p><b>Determining our Impact on the Community (our relevance in meeting current and future social needs)</b> <i>(refer also to the Data section of this document)</i></p>	<ul style="list-style-type: none"> <li>• <b>FNB Fund:</b> Employed a dedicated Monitoring and Evaluation Practitioner to help determine the experience of beneficiaries, understand how to evaluate FNB's impact on beneficiary organisations as well as identify successes and opportunities for improvement. Refer to page 8 of this document for the summary outcomes of the pilot project.</li> <li>• <b>FNB Volunteers:</b> Engaged with CAFSA (Charities Aid Foundation of Southern Africa) to evaluate the impact of the FNB Volunteers Programme on the community during our involvement with National Employee Volunteer Week (March '06). This year, more attention will be paid to the measurement of the impact of volunteer initiatives on employees, beneficiary organisations and the business overall.</li> </ul>

Key Focus Area	What We Are Doing About It
<b>Enhancing the Sustainability of the FNB Volunteer Programme</b>	<ul style="list-style-type: none"> <li>• Increased awareness among staff of the Volunteer Programme through the optimised use of internal media e.g. intranet, Roots (internal publication)</li> <li>• Improved budget management and project planning within business units</li> <li>• Reducing the number of beneficiary organisations supported and to provide increased, meaningful support to the remainder of the beneficiaries</li> <li>• Improved governance and financial account management</li> <li>• Appointment of a dedicated Programme Co-ordinator to manage 52 part-time business unit volunteer co-ordinators and their initiatives</li> <li>• Acknowledgement of outstanding volunteer staff through the Sowetan Newspaper / SABC / Old Mutual Community Builder Awards as well as through Firstrand's sponsorship of the Harambe Awards (with SA The Good News and CAFSA), open to employees of all SA corporates (what is 'open to employess of all SA corporates'?-Ed)</li> </ul>

*Table 2: FNB Fund and Volunteers Programme Key Focus Areas and what we are doing*

## Links

For more information and case studies on FNB's CSI initiatives, refer to the following websites.

[www.firstrandfoundation.org.za](http://www.firstrandfoundation.org.za)

[www.firstrandvolunteers.co.za](http://www.firstrandvolunteers.co.za)

<http://fnbweb/Volunteers/> (Intranet access only)

# Data Pack

We are pleased to note that FNB exceeded performance standards set during the previous year.



At a Glance

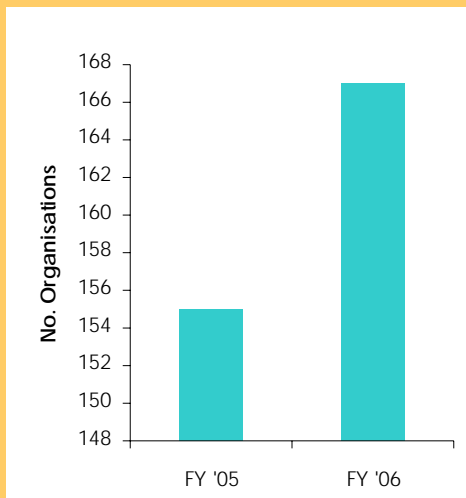
CSI Performance Data at a glance FY '06

👍 FNB Fund (Foundation) Financing

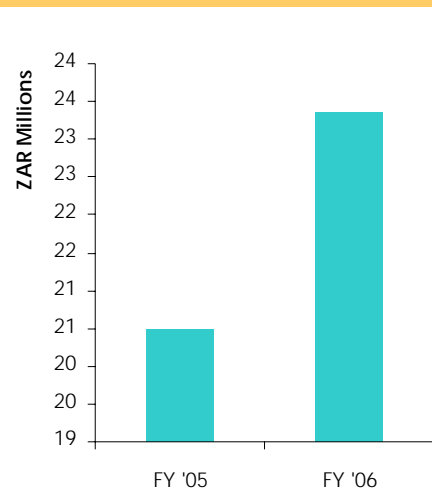
👍 FNB Volunteers' Time and Money

## FNB Fund

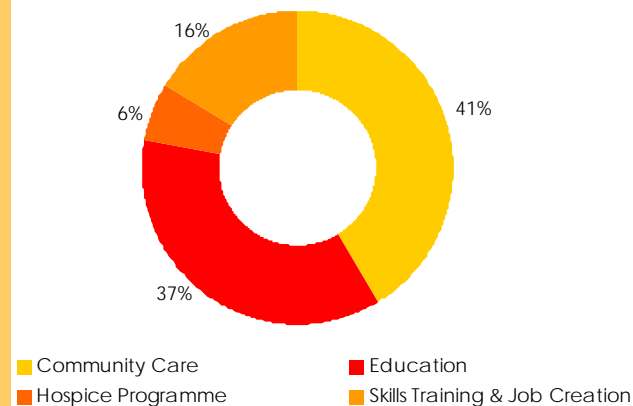
**FNB Fund No of Organisations Supported FY '05 and FY '06**



**FNB Fund CSI Spend FY '05 and FY '06**

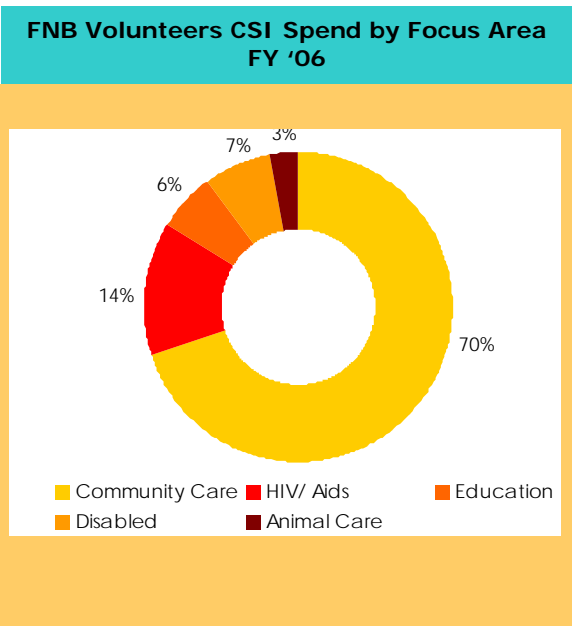
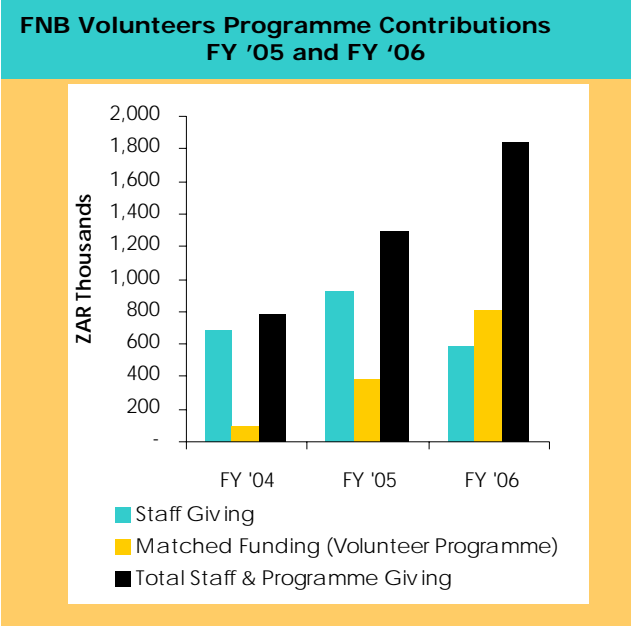


**FNB Fund CSI Spend by Focus Area FY '06**





# FNB Volunteers Programme



## ***Qualitative Performance Assessment: FNB Fund***

The Monitoring and Evaluation Project has recently been piloted with Hospice. Through our relationship with Hospice, an established organisation and a flagship project in the FNB Fund portfolio, we hoped to learn more about sustainable relationships and how to effectively report on monitoring systems. As the pilot was conducted through a focus group and semi-structured interview format, outcomes were qualitative. These are summarised below.

- Beneficiaries would appreciate more “personal” interaction with FNB directly (currently interaction primarily occurs between the beneficiary organisations and Tshikululu Social Investment, which administers the funds on FNB’s behalf)
- The funding application process requires refinement
- The move by the FNB Fund from annual to multi-year funding is helping organisations plan more effectively

We have incorporated these findings into the monitoring system, which is currently being developed, and FNB is now piloting a monitoring format with a number of new beneficiaries who have applied to the FNB Fund for assistance.

## ***Qualitative Performance Assessment: FNB Volunteers***

The FNB Volunteers Programme was a strong supporter of the CAFSA National Employee Volunteering Week in March 2006. Teams from most of our business units worked with organisations in their community to deliver a huge array of services and assistance, from painting and planting food gardens to purchasing hardware and materials, as well as interacting with community members through gatherings such as luncheons.

CAFSA subsequently conducted a performance assessment with a sample of the organisations that were assisted in order to determine the impact of FNB’s efforts. Summarised feedback indicated that FNB Volunteers demonstrated:

- A sustainable approach
- An approach dictated by actual needs
- Willingness to understand the work of the organisation
- Empathy
- An attitude of getting down to work

In CAFSA’s experience, this represented good volunteering and they reported that, “FNB Volunteers are undoubtedly on the right track”.

This section explains who our customers are, why they matter to us and our key customer strategic focus areas. We also summarise issues of importance to our different customer segments and what we are doing to address these issues. The data pack at the end of this document shows the physical infrastructure we deploy in order to serve our customers more effectively. The data also provides a view of customer satisfaction over the last year.

# Our Customers

## *Why our customers matter to us*

Our relationship with our customers is based on our strategy of enduring, rewarding relationships. Over the last 12 months, we have actively applied this strategy to our relationships with our customers who are key stakeholders in our business.

Our relationship with our customers is mutually beneficial. We are unable to achieve our business objective of improving profitability and increasing market share without considering what matters to our customers and how to deliver what they value in an efficient, effective and helpful way. As a financial solutions provider, FNB plays an important role in contributing towards national economic upliftment. With access to FNB's capital, expertise and financial transaction methods, our customers are able to use these resources productively and participate in the mainstream economy. Thus we contribute directly and indirectly to the growth of the country, which benefits us all.

We recognise that a responsible relationship with our customers not only enables us to survive and succeed, but also helps realise the socio-economic imperatives for South Africa.

## *Who are our customers?*

FNB's customers range from lower-income consumers to large corporate and public sector clients. We deliver innovative, tailored financial products and services to suit the requirements of each of these segments, across a range of channels including branches, relationship managers and electronic channels. We are pleased to have increased our customer base over the last year.



At a Glance

### Summary: FNB Customers FY '06

- 👍 Nr. of customers: 5.1 million
- 👍 Increase in base: 17%
- 👍 Average product holding: 1.43

The diagram below summarises our offerings to the various customer segments.

Mass (Smart)	Consumer (Personal)	Wealth	Commercial	Corporate	Public Sector
Individual Gross Annual Income < R60k p.a.	Individuals earning between R60k – R750k p.a. (segmented)	Individuals earning > R750k p.a. or with > R1m in investable liquid assets	<ul style="list-style-type: none"> <li>SMME</li> <li>Commercial Business</li> <li>Mid Corporate</li> <li>Agriculture</li> </ul>	<ul style="list-style-type: none"> <li>Large Corporates</li> </ul>	<ul style="list-style-type: none"> <li>National Govt</li> <li>Provincial Govt</li> <li>Municipal Govt</li> <li>Educational Institutions</li> </ul>
<b>What We Offer</b>					
Transact, Borrow, Save & Invest, Insure, Rewards, Financial Solutions			Banking, Rewards, Payments, Finance, Managing Risks, International Banking, Specialist Solutions	Relationships, Payment & Collection Solutions, Cash & Risk Management, Investments, Financing, International Banking, Rand Account Services	Customised Solutions and Integrated Financial Services
<ul style="list-style-type: none"> <li>Transactional Products (Accounts)</li> <li>Insurance Products &amp; Policies</li> <li>Services e.g. Prepaid Airtime</li> <li>Loans (Homeloans, Microfinance, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Core Banking Solutions (Accounts, Cards, etc.)</li> <li>Loans (Home, Personal)</li> <li>Investment, International &amp; Packaged Products/ Solutions</li> <li>eBucks Loyalty Rewards</li> </ul>	<ul style="list-style-type: none"> <li>Full suite of tailored, flexible financial solutions e.g. wealth/ portfolio management, trust services and wills, structured lending, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Transactional Banking</li> <li>Loans &amp; other Forms of Finance</li> <li>Segment-specific Products and Services (e.g. agricultural, franchising advice, etc.)</li> <li>Leveraged Finance</li> <li>Services/ solutions (e.g. FirstRand Bank collaborative solutions, SMME support, eBucks, BizNetwork, Relationship/ Credit centres)</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Transactional Banking</li> <li>International Banking</li> <li>Money Market</li> <li>Customer Dealing</li> <li>Collaborative products/ solutions from FirstRand Banking Group</li> </ul>	<ul style="list-style-type: none"> <li>Customised service propositions based on each client's financial requirements</li> </ul>

## ***What matters to our customers***

Our customers require service excellence, speed, easy transacting and innovative offerings through a variety of convenient channels and efficient outcomes. They expect us to demonstrate our commitment to broad-based economic transformation through delivering products and solutions in terms of the Financial Sector Charter (FSC).

The sections below provide a view of what we have done to address their needs.

## ***Our strategic key focus areas***

Some of the issues listed above were expressed by customers in previous years (refer to last year's Sustainability Report on [www.firstrandusurep.co.za](http://www.firstrandusurep.co.za) for more information). Our plans to address these issues often span multiple (financial) years.

Below we summarise our position on three issues: transformation, satisfaction and innovation. We then describe what we have achieved in meeting the needs of our various segments.

## Transformation of the Customer Base for Greater Economic Participation

Providing informed, responsible and supportive access to financial services increases South Africa's base of economically active participants, contributing to overall national prosperity. Broad-based black economic empowerment is integral to our business activities, as indicated in some sections below.

### Satisfied, Loyal Customers

The one critical requirement for achieving enduring, rewarding customer relationships is having satisfied customers. In a service business such as ours, we expect to have some dissatisfied customers. We try to improve our performance on an ongoing basis by:

- Identifying the core issues that give rise to customer complaints
- Implementing appropriate solutions
- Handling individual customer complaints with honesty, sensitivity and professionalism.



#### Summary: What Customers Think of Us (Detail in Data section)

At a Glance

- 👍 Second annual independent Markinor Financial Services Loyalty benchmark survey: FNB 1<sup>st</sup> in 14 out of 18 categories, 2<sup>nd</sup> in 3 of the remaining 4 categories. We did not commission/contribute to survey
- 👍 Bank Ombudsman quote: "Bank customers consider FNB the best overall in dealing with customer complaints." *Ombudsman Annual Report 2005*

One of our key tools for determining customer satisfaction and identifying where we need to improve is our quarterly Buzz Barometer. The Buzz Barometer asks one ultimate question: Would you recommend FNB to a friend? The result is a Net Promoter Score, which indicates the extent to which the overall sample will recommend FNB.

- A full customer satisfaction survey by channel (ATMs, branches, telephone banking).
- Results are attributed to customer segments
- Our segments and channels develop solutions to address their performance in areas where there is a negative trend in their scores. Performance is tracked over time.

Our latest Net Promoter Score is 43%.

### Thinking Innovation

Innovation is our foundation for delivering focused, effective customer service. It is part of our culture and all staff strive to find innovative ways of demonstrating value to our customers. Our culture of innovation has led the industry in areas such as *inContact's* immediate cellphone transaction messaging, eBucks and many more.

#### FNB Innovator's Campaign

- 👍 FNB staff are challenged to apply creativity and question the status quo. The annual Innovator's Campaign sees ideas being submitted by all levels of staff. Awards are given for implementation of ideas in Customer Sales, Customer Service, People and Cost Savings categories. Last year, the Cellphone Banking team won the R1 million prize for their innovative and industry-first approach to using the cellphone as a key banking channel.
- 👍 In 2005, 3120 ideas were submitted. Last year, this increased to 5149 ideas.



An article in the Financial Mail this year identified FNB as the most innovative bank by far. In a survey conducted by SystemicLogic, 54% of respondents felt that FNB was the most innovative bank, identifying areas such as ATMs, electronic banking, mobile banking, product and service offering, service levels and branding.

We do not innovate without purpose: we focus on adding value. Innovations are offered to customers free or at very low cost. Some examples, including some industry-firsts, are:

- **My Branch Virtual Banking:** online account opening, doorstep delivery and transactional access via a variety of channels without visiting a branch
- **Account Opening Optimisation:** we focused on improving what was an extremely frustrating customer experience which took an unacceptably long-time and involved excessive paperwork. To date, FNB has implemented measures around a re-engineered process and a single customer agreement. The new process has significantly reduced the time and the number of documents. The new process is 32% quicker and has 70% fewer documents.
- **Product Suitability Assessment:** we implemented a quick and simple tool for staff to ensure that they appropriately assess customers' needs and recommend a suitable product
- **eBucks for Business:** loyalty rewards to our business customers (previously only for individuals)
- **Access to Unemployment Insurance Fund (UIF) Payments Electronically:** a facility for customers to access their UIF payments via ATMs and electronic channels in some municipalities. Beneficiaries no longer have to queue at Department of Labour offices.

## **Our Key Focus Areas By Customer Segment**

We summarise below some of the key activities we undertook over the last year to meet our customers' needs by segment. More details about products mentioned below can be located on our website ([www.fnb.co.za](http://www.fnb.co.za)).

### ***Mass Market (Smart) and Personal Segment Shared Considerations***

Our Smart Segment comprises customers with an annual income of up to R60 000 p.a. Our Personal Segment comprises customers earning between R60 000 and R750 000 per annum. Given the broad range of financial needs of these markets, below we comment on some of their shared key requirements and what FNB is doing to address these. While the issues are more relevant to the Smart Segment, there are some areas of commonality. Additional and specific issues pertinent to the Personal Segment are discussed after this section.

## Basic Financial Literacy

Basic financial awareness and the ability to make informed, sound financial decisions is the cornerstone of any effort to financially transform communities. We whole-heartedly embrace our responsibility to inform, educate and assist the market with basic concepts such as daily money management and budgeting.

All programmes indicated here are designed to be in simple language, informative, clear and educational.



At a Glance

### Financial Literacy & Education Programmes

- “Be Financially Smart” radio programme in 11 official languages. This informs on basic financial language: transacting, borrowing, saving and insurance generically
- Affordable Housing, “Borrower Education”, is a generic programme for FSC-consumer needs including matters related to the intricacies of home ownership
- Collection Solutions, Debt Education and Rehabilitation Financial Education Programme
- Branch Banking, ATMs and Cellphone Banking also undertake initiatives to educate consumers

## Extending Access to Financial Services

Extending the availability of financial and associated resources to a larger portion of the South African population has socio-economic benefits for both FNB and the country as a whole. It promotes asset ownership and builds a platform for saving, investment and economic upliftment.

Access to financial services also includes a physical infrastructure. We assessed our network to ensure it is optimally positioned, structured and operational:

- Over 24% of our branches are in areas serving the FSC target market.
- We are actively increasing Community Banks, Mobile Banks and Mini-ATMs in areas without branches.
- Where required and feasible, branches were upgraded for access for disabled customers.
- We are assessing increased banking hours at FNB Smart Centres. Some of our branches have extended trading hours on Saturdays.



At a Glance

### Specific Solutions for the Mass Market

- Mzansi Account: low-priced savings and transmission account for people who have not previously held a bank account. *inContact* (FNB messaging service) services are free. Debit order facilities were introduced earlier this year.
- Smart Bond: affordable home loan offering for households earning between R2 500 and R10 000 per month



## Helping Customers Build Assets Through Affordable Home Ownership



We firmly support home ownership as a fundamental pillar of economic inclusion and upliftment. The affordable housing market caters for housing between R40k and R250k per unit. Current demand for affordable housing exceeds supply: statistics indicate that demand is as high as two million, while supply is only approximately 100 000 units per annum.

Our approach to affordable home ownership in South Africa addresses two requirements: end-user or home loan financing and development financing for the construction of affordable housing stock. In addition to providing over 11 200 homes nationally this year, we are planning five other major housing projects in the following areas: Reiger Park (Gauteng), Blythdale (KZN), Despatch (PE), Villa Lizza and Mabopane (Rosslyn).

The homes we finance are “live-able”, with many having at least three bedrooms and all meeting National Building Regulations and local by-laws. Qualifying beneficiaries can couple their loans with government subsidies to increase their property size or enhance features.

### Three Affordable Housing Initiatives provide 11 297 homes in SA:

- At Glen Ridge (Protea Glen, Soweto) we financed development and access to 3 234 houses through bridging and homeowner finance, and developer finance, to the value of R631 million.
- At Cosmo City in Gauteng, a joint project with Radio 702 (along with government and the M5 Group), we will provide over 1 014 houses through R258 million in development financing and end-user home loans.
- At the N2 Gateway project in Langa, Cape Town we will enable access to 7 049 homes through end-user and developer finance.

## Encouraging Increased Consumer Saving

FNB fully endorses government’s call, made at National Savings Month in June this year, for consumers to increase their savings. Savings provide support for difficult times and resources for access to a vast range of opportunities. Our education initiatives focus on why saving is important and how customers can increase their savings.

We complement this with a range of products that allow customers to contribute a portion of their disposable income towards saving for a reason, including education, retirement and unforeseen events. We also focus on the specific needs of different customer segments, for example stokvel accounts, funeral insurance, youth saving and financial awareness. Reducing entry fees on some products has also enabled entry-level savers to access products’ competitive rates with no fees on small amounts.



### Products to Encourage Savings

- Lower entry levels on investment products (some products now start at R100) e.g. Simply Save, Million-a-Month Account
- Growth Fund: R40 unit trusts (entry prices in industry typically start from R250 – R300 per month)

## Encouraging Responsible Credit Behaviour

At both macro and FNB level, there is concern about the increasing rate of consumer credit extension. Responsible use of credit facilities enables consumers to improve their economic position. Conversely, increased reliance on credit could result in economic and personal hardship.

Many of the financial literacy programmes described above focus on the issue of credit lending, what it means, how interest is charged and effective debt management.

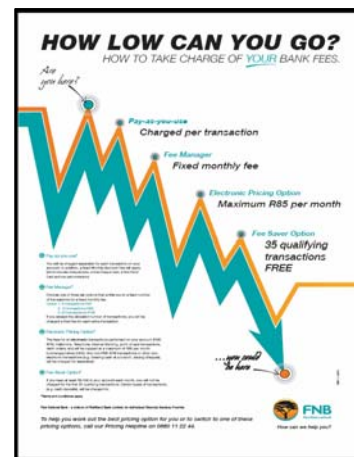
## Personal Segment

In addition to the issues above, Personal Segment also focused their efforts on the following.

### Helping Customers Minimise Their Bank Charges

The question of how much to charge for bank services and which facilities to charge for has always been a sensitive one. While the perception exists that bank charges are too high, banks need to continuously invest significantly in infrastructure, while containing costs and increasing customer service. This is a highly challenging situation for any industry. Nevertheless more than 80% of our bank's fees have remained the same in the past year and prices that have been amended are predominantly below inflation.

Even with current pricing structures, customers can do much to influence their bank charges by using services more effectively. Through our "How Low Can You go" campaign we were the first bank to inform customers how they could reduce their bank charges, save on debit interest and avoid penalty fees.



We also launched an industry-first Pricing Hotline (0860 11 22 44). Customers can phone the call centre for the guidance on choosing the best pricing option, switching between pricing options and saving on bank charges.

We recognise that it is important to review the National Payments System and any other issues related to the industry's efficiency to determine opportunities to reduce charges. We welcome the recent Competition Commission inquiry, as we believe that any further competition will drive innovation and is therefore healthy for the industry and for customers.

## **Providing Access to Insurance Services**

Insurance helps reduce the risk of loss. Through First Link Insurance Brokers we offer short term insurance broking solutions and services to individuals, businesses (up to medium corporates) and the agricultural communities.

We enhanced our strategic efforts this year to ensure we deliver cutting-edge short term insurance products and services. In the immediate future we will focus on achieving our vision of "Unequaled Service". We will measure five key service deliverables: keeping promises, having a sense of urgency, ensuring courteous replies, enhancing our knowledge, paying attention to detail and taking ownership.

Our strategy focuses on sales aggression, customer retention, acquisition of independent brokers and expense management. We're looking to excel in various areas, including market intelligence and understanding, product and service competitiveness, and appropriate delivery platforms.

## ***Wealth Segment***

Our Wealth Segment comprises individuals earning in excess of R750 k per annum or who have at least R1m in investable liquid assets. These clients require financial services to provide a full suite of tailored transactional and investment products.

About a year ago, we closely aligned our FNB Private Clients and RMB Wealth Businesses, while maintaining both brands. We are now able to supply a one-stop shop for all the transactional banking and specialist investment needs of the Wealth market. The alignment has also provided direct infrastructure access to the broader Wealth market, which can now use the national FNB infrastructure to interact with FNB Wealth Solutions in at least seven major regions in South Africa. We also significantly improved our specialist investment and structured lending expertise to offer our clients the comfort of a retail bank operation with the skills of a specialist financial service partner.

We demonstrate our value to our Wealth clients through innovative solutions that take into account their specific asset, liability, investment and transactional needs at the optimal cost. For example, our recently launched FNB Private Clients credit card provides clients with a choice of pricing options. Our dividend product with guaranteed capital provides the highest yields, with 48-hour access.

## Commercial Segment

Last year, we spent time understanding the needs of our markets. This formed the cornerstone of our strategy to achieve enduring, rewarding commercial client relationships. We successfully implemented focused client-centric value chains for the business, agriculture and mid-corporate sub-segments.

## Solutions for Small, Start-Up and Early-Stage Businesses



At a Glance

Early stage or start-up businesses require assistance in the extremely complex regulatory environment surrounding establishing and running a small business in South Africa. We paid significant attention to this market through the launch of our Start-Ups Business Unit, structuring specific financial solutions for small businesses, partnerships with business mentors and value-add services (e.g. insurance).

We undertook the following:

- A Public-Private Partnership with Khula and Agence Francaise de Developpement (AFD) to facilitate previously “unbankable” transaction financing
- **The Enablis Khula Loan Fund** provides start-up and expansion funding of up to R2.5m per ICT business and “in-kind” support. By the end of the first year, we had supported eight businesses through this fund.
- **The Progress Fund** with the Umsobomvu Youth Fund is aimed at start-ups, expansions and financing between R100 000 and R8m to black youth-empowered businesses. It commenced in 2003 and received a significant boost last year: From our initial commitment of R20m, we increased our funding by R240m
- We also facilitate enterprise development valued at over R2m with support from Umsobomvu and the FirstRand Foundation. This includes interest-free loans of up to R150 000 with payment holidays and the use of mentor services.

### Value-Add to Offering for Start-Ups

- **Start-up or expansion financing** from R500 000 for businesses unable to qualify for traditional lending due to insufficient collateral and/or equity
- Basic account to **make and receive payments** and for legal purposes
- **Unique credit guarantee and loan partnerships** for applicants who are collateral-deficient
- **Enterprise Support** provide customers access to free business tools and over 400 fully-accredited business mentors nationally
- Enabling business **sustainability through discounts** with insurers, purchasing close and private companies off the shelf
- Discount offerings to aid cash flow
- Networking and information facilities through Biznetwork ([www.biznetwork.co.za](http://www.biznetwork.co.za))

## Increasing Black Ownership of Businesses Through Empowerment Financing

Increasing the number of black-owned businesses is fundamental to South Africa’s transformation. We provide innovative structuring solutions to meet the needs of all parties.

- We provide black-empowered SME financing for smaller businesses.

- FNB Leveraged Finance provides financing from R1m to R20m for management buy-outs, management buy-ins, acquisitions and black empowerment financing for larger businesses.
- Through a joint venture with RMB Structured Finance, we finance BEE transactions valued between R 20m and R 100m.

## **Franchises**

The nature, support system and track-record of franchising provides a safe and reliable method of owning businesses. For South Africa, this also provides a very real and sustainable approach to the challenge of unemployment and demand for specific skills to address macro-shortages.

We established the FNB Commercial Franchise Department during November 2005. We focused on the basics first: appointing key members, developing a dedicated back-office credit and legal infrastructure as well as developing a relationship with FASA (Franchise Association of Southern Africa).

## **Support for Black Emerging Farmers**

Land acquisition and ownership, especially in the agricultural sector, is a stated government objective and a key tool for broader economic transformation. This environment is fraught with challenges requiring close co-operation and solution development by a range of stakeholders. We participate in informing and contributing to solutions for facilitating agricultural land ownership and participation by black people through partnerships and industry forums. We partnered with specialists such as Khula Enterprises, Thembani International Guarantee Funds and MAFISA to develop comprehensive solutions for emerging black farmers. We have created Structured Agricultural Development Finance Models to facilitate land and share ownership or sector participation by black farmers. We offer various types of loans, production finance, guarantees, partnerships and support, access to government grants and products, and customised solutions such as lower interest rates for emerging black farmers.

## ***Corporate Segment***

We provide transactional banking and working capital facilities to large corporates. Over the last year, we focused on adding value to our corporate customers and helping them improve their own competitive positioning. Corporate customers want speed, customised solutions, reliability and systems' stability. They require competitive pricing at below CPIX-related increase rates. We are required to help iron out process and system inefficiencies in the client environment.



At a Glance

Over the last year, we:

- Re-focused from selling products to developing customised solutions for our corporate customers
- Spent time understanding customers' environments, unique requirements and challenges
- Customised solutions and worked with customers to integrate our solutions into their existing lines of businesses
- Significantly upgraded many of our core systems to support the complex integration and information requirements of our customers
- Invested substantially in new infrastructure and capacity to help our customers access and strategically utilise *their own* customer information within their systems

### **Corporate Account Services (CAS): A Unique Corporate Customer Service Model**

CAS resulted from FNB's commitment to service excellence for corporate customers. A service team is assigned to a corporate customer. The team is dedicated to ensuring smooth transaction flows and developing innovative recommendations for the customer's needs.

Innovation has also been a key focus in partnerships with our corporate customers. These included introducing GPRS SpeedPoints and enabling cash-backs at point of sale. The joint industry offering, an Early Debit Order Solution, is being enhanced with unique features by FNB to provide a competitive advantage to corporate customers utilising our solution.

## ***The Public Sector Segment***

The key requirements of our Public Sector clients are cost-efficiency and highly competitive pricing. In a market where price-sensitivity is a key feature, we have spent the last year reviewing how FNB can demonstrate its value to Public Sector clients. Our solution is to leverage the FNB approach of innovative offerings, tailored for our customers once we have taken the time to understand their needs.

We are also highly supportive of the transformation efforts of the public sector. For example, earlier this year, FNB signed a Memorandum of Understanding with the Department of Public Works to assist government in implementing its Expanded Public Works Programme for job creation. Forty emerging contractors from the Eastern Cape and North West will participate

in building schools and clinics through FNB's partnership with the Independent Development Trust.

### ***Objectives for the Coming Year***

Over the next year, we plan to increase the value we provide to our customers and continue living our slogan of "how can we help you?" through:

- Further demonstrating our service orientation. Business units continue to enhance the models and levels of service they provide. This includes a focus on speed, adaptability, simplicity and efficiency.
- Continue delivering relevant, value-adding customer innovations
- Ensuring we are price-competitive.
- Significantly increasing and, where appropriate, positioning our physical infrastructure to meet our customers' requirements nationally. We will also upgrade our Internet Banking and ATM infrastructure.

## Data Pack

The diagrams below summarise our performance with respect to customer satisfaction over the last year. Detailed commentary has been included in the main section of this document.

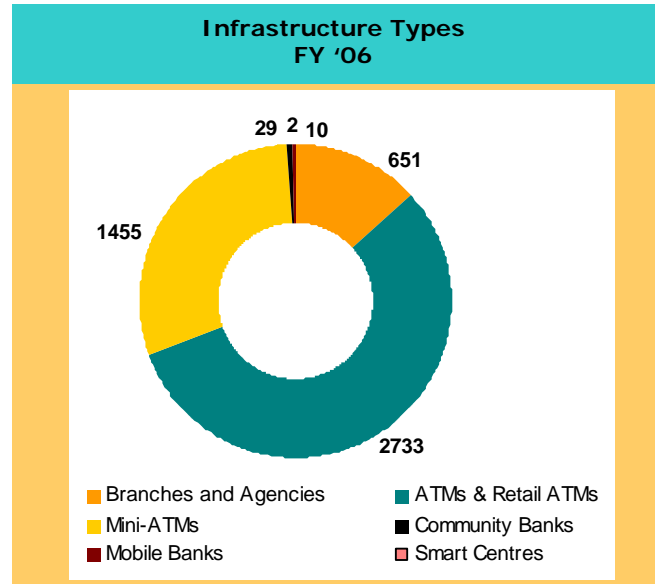
**Customer Data Overview FY '06**

- Infrastructure Access
- Innovation, Customer Satisfaction, Loyalty

**At a Glance**

### Infrastructure Access

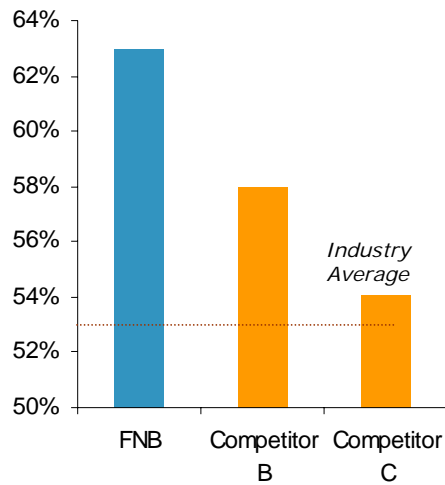
Infrastructure Access Increase FY'05 – FY '06			
Infrastructure	FY '06	FY '05	% Change
<i>Representation</i>	680	667	2
<i>Points (branches, agencies, etc.)</i>			
ATMs	4,185	3,718	13



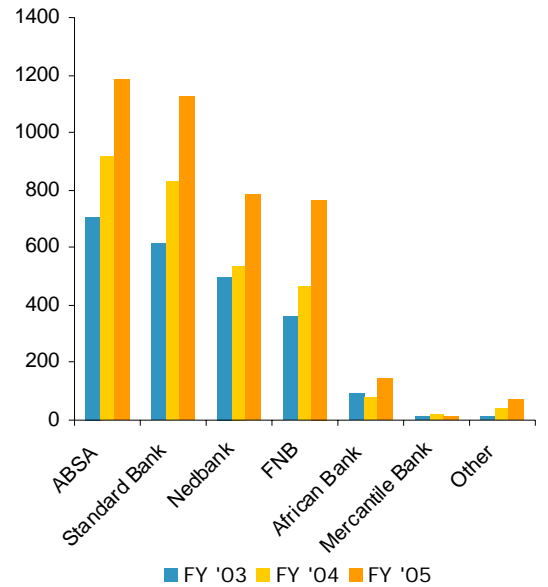


## Customer Satisfaction and Loyalty

**Markinor Survey on Customer Loyalty  
In Banking Industry: Innovation Rating, 2006**



**Banking Consumer Complaints to Ombudsman  
Calendar Year '03 – '05**



*The number of complaints must be assessed in terms of the individual bank's market share; FNB has the third largest market share of the top four banks, but fewer complaints were logged for FNB than for one of its smaller competitors.*

**Annual independent Markinor Financial Services Loyalty benchmark survey,  
June 2006**

<b>Survey Area</b>	<b>No. 1</b>	<b>No. 2</b>
<b>Customer Focus</b>	FNB	Nedbank
<b>Quality</b>	FNB	ABSA
<b>Best Brand</b>	FNB	Standard
<b>Easy To Do Business With</b>	FNB	ABSA
<b>Price</b>	ABSA	FNB
<b>Innovation</b>	FNB	ABSA
<b>Reliability</b>	FNB	Nedbank
<b>Has Advertising I Like</b>	FNB	Standard Bank
<b>Tailors Products To Your Needs</b>	FNB	Standard Bank
<b>Cares About Community</b>	FNB	Nedbank
<b>Capable Leaders</b>	FNB	Nedbank
<b>Highly Efficient</b>	FNB	Nedbank
<b>Telephone Banking</b>	Nedbank	FNB
<b>Cellphone Banking</b>	FNB	ABSA
<b>Website</b>	ABSA	Standard Bank
<b>Ease of Use of ATM</b>	FNB	Nedbank/ Standard Bank
<b>Branch Consultants</b>	FNB	Nedbank
<b>Branch Tellers</b>	Nedbank	FNB

# **Our Regulatory Environment**

## ***Who Are Our Regulators***

The FirstRand Banking Group (FRBG) is the legal entity responsible for interaction, interpretation and direction-setting in terms of regulation and legislation for FNB, WesBank and Rand Merchant Bank.

In last year's report we identified the regulatory stakeholders with whom the FirstRand Banking Group interacts most frequently, as well as how these interactions are carried out. The current report will simply note any changes to these.

There has been only one change in the key set of regulatory, legislative, compliance and association stakeholders with whom FirstRand interacts, namely, the National Credit Regulator, appointed effective 01 June 2006.

Our primary regulatory authority is the office of the Bank Supervision Department under the auspices of the Registrar of Banks (within the South African Reserve Bank). For a detailed list of the key regulatory authorities with whom we interact, please view the FNB Regulatory Report for the last financial year at [http://www.firstrandusrep.co.za/xFiles/xClipart/FNBRegulators\\_103766.pdf](http://www.firstrandusrep.co.za/xFiles/xClipart/FNBRegulators_103766.pdf)

## ***Why the Regulatory Environment Matters to Us***

The sound regulation of financial services ensures the resilience of a country's financial system, and by association, the entire economy of the country. The regulatory environment is therefore a key element in our strategic planning. It impacts on every facet of the business, from training staff to monitoring accounts, reporting to authorities, determining system requirements and many other areas.

## **How We Meet Regulatory Requirements**

Most of FNB's proactive dealings with the regulators are handled at the FirstRand Group Compliance level, where regular meetings are held. FRBG's main focus when engaging with regulators is to ensure their instructions are carried out with immediate effect and professional excellence. FNB itself directly engages with regulators on an operational basis as and when required.

FNB meets regulatory requirements by working with, and delegating responsibilities to, various business units. These units are tasked with enforcing compliance requirements within their areas. Compliance oversight is performed centrally by FirstRand Compliance.

## Feedback on Last Year's Major Issues

A number of key issues were addressed in 2005's report. This year's report summarises our progress on these issues, Acts and agreements over the past year. Only one potential new Act, the Consumer Protection Bill, has been communicated by the DTI during the last year.

Last year's report introduced BASEL II as a key issue. We have not provided an update in this year's report, as the subject is comprehensively covered in the 2006 FirstRand Annual Financial Report.

**Table 3: Feedback on Major Regulatory Issues over the past 12 months**

Regulatory Issue	What we needed to do	Our Progress
<b>To protect consumers who receive financial advice</b>		
Financial Advisory and Intermediary Services (FAIS) Act 37 of 2002	<ul style="list-style-type: none"> <li>Set up compliance procedures</li> <li>Adapt business practices and processes</li> <li>Train staff to conform to FAIS requirements</li> </ul>	<ul style="list-style-type: none"> <li>Met deadline to file Compliance Report with Financial Services Board Registrar by February.2006</li> <li>Compulsory General Awareness Training for all affected staff was undertaken and is largely complete</li> <li>On track to complete Conditional Requirements Training for key individuals and representatives of units specifically dispensing financial advice</li> </ul>
<b>To control money laundering</b>		
Financial Intelligence Centre Act (FICA) 38 of 2001	Implementation is ongoing and includes: <ul style="list-style-type: none"> <li>Staff training</li> <li>Account monitoring</li> <li>Suspicious transaction reporting</li> </ul>	<ul style="list-style-type: none"> <li>Embarking on media campaign as well as targeted SMS and letter campaign, to obtain required FICA documents from final list of customers. Clients who do not provide required information by 30 September 2006 may have their accounts frozen until required documents are submitted</li> <li>Developing system to automate identification of suspicious transactions</li> </ul>
<b>To transform the financial services industry (Black Economic Empowerment)</b>		
Financial Sector Charter (FSC) Industry Agreement of August 2002	Implementation of the FSC (along with awareness of DTI Codes of Good Practice) forms the basis of our black economic empowerment transformation strategy	<ul style="list-style-type: none"> <li>FirstRand's Transformation Committee oversees progress in Group Transformation</li> <li>FNB's Transformation and Sustainability Business Unit works closely with all internal and some external stakeholders to jointly design, inform, plan and measure the implementation of transformation strategies</li> <li>Strategies and actions are constantly designed to embrace the spirit of transformation, rather than 'ticking boxes'. Detailed information on specific outcomes is provided in the Supplier, Customer and People sections of</li> </ul>

Regulatory Issue	What we needed to do	Our Progress
this report.		
<b>To broaden credit access in a responsible manner, and address issues of reckless borrowing and lending</b>		
National Credit Act (NCA) of 2005 (replaces Usury Act 1968, the Integration of Usury Laws Act 1996 and the Credit Agreements Act 1980)	<ul style="list-style-type: none"> <li>• Update focus on strategic and operational plans</li> <li>• Ensure compliance through process changes</li> <li>• Engage with the Regulator</li> </ul>	<ul style="list-style-type: none"> <li>• The final regulations were published in June 2006. The Act will be implemented by the banks within a 12-month period</li> <li>• FNB has been actively working with internal and external stakeholders to analyse common areas of concern</li> <li>• FNB working groups have been established to ensure all units are aware of the Act's implications and assist them in ensuring that correct processes are complied with</li> <li>• FirstRand level representatives attend regular industry meetings and engage with the recently-appointed Chief Executive Officer (CEO) of the National Credit Regulator (NCR)</li> </ul>
<b>To determine the efficiency of the National Payments System and determine opportunities to reduce industry bank charges</b>		
Competition Commission Inquiry into the National Payments System	<ul style="list-style-type: none"> <li>• Provide all information required by the Competition Commission</li> </ul>	<ul style="list-style-type: none"> <li>• On 4 August 2006, the Competition Commission announced an inquiry into competition within the banking industry. It will focus on the following: <ul style="list-style-type: none"> <li>- the level and structure of charges made by banks, as well as other providers of payment services</li> <li>- the feasibility of improving access by non-banks and would be banks to the national payment system infrastructure so that they can compete more effectively</li> <li>- any other aspects relating to the payment system which could be seen as anti-competitive.</li> </ul> </li> <li>• FirstRand Bank recently met with the Competition Commission Panel. We are currently developing a submission for the Competition based on information requested in line with the above areas of focus</li> <li>• For more information, refer to the section "Helping Customers Minimise Their Bank Charges" in the Customer section of this report</li> </ul>
<b>Broaden access to financial services</b>		
Dedicated Banks Act (DBB) 2004 and Co-Operative Banks Act (CBB) Bill of 2004	<ul style="list-style-type: none"> <li>• Monitor and assess business impact</li> </ul>	<ul style="list-style-type: none"> <li>• As these Acts are still in the process of being promulgated, we are monitoring their progress and possible implications for our business</li> </ul>

## ***What are the Major Regulatory Issues for Us to Address this Year?***

In addition to an ongoing focus on the major regulatory issues described in Table 1 above, two potential acts of regulation may be more prominent in the upcoming financial year.

### **Consumer Protection Bill**

The Consumer Protection Bill was recently drafted for commentary by the DTI. It is intended to be an over-arching Act governing all interaction between consumers and suppliers of goods and services in a variety of industries. Impacted areas include marketing practices, regulating transactions and agreements, consumer information standards and responsible consumer behaviour.. The Act also proposes to establish a National Consumer Commission.

We have participated in the public commentary process through the Banking Association. Once the Bill is enacted, FirstRand's engagement with the Regulator will commence.

### **Regulation of Interception of Communications and Provision of Communication-Related Information Act (RICA) 2002**

RICA is the telecommunication equivalent of FICA, requiring identification and registration of cellular and fixed-line telephony users. Implementation of RICA has been delayed by government. We continue to monitor developments surrounding this Act and will implement required actions accordingly.

# Momentum – Sustainability Report 2006

## Overview

### *Our Focus this year*

As our name suggests, Momentum is a place of constant excitement, vibrancy and energy. We started out as a small life insurance company in 1966. In 1992 we became part of the RMB Holdings Group, which in 1998 formed the FirstRand Group, one of the largest financial institutions in South Africa. As a wholly owned subsidiary of the FirstRand Group, we are responsible for the insurance, investment, health and asset-management activities of the Group. Our growth has been both organic, and through mergers and acquisitions.

Momentum aims to generate long-term sustainable profits. We understand the importance of managing key non-financial risks that could have a material impact on our operations. Through the work of the Momentum Group Risk Committee, the following have been identified as key regulatory risks;

- Financial Advisory & Intermediary Services Act (FAIS), National Credit Act, Consumer Protection Bill and other legislation.
- The impact of new commission regulation, such as paying of ongoing commission on recurring investment products, rather than up-front commission.
- Achieving Employment Equity targets as set out in the Financial Sector Charter (FSC).

This year, our report seeks to focus on material issues that affect our stakeholders, and how we have responded to these.

### *The Scope of this Report*

This year's report covers all our South African operations, except the asset management operations under the RMB brand name, as these are covered in the RMB report. The newly acquired companies, viz. Sage Group and African Life Health also form part of our report this year.

Momentum's acquisition of Sage became effective on 12 September 2005, following Competition Commission Approval. During the month of February 2006, Momentum was granted unconditional approval by the Competition Appeal Court to acquire 100% of African Life Health. The transaction became effective on 9 February 2006.

On 23 March 2006, Momentum's acquisition of m Cubed's remaining interest in our multimanagement operation, Advantage Asset Managers, received m Cubed shareholder approval. Momentum now owns 85% of Advantage. The remaining 15% is owned by BEE groups.

Momentum's Head Office, situated in Centurion, is currently being extended to accommodate all our employees comfortably, especially in view of the latest additions to the Group.

### ***Reporting to our stakeholders***

This sustainability report should be read in conjunction with the annual financial report to enable our stakeholders to get a clear view of all the financial and non-financial issues that affect our business, its long-term stability and its value. Momentum realises that its stakeholders are its most important resource in achieving its goal of creating long-term sustainable profits. Our main identified stakeholders are our shareholders, customers, employees, suppliers, the communities in which we operate, the government and regulatory authorities.

Through continued product innovation and service excellence, Momentum aims to address our customer's increasing demand for improved products and services. During the past financial year, the life insurance industry received negative publicity stemming from rulings made by the Pension Fund Adjudicator on cases involving retirement annuities. Most of these cases involved early terminations and reductions in premiums. On 12 December 2005, the Life Offices Association (LOA), of which Momentum is a member, reached an agreement with the National Treasury on certain minimum standards for the early termination of retirement annuities and savings policies with a long-term savings objective. The impact of this agreement on Momentum was small relative to the other life insurers, as we had already addressed improved early termination values in our Investo product range, which was launched at the end of 2000. This demonstrates Momentum's commitment to listen to our customers and to continue working with other stakeholders like the government, to seek solutions to industry-wide problems.

A health and wellness survey was recently conducted to engage our employees in the insurance operations. A further employee climate survey is planned for the second half of 2006 for our asset management employees. These surveys are conducted mainly because Momentum recognises that for us to achieve our aims for sustainability, we need healthy and happy employees. Through a well-structured Employee Assistance Programme, Sovereign Health, one of our health administration operations, endeavours to provide a diverse range of services and support to all staff.

Furthermore, Momentum has an HIV/AIDS campaign, which aims to encourage and promote a preventative lifestyle to all our staff.



We engage our major suppliers on a quarterly basis in order to gain a better understanding of their businesses and how they can improve their services to us, in a changing operating environment. Our asset management operation also engages with specialist portfolio managers, to enhance relationships and ensure compliance with mandates and service level agreements.

In August 2006, Advantage Asset Managers became the third South African signatory (after the Government Employees Pension Fund and Fraters Asset Management) to the UN's finance initiative known as **Principles for Responsible Investment (PRI)**. The PRI has formulated a set of global principles that can guide investors towards more sustainable investment practices that address better long term investment returns and align investment practices with the goals of the UN. These goals are to enhance the quality of life everywhere through their focus on social, governance and environmental considerations.

Momentum continues to make a difference to the communities in which we operate, through our Momentum Volunteers Programme as well as through the Momentum Fund, our participation in the FirstRand Foundation. Furthermore, through our asset management operation, Advantage, we belong to the National Business Initiative (NBI), a business collective aimed at sustainable development and upliftment in South Africa.

Finally, through our continued involvement in and compliance with the FSC, we aim to promote the government's drive of transformation and Broad-Based Black Economic Empowerment. We also support government initiatives aimed at improving transparency and disclosure in our industry.

### ***Making Progress***

In our report last year, we identified four main focus areas. These were

- Implementation of the Sage integration by 31 March 2006;
- FNB joint venture in the middle income market;
- Turnaround of the losses incurred in international operations; and
- The establishment of a short-term insurance initiative.

The Sage integration was completed before 31 March 2006. All administration functions were transferred to Momentum's head office in Centurion by December 2005. During this period, the Sage IT platform was successfully converted to that of Momentum. More work

continues in order to automate processing capabilities within the Sage book, as Sage used much more manual administration processes compared to Momentum. Most of the policyholder's assets have been moved to Momentum's asset management operations, with the exception of a small amount of offshore assets, which still have to be moved. A total of 268 ex-Sage employees, in addition to 468 sales agents, were integrated into the various operational areas in Momentum. However, due to the relocation to Momentum's head office, about 6% of the administrative staff have since been lost through resignations. Further 3% compulsory retrenchments took place by end of September 2006.

The entry into new markets in partnership with the wider FirstRand group is progressing well. The FNB Life mass-market credit life products are gaining good penetration in FNB's client base, while FNB and Momentum also successfully launched a middle market product range consisting of education savings and risk products under the FNB brand, using both the insurance and banking licenses. This joint venture initiative remains a key focus area for this year, as there are still some areas, like the distribution strategy, that need to be finalised. Sales of Momentum products through the FNB Financial Consultants distribution channel have increased by 30% for recurring premiums and over 90% for single premiums over the last financial year.

The losses incurred in international operations have now been turned around. The back office has now been relocated to Centurion from London and the business is now profitable. RMB Multimangers in London also generated profit for the current year.

In January this year, we announced the launch of our short-term product offering, Momentum Short-Term Insurance (MSTI). This initiative is already generating new business ahead of the business plan. Momentum is now able to provide a comprehensive product offering to its customers, and an extra source of revenue for its intermediaries.

Our main focus areas for this coming year will be:

- Improving the efficiency and cost of processes relating to our investment products.
- Translating our current increased sales agency force into increased sales volumes.
- Increasing the quality of service to our asset manager's clients through a significant investment in automation and technology.
- Product Innovation

This has been brought about by the need to improve early termination values, as well as the pressure on intermediaries stemming from the expected reduction in upfront commissions.

- Health Business

The past year and a half has seen acquisitions in the Health business, with four medical scheme administrators now forming part of the Momentum Health Administrator stable. An aggressive growth plan, together with plans to optimise certain functions across the administrators, will be our key focus areas in the health business for this year.

- Middle Market Initiative

Momentum will continue with this initiative that was started last year, by focusing on the needs of the two million people in the defined target market. The focus this year will be on improving margins and finalising the distribution strategy.

- Momentum short-term insurance initiative

We will continue to grow this business by increasing the conversion ratio of quote to sale, as well as the pool of trained advisers.

## **Links**

[www.firststrand.co.za](http://www.firststrand.co.za)

[www.momentum.co.za](http://www.momentum.co.za)

## Our People: Information

### *Why our People matter to us*

Momentum's main aim is to generate long-term sustainable profits. In order to achieve this, we need happy, healthy employees with a passion and drive for what they do. Momentum therefore, recognises the importance of its employees in the achievement of this goal.

### *Who are our People?*

As at 30 June 2006, Momentum employed 4,912 people. This figure does not include employees working for our Asset Management operations under the RMB brand. Last September, Momentum acquired Sage, and recently acquired African Life Health (ALH). This increased Momentum's total workforce by over 40% compared to the same period in 2005. Since the acquisitions, the percentage of black staff has increased by 7%.

The table below shows our EE statistics as reported to the Department of Labour as at June 2006

Total Staff	Designated								Non-Designated			
	by Male			Female					White Male	Foreign Nationals		Total
Occupational Levels	A	C	I	A	C	I	W	White	Male	Female	Total	
Top Management	6	1	1	3	0	0	6	25	1	0	43	
Senior Management	9	3	12	4	1	11	42	58	1	0	141	
Middle Management	41	18	33	40	31	68	264	213	0	0	708	
Junior Management	250	152	201	387	315	327	1108	415	0	0	3,155	
Semi-skilled	88	26	83	138	54	69	84	9	0	0	551	
Unskilled	7	0	1	10	1	0	0	0	0	0	19	
<b>TOTAL PERMANENT</b>	<b>401</b>	<b>200</b>	<b>331</b>	<b>582</b>	<b>402</b>	<b>475</b>	<b>1,504</b>	<b>720</b>	<b>2</b>	<b>0</b>	<b>4,617</b>	
Non-permanent												
Employees	50	10	15	42	17	17	102	42	0	0	295	
<b>TOTAL EMPLOYEES</b>	<b>451</b>	<b>210</b>	<b>346</b>	<b>624</b>	<b>419</b>	<b>492</b>	<b>1606</b>	<b>762</b>	<b>2</b>	<b>0</b>	<b>4,912</b>	

### *What matters to our People*

Our culture leans towards corporate entrepreneurship in a decentralised structure.

To this end, we focus on having guidelines rather than formal policies, in order to encourage management to exercise their discretion and apply their minds to each specific situation. Our people value the entrepreneurial culture of the organisation as this gives them the opportunity to experience their own importance in achieving our business goals.

Momentum is a transforming organisation and is committed to its values. Through the moral index and the various surveys that we conduct on an on-going basis, such as the climate survey, the 360 degree feedback for leaders and the wellness survey, it is clear that Momentum staff value growth opportunities and regular feedback.

### ***Our Strategic Focus Areas***

#### Diversity Management

In the context of a transforming South Africa, the need to address issues of Diversity is imperative in Momentum. Without going into the science of Diversity, we use a different approach: to focus on similarities instead of differences – we would like to focus on commonalities. This can lead to more awareness of the attitudes and behaviours of people in their interaction with others and can help to create synergy and bring them together. All HR consultants have been equipped with the necessary skills to deal with transformation and the challenges thereof in a constructive manner.

#### Performance Management

The purpose of performance management is to ensure that Momentum creates a culture of performance feedback. The main focus is to ensure that performance feedback is given to all employees whether formally or informally. There are two processes in place, where the roles are unpacked into Key Performance Areas (KPA's). This is done in cooperation with employees. A performance contract then flows from this process. Each manager has a choice as to when feedback is given based on the performance contract. Some managers prefer monthly discussions, others bi-monthly or quarterly. The performance feedback is done electronically and the employee, as well as the manager, will do performance ratings on the performance areas agreed upon. Annual salary increases are then based on this performance rating.

All managers who opted to use the structured process underwent training on how to use the process effectively, as well as how to give performance feedback. The second process is more informal, and involves the use of a performance questionnaire that is used by the manager to give performance feedback. HR Consultants performed training sessions for the managers on how to give performance feedback for the informal process.

## Remuneration

Momentum has grown rapidly in the last few years and has become a significant player in the industry. In an attempt to review our practices given the relatively rapid change in the development of the organisation, salaries are reviewed across the group to explore the extent to which they are market competitive. Our rationale is that our people are our most valued resource and high staff turnover contributes negatively to the sustainability of our company. This exercise is done through a leading, well-established and reputable remuneration company, to ensure our remuneration is market related. We will, on an ongoing basis, challenge our reward and recognition system and processes to ensure that these contribute positively to the wellbeing of our staff.

## Meeting and exceeding Employment Equity Targets as set out in the Financial Sector Charter (FSC)

Momentum regards the FSC as a business imperative and is fully committed to achieving the Charter's employment equity targets. We were behind industry threshold figures for most of the management categories at the beginning of the Charter reporting period in January 2004. However, good progress has been made since then, with the % of black people in senior management having increased from 9% in December 2003, to 18% in June this year. Robust plans have been put in place to ensure that we achieve the targets by 2008. These plans include external recruitment of black talent, training and development of our black employees, as well as retention of black employees.

## Leadership

We passionately believe that our success depends on the quality of our leadership. Therefore, a key focus is on the recruitment and development of our leaders to ensure the execution of our people plans in pursuit of our business goals. Momentum conducts leadership programmes in partnership with the Gordon Institute of Business Science (GIBS). Our HR consultants also play a role in these programmes.

## Recruitment Procedures

Recruitment agencies have been screened to ensure that Momentum's recruitment is mainly aimed at employees from designated groups. Business units within Momentum also have clear designated employee targets that they have to achieve. Furthermore, HR monitors all job advertisements to ensure that they are Employment Equity (EE) compliant and employees are incentivised for EE referrals.

## ***What we are doing about it***

Momentum has various training and development programmes, some of which are focused mainly on designated groups. These programmes are aimed at increasing the skills of our employees and accelerating their development. As part of the FSC requirements, Momentum is also running Charter Learnerships for unemployed black matriculants. We also have a Momentum Junior Board, which encourages and develops leadership skills in young employees with leadership potential. Furthermore, our asset management operation has a learning academy, The Advantage Learning Academy, which is aimed at improving the knowledge base of our employees and leaders. This programme is conducted with the assistance of the University of the North-West.

Our HR consultants conduct on-going coaching to those who feel the need for such intervention. Through half-yearly consultations, we engage our employees on an individual basis to ensure that they are listened to and feel motivated. Executive management also holds consultative meetings with employees.

Surveys are conducted regularly, to ascertain employee satisfaction and wellness. The most recent health and wellness survey was conducted from February to April this year by external consultants. Employees responded well, with more than 71% of the questionnaires completed. This enabled Momentum to get a good overview of what the organisation's climate and employee health and wellness looks like. The survey confirmed that commitment and collective resilience of our employees is 7.07, which is relatively high compared to the national norm of 5.5. On the other hand, the work pressure and exhaustion that employees are experiencing measured marginally higher than the national norm.

Furthermore, the first staff loyalty survey since the merger of m-Cubed and Momentum Multimanagers to form Advantage was conducted to measure attitudinal commitment and behavioural intent to stay with the newly formed organisation.

## ***HIV/AIDS***

HIV/AIDS awareness programmes have been put into place in order to raise employees awareness and vigilance to this pandemic.

Momentum conducted a HIV/AIDS prevalence study in 2004, which indicated that our prevalence rate is estimated at 1,6% - low compared to the HIV/AIDS infection rates of our competitors. This low rate could potentially move HIV/AIDS down the list of priorities, when in fact this should be the ideal time to encourage preventative lifestyles in staff. In order to remain aware of the HIV/AIDS reality in Momentum, and to create staff awareness, budget has now been made available for an HIV/AIDS focus for this current financial year. These funds will be utilised to, among other things, perform a Knowledge,

Attitude and Practices (KAP) survey, create awareness of the disease & Momentum's HIV/AIDS policy and to provide information on support programmes both internally and externally. The impact of HIV/AIDS on Momentum will be modeled based on statistics from VCT.

### ***Objectives for the coming year***

In our on-going quest to become employer of choice, we will continue to focus on leadership development, change management and performance management. In the coming year, special focus will be placed on meeting employment equity targets as set out in the FSC, as well as transforming our rewards and remuneration systems and processes. We believe that transforming the rewards and remuneration system will help to enhance the wellness and motivation levels of our employees.



# Our Supply Chain

## ***Why our suppliers matter to us***

The suppliers that we use are partners that play a key role in assisting the transformation of society from an economic perspective. It is also important to Momentum, for the suppliers to understand the Momentum culture and expectations from a service point of view. To this end, Momentum has commenced with a process to ensure that Service Level Agreements (SLA's) are in place for all our major suppliers. Furthermore, we have also started engaging major suppliers on a quarterly basis to enable us to understand the difficulties experienced by the supplier in meeting our requirements. For the relationship to be sustainable, it needs to be mutually beneficial.

## ***Who are our Suppliers?***

Momentum's supplier database consists of more than 1,500 suppliers. This is a large number of suppliers mainly due to the size of our organisation, which has diverse needs.

Primary suppliers of common commodities are being rationalised in an effort to reduce duplication and to ensure cost efficiencies.

## ***What matters to our suppliers?***

The major issues that have surfaced from the engagement that we have with our major suppliers are:

1. Management of SLA's and customer relationship management (CRM). Major suppliers would like problems experienced to be escalated to their senior management at an early stage so that they are able to rectify the problems timeously.
2. Suppliers have a fear that long standing business relationships may be terminated due to BEE being implemented.
3. Suppliers want an efficient electronic ordering system.

## ***What we are doing about it?***

1. Momentum is in the process of implementing SLA's for all major suppliers and ensuring that the relationship with such suppliers is managed using the SLA. In addition, the introduction of regular interactions with these major suppliers is enabling Momentum to address the need for early problem escalation.

2. The approach used with existing major suppliers that are not BEE rated, is to have them rated and give them an opportunity to improve their rating if it is unsatisfactory. This has the effect of making the loyal suppliers feel that Momentum is working with them, to transform their businesses.
3. Momentum has developed an efficient electronic ordering system called eProc. Initial feedback from major suppliers that have piloted the system is very positive.

### ***Our Strategic key Focus Areas***

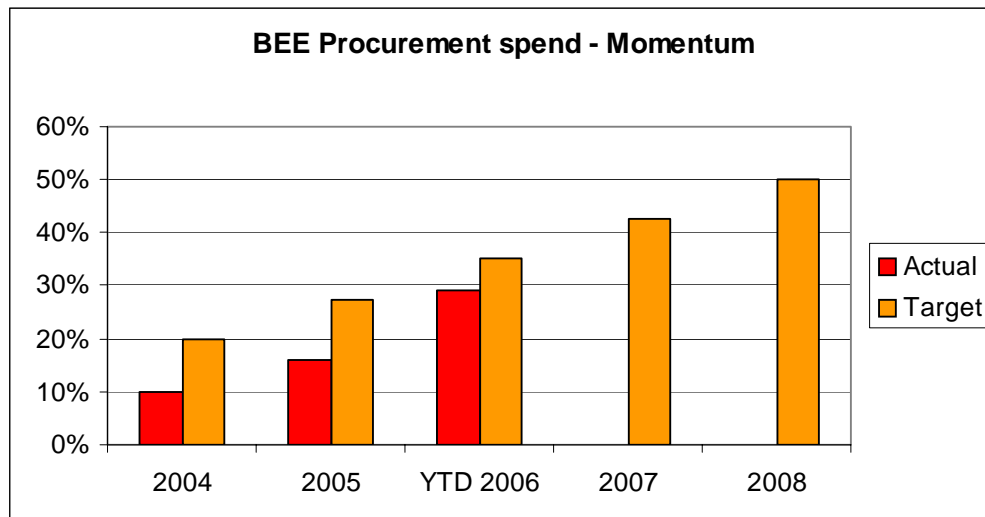
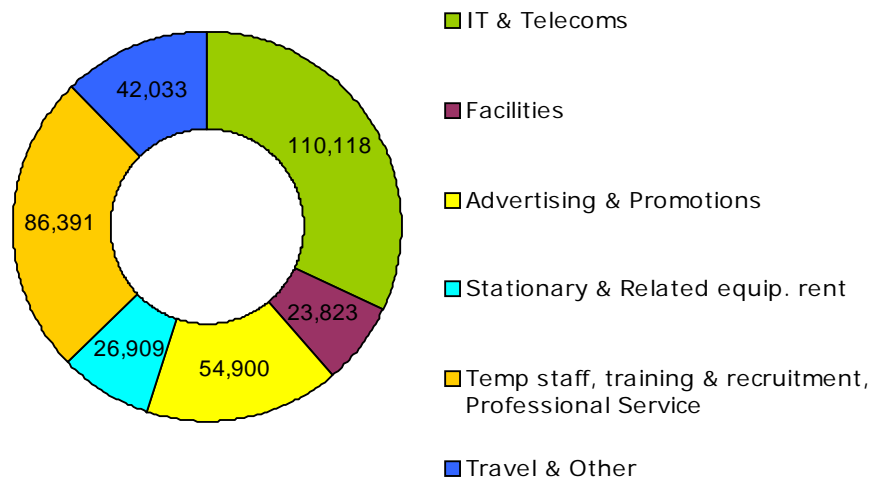
Other than the supplier issues above, the following are areas of focus:

- Meeting Financial Sector Charter (FSC) targets for BEE procurement. From the table below, it is clear that the interventions implemented to improve the supplier management environment, are paying off. There is an 88% improvement in the BEE spend over the prior year. Momentum is aware that these interventions will need to continue for us to meet the FSC targets as well as to maintain our competitive edge.
- Promote the use of small enterprises without having to pay a penalty on price. This has been done by identifying areas of spend where small businesses are not impacted by capacity issues, and then ensuring that they are on FirstRand's supplier database or having them rated for BEE purposes.
- Identify companies that would make good candidates for "Enterprise development" In this regard, use is made of the FirstRand procurement forum for companies within the FirstRand Group to share potential companies to be developed.

### ***BEE Procurement against FSC targets***

The graph below shows our total controllable spend for the year, and the graph below, the proportion spent using BEE suppliers.

Momentum total procurement spend Rm FY 2006



***Objectives for the coming year***

The following are the objectives for the next financial year:

1. To increase the percentage of expenditure with BEE companies to 42% of controllable expenditure.
2. To extract savings in controllable spend through efficiencies achieved in procurement initiatives.
3. To increase the number of existing suppliers that have are BEE rated.
4. To have Service Level Agreements in place for all major suppliers that operate on a written contract with Momentum.

# OUR DIRECT ENVIRONMENTAL IMPACT

## *Why the environment matters to us*

The environment matters to us because if we do not reuse as much as possible of our waste and look after our fauna and flora the world that we live in will become a terrible place to live in. The current generation owes it to future generations to protect the limited resources we have. Momentum in a small way is trying to make a difference.

## *Where is our direct impact?*

Momentum is situated at 268 West Avenue Centurion Pretoria. At this address we are also responsible for the Annex Building that is situated next to the Momentum Head Office.

## *What are our significant direct impacts?*

Momentum is extending the existing head office building. The process that will be used by the furniture manufacture to manufacture the office furniture will be an environmental friendly process.

Most of the materials used to construct the new extension can be recycled.

70% of the lights in the main head office building are automatically controlled to switch on and off at 23h00 to 05h00. At The Campus office park, where our asset management operations are located, infrared and motion detectors inside the workspace and basement areas are currently being used. These switch off the lights if no one is detected.

The air-conditioning units in our Head Office buildings are centrally controlled and switch on and off from 23h00 to 06h00 and from 09h00 to 06h00 in the Annex Building. Over the weekends these units in the main building switch on and off from 06h00 to 15h00.

All papers are separated from the normal building garbage by a waste recycling company and all our printer toner cartridges are collected and recycled.

Our irrigation system operates automatically from 18h00 to 19h00. In some cases, water for irrigation purposes is obtained from boreholes on the premises from which we operate.

The gas that is used in the chillers that provide fresh air throughout the Head Office building is ozone friendly. The furniture that is no longer required is donated to old age homes and schools.

### ***Objectives for the coming year***

We will continue to look for opportunities to minimise any negative impact on our environment and refine our current processes. Moreover, this year we plan to replace the current light bulbs that we use with energy saving ones.

# **Our work with the Community**

## ***Why the Community Matters to us***

Taking into account the serious social challenges facing South Africa, Momentum strives to be a leading corporate citizen working proactively and responsively to meet the needs of the broader South African community. Working at a national level, we aim to empower and uplift the communities in which we are involved.

## ***Who are the Community?***

The FirstRand Foundation Trust Deed, Charter and legislation pertaining to Public Benefit Organisations govern the activities of the Momentum Fund. In the circumstances the communities that benefit from the Momentum Fund's support are all public benefit organisations or organisations that carry out public benefit activities. In line with the Momentum Fund's strategy, the communities that primarily benefit from its support are pre-school children, teachers, people with disabilities and communities infected and affected by HIV/AIDS.

## ***What matters to the Community?***

The Foundation has historically adopted a more reactive as opposed to proactive approach to CSI funding. This is partly attributable to the philosophy of responding to the needs directly identified by communities themselves. The approach has evolved in years combining a reactive/proactive approach. In this regard the Momentum Fund has adopted a proactive approach in two key areas, namely: -

1. Funding for programmes supporting people with disabilities.

The Momentum Fund has adopted this sector as one its primary focus areas. Support within this sector is diverse, ranging from workshops for the disabled, schools, homes and assisting community based workers who provide support to people with disabilities in their own communities. Lessons being learnt by the Momentum Fund about the needs and challenges in this sector continue to inform funding approaches going forward. The Momentum Fund also aims to assist with guidance and capacity building and to this end has run capacity building and knowledge sharing session with potential recipients of support in this sector.

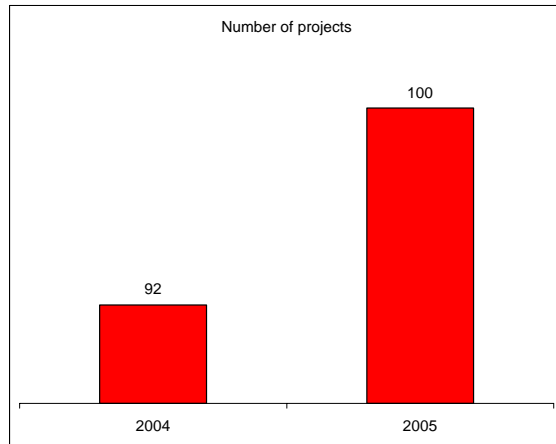
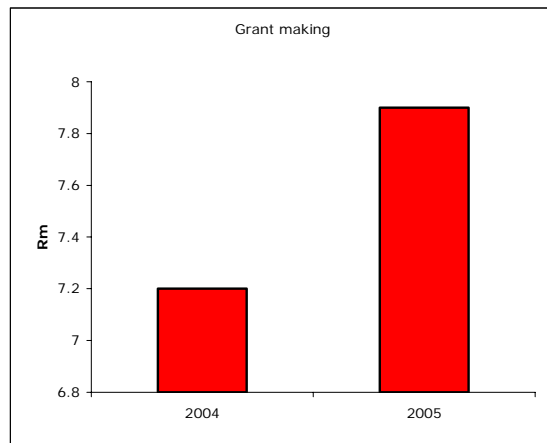
2. Funding for Early Childhood Development Programmes.

In this regard the Momentum Fund specifically supports training interventions aimed at training and upskilling community based Early Childhood Development (ECD) practitioners. Reviews have been undertaken of the sector to learn more about best practice organisations, training needs and, very importantly, accredited training interventions for ECD practitioners that include ongoing support and mentoring in the field. The Fund Committee has also invited ECD experts to the Fund Committee to share more about the sector and its challenges.

***Our Strategic Key Focus Areas***

Through a series of discussions with the Momentum Fund Committee during the past year the following key focus areas have been identified for support, namely-

1. Programme for People with Disabilities – 51% of grantmaking
2. Early Childhood Development – 25% of grantmaking
3. Community HIV/AIDS Programmes – 24% of grantmaking



Top Five Projects by Grant Value: -

➤ National Association of Child Care Workers	R300 000
➤ Caring Network	R250 000
➤ Khayelitsha Special School	R290 000
➤ TREE – ECD programme	R279 177
➤ Worcester Institute for the Deaf	R250 000

Programme for People with Disabilities – R4 012 999

The Momentum Fund has provided support for this sector over a number of years. However, a decision was made earlier this year to view this as a flagship clustered programme, which considers support for a wide range of interventions supporting people with disabilities. These include schools for learners with special needs, skills training interventions and social and emotional support programmes.

During the previous year the Momentum Fund provided grants totaling R2,6 million in support of this sector. It is therefore very pleasing to see the significant increase in funding during the year under review. A process is now underway to review the Momentum Fund's current approach for this sector with a view to adopting a more strategic focus which will result in a more focused yet meaningful relationship with beneficiaries.

Early Childhood Development Programmes – R1 959 557



Twenty-five organizations operating throughout South Africa were supported during the year. Funding was specifically directed towards the training of community ECD teachers. Requirements for considering support include accredited training interventions as well as regular trainee follow-up and support post the training. A number of these training interventions are now also focusing on identifying and supporting children infected and/or affected by HIV/AIDS.



Fund Management, in consultation with key stakeholders in the sector, will conduct a review of the current challenges facing the ECD field, what interventions are currently been offered, and what interventions are likely to leverage the greatest impact.

## **Beneficiaries of TREE's ECD**

### Community HIV/AIDS Programmes – R1 898 556

Support has primarily been targeted at assisting child and granny headed households. Interventions include accessing birth certificates, childcare grants and access to basic services such as schooling and health services. Most of the beneficiaries of support reside in the historically under-resourced communities such as Limpopo, rural northern and southern KwaZulu Natal, Mpumalanga and the North West Province.

The Foundation will be undertaking a review during the coming year of its support in this field, with a view to considering a more strategic, tighter focus.

### ***What are we doing about it?***

In line with last year's objectives of moving towards an impact assessment model, the Foundation's social investment consultancy, Tshikululu Social Investments, has employed a Monitoring and Evaluation Practitioner. Given the numerous and varied projects and programmes falling under the umbrella of the Foundation, a successful monitoring system needs to be project-driven i.e. projects should develop and reported on their own internal monitoring system and its indicators. Therefore, to start the modelling process, the practitioner is holding focus groups and semi-structured interviews with projects to document and include their experiences and perspectives in the process.

This is a mammoth task and will grow organically. It is vital that it is an inclusive process to ensure that the beneficiaries of the Foundation's support view the M&E systems as a capacity building tool as opposed to a number crunching, punitive exercise. The outcomes of the M&E findings will further strengthen the Sustainability and Charter reporting requirements.

# Our Customers

## *Why our customers matter to us*

Momentum recognises the importance of our customers as the only real sustainable differentiator in the ever-increasing competitive Financial Services Industry. Increased demand for improved services and products on the part of customers are affecting market sectors around the globe. Companies can create economic value through effective customer service, rather than only pursuing continuous product development. The same economic value however, can be destroyed just as easily through damage to a company's reputation by not delivering on its customer's expectations on service and product innovation. It is a well-published fact that today, 80% of a company's market valuation is based not on the balance sheet but on "intangibles". This compares to 50% 30 years ago and 20% 50 years ago. The primary category of these so-called intangibles is customer loyalty - created through effective and innovative customer service.

The Financial Services Industry in South Africa, and the Insurance industry in particular, have been guilty in the past of doubting the value of the customer. The opportunity for choice delivered by new entrants and new technologies in the insurance industry has increased the power of the customer. Evidence of this can be seen in the growing resistance to product and service fee structures; decreasing loyalty to primary providers; acceptance of non-traditional brands and propositions; and the willingness to shop for a better offer and self-select offerings.

Successful organisations realize they have to transform the way they interact with their customers. To become and remain profitable, institutions have to accept that the world is changing; and as a result an emerging breed of empowered consumers is becoming a force. Momentum has evaluated and accepted the challenges for innovation and service presented by this emerging breed of empowered customers. Our customer has therefore become a non-negotiable element of our business strategy given its increasing impact on business performance.

Service improvement has evolved into the primary strategic initiative driven with care and diligence during the past year. Internal dashboards are utilized by each of the service divisions within Momentum to assess and set targets for service as well as new initiatives and goals to be reached.

## ***Who are our customers?***

For Momentum, our customers fall into two categories – the person in the street who uses our products and the financial intermediaries who sell some of our products for us.

## **End Users**

76% of Momentum's clients fall into the LSM 7-10 segment, and the balance fall into the LSM 1-6 market. Momentum has 9% penetration in the upper LSM's. Momentum, like most of its major competitors in the life insurance industry, mainly sells into an older client base. Over 70% of our clients are in the age bracket 25-64 years. The younger market remains largely untapped to the Financial Services Industry.

Our life insurance customer base has expanded with the integration of the SAGE customer base in 2005. Momentum is also in the process of gaining a whole new customer base with the Momentum Short Term initiative launched in 2006. The joint venture with FNB has resulted in Momentum's share in the middle market expanding quite rapidly in the last 12 months. In addition to our policyholders, various sizes of retirement funds also form part of our customer base, and are serviced through Momentum and our asset management operations.

## **Intermediaries**

Another important group of Momentum's customers are our brokers and intermediaries. One of Momentum's key drivers of growth is the active management of growth within clearly defined intermediary market segments. Despite industry changes pertaining to commission, Momentum strongly believes in embracing intermediaries as part of the sales mix to maximise sales in our selected target markets. Given the different intermediary segments and their unique needs, Momentum's business model has now evolved from a predominantly broker distribution channel, to one that offers more service and sales channels for our intermediaries.

## ***What matters to our customers***

The savings industry has undergone significant change since the early 1990's. A new breed of sophisticated, empowered customers is emerging, and our customers are demanding value-for-money, flexible and less complicated products. Our customers also value excellent service. Competition in the industry has increased due to, among other things, increased levels of consumerism.

The recent rulings by the PFA have also led to regulatory bodies demanding better disclosures and more transparency in the cost structures of our products.

Brokers and intermediaries need a wide range of products to sell to clients in order to improve their own revenue streams.

Complete disclosure of all implicit and explicit fees in the take on of new business, as well as the ongoing management of assets is inculcated in our asset management operation's Compliance Policy. This then makes it easier for retirement funds to audit the fees we charge, on a regular basis.

Momentum again commissioned an annual customer and broker services survey in 2005. The survey was aimed at setting a benchmark on service against the background of various internal changes in the company as well as the Short Term insurance initiative and the SAGE merger.

The survey was also conducted against a changing canvas for the insurance industry in 2005. Perceptions have changed and been influenced by media coverage and the impact thereof, following the Pension Fund Adjudicator rulings.

The primary findings of the Markinor Service Survey 2005/2006 were as follows:

## **Client Service**

Clients who held a range of products including Traditional products, Investo, Myriad and Multiply were identified as a universe for the survey. Respondents for the survey were drawn randomly from this universe and respondents contacted by an external research company.

## **Critical Overview of results**

Respondents in the study rated the Momentum Reputation, Brand and Customer focus very highly. More than two thirds of the respondents indicated that they were truly committed to Momentum and that they would recommend the company to a friend. Nine out of ten of the respondents viewed Momentum as a successful company. In addition more than eighty percent of respondents expressed their trust in Momentum as a Financial Services Provider offering innovative products and services to consumers.

The respondents gave a very positive rating to the overall professionalism of the Call Centre staff and their ability to be supportive in attending to customer's queries. The respondents also expressed satisfaction with the speed in which the Call Centre responded to queries posed by customers. More than 70% of respondents strongly agreed/ agreed with the statement "**Momentum really cares about customers**".

Respondents indicated their most prevalent needs with regards to written communication to be the following:

- Serving my needs
- Keeping me up to date

The survey also indicated that the overall appearance of Momentum's written communication to clients was acceptable and respondents didn't find it to be littered with jargon that they did not understand.

## **Broker Service**

### ***Research Objective***

The 2005 study aimed to measure the following:

- Brokers' **attitudes** towards Momentum
- Brokers' **perception** of the **service experience** when interacting with Momentum, paying specific attention to after-sales service and new business interaction
- Momentum's ability to communicate information to the Brokers;
- **General comments** of Brokers with regard to Momentum.

## **Critical Overview**

In excess of 90% of brokers indicated that they view Momentum as a successful Financial Services provider. The results illustrate a very favourable view that Momentum holds in the broker market. More than 90% of brokers shared the sentiment of wanting to continue placing business with Momentum.

The brokers also rated Momentum's products as comparing favourably with the best in the market. In general, 9 in 10 Brokers agree that the structure and benefits of the products in which they specialize in compare favourably with similar offerings in the market (except for 8 in 10 for brokers who specialise in Health products).

Brokers specialising in most products (average of 90%), with the exception of Multiply, also agreed that the information supplied on the structure of the products assists in them to understanding and successfully market the products. An average of 9 in 10 Brokers agreed that the New Business process has fair and acceptable underwriting requirements (if applicable). An average of 8 in 10 Brokers believe that the **speed** of processing new

business compares favourably to other insurance players in the market; **quality** of the underwriting process is acceptable; **time period** for loading new business is acceptable, and that staff is **professional** in conducting new Business cases.

More than 80% of the brokers interviewed were satisfied with after-sales service with reference to the following aspects of service in particular:

- The comprehensive knowledge service agents have on products to assist brokers with queries;
- The professionalism of staff in their interaction with Brokers;
- Requirements set during the alterations process; and
- The quality of the underwriting process with regards to alterations.

### ***Our Strategic Key focus areas***

Customer satisfaction does not always mean developing one-to-one relationships with individual customers. Customer Satisfaction to Momentum in principle means understanding exactly who our customers are, how to improve the ease with which our customers can interact with us (through multi media client liaison), and how we can strengthen and protect our relationships with our customers.

### **Strategic questions:**

- Segmenting our customer base to understand product and service needs;
- Identifying the most valuable prospects for customers in our offerings that will attract new customers and satisfy the evolving needs of existing ones;
- Identifying what it is that our customers appreciate in terms of service and product to seek Momentum out over our competitors;
- Align internal organizational behaviours and competencies to ensure a unified customer satisfaction experience;
- To have a clear understanding on how to deliver on our propositions;
- Continuous training and development of our customer service staff to ensure one, effective touch point of service; and
- Effective and continuous tracking and measurement on the success of our delivery on strategic initiatives.

## ***What are we doing about it?***

### **Action Steps from Customer End–User Survey**

Customer service is re-evaluated in accordance to the findings of the report. In the coming year specific projects and initiatives are being launched to address key issues highlighted in the study with regards to the interaction that clients have with the Call Centres. Product driven Call Centres are to be introduced during the last quarter of 2006 to improve service delivery. Written communication is also being reviewed to be simplified even more and to ensure that clients have a clear understanding of their products and benefits.

### **Action Steps from Broker Survey**

The Broker Contact Centre has also been re-assessed and is set to undergo restructuring in the coming months. The aim of the restructuring is also to focus on product driven service silo's – an initiative that has already been in operation but is now being expanded. The Multiply Contact Centre is to be relocated from its current position in the Client Contact centre to be incorporated in the future into the Momentum Sales force. Initiatives are also underway to provide extended operational hours to brokers to enable them to have a greater time period in which to address queries with the Call centre. The extended hours are also aimed at increasing the speed and turn around time in which queries or changes are dealt with.

Our customer services survey will be expanded this year to include nine divisions instead of the traditional two measured. These will include the satisfaction with our claims process as well as our new joint venture with FNB for the middle market.

In December 2005, the Life Offices Association of South Africa, representing the life insurance industry, including Momentum, announced an important agreement that was reached with National Treasury with regard to certain minimum standards for the early termination of retirement annuities and other policies with a long-term savings objective. Momentum welcomes the fact that the insurance industry has committed itself to a solution that will enhance confidence in our industry from a consumer perspective in future and will create new opportunities to ensure a healthy savings environment.

Momentum has launched the Investo V investment product, which sets new standards in transparency and fee levels. We will continue to proactively support changes that are aimed at improving the sustainability of the savings industry, through our product innovation. A unique benefit, Save-thru-Spend, linked to our retirement and savings products, further demonstrates our commitment to finding innovative ways to address our customer needs.

Momentum Health, Momentum Short Term Insurance and the FNB joint venture in the middle income market are additions to the product ranges that we offer to our intermediaries thus giving them an opportunity to increase their revenues.

Furthermore, three exciting new solutions for retirement funds are currently being developed. These solutions will be launched by our asset management operation, Advantage, during this current financial year.

Access to financial services for LSM 1-5 is part of transformation in the financial sector industry, which we support. Through our active involvement in the LOA committee responsible for the interpretation of access for life insurers, we are currently working on suitable products that will meet the standards as set out by the LOA, as well as the needs of the previously un-insured lower income market.

The 2005 LOA convention highlighted the ever-increasing dissatisfaction of clients and public alike, with the insurance industry. Momentum has joined a workgroup with other key players in the insurance industry actively participating and seeking workable solutions to meet the demands of customers and to benefit the industry as a whole.

### ***Objectives for the coming year***

In the coming year specific projects and initiatives are being launched to address key issues highlighted in the various surveys and studies undertaken by Momentum. These are mainly aimed at improving service levels and interaction of our clients with our Call Centres. Written communication is also being reviewed to improve its simplicity further to ensure that our clients have a clear understanding of our products and benefits. In December 2005, the Charter Council approved a proposal on access interpretation for Life insurers. Through its middle market initiative with FNB, and via its FNB Life product suite, Momentum intends to have products that meet with the standards of the LOA in order to increase access to our products by people who could not access them previously.

Following the merger of m-cubed and Momentum Multimangers to form Advantage, the brand awareness of this relatively new organisation to both existing and potential clients remains a key focus.



# Our Regulatory Environment

## *Who are our regulators?*

Momentum Group Ltd focuses on Life, Health, Investments, Short-term insurance and Retirement business. The Financial Services Board (FSB) is the lead regulator of the Group.

Regulators and industry associations for Life business:

- Registrar for Long Term Insurance (FSB)
- Financial Advisory & Intermediary Services (FAIS) Ombudsman
- Life Offices Association (LOA)
- SA Reserve Bank (SARB)

For Health business:

- Registrar of Medical Schemes
- Council for Medical Schemes

For Investments business:

- Registrar for Collective Investment Schemes (FSB)
- South African Investment Managers Association (IMASA)
- Association of Collective Investments (ACI)
- Linked Investment Service Providers Association (LISPA)
- SA Reserve Bank (SARB)

For Retirement business:

- Registrar of Pension Funds
- SA Reserve Bank (SARB)
- Pensions Fund Adjudicator (PFA)

For Short-term business:

- Registrar of Short-Term Insurance (FSB)
- South African Insurance Association (SAIA).
- SA Reserve Bank (SARB)

### ***Why the Regulatory Environment matters to us***

The Regulatory Environment is extremely important to Momentum, because it underpins the values we strive towards in servicing our stakeholders. We aim to protect the interests of clients and to help stabilise the financial system, while seeking appropriate returns for our shareholders.

### ***Feedback on last year's major issues***

#### 1. PFA Rulings

As was previously reported, a number of Pension Fund Adjudicator (PFA) rulings were made which had an impact on future business and upfront commissions. A settlement was reached between the industry and National Treasury on the minimum values on early cessation or reduction in retirement annuities and other policies such as endowment policies, where long-term saving is the primary objective.

#### 2. National Treasury Discussion Paper On Contractual Savings in the Life Insurance Industry

Momentum participated in and supported the LOA on the National Treasury consultative paper on the sustainability of the savings industry. The paper dealt with issues that impact the life insurance industry's ability to offer contractual savings products that are appropriate, cost-efficient and equitable.

#### 3. IFRS

The South African Institute of Chartered Accountants (SAICA) issued new accounting standards based on the International Financial Reporting Standards (IFRS). This was implemented on 1 July 2005.

***What are the major regulatory issues for us to address this year?***

The National Credit Act has been promulgated and the practical implementation thereof has commenced. We have applied for registration as a credit provider. We will ensure that all credit processes and documentation are compliant with the requirements of the National Credit Act, which becomes fully operational in June 2007.

The Financial Services Board (FSB) launched an investigation into bulking by Pension Fund Administrators. We responded appropriately on all issues as requested by the FSB and gave the regulator our full support in the investigation. Full disclosure was made to the FSB not only on our bulking practices, but also on practices that are related to bulking.

Momentum perceives bulking as a practice that is beneficial to the client, **provided** the practice is disclosed and the benefits are passed on to the clients.

The Financial Advisory and Intermediary Services Act (FAIS) remains a key focus area for Momentum. There are ongoing compliance implementation issues, which are addressed in a pro-active and systematic manner.

The Pension Funds Act is currently being redrafted and we envisage that it may have an impact on the investment of pension fund assets. Momentum will comply with such changes.

The Companies Act is currently being amended as part of the Corporate Law Reform process. We have monitored developments in this regard and will continue to do so in a positive manner. We do not foresee that the amended act will have a material impact on Momentum.

The Consumer Protection Bill, if promulgated in its current format will have an impact on Momentum, not only because it will necessitate additional processes and systems to be compliant with the law, but also because it might lead to customer confusion because of duplication in other legislation like the Financial Advisory and Intermediary Services Act and the Policyholder Protection Rules. This is likely to lead to additional costs to Momentum.

The Data Protection and Privacy Bill is likely to have an impact on Momentum once promulgated, but it is unlikely to be material, because Momentum already adheres to some of the principles entrenched in the bill as a matter of good corporate governance.

# RAND MERCHANT BANK SUSTAINABILITY REPORT 2006

## Overview

### *Doing good business and good work*

Our sustainability efforts hinge around:

- **transparency**  
reveal as much as possible, within the competitive constraints of our industry, to enable all stakeholders to understand what we do
- **integrity**  
conduct all business with a sense of honesty and fairness, treating both clients and employees in an exemplary manner
- **excellence**  
ensure all high ideals are built upon a solid foundation of business excellence – and RMB's is rooted in nearly three decades of innovation, hard-won experience and a proven ability to deliver outstanding results year after year

These high standards should not be interpreted as a claim of commercial virtue. We are realistic enough to realise that sustainability is not about perfection; rather, it's about being as consistently good as you can possibly be in the constantly shifting tides of an increasingly competitive business and regulatory environment.

Those companies that survive and thrive are simply those who dare to go the extra mile. And as the saying goes, the competition thins out along that extra mile.

### *Our focus this year*

The focus of this year's report reiterates our understanding of and commitment to sustainability. We use this report to address issues which matter to both RMB's internal and external stakeholders.

## ***Reporting to our stakeholders***

RMB's stakeholders include our employees (internal) and clients, shareholders, analysts and various regulatory and financial authorities ranging from the JSE to the Reserve Bank (external).

Other stakeholders include the beneficiaries of the RMB Fund (Education, - Maths & Outreach, Arts & Culture, Environment, Safe Communities, Community Care and Staff Initiatives), and the direct and indirect environment.

## ***The Scope of this Report***

This year's report provides in-depth information on Rand Merchant Bank. RMB is reporting on its South African operations as a whole and its "briefcase business" in Africa, and to a lesser extent supplying information and statistics applicable to RMB Asset Management (RMBAM), RMB Properties (RMBP) and RMB Private Bank.

# Our People

## Overview

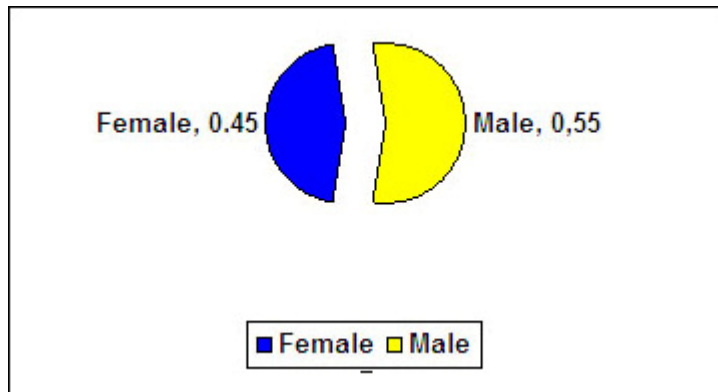
This section addresses our philosophy, policies and practices on people issues. We share our workforce profile, the initiatives we are undertaking to tackle the need for transformation in the workforce including our recruitment policies; the processes and structures we have in place for staff consultation, health and safety and the measurement of staff satisfaction; and our remuneration policy.

## Workforce

The average age of our 956 permanent staff at RMB is 35 years. The diagrams below represent the gender and race profile of our staff.

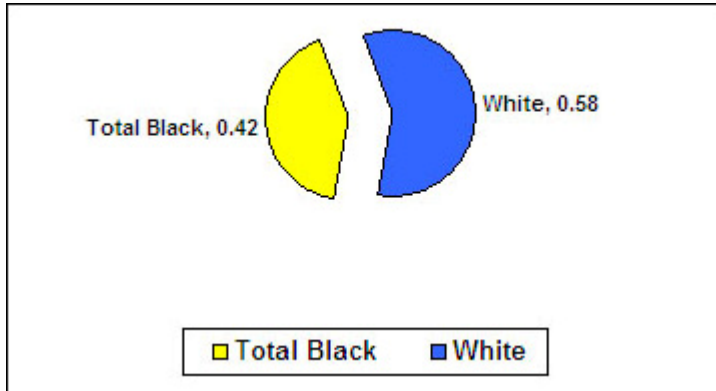
<b>Female</b>	<b>430</b>	<b>45%</b>
<b>Male</b>	<b>526</b>	<b>55%</b>
<b>Total</b>	<b>956</b>	<b>100%</b>

### Gender Profile



The diagram below indicates the occupational breakdown of our permanent staff complement.

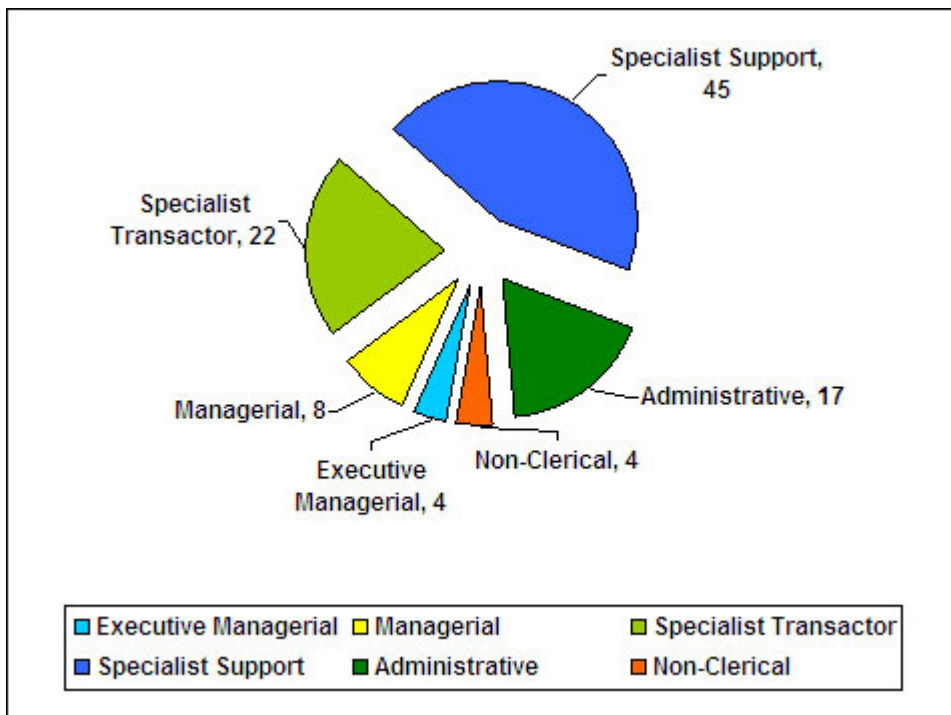
**Total Black vs White Profile**



**Rand Merchant Bank - Work Category Profile**

Executive Managerial	38	4%
Managerial	76	8%
Specialist Transactor	209	22%
Specialist Support	427	45%
Administrative	167	17%
Non-Clerical	39	4%
<b>Total</b>	<b>956</b>	

**Work Category Profile**





## Rand Merchant Bank - Employment Equity Report

Employment Equity Report - June 2006									
RMB ASSET MANAGEMENT									
Levels	Male				Female				TOTAL
	African	Indian	Coloured	White	African	Indian	Coloured	White	
Top Management	1	1	1	10	0	1	0	4	18
Senior Management	0	0	0	3	0	1	0	5	9
Professionally qualified, experienced specialists & Mid Management	4	8	0	18	7	3	1	18	59
Skilled technical academically qualified, junior management, supervisors, foremen, superintendents	6	6	4	5	15	16	4	28	84
Semi-skilled discretionary decision making	2	0	0	0	0	0	0	0	2
Unskilled & defined decision making	2	0	0	0	4	0	0	0	6
Total Permanent Employees	15	15	5	36	26	21	5	55	178
Non-permanent Employees	7	0	0	12	4	1	6	10	40
<b>TOTAL</b>	<b>22</b>	<b>15</b>	<b>5</b>	<b>48</b>	<b>30</b>	<b>22</b>	<b>11</b>	<b>65</b>	<b>218</b>

<b>RMB PROPERTIES</b>									
<b>Levels</b>	<b>Male</b>				<b>Female</b>				<b>TOTAL</b>
	<b>African</b>	<b>Indian</b>	<b>Coloured</b>	<b>White</b>	<b>African</b>	<b>Indian</b>	<b>Coloured</b>	<b>White</b>	
<b>Top Management</b>	2	0	0	6	0	0	0	0	<b>8</b>
<b>Senior Management</b>	0	0	0	3	0	1	0	2	<b>5</b>
<b>Middle Management</b>	2	0	1	21	1	0	1	14	<b>40</b>
<b>Junior Management &amp; Supervisors</b>	2	3	2	15	0	2	2	18	<b>44</b>
<b>Semi-skilled</b>	28	4	6	4	22	9	25	26	<b>123</b>
<b>Unskilled</b>	0	0	0	0	2	0	0	0	<b>2</b>
<b>Total Permanent Employees</b>	<b>35</b>	<b>7</b>	<b>9</b>	<b>49</b>	<b>23</b>	<b>11</b>	<b>28</b>	<b>60</b>	<b>222</b>
<b>Non-permanent Employees</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>10</b>
<b>TOTAL</b>	<b>37</b>	<b>7</b>	<b>9</b>	<b>54</b>	<b>25</b>	<b>11</b>	<b>28</b>	<b>61</b>	<b>232</b>

<b>RMB PROPERTIES</b>									
<b>Levels</b>	<b>Male</b>				<b>Female</b>				<b>TOTAL</b>
	<b>African</b>	<b>Indian</b>	<b>Coloured</b>	<b>White</b>	<b>African</b>	<b>Indian</b>	<b>Coloured</b>	<b>White</b>	
<b>Top Management</b>	2	0	0	6	0	0	0	0	<b>8</b>
<b>Senior Management</b>	0	0	0	3	0	1	0	2	<b>5</b>
<b>Middle Management</b>	2	0	1	21	1	0	1	14	<b>40</b>
<b>Junior Management &amp; Supervisors</b>	2	3	2	15	0	2	2	18	<b>44</b>
<b>Semi-skilled</b>	28	4	6	4	22	9	25	26	<b>123</b>
<b>Unskilled</b>	0	0	0	0	2	0	0	0	<b>2</b>
<b>Total Permanent Employees</b>	<b>35</b>	<b>7</b>	<b>9</b>	<b>49</b>	<b>23</b>	<b>11</b>	<b>28</b>	<b>60</b>	<b>222</b>
<b>Non-permanent Employees</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>10</b>
<b>TOTAL</b>	<b>37</b>	<b>7</b>	<b>9</b>	<b>54</b>	<b>25</b>	<b>11</b>	<b>28</b>	<b>61</b>	<b>232</b>

## ***Transformation***

This year, FirstRand published an internal transformation report that addresses all the activities we are undertaking to address the key challenge for South African companies today. Half of the transformation report focuses on Employment Equity issues and sets out the approach to Employment Equity, to which RMB adheres.

- FirstRand will strive to be a leader in employment equity
- We will contribute to improving the skills pools and the distribution of skills in South Africa in general
- We will strive to eliminate prejudice and legacy attitudes that inhibit transformation in our organisation
- We aim to make the Group a truly representative South African organisation where there is mutual respect between all people
- We strive for a meritocracy where all barriers to participation are removed and where people are treated equally and fairly. We believe that equality of outcome flows from equality of opportunity
- We aim to have a staff profile that reflects the demographic profile of the available skills pool in South Africa
- We will conduct management development programmes internally aimed at addressing imbalances that affect disadvantaged and previously disadvantaged people
- We will allow for a Transformation Band that will represent about 10% of black recruits who are not yet fully competent and we will facilitate their development
- We will significantly exceed the Charter targets with respect to the recruitment of black women

### **Recruitment Policies to Address Transformation**

The Transformation Report provides extensive information on our approach to the recruitment strategy required to shift the racial representation in RMB. Here, we provide a brief summary of our recruitment policies and the strategic partnerships we are pursuing to support these.

Our policy is that at least 50% of all new recruits or promotion into junior management will be black people, that at least 40% of all new recruits or promotions into middle management will be black people and that at least 30% of all new recruits or promotions into senior management will be black people. Senior management is most affected by the historical legacy, the intense competition for staff in this category and the fact that our

policy of “growing our own timber” has not had sufficient time to make an impact. As a result, the latter can be seen as a “stretch target”. Our policy is that black women will make up at least 5%, 10% and 20% of all new recruits and promotion in senior, middle and junior management respectively. Given the talented black women in the group and in the market, this is one target we believe we can comfortably exceed. We may wish to increase our internal targets for black women.

Rand Merchant Bank believes it is essential to play an active supporting role with the Association of Black Securities and Investment Professionals (ABSIP) and the Association for the Advancement of Black Accountants of South Africa (ABASA). RMB’s relationship with these two organisations has been to its benefit, raising its profile among black professionals and attracting a number of unsolicited approaches by qualified and talented young black men and women.

Furthermore, it has given RMB an opportunity to network with members of ABSIP and ABASA, allowing RMB employees to market its culture and ethos to potential candidates.

### **Internal Structures to Promote Employment Equity**

Employment Equity Committees have been democratically elected by staff members, who work in association with a designated manager. One of the tasks of the manager is to run internal audits to identify and remove all possible barriers to employment equity. Line managers and all business-unit management boards are part of the process in implementing the equity programme in conjunction with the Employment Equity Task Team/Diversity Management Team for each business unit.

RMB Private Bank has also contracted an external consultancy, Connectivity, to hold a series of diversity management workshops monthly. Staff attendance is compulsory. Willie Miller, CEO, conducts transformation workshops with staff on an adhoc interactive basis on transformation initiatives.

## ***Policies***

RMB has the following policies in place:

- HIV/Aids Policy
- Leave Policy
- Maternity Leave Policy
- Employment Equity Policy
- Temporary Employment Policy and Procedures
- Grievance Policy
- Referral Fee Policy

- Sexual Harassment Policy
- Transformation policy guidelines

Policies amended during the year include:

- Leave Policy – Sick leave was altered slightly but we maintained our general allocation over and above the Basic Conditions of Employment Act.
- Maternity Policy – this policy was amended, but only impacted the related tax implications.
- HIV/Aids Policy – Annual revision by the FRBG HIV/Aids Steering Committee.

## ***Overall Staff Satisfaction***

Usually, our employees raise issues of concern either with their line managers, their Organisational Development (OD) consultant deployed specifically to their area, or with the EE Forum. We also garner feedback through surveys such as the Deloitte Best Company To Work For survey (which has ranked us in the top 7 for six years running) and the FirstRand Capability Survey. We also run temperature-check surveys in various departments.

## ***Staff Consultation***

*CEO Breakfast backchat sessions* – This is a Chief Executive Officer (CEO) initiative. Diverse groups of employees are invited to breakfast with the CEO and a member of the management board for an open, informal feedback session. These sessions are held bi-weekly.

*CEO Quarterly sessions* – The CEO and members of the different Boards host quarterly feedback sessions with the bank in which various issues are discussed. These include the financial results, Financial Services Charter updates and any other current issues, like feedback from the Best Company to Work For survey. This meeting is also an opportunity for questions and debate.

*EE Forum* – Employees are encouraged to make use of our EE forum, as and when required, to raise any concerns they may have.

*OD Consultants* - We have introduced feedback sessions with the OD consultants for all employees who have been with the bank for three months or longer. We also have one-on-one sessions with all new employees who have been with the bank for three months.

These sessions are intended to check if new recruits have settled in and to address any issues they may be experiencing.

*Best Company to Work For survey* - We participate in the annual Best Company to Work For survey, which is conducted by Deloitte.

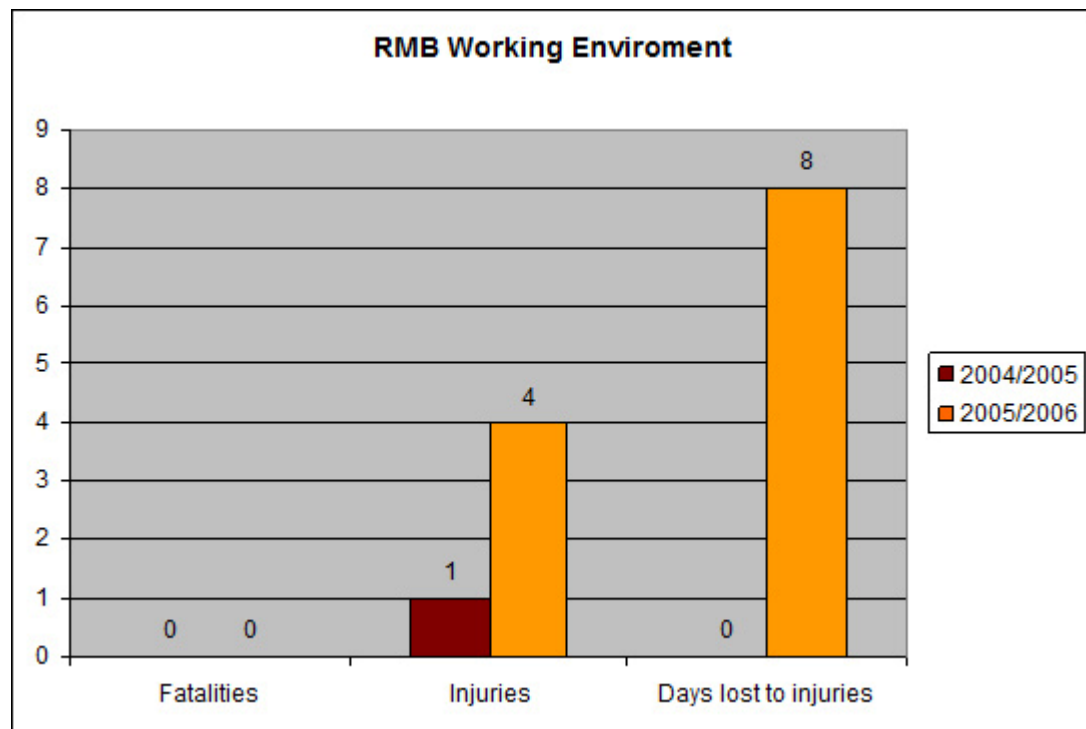
*Temperature check surveys* - As and when required, we complete "Temperature check" surveys in various departments to gauge employee interests and concerns.

## **Health and Safety (and HIV/AIDS)**

### **(Policy and statistics are for FirstRand Banking Group)**

In keeping with the philosophy of the FirstRand Group and its belief that business should be conducted honestly, fairly and within the framework of all applicable laws, our goal is to, as far as is reasonably practical, protect the health, safety and wellbeing of our employees and any other persons who may enter our premises. We are pleased to report that there was a reduction in employment-related injuries during the past financial year.

Our commitment to employee health and safety, as well as our various risk management and training initiatives, complement both the Occupational Health and Safety Act, 85 of 1993 and internationally recognised safety standards.



The effective implementation of the Employee Health and Safety policy requires the co-operation and active involvement of employees at all levels and in all areas. To ensure that stated standards are maintained, the FirstRand Group monitors health and safety performance and consults with employees on health and safety matters. The significant recommendations arising out of the health and safety monitoring, consultation and risk assessment programmes are prioritised and actioned to ensure continuous improvement in integrated health and safety management systems.

## ***Training***

	<b>Total Training Expenditure (direct and indirect)</b>	<b>Average Training Spend per Employee</b>	<b>Training Expenditure in terms of Payroll Expense per Employee</b>
<b>Rand Merchant Bank</b>	R13 000 000.00	R12 000.00	Training % of payroll : 1.9%
<b>RMB Properties</b>	R 551 994.28	R5 081.12	Training % of payroll : 1.02%
<b>RMB Private Bank</b>	R3 066 064.86	R4 985.47	Training % of payroll : 6.78%

Rand Merchant Bank (RMB) and First National Bank (FNB) both implemented the successful Class Of programme in 1993. The RMB Class Of programme accepts about five high achievers with at least three years' working experience. Attracting black candidates is a focus of this programme. The Class Of programme is deliberately unstructured to allow candidates to drive their own development. They spend two to three years rotating through various divisions, only switching when they feel they are ready for it.

RMB, together with the RMB Academy, approaches universities across SA to nominate candidates for its internship programmes. This is supplemented by advertising in the media and on the RMB website. The aim is to attract recently qualified black graduates into the bank, who are recruited on a 12-month contract (some internships last longer) with the possibility of full-time employment upon completion. A number of internship programmes have been implemented: Quantitative Analyst (2002), Treasury Dealer (2003), Business Development (2003), Private Equity (2004) and Equities Transactor (2004).

The success of these programmes is underpinned by coaching and mentoring, which give the interns additional relevant technical training as well as life skills to help them succeed. To date, 20 interns have been recruited through RMB and 10 have been offered permanent employment. The highest intake has come from the universities of Cape Town, Witwatersrand, Natal, Stellenbosch, Pretoria, and Rhodes University.

RMB recruited 12 interns in 2005 into the following intern programmes: Corporate Finance/Structured Finance (new), Risk & Compliance (new), Technology (new), Equities Transactor, Treasury Dealer and Quants Analyst.

RMB Properties entered into an internship programme with the South African Properties Association (Sapoa) in November 2004. The development division of RMB Properties has a mentoring programme that has two graduates working closely with senior executives to get a hands-on feel and practical experience for the business. In addition, in conjunction with a black-owned property company, a candidate is seconded into the development division to work with senior executives on a specific project to ensure skills transfer. Training schemes of this type have been in place for four years.

RMB Asset Management runs a mentorship programme, the Institute of Investment Excellence, that provides, among other things, intensive training in financial markets, portfolio management, financial statement analysis and valuation of securities.

Interns are chosen annually to become part of the RMBAM team for nine months, after which they are sufficiently skilled to launch a career in financial services. RMBAM has three people dedicated to IIE (write in full), and one member of staff concentrating just on staff training. Five interns have been appointed as full staff members over the last four years

## ***Remuneration***

Remuneration packages are determined by skills and relevant experience. It is RMB's policy to pay market-related salaries and as such we participate in a bi-annual industry survey (Hay Investment and Merchant Banking survey) in order to benchmark these.

The decision to pay employees an annual performance bonus is based on the performance of the Bank, the performance of the employee's department and division and their individual performance over the financial year.



## Our Supply Chain

### Why our Suppliers matter to us

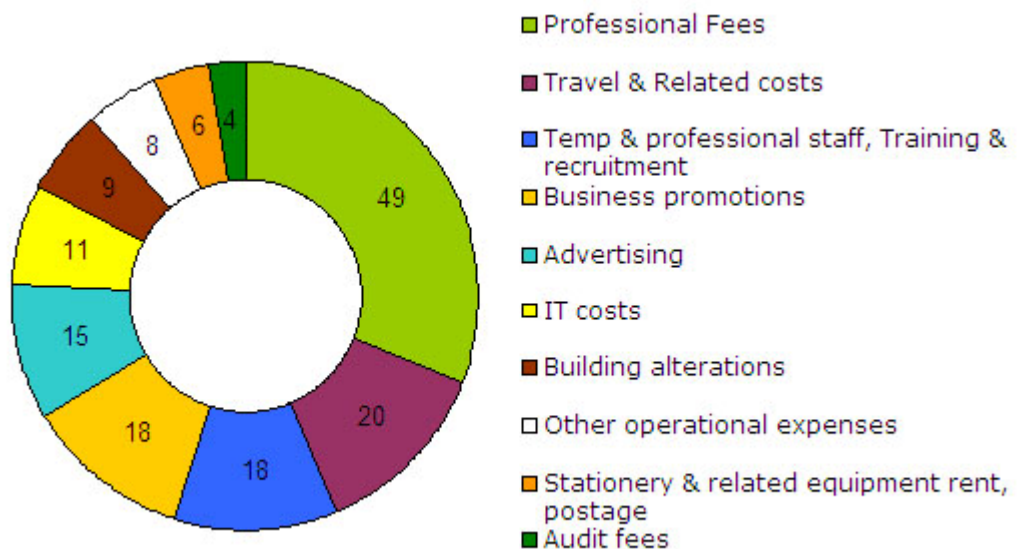
Our suppliers form an integral part of our business and RMB is committed to ensuring that all procurement is directed to the appropriate suppliers, in order to reach our Financial Services Charter targets. We do this not because we have to, but because we believe it is the right thing to do, and it contributes positively to the sustainability of our business.

Our top non-BEE-compliant suppliers were invited to a procurement information session, facilitated by FirstRand Procurement, at which the rating requirements of agencies, such as Empowerdex were covered. This enabled us to keep doing business with our valued suppliers, while complying with the spending requirements laid down in the Financial Services Charter.

### Who are our suppliers

RMB interacts with approximately 600 suppliers every month, of which 58 had a BEE rating in July 2005. We currently have 85 BEE-rated suppliers on our database, with 46% of our discretionary spend going towards these suppliers.

Total RMB Procurement Spend by Commodity FY to June 2006 R Millions  
Excludes RMBAM and RMBP



Total Spend R158m

RMB Private Bank has spent 33% of its total procurement budget with BEE suppliers, and is committed to increasing its expenditure with BEE suppliers.

### ***What matters to our Suppliers***

Some of our suppliers have indicated that the narrow-based rating methodology as prescribed by the Financial Services Charter should not be applied to them as they are not financial services companies. Instead, they want to be rated on more broadly-based criteria. The official position taken by FirstRand is to change the procurement reporting according to broad-based measurements.

### ***What we are doing about it***

RMB has identified the appointment of a Procurement officer as a strategic requirement. The officer will drive awareness of procurement throughout RMB via high-level presentations to the various business unit heads, thereby improving communication and encouraging appropriate buying patterns.

RMB's federal approach to BEE means that business unit heads develop and maintain strong relationships with their specific suppliers. The Procurement officer will add value to this process by combining procurement efforts in the bank and standardising certain spending-patterns. This should result in substantial negotiated savings through consolidation of our spend. The challenge, though, will be getting the necessary buy-in from the business unit heads.

SME procurement is another area that needs more attention. The challenge is to encourage people to move beyond their tried-and-tested suppliers to smaller, lesser-known ones who, though they might lack good infrastructure, have the willingness and appetite to deliver. This might even involve building their capacity, such as accounting and computer skills, so as to help them develop into established suppliers for the bank.

RMB has spent 46% of its total procurement budget with BEE suppliers. With a total BEE qualifying spend of 40%, we are ahead of the Financial Services Charter target of 35%. Also, 82% of our capital expenditure was spent with BEE suppliers.

# **RAND MERCHANT BANK SUSTAINABILITY REPORT 2006**

## **Our Direct Environmental Impact**

### ***Why the environment matters to us***

As a large corporate company it is one of our social responsibilities to ensure that we effectively control our direct impact on the environment, and that we use our influence in the market to set a trend of conservation and support of sustainable development.

Rand Merchant Bank Head Office is situated at 1 Merchant Place in Sandton. This building covers an area of 26 170 sq metres, and houses approximately 1060 people.

### ***Our major impacts***

#### Fleet

Rand Merchant Bank currently owns a fleet of 13 vehicles, which are used mainly for deliveries. These vehicles covered 119 656 km during the year. RMB continuously strives to ensure the effective maintenance of vehicles and planning of trips so that no resources are unnecessarily wasted.

#### Use of Energy

RMB recently joined Eskom's Demand Side management initiative to reduce the amount of energy used and are awaiting their findings and recommendations. The objective is to reduce current power consumption by 22%.

The lamps that are used for artificial lighting in the building have been changed from Urban Nightsave to Miniflexe, thereby reducing usage. Various other methods for saving electricity are currently under investigation.

Due to the business of Rand Merchant Bank, it is essential to have an Uninterrupted Power Supply on critical systems, so that the Bank can function effectively in the event of a loss of power supply. For this purpose, the building houses a diesel tank that feeds the generator system in the building. The diesel tank is inspected regularly, and is provided with a bund wall to contain spillages in the unlikely event of a spillage.

## Air Conditioning Systems

Refrigerants in Air Coolers: The current use of Arcton 22 has to be phased out by 2008. RMB is investigating alternatives.

## Use of Chemicals

The company that manages the facilities at 1 Merchant Place ensures that cleaning contractors use only bio-friendly chemicals and that cleaning staff are effectively trained on the safe and effective use of these chemicals.

## Use of Water

RMB continuously investigates methods for the effective use of water and ensuring that water is recycled or re-used as far as reasonably possible.

Automated urinal flushing units have recently been installed throughout 1 Merchant Place.

The automation of hand wash-basin mixers is currently under investigation. Although automation of these units is a lot healthier than traditional methods, savings are still to be quantified.

## Use of Paper

Rand Merchant Bank aims to reduce, re-use or recycle paper. Used paper is placed in separate containers which are collected by recycling companies. RMB is investigating alternative methods to reduce the amount of paper used, and to rather use electronic media.

## Old furniture and computers

Old furniture is donated to the SAPS and The Salvation Army.

## ***Objectives for the coming year***

### Direct Impacts

Waste stream identification and management planning.

# **Our Indirect Environmental Impact**

## ***Why our indirect impact matters***

FirstRand Bank Limited (FirstRand), of which RMB is a division, believes that environmental and social risks and opportunities are relevant to financial institutions and sometimes they can be turned into business opportunities that benefit communities. The challenge is to identify these opportunities while preserving the natural environment for future generations.

Rand Merchant Bank (RMB), accepts that the activities of some of its clients may have a direct impact on the environment. Through considered lending criteria and adherence to environmental guidelines and best practice, RMB aims to minimise its indirect impact on the environment.

## ***What we are doing***

FirstRand Bank has an environmental risk policy, enforced at executive level and reviewed quarterly, which covers all FirstRand Banking Group products. It is consistently applied in the Bank's lending criteria, irrespective of the sums of money involved. This policy is available on request.

The various FirstRand credit committees determine the financial and reputational risks of a transaction, and whether these risks are adequately managed. The lending criteria allow the bank to ascertain whether a client has complied, or is able to comply with relevant legislation.

In the absence of legislation or any other criteria that may apply in local jurisdictions, transactions are classified according to World Bank criteria. Business units are guided by the recommendations of an Environmental Impact Assessment (EIA), which may incorporate recommendations as a condition of the loan.

The FirstRand Credit Committee or any of its sub-committees may impose additional conditions. Credit facilities may be reviewed quarterly, bi-annually or annually. Any revisions may result in FirstRand monitoring the client's environmental performance.

RMB employees know that loans aren't approved for clients who do not comply with the relevant environmental legislation. Environmental policy is thus already an integral part of the daily business and decision-making process. Therefore, no formal training or monitoring programme in this regard is deemed necessary.

It is our objective that FirstRand employees read and understand our environmental risk policy. This will empower them to further educate clients on environmental issues and risks.

## ***Objectives for the coming year***

### Indirect Impacts

Various RMB business units are investigating opportunities in the area of carbon credit trading and weather derivatives.

### Compliance Requirements

Recent Environmental Impact Assessment Regulations published under the National Environmental Management Act (June 2006) regulate the activities of Financial Institutions and FirstRand Bank will develop measures to ensure that they comply with these new requirements.

# **Our work with the Community**

## ***Why the community matters to us***

RMB believes that the private sector makes a valuable contribution to the development of the community in which it operates, thereby providing a sustainable future for all.

The RMB Fund focuses its support on educational initiatives, particularly in maths and maths literacy. It also supports environmental and nature conservation, arts and culture, safe communities and social re-integration, and staff initiatives linked to community care programmes.

RMB's staff charity drive (the Hug Fund) started in 2000 after the Mozambique floods, when staff members took food, clothing, seed and garden implements to affected areas. Since then, regular charity drives have been held to collect goods and funds for the needy. The RMB Volunteers strive to help out with each and every request for assistance by getting involved with the community and giving of their time, energy and money. The FirstRand Volunteers Programme gives staff an even greater incentive to get involved by setting targets and matching the funds raised. It is through channels such as these that we are able to contribute towards national upliftment and community development.

## ***Who are the community***

Our community consists of the society, in which we operate, as well as our shareholders, clients and employees. By being an active corporate citizen, we leave behind a positive footprint in the areas where we operate.

The activities of the RMB Fund are governed by the FirstRand Foundation Trust Deed, Charter and legislation pertaining to Public Benefit Organisations. The communities that benefit from the RMB Fund's support are therefore all public-benefit organisations or organisations that carry out public-benefit activities. The communities that benefit are mostly students, teachers, youth-at-risk, threatened animal and bird species, and the environment.

The activities of the RMB Volunteers cover mainly schools, orphanages, animal shelters, old-age homes and the homeless.

## ***What matters to the Community***

South Africans want skills, employment, healthcare and a safe, clean environment. As a merchant bank, we can contribute to this by focusing on a range of appropriate interactions.

## ***The RMB Fund's key strategic focus areas***

The RMB Fund focuses mainly on:

Education (maths and maths literacy).

It is the largest single portion of RMB's Corporate Social Investment budget. The programme targets primary schools, high schools and universities, and is spread over a wide range of areas ranging from teacher-training and bridging courses to bursaries and research.

The Fund also supports outreach programmes run by independent schools for the benefit of less privileged schools, as well as centres of excellence.

Putting our maths expertise to good use

The RMB Fund proactively supports interventions that increase the number of quality, higher-grade mathematics passes. These initiatives are guided by research conducted by the Centre for Development and Enterprise (supported in part by the RMB Fund), which highlights the challenges of mathematics teaching in South Africa. Two of the largest beneficiaries are the Maths Centre and Penreach Mathematics Programme. The RMB Fund has been actively involved with the management of these projects to review best practice and monitor progress.

Environmental and nature conservation

RMB supports the preservation of low-profile threatened species such as the giant bullfrog, blue swallow and Cape leopard, and their equally threatened habitats through education programmes and initiatives.

Arts and Culture

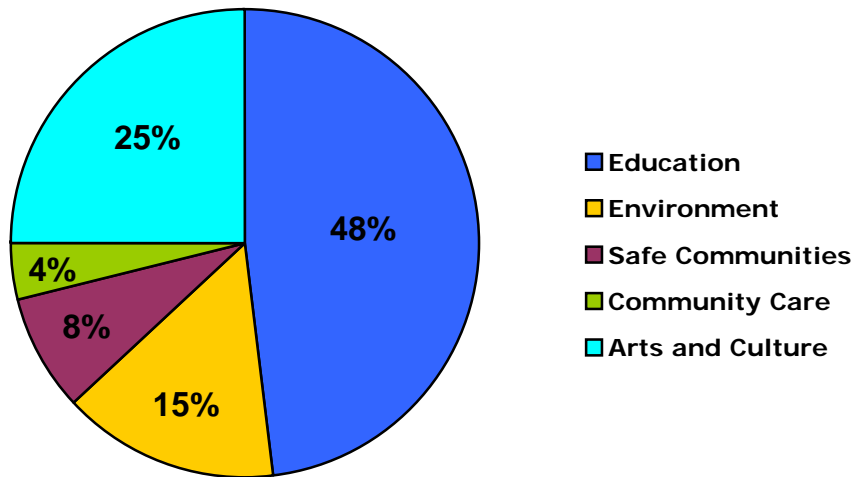
Our focus is mainly on programmes that identify and nurture young talent and those which support dance, classical and Afro-symphonic music.



**Safe communities and social re-integration**

These programmes attempt to decrease crime and reduce the recidivism rate by helping offenders with their re-integration into society.

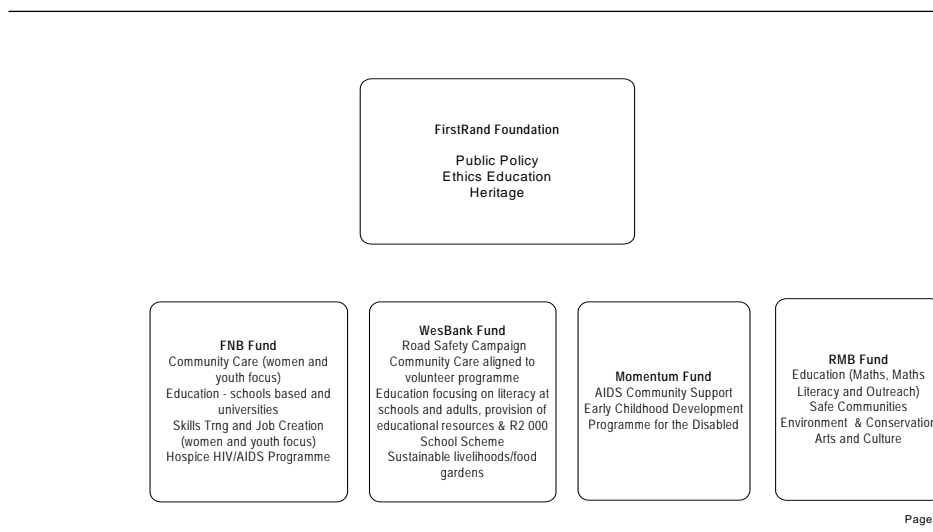
The table below shows the spread of our funding by sector



The RMB Volunteers have undertaken a range of initiatives recently. These include the donation of schoolbooks to the Diepsloot BASA school, the provision of soya mince to a school in Lawley and providing of seed and implements to a the community-led Animal Welfare vegetable garden.

They spent R535 000 on outreach projects during the year, R213,000 of which was matched funds from the FR Volunteers Fund. They also spent R 158,700 worth of donated e-bucks on goods for projects.

**FirstRand Foundation Focus Areas**



## ***What we are doing***

In line with last year's decision to move towards an impact assessment model, the Foundation's social investment consultancy, Tshikululu Social Investments, has employed a Monitoring and Evaluation Practitioner. Given the numerous and varied projects the Foundation has to deal with, a successful monitoring system needs to be established which, in effect, will allow projects to report on their own progress. To this end, the practitioner is holding focus-group sessions and interviews with the people behind the various projects. It is vital that they view it positively as a capacity-building tool rather than as a punitive, number crunching exercise.

This is a mammoth task and will grow organically. It is vital that it is an inclusive process to ensure that the beneficiaries of the Foundation's support view the M&E systems as a capacity building tool as opposed to a number crunching, punitive exercise. The outcomes of the M&E findings will further strengthen the Sustainability and Charter reporting requirements. The inclusion of a dedicated M&E practitioner to FirstRand Foundation's portfolio is considered a ground breaking initiative in the CSI field.

# **Our Customers**

## ***Why our customers matter to us***

Rand Merchant Bank offers specialist financial solutions and takes principal positions in the fields of corporate finance, structured finance, project and infrastructure finance, private equity, commodities, equities, interest rates and foreign currencies. We apply our intellectual capital to provide clients with solutions that meet their needs. Because our products and services are largely tailor-made, we collaborate extensively with clients to understand these needs. Our product innovation process is a direct result of this close client interaction.

We also interact with clients in the public sector to meet the challenges of development in South Africa. We strive to support them in policy, regulation and the building of institutional capacity.

RMB Asset Management's entire business strategy is built around addressing the needs of its clients. Its objective is to exceed client expectations and be rated as the best investment manager, through achieving consistent superior returns and exceptional service.

## ***Who are our customers***

Rand Merchant Bank's key clients are the top 200 corporate companies domiciled in South Africa, with additional clients drawn from selected economic sectors. Other clients include established and emerging BEE companies; multinationals operating mostly in Southern Africa; and various public-sector entities.

RMBAM manages investments for retirement funds, medical aids, educational institutions, corporates and individuals.

RMB Private Bank clients include entrepreneurs and high net worth individuals.

## ***What matters to our customers***

Rand Merchant Bank typically engages with its clients' top decision-makers on a one-on-one basis. This enables us to continuously monitor our performance against clients' expectations. We also conduct executive surveys, which focus on a particular part of our business. This year's survey focused on our Treasury operations.

RMB Treasury client priorities are:

- integrity and honesty
- understanding their needs
- competitive pricing
- excellent service
- quality products and services
- concern for their business.

RMB Asset Management's client priorities are:

- superior investment returns
- seamless, world-class operational support.

In December 2005, RMB Asset Management signed an administration outsourcing agreement with JP Morgan Worldwide Security Services, creating a dedicated, global team that can offer clients investment administration underpinned by global best practices. RMBAM will continue to take full responsibility for all investment administration operations.

### ***Our strategic focus areas***

Rand Merchant Bank's current focus areas, derived both from client feedback and an assessment of the current economic and regulatory environment, are:

- a better understanding of the business models of individual clients
- regular and consistent communication with clients
- innovation that enables clients to take advantage of new investment opportunities and funding solutions that minimise their cost of capital.
- continuing to meet the development objectives of the Financial Services Charter, particularly the areas of funding for targeted investments and BEE.

RMB Asset Management strongly supports the principles of shareholder activism, which plays a key role in enhancing the value of the assets entrusted to us. This support is communicated regularly to our clients. Our policy is to actively exercise clients' voting rights, providing well-reasoned support for resolutions and engaging with like-minded institutions. We believe that shareholder activism is best conducted away from the limelight, and we frequently engage with company management behind-the-scenes before embarking on a course of action.

In terms of the Financial Sector Charter, pension fund trustees should also make a material contribution to shareholder activism.

As long-term investors, we seek to balance the objectives of unlocking investment value in the medium term with investing in sustainability over the long-term. We believe that managing sustainability risk also incorporates social and environmental factors, and that a company's overall approach is best monitored through good corporate governance.

### ***What we are doing***

Senior Rand Merchant Bank executives are assigned responsibility for our key corporate relationships, enabling us to anticipate the clients' needs. By understanding the underlying exposures and sensitivities of each client's business model to changes in the operating environment, we are able to take a coordinated, integrated, multi-disciplinary approach which produces the most appropriate solution.

These solutions, which often involve multiple products and instruments can be complex and are driven by market rates, the economy, and various regulatory and legislative requirements. Standardised products often evolve out of such solutions allowing even more clients to benefit from our expertise.

The development objectives of the Financial Services Charter continue to challenge the creativity of our teams. For example, we have enhanced our risk model in the area of affordable housing (done jointly with FNB). We also continue to develop ever-more innovative funding solutions for BEE transactions. An example of the latter was the creation of Makalani, a listed entity which provides mezzanine finance for BEE transactions and targeted investments.

RMB Private Bank draws specialists with entrepreneurial flair from various disciplines to ensure that our clients receive the best advice and solutions for their particular financial situation. The service model includes multi-disciplinary teams comprising debt structuring, wealth management, asset management and fiduciary expertise.

### ***Objectives for the coming year***

- continue to undertake only those business dealings that are conducted with honesty and integrity.
- understand our clients better and the impact of the economic environment on their business.
- improve coordination between the business units of both RMB and FirstRand so as to provide clients with more integrated solutions which draw on the expertise of all parts of the FirstRand Group.
- devise new investment opportunities and funding sources for our clients.

## **Our Regulatory Environment**

### ***Why the regulatory environment matters to us***

Compliance to the Regulatory regime, as well as the principles enshrined in Basel 2 and the King II report on corporate governance indicates to our shareholders, customers and staff alike that we are committed to running a business in line with international best practice. As there is a huge amount of disclosure on risk management and corporate governance to the regulator, these stakeholders can gain peace of mind that an independent party is overseeing the application of best risk management and corporate governance practice.

### ***Who are our regulators?***

In South Africa, Rand Merchant Bank's operations are overseen by the South African Reserve Bank (SARB), the Financial Services Board (FSB), and the Financial Intelligence Centre (FIC). Our operations in Ireland are under the relevant regulatory authorities of those countries. The information provided below focuses on our South African operations only.

RMB Asset Management (Pty) Limited (RMBAM) is approved as a discretionary Financial Services Provider (FSP) and is licensed to act as a Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act (FAIS), license number 623, thereby authorising it to render an intermediary investment management and administration service and to dispense advice where applicable in terms of the Act. Furthermore, RMBAM is approved as a pension funds administrator in terms of Section 13B of the Pension Funds Act, registration number 24/34. RMB Asset Management is a member of the South African Futures Exchange (SAFEX) and YIELD-X divisions of the JSE. RMBAM also belongs to various industry bodies such as the Investment Management Association of South Africa (IMASA), the Compliance Institute of South Africa (CISA) and the Retirement Fund Institute. RMB Asset Management is regulated by the Financial Services Board and in certain instances by the South African Reserve Bank.

RMB Private Bank is approved as a Financial Services Provider (FSP) and is licensed to act as a Financial Services provider in terms of the Financial Advisory and Intermediary Services Act (FAIS), license number 624, thereby authorising it to render intermediary services as specified in the conditions of the license, and to dispense advice where applicable in terms of the Act.

## ***What are our major regulatory issues?***

The asset management industry operates in an increasingly regulated environment where the necessity for regulatory compliance has to be balanced with its costs, while taking into account the impact on the business. Both new and changing legislation have highlighted the need for formal and structured monitoring of compliance. RMB Asset Management acknowledges, endorses and supports the Code of Practice and Conduct contained in the King Report II. We implement strict legal, compliance and risk-management measures to promote sound corporate governance and adhere to legislation and sound business practices. We actively engage in discussions and workshops with the Regulators on pertinent issues.

## ***Changes during the year***

There have been some changes for us in the regulatory environment in the past year. RMB has focused on the following areas:

### Quality of regulatory reporting

RMB has continued to stabilise its regulatory reporting platform through the implementation of substantial compensating controls. This has improved the quality of reporting and has been well received by the SARB.

### Statutory compliance

We have made significant strides in complying with the regulations attached to the Banks Act, as well as the requirements of the Companies Act.

RMB Private Bank undertook the following steps to ensure compliance related to Regulatory bodies and Acts:

- The Financial Advisory and Intermediary Services Act (FAIS) was implemented and a compliance report submitted.
- The National Credit bill was introduced to replace the Credit Agreements Act and Usury Act and required extensive commentary.
- The Protection of Constitutional Democracy Against Terrorist and Related Activities Act 33 of 2004 was promulgated in May 2005, which required the monitoring of new clients and foreign transactions (Swift payments) against a United Nations list of terrorists. Monitoring checks are performed on a daily basis.

### Drafting of new Banks Act returns

Over the past year, the industry – with significant input from RMB - has been assisting the SARB in drafting more meaningful regulatory returns.

Money-laundering

In an external audit of KYC (Know Your Customer), undertaken in this financial year, RMB scored 100% in the area of client documentation.

### ***Issues for the coming year***

For Rand Merchant Bank, the impending implementation of Basel 2 and the promulgation of new regulatory returns, are the primary regulatory changes for the next two years.

RMB Asset Management is currently in discussions with the Financial Services Board (FSB) and the industry on the redrafting of Regulation 28 of the Pension Funds Act as part of pension fund reform through the Investment Management Association of South Africa (IMASA).

Comment on the changes to the FAIS Compliance Report for Asset Managers has been submitted to the FSB.

RMB Private Bank's major issues to be addressed in the coming year are customisation of legislation onto CURA (FirstRand's compliance system) for compliance monitoring purposes, and the implementation of new legislation.



# OUTsurance – Sustainability Report 2006

## Overview

### *Our focus this year*

OUTsurance is the direct short-term insurer within the FirstRand short-term insurance group of companies. When forming the company, the stakeholders' vision was to change the negative public perception about short-term insurance.

To this end, we provide innovative and value-added products to our clients ensuring that they "*always get something OUT*" in their dealings with us. Their experiences are determined by those who deliver the service to the clients, and this includes our people and our service providers. We also aim to positively impact the wider community with broad-based community safety initiatives.

The success with which the company achieves its goal is impacted by its shareholders who provide the framework, which allows the company to operate in an entrepreneurial and innovative environment.

### *Reporting to our stakeholders*

The company remains focused on ensuring that all its stakeholders benefit from the company's success: its clients, staff, shareholders, service providers and the wider community.

### *The scope of this report*

The report outlines the company's approach to its stakeholders and information relating to the regulatory and environmental landscape in which the company operates.

### *Making progress*

While the company's success to date proves that it enjoys the confidence of the insuring public, OUTsurance believes in sharing in these successes and will continue to provide

- Value for money products and *awesome* service delivery to clients:  
The OUTsurance business model is simple and effective. The pillars of an actuarial rating, a scientific underwriting approach plus effective cost and claims management rest on the base of an effective information technology platform. This supports the company's ability to implement superior risk management through unique and innovative products.

Previous product innovations include the OUTbonus, which made it possible to return millions of Rands to thousands of satisfied clients as a reward for them being claim-free. Other innovations include marketing commercial insurance products directly through Business OUTsurance. In addition, Essential OUTsurance was designed to provide affordable cover to the currently uninsured vehicle market.

OUTsurance is driven by a set of core values, which provide the framework for the thoughts, actions and business conduct of its people and which thus determine the culture and personality of the company as a whole. The values include awesome service, profitability, passion and recognition.

- o Transformation and human capital development:

At the heart of this business model are OUTsurance's skilled people who remain solely responsible for ensuring that the company consistently delivers on its brand promise where "you always get something out".

The company is committed to leading the way through innovative public service campaigns that include road safety and crime-combating initiatives, as well as improving the lifestyles of the disadvantaged.

The company is fundamentally committed to the principles of Employment Equity (EE) and the Financial Services Charter (FSC)

OUTsurance has made great strides in achieving its initial aim of transforming the local short-term insurance industry, thereby helping to restore public confidence in the industry as a whole. The company will continue to work towards achieving this, and so create winning relationships for all concerned.

# Our People

## *Why our People matter to us*

Skilled people using sophisticated systems ensure that the company delivers on its brand promise - "you always get something out." Outstanding organisations are composed of outstanding people.

Our core values provide a framework for our thoughts, attitudes, actions and appropriate business conduct for all OUTsurance employees.

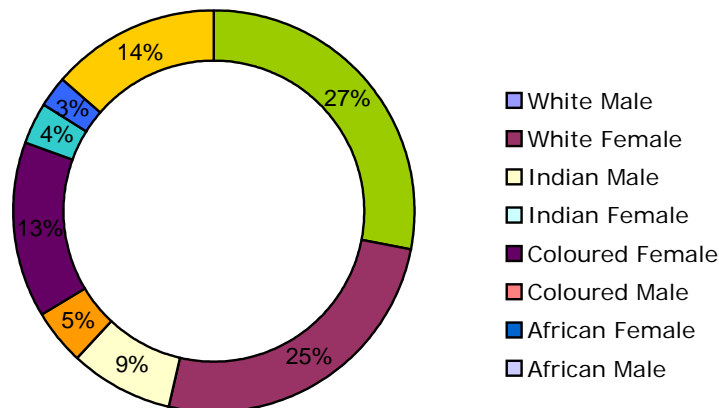
An important constituent in our success is the peoples' passion and their associated compassion and support for clients and colleagues alike.

## *Who are our people?*

OUTsurance currently employs more than 1200 people, the majority of whom are located in the company's Centurion-based head office and who are involved in sales, claims and client servicing. A contingent of claims assessors and marketing staff, 65 in total, are also located in small satellite offices in Cape Town (33), Durban (26) and Port Elizabeth (6). In addition, there are a number of home-based buildings claims assessors in Bloemfontein, Vereeniging, Witbank and Klerksdorp.

The company is a dynamic organisation that embraces the principles of diversity within the workforce. Almost 50% of our staff complement is Black and the average age within the company is 30 years old.

The graph below reflects the breakdown of our staffing complement according to race and gender.



## ***What matters to our People***

Staffing issues (including levels of staff satisfaction) are identified using a combination of the following:

- an annual Climate Survey which is aimed at assessing the organizational climate
- ongoing feedback and suggestion sessions
- facilitated 6-monthly workshop (*Talkout*) sessions, where a range of issues are discussed with staff and the joint MDs.

Various forums also provide invaluable feedback from our people. These include the Employment Equity forum, the HIV/AIDS, Occupational Health and Safety and remuneration Committees. Benchmarking also takes place against the Global Contact Centre Benchmarking standards.

In addition, information is extracted through:

- structured exit interviews providing exit trends and reasons
- staff turnover and absenteeism rates
- industrial relations interactions for disciplinary information and trends

## ***Our strategic key focus areas***

### Transformation

Transformation and in particular Employment Equity remains a strategic area of focus. From an Employment Equity point of view the company is compliant with both the substantive and procedural requirements of the legislation. The EE Forum is an active staff consultation body and our Employment Equity targets have been consistently met. There has been significant upward movement in the overall representation of Black staff in the organisation and work in this regard is ongoing.

### Training

The OUTsurance Learning Academy believes in lifelong learning and not only opens the door to product and system knowledge but also offers soft skill and management training interventions.

A major staffing challenge is ensuring that all our advice-giving staff are fit and proper for FAIS purposes. This, and our physical location in Centurion, have impacted the supply of skilled staff to meet our operational requirements. The supply of Black staff in particular is a concern that is receiving serious attention and plans are being formulated to ensure that these challenges are overcome.

Our innovative YATS (Young Aspiring Team Managers) and YAMS (Young Aspiring Managers) programmes assist individuals to try to reach their aspirations. Individuals are identified as possible future team managers/managers. The programme has proven to be a huge success with the majority of the appointed team managers/managers having been appointed while on the programme. The programmes are innovative in that they identify appropriate talent and equip the candidates with leadership and management skills so that those who are appointed as leaders can effectively employ their skills, thus creating a structured approach to leadership development.

We believe that it is the inherent right of every employee to have access to develop his or her skills in the workplace. People are our most important asset and their development is essential for the continued growth and success of our organization. It is with this view in mind that extensive initial training is offered to all new employees joining the organization; this training includes product, systems, and specialist (claims, sales, client care). We also have a wide range of behavioural skills training offered internally to enhance the attributes needed by our staff to close the competence cycle and function optimally in their roles. In 2005 we paid a skills levy of R1.8 million to the INSETA and in total spent R6.8 in training expenses. As a result of the training expenses and skills development projects that we engage in, we are able to claim back all the mandatory and discretionary grants from the INSETA that we are entitled to.

Our training costs and breakdown is reflected below:

Total Staff Trained	1,087
Total Training Cost	6,555,472.05
Hours Trained	90,738.75
Total Payroll	191,284,135.74
Cost per Employee	6,030.79
Training hours per Employee	83.48
Training cost in terms of payroll per employee	3.43%

Our Leadership development includes internal programmes such as Team Managers Induction Programme and external management programmes offered in partnership with GIBS. Some of our managers have recently completed our Management Development Programme.

To facilitate skills development and ease entry into the workplace for Previously Disadvantaged Individuals, we offer a learnership programme in NQF Level 4 Certificate in Short Term Insurance. 5 learners are due to complete the year long programme in February 2006 and we are recruiting 25 more learners to begin in September 2006.

## HIV/AIDS

OUTsurance has conducted a number of awareness campaigns to highlight the issue of HIV/AIDS among its staff. Campaigns undertaken thus far have included the distribution of literature and poster displays as well as company-wide training and development. A number of awareness campaigns were held to coincide with World Aids Day. On a more regular basis the company has included the subject of HIV/AIDS into its training programmes, dealing with information-sharing and personal risk management when it comes to HIV/AIDS. A committee has also been formed to provide direction and co-ordinate programme initiatives. As a result of initiatives, all staff have been encouraged to voluntarily participate in tackling the issue at OUTsurance. In addition, members of the company's designated Medical Aid schemes, staff and family members infected with HIV are actively encouraged to utilise the HIV/AIDS Management programmes, which are also well marketed in the company.

## Policies and Practices

In addition to OUTsurance's core values, the company embraces the procedural guidelines and various codes of good practice that exist in labour law. In compliance with specific legislation, OUTsurance has committed itself to acting within the framework of various codes of conduct that exist in labour law including the following:

- Code of Good Practice on Dismissal;
- Code of Good Practice on the handling of Sexual Harassment Cases;
- Code of Good Practice on Dismissal for Operational Requirements;
- Code of Good Practice on HIV/AIDS; and
- Protection of Employees during Pregnancy and after the Birth of a Child

In addition the following policies are in place:

- A Code of Conduct called "The OUT Values"
- A policy concerning Gifts and the use of company service providers
- Disciplinary and grievance procedures
- Employment Equity policies
- Occupational Health and Safety.

## Staff Consultation

A key aspect of a satisfied workforce is the level at which staff are involved in decision making processes. In this regard staff consultation takes place extensively within the company in a number of formal subject-specific forums that are in place. Typically these forums are made up of staff-elected representatives and management appointed representatives. Some of the forums that are in place to consult with staff include:

- Performance-Based Salary Committees: Consults with staff on issues pertaining to the performance based remuneration scheme.
- EE Forum: Consults with staff on all Employment Equity related matters.
- Health Committee: Consults with staff on staff well being issues including HIV/AIDS

# Our supply chain

## *Why our suppliers matter to us*

Our suppliers are a vital part of the awesome service delivery mechanism and the cost/expense chain. To this they provide 2 pillars, which have an enormous impact on our success.

The expenses of OUTsurance are extremely diversified. Broadly speaking, these costs are categorised into claims spend and overhead expenses.

Claims expenses are by far the largest single component of the company's expenses. Of the approximately R1,3 billion incurred annually for claims settlement, approximately R620 million relates to direct cash settlements to financial institutions or the insured persons themselves. The remaining amount comprises payments to small and medium sized businesses servicing the insurance replacement market.

## *Who are our suppliers?*

In the main, our suppliers are service providers whose services are used in response to claims. They range from vehicle repairers, to builders, plumbers, electricians and suppliers of household and personal goods.

The following represents the range of service provider payments, ranking the spend volumes in sequence from largest to smallest:

- Panel beaters
- Builders
- Household Contents
- Motor Glass
- Geysers and plumbers
- Accident Assessing
- Car Rental
- Geysers and Plumbers
- Jewellery
- Carpets
- Vehicle Dealers
- Towing
- Alarms and Security
- Computers



- Cell Phones
- Swimming Pools
- CD/DVD Replacements

The amounts paid to the various classes of service providers vary according to the nature of the service being employed. In some instances payments are made to one dedicated service provider, for example motor glass, whilst for other risk types, payments would be made using a panel of service providers made up of numerous panelbeaters, builders and plumbers. As such, different strategies are used when managing claims expenditure as well as the panel of service providers used by the company.

The procurement department, in collaboration with the claims departments manage the panel of claims service providers. Service Level Agreements are entered into in most cases in order to set pricing structures and measure service delivery tolerances. These agreements and payments are constantly monitored. Opportunities to optimise claims spending are investigated and changes implemented where savings or better service can be achieved.

### ***What matters to our Suppliers***

Supplier satisfaction is not currently measured. However, a system is in the process of development and is due for rollout in the near future. The system will generate a questionnaire for clients to complete regarding their own interaction with the service provider dealing with their claim. A service satisfaction index will form part of this development. This will offer us data to be able to interact with our suppliers to improve our relationship with them.

### ***Our key focus area***

OUTsurance is 100% committed to ensuring that we achieve the FSC targets for BEE procurement. We understand that transformation will not happen overnight and that unfortunately it will take time for capital and skills to flow to the previously disadvantaged. Balancing our interests in supporting these enterprises, while also ensuring quality and client satisfaction, remains a challenge that we are constantly managing. Our current BEE service providers and hopeful BEE applicants wishing to be admitted to the OUTsurance panel are given preference in either the application to the panel, or in the allocation of work.

### ***What are we doing about it?***

OUTsurance has recently communicated the key aspects of broad based black economic empowerment to its service providers. Furthermore, in collaboration with the FirstRand Group, OUTsurance will be inviting its service providers to attend transformation workshops that are aimed at unpacking some of the daunting BBBEE issues facing small and medium enterprises. While the DTI codes of good practice have not yet been finalised,

OUTsurance has committed to accepting broad based empowerment certificates from registered accreditation agencies based on the 7 elements laid out in the draft codes.

Service providers are encouraged to contact the company regarding any concerns or for further information regarding transformation.

The company is involved, together with other representatives of the insurance industry, in meeting with the various stakeholders of the largest industries that short-term insurers deal with. There is ongoing communication to ensure that previously disadvantaged and informal sectors of these industries understand the efforts being made by short-term insurers as well as the issues that face the insurers in assisting with the transformation of certain industries.

## Procurement Policies

The following policies affect procurement:

- Applications must be managed by the Procurement department. Applications must include a complete set of assessment information, including a detailed profile of the company, proof of VAT registration if applicable, proof of BEE status, and proof of company incorporation;
- All applications will be subjected to financial background checks (ITC);
- Claims managers are required to sign off all applications jointly with the Procurement Manager;
- All panel members are required to sign a service level agreement (SLA) that formalises the business relationship and details the deliverables expected by each party; and
- Service providers are usually required to meet key managers for a brief induction into the company's business practices, culture and expectations.

## Processes relating to ethical relations with Suppliers

- Service providers are made aware of the consequences of committing fraud or engaging in unethical behaviour.
- The internal audit department conducts audits and takes steps against service providers that are dishonest.
- A 'no gifts' policy is in place. Service providers may not offer gifts of any nature whatsoever to any of the company's employees.
- Social activities (e.g. golf days) between staff and service providers must be disclosed to the internal audit department.
- Use of service providers by the staff for private work must be disclosed to the internal audit department together with proof of payment for the services and goods purchased.

- The company operates an anonymous fraud line; staff, clients and service providers are encouraged to report any cases of fraud or dishonesty. (Whistle Blowing)

# Our Physical Environment

## *Why the environment matters to us*

OUTsurance subscribes to the principles of environmental awareness through its practices.

### *Our direct impact*

The geographic location of OUTsurance's head office is situated at 1241 Embankment Road, Zwartkop Ext 7, Centurion. The premises occupy some 13 000sqm of office space designed in open office plan format.

Facilities management undertakes an annual "baseline indoor air quality and thermal climate survey". This includes dust, humidity, temperature, carbon monoxide and dioxide, formaldehyde and microbial activity assessment. The results of the survey conclude that the prevailing conditions are within the recommended guidelines.

Resource management includes power-saving initiatives which include time, photocell and motion detection light activation systems after 8.00pm in the evenings. The extensive landscape gardens were planted with water consumption in mind and only make use of indigenous plants and trees. The irrigation of gardens and lawns is managed with timers and rain sensors to ensure efficient water utilisation.

Reductions in electricity consumption from the buildings HVAC installation is achieved by using the recommended economy cycle settings. These settings use 100% outside fresh air under favourable weather conditions thereby reducing unnecessary additional cooling/heating of re-circulated air. The economy cycle also increases the air quality in the building as 100% fresh air is introduced instead of the minimum 5l/s/person as required by the SABS0400 building regulations. Additionally, the air supply temperature of the office air-conditioning installation is adjusted as and when necessary to limit electrical heating requirements. For coolant purposes R134a refrigerant is used in the building's chiller plant as an environmentally-friendly substance.

Initiatives aimed at recycling include a contract with Mondi to recycle all paper and cardboard boxes disposed of by OUTsurance. All monies derived from this source are donated to the *SPCA* and *Hospice*. Other items recycled are printer cartridges with the proceeds to the refilled and resell cartridges going to *Reach for a Dream Foundation*. Other recyclable elements arising from materials used by the company are of low volume. Disposal of computer equipment, office furniture or other office equipment is done 'ad hoc' and usually takes the form of donations to appropriate institutions. Some of the charitable institutions supported by the company include *Habitat for Humanity*, elderly of Olivenhoutsbosch, *Wet Nose* and various Children's Homes to name a few.

In line with the company's initiative to improve waste management, OUTsurance along with *EnviroServe Waste Management* has recently implemented a process of sound and safe disposal of the mercury in the florescent lighting tubes used at the call centre. The maintenance staff responsible for this task have been trained in the procedure of proper disposal making use of the necessary personal protective equipment/clothing.

OUTsurance does not have a fleet of vehicles. However, two light delivery vehicles are available for use by messengers to carry out deliveries and collections. Total monthly kilometres approximate some 2,000 kilometres inclusive. In order to reduce management's travelling costs the company has installed Video Conferencing facilities in its Gauteng, Durban, Cape Town and Port Elizabeth offices. These installations have considerably reduced monthly business travel expenses particularly when management need to attend meetings.

OUTsurance is committed to Occupational Health and Safety. Each new employee attends an induction programme where information such as work place safety, building evacuation, reporting of an incident, and identification of safety representatives is discussed. Annually, Safety Representatives, Fire Wardens and First Aiders are trained and appointed for at all sites (more than the recommended amount) per the act. The OHS committee meets quarterly to discuss work place incidents/accident. We have an OHS Audit conducted by and external contractor annually.

# Our work in the community

## ***Who is our community?***

At OUTsurance, part of our vision is to contribute toward "...making our clients' and the greater community's environment a safer place". In line with this, we have decided to focus in an area, which aligns closely with our core business, in our engagement with the community

## ***Why the community matters to us?***

We are committed to community development, integrating the economic, social and environmental imperatives of our community safety initiatives.

## ***What matters to the community?***

While there are a wide range of issues that matter to the community we serve, we know that safety is an all-encompassing need in our communities, whether it be road- or home safety and we have chosen to focus on this.

## ***What are we doing about it?***

### Business Against Crime (BAC) and the Gauteng Anti-Hijack Unit

Partnership policing has reached new heights - thanks to our continued partnership with South African Police Service and Business Against Crime. OUTsurance is proud to be sponsoring the Gauteng Anti-hijacking Task Teams which have been successful in intercepting syndicates and individuals resulting in the reduction of hijackings of vehicles by 33% as well truck hijackings by 26%.

Since the formation of the Ant-Hijacking Task Teams in 2002, vehicles worth billions of rands have been seized and several syndicate members arrested. In a significant achievement, we have seen 2385 suspects arrested, 113 firearms and more than 5000 vehicles confiscated. This was over a 29 month period. Several chop shops and scrap yards were also closed during the same period.

In addition to this, Gauteng police arrested 37 people for reporting false hijacking cases. 14 of them have already been convicted and other cases are still pending. The seven specialised courts dealing with hijacking cases, also contribute positively toward the successful and speedily convictions in hijacking cases.

These successes augur well not only for our country, our industry, but also putting the minds of motorists at ease and creating an environment of safety and security for all.

### Pointsmen

Thanks to an innovative collaboration effort between the Johannesburg Metropolitan Police Department and OUTsurance, 21 pointsmen are OUT on the streets of Johannesburg. Their purpose is to relieve traffic congestion on roads leading to Sandton, which is the economic hub of Johannesburg. However, the project has since extended to the Midrand and Randburg areas, and there is ongoing demand to cater for more areas within and beyond the borders of Gauteng.

This initiative not only gives OUTsurance an opportunity to actively give something back to the community by alleviating traffic problems, but most importantly, has created employment and skills transfer for these youths who were previously unemployed. They all hail from Alexandra, and have gained experience while motorists have come to rely heavily on their presence.

A number of the youths who started out at the onset of the project have since moved into the traffic department, which has meant further growth and career opportunities for them and certainly opening more doors for more youths to come on board.

### Car Wreck Trailers

In partnership with the Gauteng Department of Community Safety, we have re-branded three car wreck trailers with safety messages and placed them at these strategic Arrive Alive satellite stations:

- Buccleuch interchange on the N1
- Heidelberg N3 to Durban
- Wallmanstahl N1 to Limpopo

These areas have particularly high traffic volumes and more so over holiday seasons. The trailers assist law enforcement to remind motorists about safety and the consequences of non-adherence to traffic rules.

### Arrive Alive Patrol Vehicles

In the single biggest private sector investment in South Africa's road safety, OUTsurance donated 120 traffic patrol vehicles to the Road Traffic Management Corporation (RTMC) under the Department of Transport. These vehicles will patrol hazardous locations all over the country over the next two years. Our aim with this project is to contribute to reducing road accidents. This should in turn result in a reduction in our claims, which will allow us to offer lower premiums to clients and to pay more OUTbonuses, enabling us to build a better business. However this is a project that will not only benefit OUTsurance and its clients, but the broader community as well.

The patrol vehicles will play a significant role in efforts by the law enforcement agencies to reduce road carnage. The estimated cost of traffic crashes to individuals, commerce, communities and the country is in the region of R38 billion annually.



## Our Customers

### *Why our clients matter to us*

The growth in our client base is an expression of the extent to which we have achieved the stakeholders' vision of changing the public perception about short-term insurance. Our numbers have grown significantly in our (relatively) short 8-year history. Customers are central to the strength and growth of the company since their experiences of our service delivery determine how long they remain OUTsurance clients and how many people they influence to become clients.

We remain focussed on providing innovative, value for money products that address client needs. Product changes, updates and innovations remain an ever-present aspect and client feedback is encouraged. The present suite of products includes both Personal and Commercial Lines. The Personal cover includes:

<b>Personal cover</b>	<b>Commercial cover</b>
Vehicle	Vehicle
House Contents and other personal portable assets	Office Contents, stock, electronic equipment, business interruption
Buildings	Buildings
Watercraft	Watercraft
Personal accident	Personal accident
	Liability and employee dishonesty

### *Who are our clients?*

Our client profile tends to be a broad spread in terms of gender and age and is changing with development of the emerging black market. Our clients are those with any insurable assets. Whether it be for financed or non-financed assets (cars, homes, personal goods) or those of a business owner, our client base includes the full spectrum.

Through *Essential OUTsurance* we aim to draw clients with older low-value cars, many of whom assume that the cars are not worth insuring or cannot be insured. Similarly, we are presently developing products aimed at the low-income housing market, aimed at providing cover for non-financed homes. Through joint initiatives with SAIA, we are involved in developing a Buildings product for the low income financed housing segment.

### *What matters to our clients*

We interact with our clients primarily via our call-centre, and via face to face contact for certain business clients and liaison with parent company entities. The information gathered

from clients includes personal profile information and details of insurable assets. System generated questions and physical risk surveys for certain businesses are also used to determine premium, acceptance and conditions of cover.

Our website is used to provide necessary information and news about OUTsurance to both prospective and existing clients.

Clients readily provide feedback, whether compliments or complaints, about our products and services.

Customer satisfaction is measured through service questionnaires, which are mailed to clients following any sales, client care, or claims interactions. The results are tabulated and prompt action in relation to the feedback is implemented. We currently receive an above-average response rate from clients, exceeding 18%, with the vast majority of customers giving us positive feedback about our service (with a 90% score). We remain committed to 'Awesome Service' and as such view the feedback as a crucial measurement of our service delivery.

Various consumer forums are also used as a means of providing feedback. These include the Short-Term Insurance Ombudsman, the FAIS Ombud, media consumer columns, and the consumer website [www.hellopeter.com](http://www.hellopeter.com).

### ***What we are doing about it***

All customer feedback is electronically logged and tracked. Detailed information relating to persons involved, and the nature of the feedback, is captured onto the system. Escalation processes are in place to ensure that progress and resolution of any complaint is expedited. Reports are regularly generated to confirm the number, category and resolution turn-around time. Weekly reports are distributed to all managers.

# Regulatory Environment

## *Who are our regulators?*

OUTsurance is primarily accountable to and maintains a strong relationship with the Financial Services Board (FSB) with regard to its business practices and is licensed by the FSB to conduct Personal and Commercial Short Term Insurance business. In addition, OUTsurance is registered as an 'Authorised Financial Services Provider' in accordance with the Financial Advisory and Intermediary Services (FAIS) Act.

Our interaction spans the following entities and matters:

The FSB communicates with OUTsurance on a regular basis regarding levies payable, road shows or reporting session invitations. Interaction between OUTsurance and the FSB occurs on a regular basis with regard to queries and legislative compliance matters.

OUTsurance is also a member of the SA Insurance Association (SAIA) and is actively involved in all the relevant SAIA Committees, namely:

- o Legal & Compliance
- o Motor Advisory
- o Motor & Personal Lines (Technical)
- o Insurance Data System
- o Crime, Fraud Protection and Forensic Investigation
- o Cross Border Vehicle and Provincial Vehicle Crime

In addition, the following Committees which are involved with the Financial Services Charter (FSC):

- o Access to Financial Services
- o Consumer Education
- o Enterprise Development
- o Procurement

OUTsurance deals with the Ombudsman for Short Term Insurance (OSTI) and the FAIS Ombud. The OSTI is a voluntary Ombudsman and issues emanating from this office relate mainly to clients' complaints about claims resolutions. The FAIS Ombud on the other hand is a statutory Ombud and deals with complaints relating to non-compliance with the FAIS. Insofar as compliance with the FSC is concerned, OUTsurance reports via the FirstRand group and monthly statistics on Preferential Procurement, Employment Equity and Skills Development spend on black employees are submitted to FirstRand for inclusion in the Group report.

### ***Why the regulatory environment matters to us***

The regulatory environment provides a platform, which ensures that we remain involved in business and industry initiatives and matters of interest.

### ***What are the major regulatory issues for us to address this year***

The FAIS Fit & Proper Determination requirements relating to the competency of Representatives were originally due for September 2006 (for Personal Lines) and September 2007 (for Commercial Lines). The FSB recently confirmed that an overall extension has been granted, given the overwhelming scope of the process, and that the new date is December 2009 for both Personal and Commercial Lines.

Training Programmes have been implemented to ensure that learners have sufficient time to achieve the necessary credits as per the Determination in order to ensure compliance with the FAIS competency requirements.

The implementation of the National Credit Act impacts the company primarily in its use of consumer credit profiles. Further procedural changes are anticipated with regards to the current structure of embedded buildings insurance for home loan clients utilised by banks, specifically regarding customer choice of the provider of the buildings cover.

# WESBANK – SUSTAINABILITY REPORT 2006

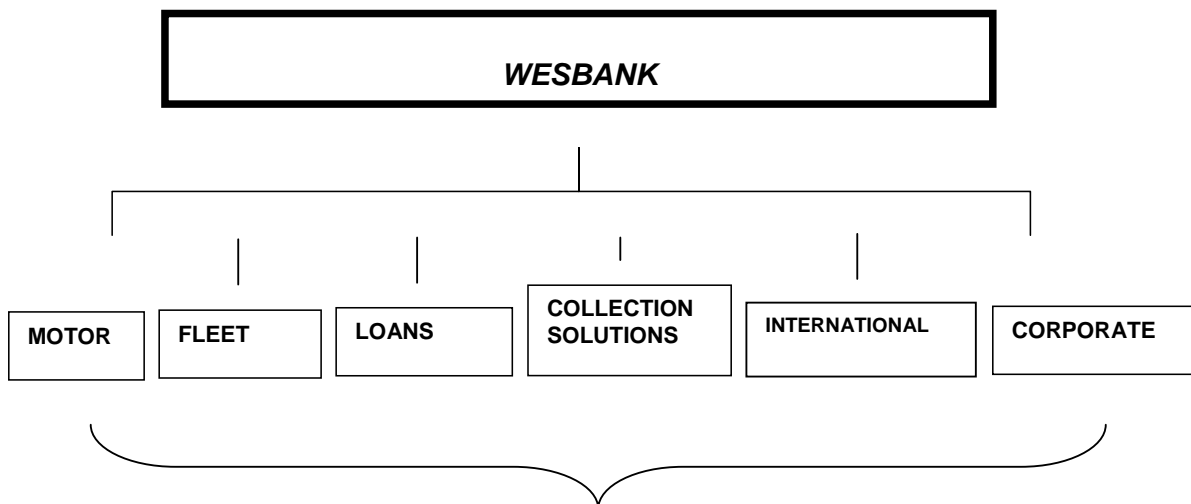
## OVERVIEW

### *Why Sustainability Reporting?*

A good business should be both financially successful and a good corporate citizen. Sustainability Reporting is about WesBank taking account of both the positive and negative environmental, social and economic impacts the bank has on its surroundings. Credibility in Sustainability Reporting lies largely in the degree to which a company is willing to commit itself to targets and/or objectives in the key areas it has identified and to report on its progress.

### *Our Business*

WesBank's core competence is instalment credit finance of moveable assets, for a wider range of customers which incorporates motor vehicles, machinery, aircraft, industrial plants, personal loans and debt collection. Due to its specialization, WesBank is chunked into business units (see diagram 1) with business decision-making being non-hierarchical, based on the successful model of the First Rand Philosophy, with support for the business units being centralised.



Supporting these divisions are the following centralised functions:

People and Customer Services

Systems

Credit and Risk

Business development

Marketing

Financial services

Legal and Governance

## ***WesBank's Key Focus Areas***

WesBank's mission statement is to be the acknowledged leader in instalment credit in terms of customer service, profitability and size. Underlying the success of WesBank are four shared values that have service standards to each value:

- We believe the customer comes first
- We believe in our people as individuals
- We believe in quality in all that we do
- We believe in profitable growth

WesBank has identified the following overarching key focus areas relating to sustainability:

### *WesBank's Key Focus Areas*

<b>Focus Area</b>	<b>Action</b>	<b>Cross reference in our report</b>
Meeting Financial Sector Charter targets specifically for Employment Equity in the middle management level	Programmes focusing on recruitment into the front line of business	People
Impact of shift in legislative environment for credit	Co-operating with auto and financial sectors to engage with key issues relating to access to credit	Regulatory
Customer impact of vehicle	Proactive stance and close	Customer

safety	collaboration with SANTACO on taxi recapitalisation	
Long term environmental impact of emissions from cars	The intention is to promote the idea of environmentally friendly Car of the Year Award in the Motor Industry	Customer
Environmentally responsible premises for WesBank	Demonstrate commitment to the environment by building environmentally responsible premises for WesBank headquarters	Environment

## **OUR PEOPLE**

### ***Why Our People Matter To WesBank***

Our shared value, *"We believe in our people as individuals"*, underpins our focus on people.

At WesBank we value our intellectual and human capital, our staff. Our objective this year is "Growing our People to Greatness". Initiatives introduced and currently underway are aimed at providing opportunities to staff to explore their unique value-add to the organization. Greatness can only be achieved through personal transformation, where staff are able to identify within themselves those unique qualities that require a shift in mindsets and that break down the barriers that prevent excellence.

### ***Who Are Our People?***

Our staff complement consists of permanent and non-permanent WesBankers, This diverse workforce is the backbone of the tremendous and continued success that WesBank enjoys. WesBank closely monitors staff movement in terms of recruitment, promotions and transfers throughout the organization, to ensure that growth in diversity is enhanced and the true potential of staff is tapped into.

We continue to make great strides towards achieving demographic representation in terms of gender, race and Differently Abled People. Representation by Black persons has grown to an impressive 55%, 4% up from last year and continues to grow in line with the Employment Equity targets.

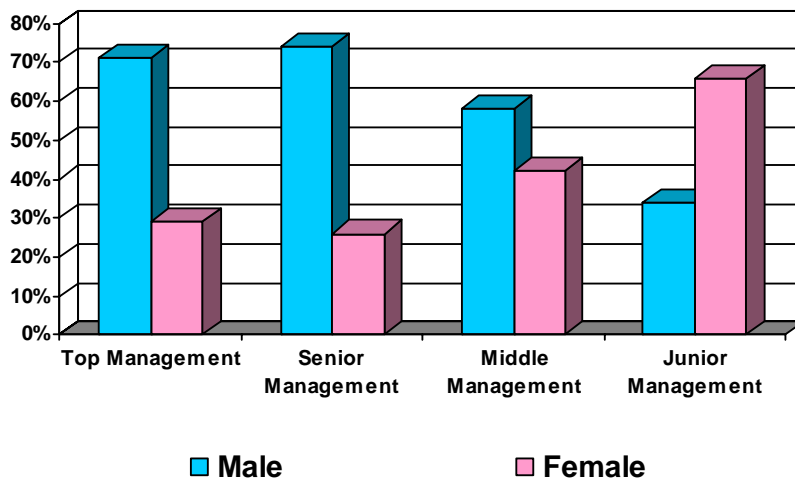


WesBank staff numbers as at June 2006

	ACTUAL					%	
	African	Coloured	Indian	White	TOTAL	Black	White
<b>TOTAL BANK</b>							
Top management	3			11	14	21	79
Senior management	6		1	52	59	12	88
Middle management	20	3	15	206	244	16	84
Junior management	72	22	55	308	457	33	67
<b>Total</b>	<b>101</b>	<b>25</b>	<b>71</b>	<b>577</b>	<b>774</b>	<b>25</b>	<b>75</b>
Supervisory	288	159	176	760	1383	45	55
Clerical	457	214	142	248	1061	77	23
Non-clerical	40				40	100	0
<b>Total permanent</b>	<b>886</b>	<b>398</b>	<b>389</b>	<b>1585</b>	<b>3258</b>	<b>51</b>	<b>49</b>
<b>Non-permanent</b>	<b>301</b>	<b>156</b>	<b>120</b>	<b>282</b>	<b>859</b>	<b>67</b>	<b>33</b>
<b>Total</b>	<b>1187</b>	<b>554</b>	<b>509</b>	<b>1867</b>	<b>4117</b>	<b>55</b>	<b>45</b>

Overall staff numbers indicate that women constitute 62% of the WesBank workforce and are represented across divisions. Representation by Black persons and women at all levels, particularly at the middle to higher levels has been receiving particular focus and attention.

Women in management June 2006



The ratio man to women in Junior and middle management is steadily increasing.

## ***What Matters To Our People***

Annually WesBank conducts a survey amongst its staff called the 'Climate Survey' to establish pertinent issues that affect staff during that year.

### *Climate survey results 2006*

<b>Area</b>	<b>Mean* 2006</b>
Recognition and reward	2.93
Performance management	3.04
"We care"	3.22
Equal opportunities	3.28
Innovation/entrepreneurship	3.20
Customer service	3.25
Managing change	3.20
Personal change	3.23
Communication	3.27
Teamwork/participation	3.24
General	2.80
Overall mean	3.19

\*The mean scores are based on a four-point scale – any mean score above 2.7 is considered "healthy" or positive.

Looking at the results for 2006, it is apparent that our staff rate us highly on 'equal opportunities' and 'communication' and low on 'recognition and reward' although this is still above the threshold of 2.7 which is regarded as a positive score.

## ***WesBank's Strategic Key Focus Areas for Our People***

In line with WesBank's objective of "growing our people to greatness", the Table below is central to all of the key focus areas.

### *Key focus areas for staff*

<b>Area</b>	<b>Comment</b>
Black representation at middle management level	The focus is on making strides towards a larger percentage of Black female representation at middle management level in terms of the Financial Sector Charter
HIV/AIDS	This year the focus has been on ensuring that all the staff and new managers attend an HIV/AIDS

	awareness workshop.
Leadership development	With the focus on "Growing our own timber", special emphasis has been placed on the development of Black persons and female employees encouraging them to partake in management programmes

## ***What We Are doing To Address Our Staff Focus Areas***

A number of initiatives mainly aimed at addressing the staff focus areas are detailed below.

### **Equity Targets**

Over the last year WesBank has made progress in meeting the Equity Targets specified in the Financial Sector Charter. Representation by Black persons has grown within 2006, and still continues to grow.

### **HIV AIDS**

In 2004, we participated in a banking sector HIV/AIDS voluntary prevalence study, however since then we have decided to focus further on quantifying the impact of HIV/AIDS on our business. We are currently in the process of introducing a monitoring system for absenteeism as well as taking all staff through HIV/AIDS awareness workshops countrywide whose objectives were to:

- To enhance general awareness of HIV/AIDS issues and priorities within the company
- To increase specific awareness of policies, procedures and referral channels within the organisation
- A full understanding of the salient issues pertaining to Voluntary Counseling and Testing for HIV (VCT) regarding the knowledge of the process, testing options etc.
- Imparting skills on how to deal with somebody who is HIV-positive

A support group within WesBank is in the process of being formed.

### **Training Strategy**

WesBank has a competency based development and training strategy that is aligned to the National Qualifications Framework. WesBank's People and Customer Service department

leads the Banking industry in terms of developing and implementing learnership programmes.

Training strategy outcomes are measured in terms of:

- WesBank workplace skills plan – actual vs target
- Training reports – number of staff that have attended workshops and have completed learning guides
- Development plans agreed upon and implemented
- Increase in staff competency levels
- Staff movement - promotions
- Staff satisfaction

WesBank's commitment to staff development is reflected in its training spend, see Table 5 below.

Training spend 2005-2006

	2005	2006
All staff	R 21 927 423	<b>R 31 327 581</b>
Black staff	R13 786 801	<b>R16 451 740</b>
Per employee per annum	R 6171	<b>R 8020</b>

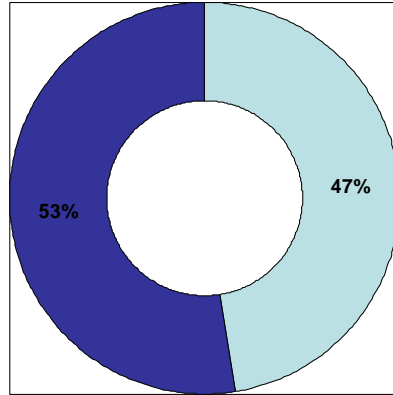
The training of staff is important to Wesbank and as such is reflected in the increase in the training spend of 43% over 2005 for all staff.

## **Learnerships**

WesBank offers numerous learnerships to unemployed graduates and matriculants. Almost half of the learnerships that WesBank offered in 2006 were to unemployed matriculants.

Learnerships

**Learnerships**



■ Black unemployed matriculants ■ Black graduates & Internal Staff

**Broadbanding**

WesBank has embarked on an ambitious structural change. This entails changing the entire multi-tiered structure one that is broadbanded. This broadbanded approach is more appropriate as it is better able to meet the needs of staff in terms of their career development.

Broadbanding involves grouping jobs and determining pay that makes development, career management and compensation management more flexible and responsive to the needs of a changing organisation. It allows for appropriate accountability and decision making at the correct levels. All WesBank's stakeholders are being encouraged to become involved in the design and implementation of Broadbanding.

**Remuneration Strategy**

WesBank's remuneration strategy is to provide a holistic and balanced portfolio of competitive remuneration, recognition and development opportunities to our staff who are considered to be our most important resource.

WesBank's intention is to progressively move towards a position where a greater portion of remuneration is linked to variable pay as opposed to guaranteed remuneration.

# SUPPLIERS

## ***Why WesBank's Suppliers Matter?***

WesBank's suppliers and service providers play an integral role in the inbound supply chain within the business units by ensuring that efficient service delivery and performance is received at cost effective prices.

The key strategic drivers at WesBank that influence supplier management are:

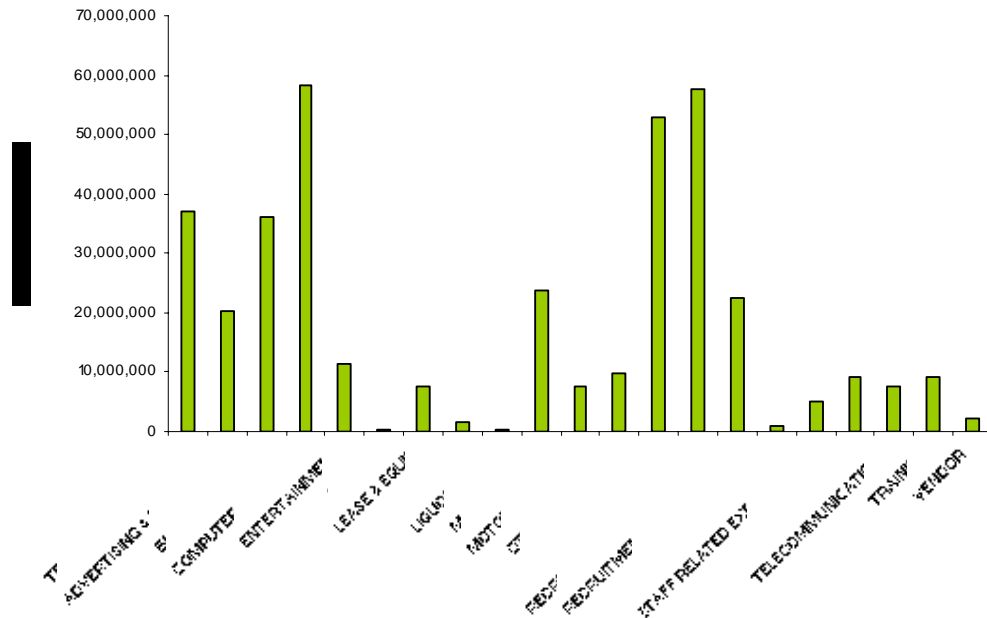
- Partnerships with key suppliers and manufacturers
- Productivity and efficiency of staff
- Improving costs

The timeous and efficient delivery of goods or services by suppliers directly impacts on the productivity and efficiency of staff. The slogan 'Concentrate on what we do best, and leave the rest to the experts' relates to the outsourcing of certain commodities, namely travel, recruitment, marketing etc, where the services rendered are imperative to the productivity of the business units.

## ***Who Are Wesbank's Suppliers?***

The WesBank supplier database comprises of just over 3000 active suppliers nationally. The graph below presents the spread of suppliers according to spend between July 2005 and June 2006.

Top Spend category suppliers from Jul 05 to April 06



### ***What Matters To WesBank's Suppliers?***

The communication between the high spend suppliers, presented in the graph above, is evolving to operate at the centralised procurement level in conjunction with the business units. As a result procurement has now started to develop direct relationships with these key suppliers. Upon adhoc communications the following are key areas are identified as being imperative to suppliers:

- Constant communication from a centralised point on performance and service delivery issues
- Centralised point for payment communications
- Involvement in the processes and developments within WesBank that may directly impact on the services rendered by the supplier
- Clear and concise service level requirements
- Communication on the expectations of Black Economic Empowerment (BEE)

## ***WesBank's Strategic Key Focus Areas for Suppliers***

### **Black Economic Empowerment (BEE)**

The impact on external stakeholders demands are framed by the Financial Sector Charter's (FSC) requirements with preferential procurement and meeting targets of 50% of total non-controllable spend to be with BEE suppliers. This target is a key focus area within WesBank.

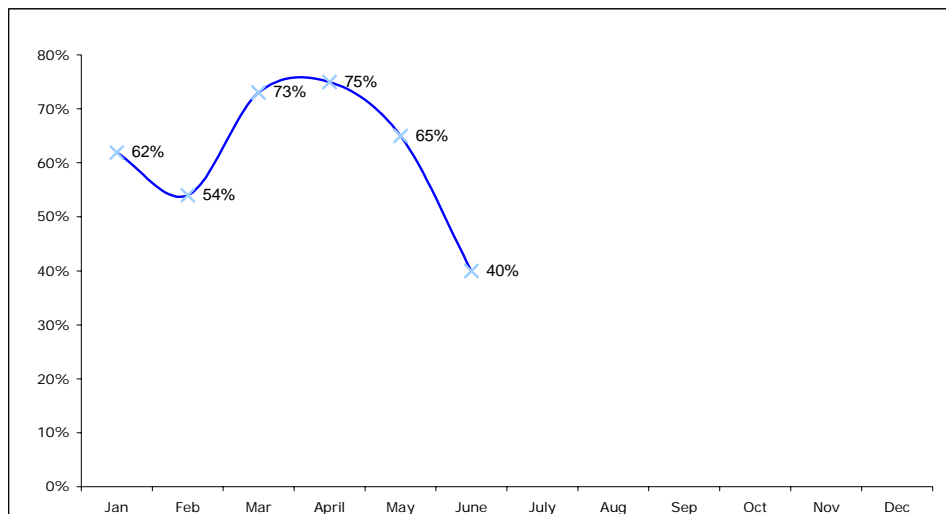
Whilst WesBank is striving to meet its BEE targets, see the graph below on narrow base reporting, we need to sustain or improve the scoring going forward as we are currently 10% short of the proposed 50% target.

The change of FSC reporting from a narrow to a broad base BEE accreditation, from 01 July 2006, places a great amount of demand on our suppliers to now obtain an external accreditation. Therefore, WesBank will be conducting workshops and presentations to ensure that its suppliers are adequately informed so as to take the necessary steps to obtain accreditation. This process will be fast tracked to ensure suppliers are included in the monthly BEE reporting for FirstRand.

### **Supplier rationalisation and consolidation**

The continuous consolidation and rationalisation of active suppliers will improve WesBank's internal administration and communication and allow for price negotiations due to economies of scale and the total value add of the services. This process currently involves placing tenders for high value commodities and appointing national service providers.

Black Economic Empowerment Procurement based on FSC Narrow definition Reporting for 6 months to June 2006





## ***What WesBank is doing about procurement?***

The role of procurement has transformed within WesBank during the last financial year with the appointment of a Procurement Manager during the same period. One of the changes is that the function now has a centralised base with the objective of consolidating suppliers and rationalising the supplier database in order to improve cost efficiencies and BEE spend.

The supplier management function, engagements and relationships lie within the business units nationally. Therefore the communication on service delivery, performance, pricing and concerns are held at the business unit level. However the process of rationalisation of suppliers has led to some standardisation on the procurement of certain commodities in order to improve payment terms, pricing and flow of documentation.

### **The Procurement Objectives for 2007**

- Implement an official procurement to payment workflow process to streamline document flow and minimise the risks for the supplier and WesBank
- Improve supplier management communication
- Conduct negotiations on prices
- All Top spend suppliers to be broad base BEE accredited.
- Measure the levels of satisfaction of WesBank's suppliers

## ENVIRONMENT

WesBank has developed an Environmental Management System to provide best practice guidelines to help the organisation comply with legislation, ISO 14000 requirements as well as other requirements.

### ***Why The Environment Matters To WesBank?***

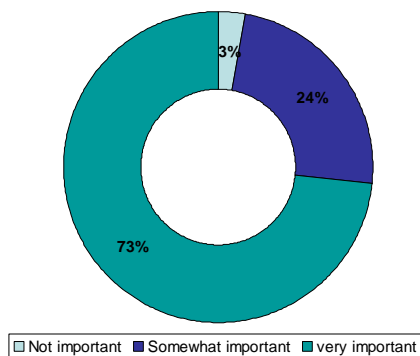
As a large corporate entity, WesBank has the social responsibility to become actively involved in sustainable development, which include the more efficient use of resources.

Although WesBank may have low direct impact on the environment, it needs to take into consideration the activities of customers that it finances because it may have a high impact on the environment.

### ***What Are Our Direct Impacts On The Environment?***

In the financial sector WesBank's major impact on the environment is the use of natural resources. In line with WesBank's intention to obtain ISO 14000 accreditation, targets and objectives have been set to reduce the amount of natural resources that are consumed, such as paper and electricity. In an internal survey, 73% of staff view the obtaining of ISO 14 000 accreditation by WesBank as very important, refer to Graph 5 below.

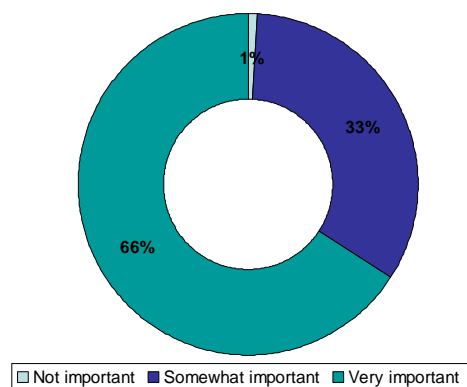
#### *Importance of ISO 14000 accreditation to staff*



## ***What Are Our Indirect Impacts On The Environment?***

Through its example WesBank is aiming to influence landlords, occupants of premises and personnel at all levels in the organisation to consider their use of natural resources and to look at increasing efficiencies in using resources while minimizing waste. This is managed through communications, training and awareness programmes. Staff were also engaged through an internal survey which established their perceptions on environmental issues. The graph below presents the findings

### *Importance of environmentally responsible products to staff*



An overwhelming majority (99%) of the staff who participated in the survey stated that they considered environmentally responsible products as important to them and their families.

## **Impact of vehicle emissions on the environment and our action**

Sustainability reporting is also about acknowledging the areas where WesBank can improve.

## ***What Is WesBank Doing About The Environment?***

In an effort to make its contribution to the environment, WesBank has ensured that its new premises, to be occupied in 2008, are as environmentally friendly as possible.

Listed below are some of the features of the new building that reduces energy consumption and takes efficient use of resources to the next level:

- Lighting control – an effective digitally controlled energy saving mechanism is in place that senses when a room is empty and automatically switches off the lighting system. This system will be evaluated by Eskom, in order for WesBank to avail of energy saving discounts.
- Also included in the plans for the new building is an energy saving method called “peak loading”, where during periods of peak energy consumption, rather than drawing on electricity, the system will function off diesel generators. This reduces electricity consumption and the associated costs.
- Water from the air conditioning cooling system will be retained and used for irrigation of the landscape.
- The building will be insulated to reduce the amount of energy required for heating and cooling.
- The air conditioning system in the new building will not contain any chlorofluorocarbon (CFC) gases, contributing to the protection of the Ozone layer.
- Solar energy will be used for the water heating system in some areas.
- Facilities are in place to ensure the recycling of waste products.
- No earth excavated from the building site was removed, this reduced the number of vehicles involved in transportation for the project and hence reduced the amount of exhaust fumes emitted into the environment.

## ***Environmental Objectives For 2007***

WesBank's objective is to increase publicity and communication pertaining to ISO 14 000 and to generate environmental awareness with customers and personnel, so as to influence efficiencies in energy consumption and waste creation.

## **COMMUNITY**

### ***Why The Community Matters To WesBank?***

Sustainability is an integral component of WesBank's success, hence its dream as a good corporate citizen is captured in the expression 'Helping to create a better world' for all our stakeholders.

Caring about the communities in which we live is one of the cornerstones of WesBank's work ethic. Nowhere is this more real or of higher priority than in South Africa. WesBank is passionate about Corporate Social Responsibility and has been actively involved as a prominent member of South African society.

### ***Who Are The Community?***

The WesBank Fund is very aware of the plight of the aged, especially those reliant on state pensions. In an attempt to respond positively to this particular sector's needs, the WesBank Fund, runs a programme for the aged, which specifically focuses on reaching the most vulnerable and needy. Furthermore, the lack of teaching resources and facilities in rural areas is well documented. In response to this national need the WesBank Fund has decided to focus resources on the provision of teaching resources and the building of classrooms in rural areas.

The communities that benefit from WesBank volunteers support, are all public benefit organisations.

In line with WesBank Fund's key strategic focus areas the communities that primarily benefit from its support include: welfare organisations, aged, destitute, schools, learners, rural communities and households.

### ***What Matters To The Community?***

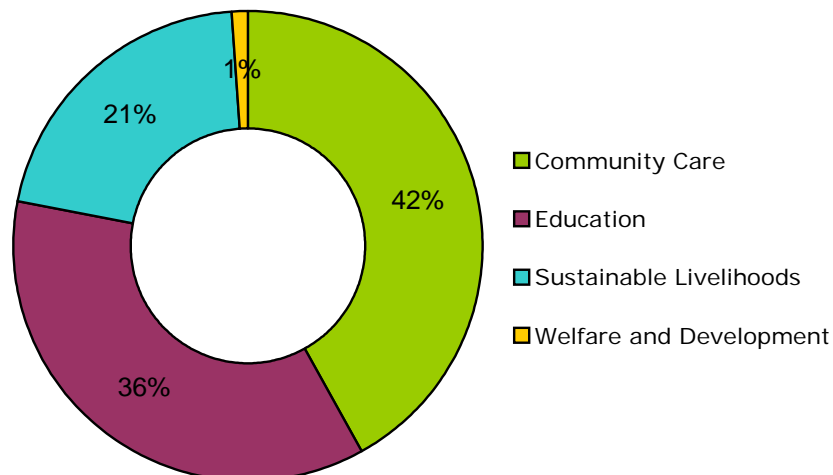
WesBank volunteers, like other volunteers from the other FirstRand divisions, rely on the organisations that we have selected to tell us what their needs are, rather than vice versa. This means that the activities that our volunteers are likely to be involved in are aligned with what the organisation need. The organisations concerned all indicate that the *activities carried out by WesBank staff have been 'exactly what we needed at that time'*.

## ***WesBank's Strategic Key Focus Areas For the Community***

Up until mid 2005, the WesBank Fund has operated in an ad hoc manner with no core strategy guiding its funding projects. This is partly attributable to the philosophy of responding directly to the needs identified by communities themselves. Through a series of discussions with the WesBank Fund Committee during the past year the following key focus areas have been identified:

- Community Care – the focus is on the homeless, aged, destitute, and projects aligned to WesBank's volunteer giving
- Education - with a particular focus on literacy and the provision of educational resources including the building of classrooms in rural areas
- Sustainable Livelihoods and Food Gardens – the focus is on promoting and sustaining projects that take communities beyond survivalist initiatives.

### **Spend by Sector**



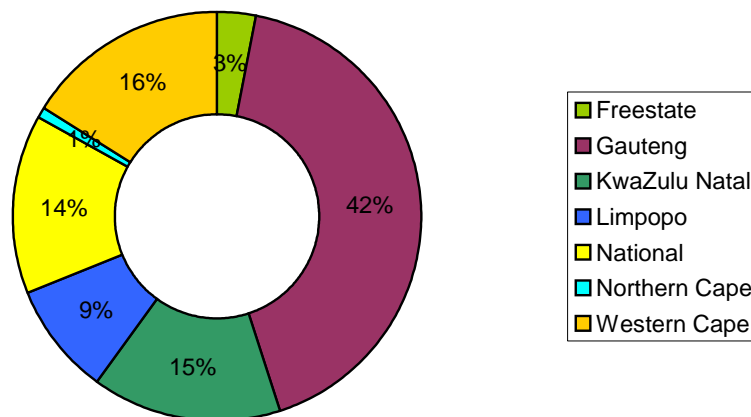
## ***What is WesBank Doing About its Key Objectives For the Community?***

WesBank has identified a need for a more focused and strategic approach to its Corporate Social Investment policy and interventions going into the future. An example of a project WesBank supports:

Community Care - Operation Fudumeza drive, of WesBank, we distributed over 10 000 blankets to squatter camps, street children and many those of those affected by the floods in the Eastern Cape area. We supplied food hampers to every household, as well as blankets to every individual within a household.

### **Effectiveness of our spend**

The following graph depicts the regions in which WesBank spent its resources in 2006.



# WESBANK'S CUSTOMERS

## *Why WesBank's Customers Matter?*

WesBank's customers are the cornerstone of its success and sustainability, without customers the organisation has no business. When it comes to finance, customers want to trust who they do business with. Hence WesBank's people and brand are inextricably linked to WesBank's customers and it is WesBank's customers that drive every decision within the organisation.

## *Who Are WesBank's Customers?*

Our business is diverse and our customers include the motor manufacturer, the motor dealer, industrial suppliers, and employees of corporate companies, individual customers (end users), corporates and government. In addition we provide services to stakeholders who are not our direct customers, but as key partners and stakeholders are treated with the service standards enjoyed by our direct customers.

WesBank has a national footprint represented by over 50 branches in South Africa and is based at 313 point of sale dealer showroom floors and through WesBank's collaboration at 58 First National Bank branches

### **End users**

WesBank currently boasts a customer base of close to a million account holders on its loan book, and these are primarily segmented by customer type namely: self employed; partnership; company and private individuals. Consistent with the booming market conditions, we have seen an increase in the number of private individuals financing their vehicles with us.

### **Intermediaries**

In addition to end users, WesBank also partners with various intermediaries. Partnerships is a key philosophy in WesBank and has led to the development of unique relationships within various industries, establishment of joint ventures with motor manufacturers, dealers and industrial business partners, as well as debt collection agencies. Through WesBank's partnering approach, the organisation strives to retain and create market dominance and continue to explore and enter new markets. This multi-brand approach links the WesBank name to the most prominent names in the automotive, corporate, commercial and industrial industries.

WesBank nurtures its relationships with its partners and through its Partner marketing department provides support to its partners where necessary.



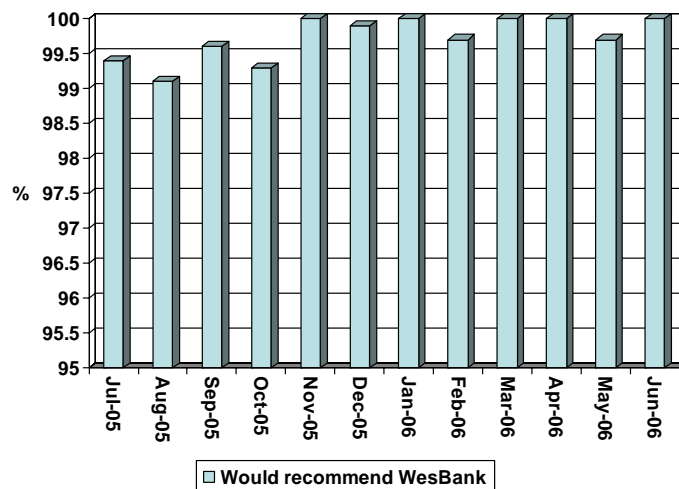
## ***What Matters To WesBank's Customers?***

Customer service is entrenched in WesBank's mission statement and shared values hence all customer complaints and concerns are responded to promptly. Service recovery happens on a daily basis and it is informed by the 'One Call' philosophy, which maintains that a customer's query is resolved through a single interaction.

Going as far back as 1992, WesBank has actively engaged both new and existing customers on their perceptions on the organisation's service experience by means of a customer satisfaction survey (CSI) administered through a questionnaire. However, WesBank, believing the current CSI to have become inadequate has embarked on a process of re-vamping the entire programme.

This is because, business needs change constantly, requiring any existing programme to be re-evaluated and fine-tuned regularly. This has resulted in the implementation of the One Question loyalty survey which asks the question: 'Would you recommend Wesbank as your first choice of finance to a friend or colleague?' This survey is currently being rolled out within the various business units.

### *One question CSI July 2005-June 2006*



Between the periods of July 2005 to June 2006, an impressive 99% of WesBank's customers said they would recommend WesBank.

## **National Credit Act**

Perhaps the most meaningful change that will directly impact on customers will be the introduction of the National Credit Act. The Act is a brave move to strike a balance between the interests, rights and obligations of providers and consumers of credit transactions. The envisaged positive outcomes for customers are that we will see:

- More empowered credit consumers
- Reduced over indebtedness
- A unified formal credit market
- A more level competitive playing field
- More product choice for consumers

## ***WesBank Strategic Key Focus Areas For Customers***

WesBank aims to be the customer's first choice in instalment finance and related services. To achieve this, the organisation has outlined the following as key focus areas:

- Efficiencies – continuous improvement
- Customer service – delivery according to WesBank's mission statement and shared values.

## ***What Is WesBank Doing On The Key Focus Areas On Customers?***

On the product development front, an exciting new product called Graduate Finance was launched in the past year. This product was designed at the right time especially when one considers the country's demographics which shows that South African youth who are increasingly making up the spending sector of the population.

### **Taxi Recapitalisation Programme**

Through an initiative called 'Vuka', the CEO of WesBank was confronted with the realities of the taxi industry and he then made a commitment to make a difference to the approximately 64% of South African population who depend on taxis as their mode of transport.

WesBank has since appointed a dedicated general manager whose sole focus is the taxi industry. His role involves providing assistance as well as support to stakeholders to ensure the successful implementation of the Taxi Recapitalisation Programme.

## WESBANK'S REGULATORY ENVIRONMENT

As a division of the FirstRand Bank, WesBank engages with the Regulators via the Banking Association. This interaction is extremely important and very beneficial with regard to the interpretational issues in the respective pieces of legislation.

### *Who Are WesBank's Regulators?*

The Regulators are the governing bodies responsible for the implementation of and compliance with the different pieces of legislation that govern WesBank's business.

There are currently two primary regulatory entities that regulate our business, in terms of which the Bank is licensed to operate, being the South African Reserve Bank (SARB) and the Financial Services Board (FSB). The National Credit Regulator (NCR) is in the process of being established and once registered as a Credit Provider the Bank will be regulated by the said Regulator.

#### Regulators

Regulator	Description of the regulatory environment
South African Reserve Bank (SARB)	In terms of the Banks Act, 1990 (Act No. 95 of 1990) the reserve Bank regulates and supervises our trading activities and compliance, as a <b>Licensed Bank</b> through the office of the registrar of Banks. The objective of this supervision is to ensure and promote the safety and soundness of banks and banking groups. The Registrar supervises all Banks via interfacing with the relevant CEO's and compliance officers for banks.
Financial Services Board (FSB)	The FSB is a independent institution established in terms of the Financial Advisory and Intermediary Services Act, 2002 (FAIS Act no. 37 of 2002) to oversee the South African Non-Banking Financial Services Industry in the public interest. As an <b>Authorised Financial Services Provider</b> the Bank is governed by the FSB

	in terms of our licensed category of products.
The National Credit Regulator (NCR)	The NCR is currently being established in terms of the National Credit Act, 2005 and the Bank will submit application to the NCR to be registered as a <b>Credit Provider</b> .

The Regulators and/ or their agents have the power to inspect our business and may request any information or documentation as prescribed in the relevant Acts. They have the power to impose fines/ penalties on the FirstRand Bank and WesBank's individual staff members, in the event of contraventions or non-compliance.

There are a number of secondary regulatory authorities who govern the compliance of numerous pieces of legislation, directives and industry codes applicable on banking operations:

Secondary Regulators and purpose of interaction

<b>Regulator Authority</b>	<b>Purpose of interaction</b>
Department of Labour	Our interaction with the DOL relates to all matters of employment legislation, regulation monitoring and compliance.
Department of Trade and Industry (DTI)	The DTI currently administers the Usury Act 1968, which will be replaced by the National Credit Act 2005 in July 2007. The DTI has published the Consumer Protection Bill and has opened it for Industry comments.
Office of the banking Ombudsman	The Code of Banking Provides for the establishment of the Ombudsman for Banking Services (OBS), who assists individuals to resolve their complaints with Banks.
Banking Association	A Co-operative association of banking participants, representing the issues and interests of the sector.
Financial Sector Charter Council	The Charter Council is responsible for the overseeing the implementation of the Financial Sector Charter, to which the FirstRand Group is a signatory.

<p>The Financial Intelligence Centre (FIC)</p>	<p>The FIC was established through the Financial Intelligence Centre Act, 2001 (No. 38 of 2001). Together with the Money Laundering Advisory Council it seeks to combat money-laundering activities. FICA provides for a system of administrative measures (that we comply with as far as it is applicable on us) to control money-laundering and to facilitate its prevention, detection, investigation and prosecution.</p>
------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

## ***Why The Regulatory Environment Matters To WesBank***

WesBank's regulatory environment provides the framework in which WesBank can conduct and grow its business. It plays a prominent role in any strategic decision. We are very aware of the risks associated with non-compliance i.e. the financial risk in terms of severe fines and penalties and most importantly the reputational risk associated with non-compliance.

### ***Major issues of concern***

A number of regulatory issues have either arisen in the past financial year, or have been the object of WesBank focus as part of implementation and monitoring. These include the following:

#### **FAIS**

All WesBank's FAIS representatives have started with the FAIS credit programme. All FAIS processes are now properly embedded and effort is being made to monitor this on an ongoing basis.

#### **FICA**

Outcome of the FirstRand initiatives to ensure compliance with the Act:

- KYC: The Know Your Customer initiative is now properly imbedded in our process. Initially it did cause some customer irritation but in general customers now understand that we are required by law to verify their identity and physical residential address. From a new account perspective it has been fairly easy to implement and control. Verification of customers' information on our existing book proved to be a bit more of a

challenge – due to the nature of WesBank's accounts there is no incentive for customers to go into a branch and provide us with the required documentation and we are relying solely on our customers' co-operation in this regard.

- The following activities are ongoing:
  - Quarterly reporting to the SARB.
  - Identification of Suspicious and/ or Unusual Transactions (STR)
  - Staff training on the relevant level of compliance. This also included training on new processes and procedures in this regard.
  - Account monitoring

## **Financial Sector Charter**

WesBank is actively working towards transformation. Progress with regards to targets for the different pillars in the FSC Scorecard are discussed elsewhere in this report:

- Human Resources and Development
- Procurement and enterprise development
- Access to financial Services
- BEE transaction financing
- Ownership and Control.
- Corporate Social Investment

The Bank is represented via the Banking Association on the Board of the Charter Council. A submission has been made on areas where mandates are required and decisions on these issues are expected after the Council's meeting at the end of May 2006. The submissions included the following areas: Consumer Education, Human Resources, Low Income Housing, Black SME finance, Black Private Equity Funds, Procurement and Review of Targets etc.

## **Employment Equity Act (1998) and the new Code of Good Practice for Broad-Based Black Economic Empowerment**

The Code has not been submitted to Parliament as yet and is only expected to be tabled towards the end of the year

## **BASEL II**

As with rest of the FirstRand Group, WesBank is well on track with its efforts to be Basel II compliant by implementation date of January 2008. WesBank has relevant sub-committees

in place, working with Group Basel Committee to coordinate efforts and processes. As far as possible, systems have been automated to supply the required information and breakdown in such a format that is comparable throughout the FirstRand Group. A clear and concise project plan with target dates for all business units has been agreed to, and this will enable all business units throughout the FirstRand Group to comply with the implementation date. Basel is however not just an exercise for us, it has assisted us in understanding our book and the breakdown thereof, better.

## **National Credit Act**

The Bill was passed through parliament and became an Act in March 2006. The effective date for the Act is 1<sup>st</sup> of June 2006 but the DTI has agreed to a "phased-in" approach with full implementation of the Act by June 2007.

Time and resources have been dedicated to getting a proper understanding and interpretation of the Act during 2005 and 2006. As a Group, FirstRand Bank made several submissions via the Banking Association to the DTI on the contents of the Bill (as it was then called) and the draft regulations. The DTI has been very accommodating and has made several amendments to the Bill based on our submissions.

We have completed a gap analysis to determine where changes would be required in our current processes and systems in order for us to be compliant by June 2007. Working committees are in the process of planning changes to processes and systems.

## ***Issues of major concern for 2006***

### **FICA**

As FICA continues to be implemented and defined by amendments and further legislation, its increasing scope and complexity requires us to review our policies, procedures, systems and training initiatives.

FirstRand, Group Money Laundering Control office compiled Detailed Standards that are based on the content/requirements of the Financial Intelligence Centre Guidance Note 3, published in July 2005. We are in the process of implementing these policies and procedures in WesBank.

### **FAIS**

The deadline of September 2006 for all FAIS representatives to have 30 relevant credits is looming and a lot of focus is placed on ensuring that our representatives will be compliant.



## **National Credit Act**

The Act has a significant impact on our processes and procedures. It will change the way we do business. We are still interacting, via the Banking Association, with the Department of Trade and Industry and the Regulator in our drive to ensure that the interpretation we adopt in practise will be in line with the Regulator's intention of protecting the consumer. We will focus on system and procedural changes in the coming year in order to ensure compliance. Training of staff and agents on the content of the Act will also be rolled out.

The big challenge, once the Act is fully operational, will be to create a balance between opening up the credit market to more South Africans (the purpose of the Act) and the prevention of reckless lending (the onerous duty placed on Credit Providers).

## **Basel II**

The SARB recently released the model application requirements that banks need to address in order to obtain model approval for Basel II. The comprehensive requirements address a number of areas, including the use test, model development and validation, data accuracy and credit governance. WesBank is currently busy with model refinements and documentation of all processes for audit purposes.

# **First National Bank Botswana – Sustainability Report 2006**

## **Overview**

FNB Botswana (FNBB) has been in operation since 1992. We have 13 branches in nine towns and villages. We are the second largest retail financial operation (commercial bank) in Botswana as determined by total assets and profitability. More information about our operations can be located on [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw).

Sustainability reporting is an evolving process for us and we hope to provide a more comprehensive view of our business over time. The document below describes our sustainability position over the past year with respect to our regulators, staff, customers, suppliers, the community in which we operate as well as the environment.

## Our People

### *Why our People matter to us*

FNB embraces the Care and Growth people philosophy in order to achieve mutual staff and business rewards. While we value our staff as our most important asset, we are working on providing an environment that respects people's potential and provides them with training, development and growth opportunities.

For the business to continue to be successful we require competent and skilled staff to perform the various functions of our bank. Our focus is, and will continue to be, on training and development to ensure that staffs are multi-skilled in order to perform various disciplines throughout the bank. We are endeavouring to attract and retain high quality staff within the market in which we operate. We are seeing great success in this area in that we are attracting better quality staff from other financial institutions.

### *Who are our People?*

FNBB has over 700 staff. We experienced a reduction in turnover during the past year (previously 2.9%; currently 1.9%).

Approximately 60% of our staff members are under the age of 40 years and, as a young bank, we have a great opportunity to train and nurture these officials. The table below depicts our staff profile by nationality:

	FEMALE		MALE		TOTALS
	Citizen	Expatriate	Citizen	Expatriate	
<b><i>Executive Management</i></b>	0	0	0	2	2
Senior Management	5	0	2	8	15
Middle Management	5	1	8	11	25
Junior Management	24	1	26	2	53
Clerical Staff	421	0	174	0	595
Non-Clerical Staff	23	0	18	0	41
TOTALS	478	2	228	23	731

### ***What matters to our People?***

Our staffs are most concerned about working in a conducive environment. Specifically, they require:

- Meaningful reward and recognition for their contribution
- The ability to participate in the decision-making process
- Open communication channels
- Knowing that the bank cares about them
- Coaching, guidance and support in order to achieve performance goals

### ***Key Focus Areas***

In an attempt to address both these issues and management HR imperatives, we paid attention to the following:

#### **Reward & Recognition**

We undertake remuneration surveys annually to ensure that our pay practice is closely aligned to the mid to upper quartile of the financial sector market in Botswana. Performance bonuses are also paid to staff whose performance has been at a superior level throughout the year.

#### **Decision-Making Participation**

We set up structures in the various business units to involve supervisors, departmental heads and managers in all decision-making matters pertinent to their department or business.

#### **Ensuring Open Communication**

We introduced various new instruments to enhance communication within the organisation such as a quarterly First Issues newsletter, CEO's briefs and a new intranet site. We also conducted a Communication Workshop that was facilitated by Atos KPMG and attended by all staff at a supervisory level and higher.

## **Demonstrating Care Through Staff Wellness**

We introduced a number of wellness-related training initiatives, e.g. Peer Educators Training, Occupational Health Training, First Aid Training and Fire Fighting Training. We set up a network of trained Peer Educators and Occupational Health Representatives within the bank to assist staff who have various health/welfare problems or concerns.

As a result of a recent armed robbery in the bank this year, we decided to introduce Trauma Counselling training for our staff.

HIV/ Aids management is a strategic issue. We formulated our HIV/Aids policy eight years ago. In the past 18 months we refined this policy to embrace elements of safety, health and environment (SHE Policy). One of our key HR imperatives in the current financial year is to undertake a voluntary seroprevalence test on staff throughout the bank. The results of such a test will assist us to effectively plan for the years ahead. We have also conducted an Aids Impact Analysis with the assistance of Actuarial Solutions. The results indicate that, whilst it is estimated that between 10 and 13 percent of the workforce is HIV positive, the life expectancy of those individuals will be increased by an average rate of 10 years under the treatment protocol. All employees are on medical aid (50% of the medical aid subscription costs are paid by the bank). The assumption, therefore, is that the majority of HIV positive staff will have access to treatment therapy, will adhere to the treatment protocol and, accordingly, will extend their life expectancy.

## **Achieving Performance Goals**

We recently introduced a Balanced Scorecard to guide staff and support them in the achievement of their performance goals. The Balanced Scorecard has been rolled out in the branch network and will now be cascaded to the divisions and head office departments. This will align the performance of the various areas of the bank with the overall strategy.

## Ensuring We Develop our Human Capital

- **Developing a Leadership Pipeline:** We recently created a new area within Human Resources that will focus primarily on driving organisational development issues throughout the bank. This role will engender a more focused approach with regard to issues such as leadership pipeline (supply), where new graduates employed by the bank have their careers mapped out for them and their progress tracked continuously. A mentorship plan will also be implemented to complement the programme.
- **Succession planning:** This will be driven by the line units and supported by HR. It will create an enabling environment for appropriate training and development interventions in a more structured manner.
- **Learning and Development Interventions:** While we have the capability for platform training within the bank, as well as extending it to FNB Learning in South Africa, we outsourced a number of core training requirements to external consultants in areas where we lacked the skills to provide such training. For example, our newly appointed Managers attend courses at The Graduate School of Business in Cape Town to equip them with further skills. We also identified a gap in terms of our credit training and accordingly introduced an 18-month credit training programme facilitated by On track Learning Consultants. A core focus has also been on sales training, where a number of delegates attended a three-day workshop facilitated by the Botswana National Productivity Centre.

## Ensuring Staff Satisfaction

Our Capability and Culture Survey is applied when internal audits of the branches are undertaken. This takes place throughout the year to assess the needs of our staff. The results during the past financial year have generally been good throughout the business, with the score averaging **2.85**, compared with a target of **3.0**.

### ***Objectives for the Coming Year***

- Completion of some initiatives started this year, e.g. Balanced Scorecard rollout
- Ongoing development and training of our people
- Undertaking voluntary HIV sero-prevalence test with staff to plan more effectively for the future

## **Suppliers**

While we try to procure locally where possible, many of our supplies are sourced either from FNB South Africa (e.g. branded stationery) or from local intermediaries. Our local procurement includes unbranded stationery, professional and maintenance services, etc.

We do maintain a preferred local supplier partnership based on the proven delivery ability of our suppliers.



## **The Environment**

### ***Why the Environment Matters to us***

As a good corporate citizen, we uphold good practices. In Botswana, growing awareness of environmental considerations is taking place in specific sectors, for example tourism or large-scale development such as shopping mall construction. Botswana does not yet have a specific focus in this area; however, in time it is likely to be aligned with international practice.

### **Where is our Direct Impact?**

Our direct impacts are created through our branch operations and head office premises.

### **What are our significant Direct Impacts?**

Our impact includes the use of water, electricity, paper and other office consumables.

### ***What FNB is doing about it?***

We monitor our consumption and try to minimise costs where possible.

## The Community

### *Why the Community Matters to us*

Botswana is the community in which we operate and interact with on a daily basis. Developing a rewarding relationship with this community depends on an understanding of its needs. We believe that our role as a significant business in Botswana places us in a position of responsibility, requiring us to support the general development of society.

### **Who is the Community**

Given the size of the community in which we operate, we focus on specific communities most in need of our support. These communities can be defined according to the focus areas of the FNB Botswana Foundation. Established in 2001, it provides us with an opportunity for greater involvement and co-operation in disadvantaged communities.

#### **FNB Botswana Foundation**

- Only locally-based, funded company in Botswana with such a programme
- Since inception, the bank has contributed in excess of 7 million Pula (ZAR8.3m) to the Foundation, the single largest community investment by a private company in Botswana



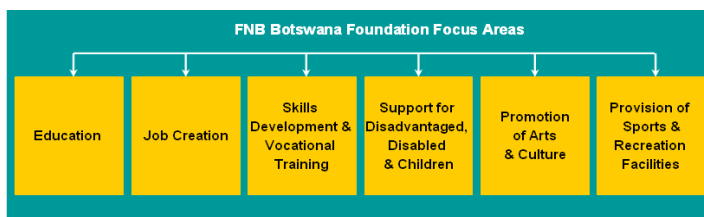
At a Glance

### **What Matters to the Community**

The areas of socio-economic development and upliftment in Botswana are large and varying. They include, amongst others, the need for employment, skills upliftment, a greater focus on disadvantaged people (e.g. disabled people) as well as support for arts and sports.

### *Our Strategic Key Focus Areas*

The areas of focus for the FNB Botswana Foundation are indicated below.



Some examples of our involvement either directly or through our Foundation include:

- Gender equality and empowerment: Sponsorship of Botswana's first "Business Woman of the Year" award
- Citizen economic empowerment: Participation in government-run Credit Guarantee Scheme

- Environmental protection: Support for non-profit organisations such as the Kalahari Conservation Society and Botswana Society

## Our Customers

### *Why our Customers matter to us*

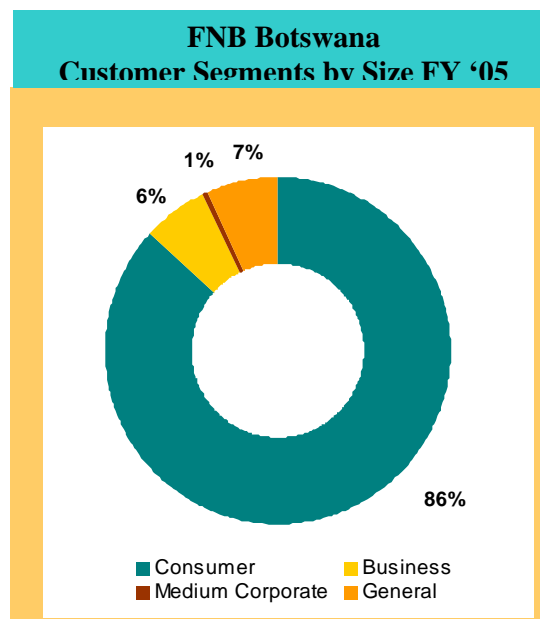
Like our South African operations, the premise for developing enduring, rewarding relationships with our customers rests on our g2G1in3 strategy. Simply stated, we believe that our customers are the foundation of our business. They are the reason we remain in existence. As a key stakeholder, they are therefore able to influence what we do and how we deliver.

Our relationship with our customers also provides us with the opportunity to help them, and the broader community,, reach their developmental objectives. We have recently been awarded the PMR Africa Golden Arrow Award in the “Banks in Botswana” category for businesses that have done most to enhance economic growth and development in the country. This is a huge testament to our role in contributing towards broader social-economic imperatives in Botswana.

### *Who are our customers?*

We have 168 094 customers.

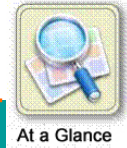
We are very excited at a change in the law that now recognises women as majors and not minors, giving them the opportunity to take charge of their own financial matters. This means that married women can now enter into contracts without requiring the sanction of their spouses.



## ***What matters to our Customers?***

- Our customers want consistent service delivery.
- Our customers require solutions that meet their changing needs.
- Customers are generally concerned about interest rates and the cost of banking.

We identify what matters to our customers through focus group discussions, questionnaires, interviews, visits, seminars and surveys as indicated below.



### **What We Offer Our Customers**

- Retail services e.g. cheque and transaction services, loans, savings, call, notice and fixed accounts, credit cards, merchant acquiring solutions, electronic banking
- Treasury and International Trade facilities e.g. foreign currency accounts, fixed and negotiable certificate deposits
- Premium credit and insurance solutions, as well as vehicle, asset, commercial and individual property finance
- Micro-lending and secured loans
- Corporate and public sector banking solutions including various forms of electronic banking

## ***Our Strategic Key Focus areas and What We Are Doing About Them***

### **Customer Satisfaction**

Through the Bankers Association, Botswana's banks have engaged an independent Ombudsman to deal with customer dissatisfaction with the resolution of queries on banking services and related issues. In the Ombudsman's annual reports for 2004, 2005 and 2006, FNBB has stood out with by far the least number of customer issues escalated to the Ombudsman. This illustrates the importance we attach to ensuring exceptional customer service.

As a bank, we expect a certain number of service complaints. We inform our customers of our commitment to service excellence and assist them in the following ways:

- We notify them of our service complaints procedure, which is displayed in all our branches.

- We advise our customers to contact the Banking Adjudicator if they are not satisfied with the manner in which we resolved their complaint.
- We conduct telephone mannerism and Mystery Shopper surveys on a monthly basis with the assistance of independent service providers, who provide us with reports on each unit or branch's performance on key assessment criteria.
- We are signatories to the Botswana Banking Code of Ethics, which has been agreed upon by all commercial banks in Botswana. An ethics booklet has been produced and distributed to staff. All staff are tested on its contents on an annual basis.

### **Interest Rates and Cost of Banking**

Customers have expressed concern about interest rates. Over the last 12 months Botswana's economy has been characterised by high inflation and high interest rates, following a period of relatively low inflation. There are signs that inflationary pressure is easing. This, coupled with positive government infrastructure expenditure, should give impetus to business growth in the coming year.

### **Delivering To Customers Needs and Being Innovative**

Our continual Customer Satisfaction Index Surveys (conducted internally or by independent companies) and focus group discussions (face-to-face interviews) help us form a keen understanding of customer needs. This is critical to developing relevant, appropriate solutions.

The innovative practices and developments of our South African operations are leveraged in Botswana. We also apply our local knowledge and expertise to ensure our product and service array far exceeds the market standard.

### **Access to Financial Services**

A study by BIDPA (Botswana Institute for Development Policy Analysis) confirmed that FNBB is the most accessible bank in terms of ATM distribution. We also have greater electronic banking accessibility because of our Mini-ATM network and the

availability of Internet Banking. In addition, we are the least costly in terms of cheque account and maintenance fees.

The study also confirmed that we are the most competitive bank in Botswana in terms of customer access to services.

Countrywide, our infrastructure includes:

- 13 branches (including Kasane Branch, which opened on 27 September 2006), with one more planned for opening within the current financial year
- 50 ATMs
- 52 Mini-ATMs

### ***Objectives for the coming year***

In the upcoming year we will focus on:

- Introduction of new products and delivery channels to market, including entering new areas where we have no representation or where customer needs justify representation

## **Our Regulatory Environment**

### ***Who are our regulators?***

As a FirstRand subsidiary, FNB Botswana is affected by regulatory requirements imposed by the Regulatory Authorities of both South Africa and Botswana. To the extent that South African regulations affect us, we are directed by our Group Compliance function on the specific laws and regulations with which we need to comply. These are generally monitored through the submission of returns.

Within Botswana, we enjoy very good working relationships with all regulatory bodies. We interact with them both formally and informally, at the highest levels of seniority. The key authorities include the Bank of Botswana, the Botswana Stock Exchange, the Tax Authorities and the Registrar of Insurance.

### ***Why the Regulatory Environment matters to us***

Since regulation of the banking system is a fundamental element to provide confidence to our customers, and all stakeholders, we pay close attention to ensuring we comply with all pertinent legislation. We summarise our corporate governance credentials below:

- FNB Botswana has, for the past 10 years, either won the PricewaterhouseCoopers award for Best Corporate Report and Accounts in the Financial Sector (five times) or we have been runner up. The awards recognise those businesses in Botswana which enhance their standards of financial reporting and whose published financial statements comply with international standards and best practice in terms of corporate governance.
- We have never been censured by any regulatory authority in Botswana.
- We were recently awarded the bronze medal in the PMR Africa Golden Arrow Award for companies demonstrating exceptional managerial and corporate governance qualities in Botswana.
- In 2004 and 2005 we were awarded 'Best Bank in Botswana' by Euromoney magazine.

## **Feedback on Last Year's Major Issues**

The Income Tax Act was recently amended and, with effect from 1 July 2006, we are required to withhold tax from interest payments to customers. We are still working with the Ministry of Finance and Development Planning, as well as the Botswana Unified Revenue Service, on the implementation of these regulations.



Working with the FNB Investment Product House, we are developing and will implement required system changes to ensure full legal compliance.

**What are the major regulatory issues for us to address this year?**

The Companies Act has been revised and is to come into effect soon. It is not expected that the amended act will have a major impact on our operations, but could impact those of our customers (e.g. close corporations and amendments to rules allowing companies to buy back their own shares).

To improve our legal compliance process, we are also currently undertaking an exercise to identify all legislation in effect in Botswana with which we must comply. This will then be loaded on the CURA platform, which has been adopted by the African subsidiaries to assist with the management of legal compliance. This exercise will be completed during the course of 2006/2007.

# **First National Bank Lesotho – Sustainability Report 2006**

## **Overview**

FNB Lesotho has been in operation for just under two years, with one branch in Maseru. As a fairly new operation within our company, Lesotho is focusing on strengthening its operational position. An increased emphasis on the broader stakeholder community is evolving, as indicated in this report.

Sustainability reporting is an evolving process for us and we hope to provide a more comprehensive view of our business over time. The document below describes our sustainability position with respect to our regulators, staff, customers, suppliers, the community in which we operate and the environment over the past year.

## Our People

### *Why our People matter to us*

FNB Lesotho is a relatively new operation. To provide services appropriate to the Lesotho market, it is important that we employ local staff. We believe that by employing the right people we can create excellent performance, which translates into sustainable customer relations and, ultimately, profitability.

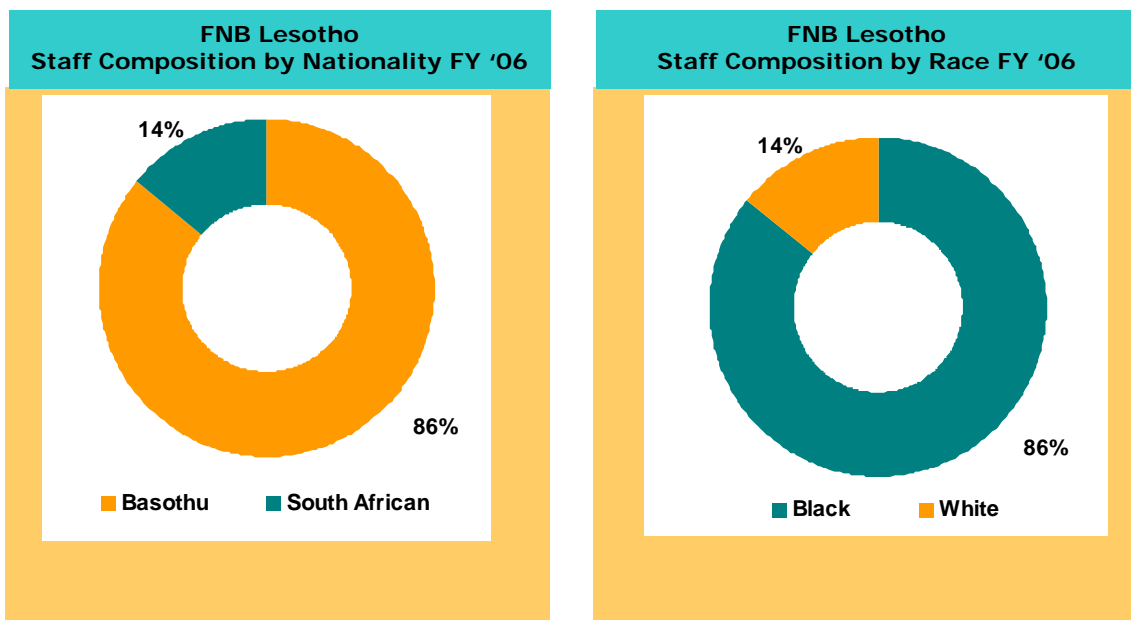
As a small operation, we enjoy close interaction at all staff levels. We engage with staff on a one-on-one basis as appropriate, which helps us address specific concerns directly.

### *Who are our People?*

Our staff base has grown from 18 people at inception to 35 staff at present. Our policy is to invest in skills locally.

- Our management : non-management ratio is 1:7
- 60% of our staff are male

The diagrams below depict our staff profile by nationality and race.



### ***What matters to our People***

Recognition and reward for performance are important to our staff. Staff require the tools and skills to perform their functions effectively. While we are a small operation, able to deal with staff matters on a personal basis, our staff also require a forum to communicate formally with management.

### ***Our Strategic Key Focus areas and What We Are Doing About Them***

#### **Training and Skills Development**

To leverage existing corporate resources, we utilise the modular and platform training services available at our South African operations. We have, however, also recruited a dedicated training facilitator locally to provide on-the-job training.

It is important to ensure that training is specific and relevant to our needs. For instance, as FAIS is not a legislative issue in Lesotho, we focus instead on training related to our local systems. We also found it necessary to pay attention to the basics, as well as hard or technical skills training. This includes training on competencies such as time-management or effective teamwork.

Approximately 2% of our payroll is spent on skills development and training. Last year, on average, each staff member undertook over 33 hours of training.

#### **Performance Management**

Reward and recognition is underpinned by a sound performance management approach. Our local operations require customised performance measurement considerations. We are currently finalising the implementation of a performance measurement system customised for our requirements.

#### **Working Environment**

We provide a safe, healthy, equitable working environment for our staff.

- Staff enjoy a variety of expected working terms, including study leave and family responsibility leave..

- We have not experienced any staff deaths or injuries caused by the work environment.
- We developed an HIV/Aids Policy locally and obtained group input from the detailed work developed in South Africa. We will co-ordinate HIV/Aids training locally.

***Objectives for the coming year***

- We will be introducing staff committees to provide a formal forum to raise staff concerns with management.
- We continue to pay attention to training and skills development for all our staff, as this is an important component for sustainable operations.

## **Suppliers**

We try to support local industries. We procure our printing, advertising, stationery and IT hardware support from Lesotho suppliers where possible.

## **The Environment**

Our environmental impact is derived from our business operations.. We consume, amongst other things, water, electricity and paper, in the course of our operations. While we do not specifically focus on the management of our direct environmental impact, we maintain an awareness of the cost of our consumption.

## **The Community**

### ***Why the Community Matters to us***

Developing a sustainable relationship with the community will give us credibility and acceptability. This will contribute significantly to our success as a bank in Lesotho.

### ***Who Is the Community***

Lesotho is characterised by extreme poverty and there are many communities that require our assistance. We have not yet identified specific communities that we could potentially support.

We are working with the FirstRand Foundation to finalise our approach to social investment in Lesotho. We will be receiving an allocation of R100 000 a year to begin our CSI efforts. We have constituted a CSI Committee and are starting to engage with projects. Officials from the Foundation were recently in Lesotho to train FNB Lesotho officials in terms of handling the applications for funding. FNB Lesotho is in the process of determining the guidelines for processing applications locally.

### ***What Matters to the Community***

Specific issues of importance to the communities include HIV/Aids management (control, education and reduction), poverty alleviation, employment and human development.

### ***Our Strategic Key Focus Areas***

- While our focus has been to build our operations, we recognise the importance of working with our communities in support of their social and developmental requirements. With effect from the new financial year, we will be funding a range of CSI projects in line with the guidelines of the FirstRand Foundation.
- We endeavour to support the community through staff volunteerism. Last year, staff initiated a "Car Wash Day" to raise funds for Christmas gifts for hospitalised children.



## Our Customers

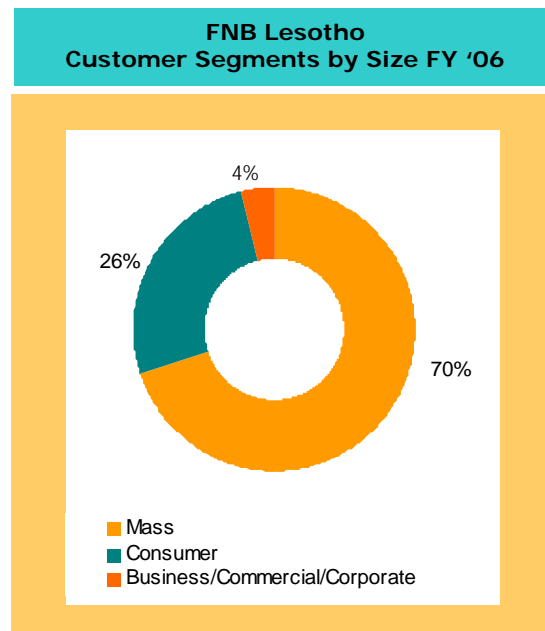
### *Why our Customers matter to us*

Like our South African operations, we are striving to achieve enduring, rewarding relationships with our Lesotho customers. We believe that developing these relationships will be mutually beneficial. Our Lesotho customers continue to enjoy ever-increasing, efficient access to financial services through our investment in infrastructure. By providing customer service innovatively, accessibly and reliably, we are seen to be the innovative financial services provider in Lesotho.

### *Who are our customers?*

We have been in operation for approximately two years now. As a fairly new and small operation, our current market share is small, but we have grown in all segments, particularly the mass market. Currently our customer base totals over 10 000.

The diagram below depicts the segments that comprise our customer base.



## ***What matters to our Customers***

Efficient customer service is the foremost requirement of our clients. The banking sector in Lesotho is characterised by major month-end queues that waste time. Our customers want us to make it quicker, easier and cheaper for them to conduct their banking transactions. Supporting the ability of our customers to transact cross-border is also critical to them.

### **What We Offer Our Customers**

- Cheque and transactional a
- Various types of loans
- Call and Money Market Accounts, Savings and Investment Solutions
- Supportive infrastructure, including ATMs and Mini-ATMs and our Depo 24. Our innovative offerings, such as *inContact*, are standard features of our customer offering



**At a Glance**

## ***Our Strategic Key Focus areas and What We Are Doing About Them***

### **Customer Service**

We are challenging the traditional way in which our customers bank, which is through the use of branches and the associated queuing system. We have looked at ways of improving service delivery and expanding electronic infrastructure access:

- We have expanded our ATM and Mini-ATM footprint to increase accessibility and reduce the need to wait in queues.
- We have established a cash handling facility to take bulk cash depositors out of branches. This speeds up service delivery in branches.

### **Delivering to Customers' Needs**

We have identified specific product needs and are launching solutions to fulfil those needs, for example, our new savings product.

### **Innovation**

Customer service is not just about meeting customer needs. We see innovation as fundamental to remaining valued to a customer. FNB is seen as a catalyst for innovation in the banking industry in Lesotho. We have led the way in terms of cross-border functionality, *inContact* immediate cellphone transaction notification as

well as reliability and service delivery. Our ATM up-times are considered to be the highest in the region.

### **Reducing Bank Charges**

Bank fees and charges remain a concern for our customers, largely as a result of the consumerism spillover from South Africa. We reviewed and adjusted our pricing to encourage a change in behaviour by our customers. As a result, customers who use services such as our Mini-ATMs to withdraw cash, enjoy significant reductions in their bank charges.

### **Ensuring Customer Satisfaction**

As we have not yet developed a customer satisfaction measurement system, we currently utilise our comments book for formally recording customer concerns. Complaints are recorded in a register and followed up until resolved.

Our WesBank department maintains a customer register for all applications received, which provides a further source of customer satisfaction measurement.

### ***Objectives for the coming year***

In the upcoming year, we will focus on:

- Continued roll-out of ATMs and Mini-ATM infrastructure
- The launch of our new savings product
- Sales
- Staff training
- Behavioural Risk Scoring of Consumer Credit (improving access to “hassle free” credit for the man on the street)

## **Our Regulatory Environment**

### ***Who are our regulators?***

We engage closely with Lesotho's Central Bank as a key regulatory authority for our business. We also occasionally interact with other government ministries in the course of our business.

### ***Why the Regulatory Environment matters to us***

We would not be able to operate if we did not comply with local regulatory requirements. For us, this is a part of the cost of business operations.

### ***Feedback on Last Year's Major Issues***

No new significant regulations were enacted over the past year, but work has been continuing on various important acts. For instance, Anti-Money Laundering legislation has been developed and can now be presented to Parliament. Through our membership of industry task teams, we participated in policy formulation and identified the procedures and systems necessary for implementation.

Other areas of regulation with which we have engaged through the task teams include the Credit Instalment Act and an assessment of the possible implementation of BASEL II.

### ***What are the major regulatory issues for us to address this year?***

Anti-Money Laundering regulations will require us to identify our customers in terms of the global Know Your Customer (KYC) requirement. In Lesotho, the absence of a national identity system and therefore the challenge to customers in proving their residential address, is a matter of significant concern. Although Anti-Money Laundering guidelines have not been finalised for Lesotho, we have adopted the guidelines of the FirstRand Group in the interim.

# First National Bank Namibia – Sustainability Report 2006

## Overview

FNB Namibia has been in operation since 1915. With 34 branches and agencies at 27 locations, 110 ATMs and 121 Mini-ATMs nationally, and with more than 1 300 point-of-sale devices in all major retail and commercial outlets, we have the largest network in the country. This ensures our products and services are available to all communities. A detailed overview of our operations may be obtained in the latest CEO report at

<https://www.fbnamibia.com.na/downloads/namibia/finresults/CEOReport.pdf>.

Sustainability reporting is an evolving process for us and we hope to provide a more comprehensive view of our business over time. The document below describes our sustainability position with respect to our regulators, staff, customers, suppliers, the community in which we operate and the environment over the past year.

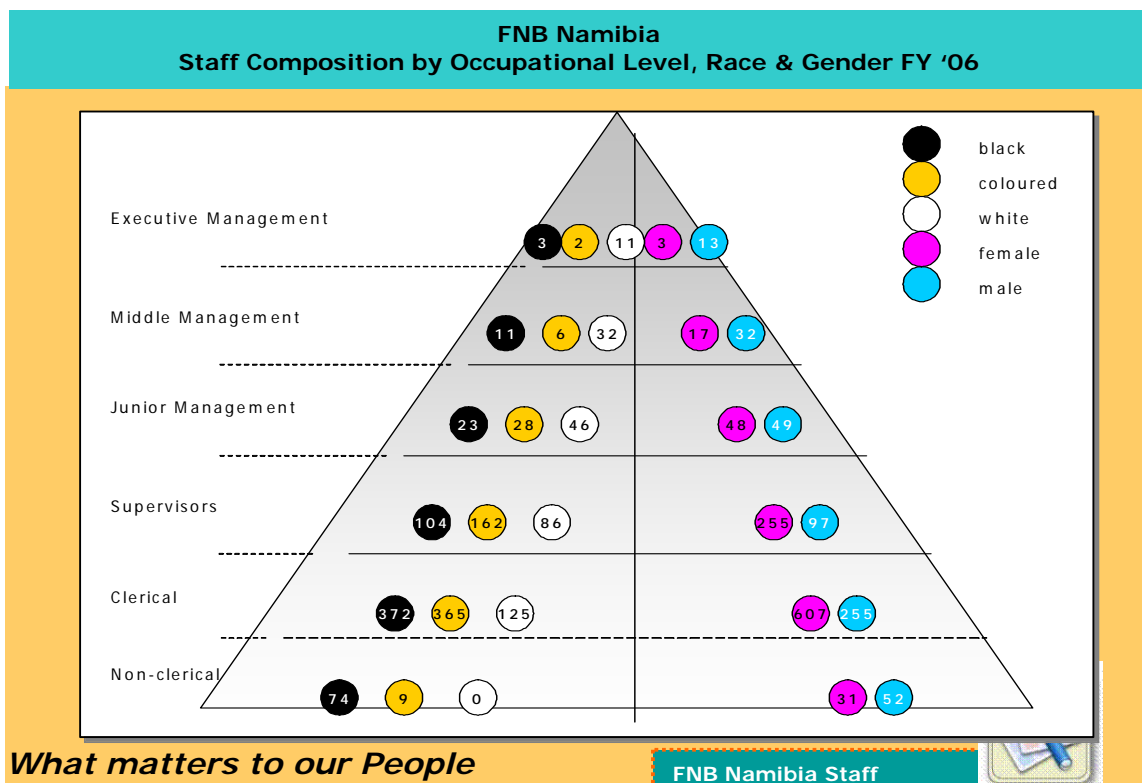
## Our People

### *Why our People matter to us*

FNB embraces the Care and Growth people philosophy to achieve mutual staff and business rewards. While we value our staff as our most important asset, we are working on providing an environment that respects people's potential, and provides them with training, development and growth opportunities. Through this approach of "business results follow people successes", we believe we will achieve our objectives more effectively. The *Key Focus Areas* section below demonstrates our commitment to the growth and development of our staff.

### *Who are our People?*

At financial year-end, we had 1 459 staff members. Only five of our staff members are expatriates and four of these are already working with their Namibian "replacements". The diagram below depicts our staff profile.



### *What matters to our People*

Our staff expressed improvements to the

#### FNB Namibia Staff Satisfaction FY '06

At a Glance

- Overall staff satisfaction rate as per Climate Survey 2006\* = 71.76%

*\*A number of other indices are also deployed to determine staff satisfaction and matters of importance at any time.*

following issues as matters of importance to them.

- Learning and development
- Managing performance
- Remuneration and reward management
- Career and talent management

According to staff, the following issues, which are important to them, showed a decline:

- Leading for results
- Optimal teamwork
- Caring organisation
- Loyalty and commitment

The above were identified as part of the Annual Climate Survey, which is conducted to gauge employee perceptions. The results of the latest (2006) Annual Climate Survey indicated that the FNB Group is well on track overall with the management of its human capital. The various business units have action plans to address matters of concern.

### ***Key Focus Areas and What We Are Doing About Them***

The activities described below were embarked upon last year to support the strategic direction of FNB and ensure we address issues of importance to staff.

- **Employment Equity and Transformation:** The Employment Act notes the importance of Affirmative Action (AA), the creation of opportunities and a balanced workforce profile. The FirstRand Group has fully embraced the need and moral justification for transformation. We reviewed our processes to ensure that issues of transformation and employment equity are addressed, for example, through annual strategic targets set for our recruitment and staff development. We have again exceeded our statutory compliance levels with the annual submission in January 2006 and received our AA Certificate. We also provided black staff members with an ownership stake in the business through the transfer of shares. This formed part of FNB's transformation programme.
- **Employee Development:** As part of our training and development strategy, FNB embarked on a group-wide programme providing staff with key competencies required to operate within a sales and service driven organisation. To ensure that our staff are aware of the teamwork required in a customer-driven organisation, FNB Namibia staff participated in a self-discovery

development programme. We are also currently providing financial assistance to staff who are pursuing further studies.

- **Validating Staff Preferred Work Styles:** To ensure a much happier and motivated workforce, all staff underwent psychometric profiling to validate their preferred style of work.
- **Staff Wellness:** Staff health and wellness is an important consideration. For instance, the restrictive clauses on benefits in our maternity policy based on the number of prior confinements have now been removed. HIV/Aids is a significant element of our employee wellness programme. We collaborated with other commercial banks to develop an industrial play focusing on HIV/Aids and important life lessons. We established a pandemic committee to develop a strategy to manage the impact of any eventuality, such as an outbreak of Avian Flu.

### ***Objectives for the coming year***

- Localisation of payroll
- HR system computerisation
- Cash package conversion
- Downsizing of HR
- Updating job descriptions
- Remuneration and reward strategy
- Retention and attraction strategy
- IR training (company wide)



## **Suppliers**

Through our support of the Namibian Financial Services Charter, we ensure that we contribute towards the economic transformation of our suppliers. The targets for local procurement are currently being set at industry level.

## **Our Direct Environmental Impact**

### ***Why the Environment Matters to us***

Like our South African operations, FNB Namibia is concerned about the impact of our business operations on the environment. We have taken appropriate steps to maintain awareness of our consumption of resources and are attempting to reduce this as much as possible.

### ***Where is our Direct Impact?***

Our direct impact is contained to our points of representation, including the branch operations spread over 27 towns, ATM and Mini-ATM sites, Business Units and Head Office Administration. A further impact is made through our marketing material such as brochures and competition entry forms.

### ***What are our significant Direct Impacts?***

Our environmental impact through our operations primarily includes both natural resources (e.g. water) and manufactured resources (e.g. electricity and paper). The section below provides more information, including what FNB Namibia is doing to reduce our environmental impact.

### ***What FNB is doing about it***

## **Water and Electricity Consumption**

As a result of the looming disruption of the electricity supply from South Africa, which could lead to a shortage of electricity in Namibia, the branch network resolved to purchase generators that will serve as back-ups in cases of emergencies at key locations. All bulbs are replaced with more energy efficient units when the opportunity arises.

Water consumption is not a major issue; however, special provision was made at branches that experience regular supply disruptions. This includes a storage system that is filled when the water supply is running. Water is then used sparingly.

## **Paper Use, Furniture and Other Recycling**

Paper usage in the banking industry is substantial. Therefore, we have taken steps to reduce the use of paper through the introduction of innovations such as

online/electronic monthly statements. Our Internet Banking and *inContact* services were also creative methods of reducing the usage of paper.

### **Computer Recycling**

A few months ago we upgraded our IT systems. As a result, 700 PCs still in excellent condition became redundant. We donated these PCs to School Net via the Minister of Education. School Net will upgrade and refurbish the PCs and distribute them to schools where Internet connections will be installed.

### **Reducing Fuel Consumption**

Reducing the use of fuel incurred during business-related travel is both environmentally- responsible and cost-effective. We encourage our management and staff to share transport when on official engagements.

### ***Objectives for the Upcoming Year***

The newly introduced duplex printing system will be finalised, resulting in a 40% reduction in paper usage. Plans are also in place to reduce electricity consumption by installing central switches for air-conditioning systems.

## The Community

### *Why the Community Matters to us*

The local communities are critical to us because they, together with other stakeholders, constitute the environment we operate in. The branch network of FNB Namibia spreads through all 13 regions of the country and has a substantial client base that forms an important stakeholder, not only for FNB Namibia, but for the entire Group. It is for this reason that we need to give back to the communities in which conduct business.

### *Who Are the Community?*

The communities seeking funding from the FNB Foundation come from virtually all sectors of the nation. These include non-governmental organisations, community-based organisations, branches of government, local and regional authorities, central government and institutions of higher learning, to mention a few.

### *What Matters to the Community*

What matters to these communities is our commitment to be there for them when they need us most. Our branch network promotes the FNB Foundation through information brochures.

### *Our Strategic Key Focus Areas*

#### **Funding Key Focus Areas**

The FNB Namibia Foundation was established in 2003. Our key areas of focus are education, environment and community care as well as job creation and skills development. We support a range of initiatives in these areas, from a number of smaller projects to a few



At a Glance

#### **Examples of Community Support**

- \$2m annual sponsorship commitment to Namibian football via a five-year consortium contract with Namibian Football Association (NFA)
- Maastricht MBA Programme of University of Namibia sponsorship
- Grant to Special Olympics and two projects of Polytechnic Namibia
- Bursaries for students who pass well to further their studies in selected fields
- Material assistance initiative
- Livestock training manuals for emerging farmers (adult education)
- Support for Namibian Education and Training Sector Improvement Programme (ETSIP)

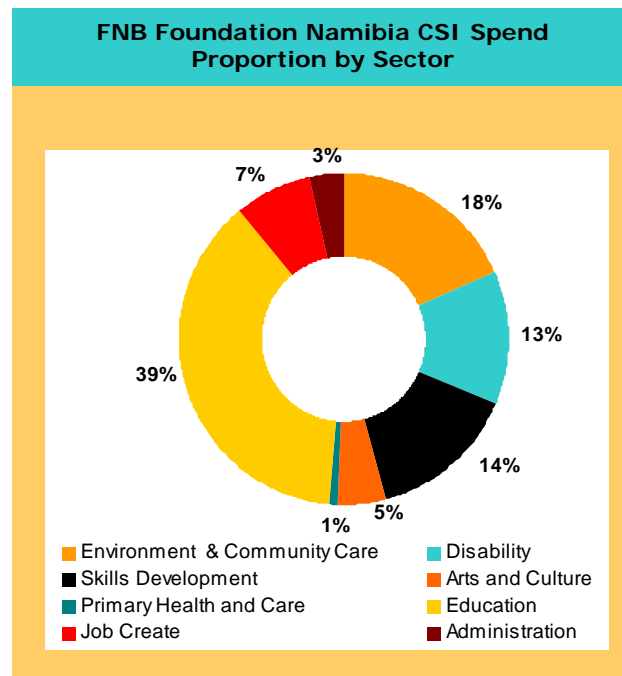
larger ones stretching over three to five years. We work with institutions and non-profit organisations where possible to contribute towards development and broader community empowerment.

### Determining the Impact of Funding

The community which is seeking funding assistance submits a structured project proposal. Applications considered favourably by the FNB Foundation are carried forward by the branch network in the area where the funding will be applied. This is an important component of ensuring sustainable application of funding, since branch staff are best positioned, from an FNB perspective, to follow the progress of projects and keep the Foundation informed about this.

### Data Pack

Last year, we spent just over N\$ 5.9m on corporate social investment. The diagram below depicts the community sectors we supported.



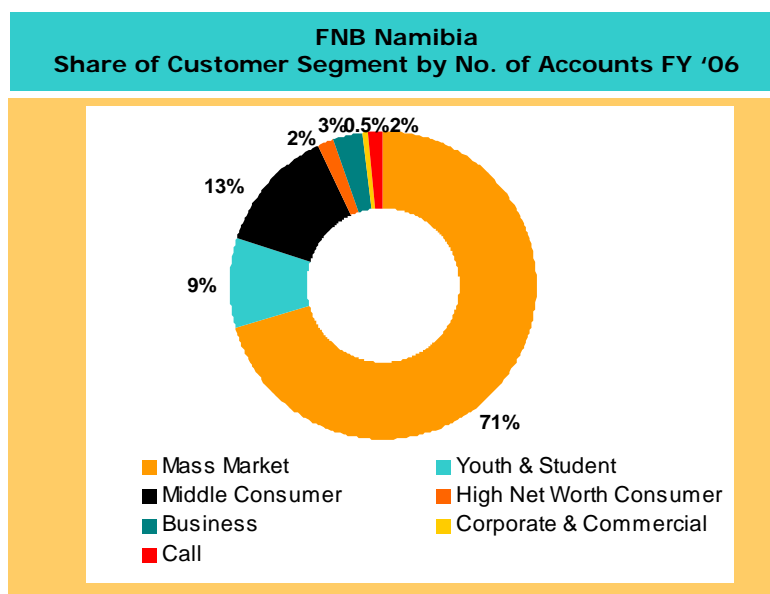
## Our Customers

### *Why our Customers matter to Us*

FNB is focused on developing sustainable, rewarding relationships. As a key stakeholder in our business, we are committed to ensuring that we work with and for our customers to achieve mutual benefits. We would be unable to achieve our key goals, such as sustainable growth in the customer base, contributing towards economic transformation and many more, without considering what matters to customers and how to deliver what they value in an efficient, effective and helpful way.

### *Who are our Customers?*

- We have about 130 000 customers and have gained a significant number of entry-level customers, opening 80% more accounts during this financial year.
- While we are reliant from a transactional and funding banking perspective on large corporate clients, we have a greater focus on consumers and small businesses.
- We also paid attention to the far northern region, particularly Oshakati/Ondangwa and surroundings, which is developing substantially, from a consumer point of view, as well as in terms of commercial developments.
- We have seen an increase in property funding transactions during the past year. We appear to be the unmistakable market leader in home loans and vehicle finance, as is reflected in the Bank of Namibia statutory returns.



Our Corporate and Commercial client base consists of governmental institutions, listed entities, SA subsidiaries, privately owned large and small businesses as well as professionals.

### ***What matters to our Customers***

Through one-on-one discussions, focus groups and customer surveys, we determined what matters to our customers.

- A range of appropriate products and services
- Reducing the cost of banking
- The right distribution network
- Taking banking to the unbanked
- Meeting the needs of Corporate and

Commercial customers for funding and effective transactional banking in a focused and effective way



**What We Offer Our Customers**

- Retail services, e.g. cheque and transaction services, transmission accounts, transactional investments and savings, personal and micro loans
- Certificate of deposit and time open deposit accounts
- Internet Banking Solutions including *InContact*, cash management and deposit ring-fencing

Customer satisfaction research was conducted by a local research house called Consult Buro Namibia, while the Strategic Marketing Department also conducted research on behalf of business units. In all instances the focus is on action research with clear follow-up actions.

### ***Our Strategic Key Focus areas and What We Are Doing About Them***

We undertook a number of customer-focused initiatives over the last year. We summarise these below.

#### **Ensuring Access to Financial Services**

We are engaging with all stakeholders to develop a Financial Services Sector Charter for Namibia. This is intended to improve access to financial services within Namibia and contribute towards the empowerment of formerly disadvantaged communities. The first submission will be presented to the Ministry of Finance in December 2006.

To speed up delivery of financial services to the broader population, in August 2005 we launched “Cardwise”, a savings and transmission account for previously unbanked customers. Fees are minimal to encourage un-banked and under-banked communities to obtain access. As a result, over 55 000 new accounts were opened in the first six months. This product was the first of its kind in Namibia but was quickly followed by a similar offering by a competitor bank. The success of the product can be ascribed to its unique value proposition and excellent marketing campaign.

## Meeting Needs of Different Segments

A large-scale customer segmentation project concluded in the previous year ensured that our Relationship Managers concentrated on servicing only Corporate and Commercial clients, while Business Clients were moved to various Windhoek-based branches where dedicated Business Managers were appointed. We implemented a Client Retention Strategy that is discussed at every individual relationship manager review meeting for commercial and corporate clients. This includes a Senior Executive Visitation Program and implementing client hospitality as a strategy, rather than as an event.

## Delivering Appropriate Product and Service Range

We have a dedicated Service Manager who drives our service strategy. We continuously identify customer needs for products, monitor the market and work closely with FNB SA regarding product needs.

## Ensuring Access to Distribution Channels

We pay close attention to ensuring that we have the right distribution network where it is important to our customers. For instance, we are ensuring that we are able to provide a suitable distribution network to support the growth of the far northern region of the country.

**We are among the banking infrastructure access leaders in Namibia**

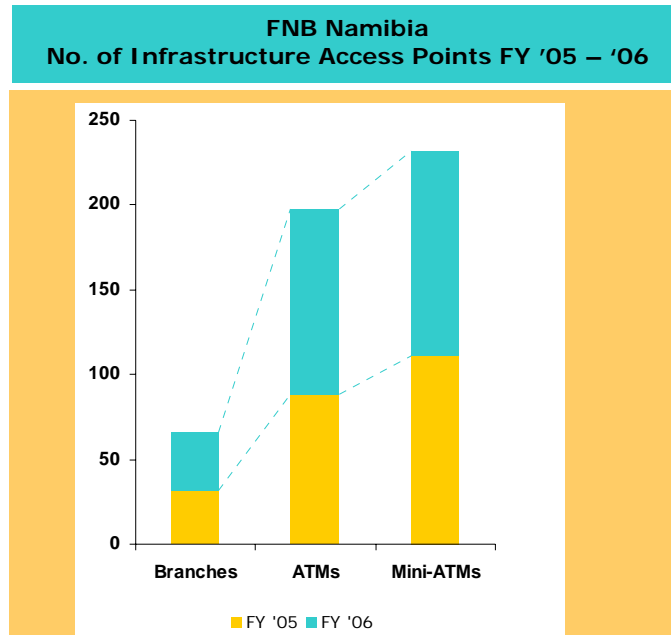
- First to market with mobile ATM in mini-van
- We have 1 300 SpeedPoints countrywide



At a Glance



We upgraded the infrastructure of four branches to improve delivery and customer service.



## Addressing Customer Satisfaction

To monitor what action we need to take to satisfy our customers' requirements:

- We embarked on a customer satisfaction survey among existing customers to establish the level of our service and how we should improve. The results of the survey will be available during the upcoming financial year.
- We employ an external consultant to measure customer satisfaction on a quarterly basis.
- Managers closely scrutinise and audit our complaints register in each branch daily. All comments and complaints are followed up by the unit manager and resolved. This mechanism forms part of the annual audit process.
- We developed a single contact point for our Commercial and Corporate customers. Our Relationship Managers (RM) direct all aspects of these client portfolios. A detailed escalation process is in place to ensure queries and complaints are resolved quickly and professionally. Complaints can be escalated to the segment head and, ultimately, to the CEO. As a result of our process, we suffered only 2.7% of avoidable client losses.
- We obtained greater efficiency by centralising certain processes and systems as well as increasing automation. For example, we moved our entire Credit Card operation from South Africa to Namibia. This has greatly enhanced customer response times.

## **Reducing Bank Charges**

Government pressure and consumer demand regarding perceived high bank charges is very much an issue. This poses two challenges to the banking industry in Namibia:

- The industry needs to identify innovative ways to continue delivering value to our customers at a lower cost.
- We need to educate government and the public on the dynamics of banking and the costs related to products and services.

FNB Namibia constantly strives to reduce costs in order to reduce pricing. While we are familiar with competitor pricing in the market, we use SA modelling to determine price adjustments. We aim to provide quality financial solutions at affordable prices.

## ***Objectives for the Coming Year***

Our objectives with respect to our customers include:

- Increasing the use of electronic banking channels to create greater customer efficiency and cost savings
- Continuing efficiency improvements for enhanced customer service, for example, cheque imaging and electronic signature verification.
- Undertaking a central pricing review of our corporate and commercial clients
- Enhancing our relationship with the Public Sector
- Ensuring we provide products and solutions required by the market, for example, corporate debtor financing

## **Our Regulatory Environment**

### ***Who are our regulators?***

FNB Namibia operates in a highly regulated environment. The key regulatory authorities are the Bank of Namibia (Central Bank), the South African Reserve Bank and the Namibia Financial Institutions Supervisory Authority (NAMFISA). We also maintain good working relationships with the Ministry of Finance and the Namibian Stock Exchange.

Given the relatively small size of our business environment in Namibia, relations with our regulators are on a good footing.

### ***Why the Regulatory Environment matters to Us***

A sound regulatory regime protects the interests of both consumers and financial institutions. It also contributes towards a stable macro-economic environment.

While there is convergence between legislation applied to a subsidiary company environment (FNB Namibia Ltd.) and the holding company environment (FirstRand South Africa), compliance with local regulations is important. This ensures that our business is seen as a good corporate citizen and safeguards us against potential reputational damage.

### ***Feedback on Last Year's Major Issues***

Two regulatory issues have received particular attention from us over the past year. The third issue, transformation through the Namibian Banking Charter, is a socio-economic imperative that addresses the needs of varying stakeholders. For the purposes of this year's report, we provide brief feedback in this Regulatory section.

- **Localisation of Core Banking Systems:** The Bank of Namibia is insistent on all Namibian banks localising their core banking systems, including card switching systems. These issues are currently under discussion with the Bank of Namibia and should be resolved within the next few months. The governor has invited the banks to address his concerns with regard to cross border flows, security of information and disaster recovery plans.
- **Financial Intelligence Centre Act (FICA):** The Namibian equivalent of the FICA legislation is in the process of being drafted and we have participated in this process.

- **Namibian Banking and Financial Services Charters:** To ensure that more banking infrastructure and services are made available to the broader population, particularly in rural areas and poorer communities, Namibian banks engaged with the Bank of Namibia and other relevant authorities to discuss issues and opportunities. Following the completion of the draft Banking Charter, the members of the Bankers' Association of Namibia (BAN) and the Namibian Financial Services Charter Committee began the process of crafting a Financial Services Charter similar to South Africa's transformation charter. All role players agreed that the draft Financial Services Charter will be presented to the Ministry of Finance by December 2006. Through regular industry meetings FNB is actively participating in the development of a transformation document for the financial services industry.

***What are the major regulatory issues for us to address this year?***

- We will participate in an industry discussion with the Governor of the Bank of Namibia. This is in response to his invitation to banks to address his concerns about systems localisation. These include cross border flows, information security and disaster recovery plans.
- From an industry perspective, we continue to remain closely involved in the drafting of FICA legislation.
- The industry submitted a draft Namibian Banking Charter to the Ministry of Finance in June 2006. A final document is expected from government by the end of the year. We continue to engage with the industry and broader stakeholders in the drafting of this Charter.

# **First National Bank Swaziland – Sustainability Report 2006**

## **Overview**

FNB Swaziland has been in operation since 1995. We have 10 branches or agencies and various electronic points of presence, including ATMS and Mini-ATMs.

Sustainability reporting is an evolving process for us and we hope to provide a more comprehensive view of our business over time. The document below describes our sustainability position with respect to our regulators, staff, customers, suppliers, the community in which we operate and the environment over the past year.

Swaziland's government has a Disaster Management Framework and has recently committed to a National Multisectoral HIV/Aids policy, strategy and action plan. There is an attempt to kick-start job creation. As a business, we use the appropriate forums and structures to comment on issues of macro importance, such as the new constitution.

## **Our People**

### ***Why our People Matter to Us?***

FNB embraces the Care and Growth people philosophy to achieve mutual staff and business rewards. While we value our staff as our most important asset, we are working on providing the type of environment that respects people's potential and provides them with training, development and growth opportunities.

### ***Who are our People?***

By September 2006, we had 210 staff members, 64% of whom were female. Our numbers are not reported by racial profile, in line with normal business practice in Swaziland.

### ***What Matters to our People?***

Morale was low over the last year following a re-organisation programme that necessitated a restructuring and retrenchment exercise. Thirty-three clerical staff were retrenched and six managerial staff opted for early retirement.

We are now addressing this low morale through:

- Road shows explaining business imperatives and responding to questions and concerns
- Improved communication channels and processes for communicating both upward and downward
- Performance management to recognise contributions and improve confidence

### ***Key Focus Areas and What We Are Doing About Them***

The activities described below have been embarked upon to support the strategic direction of FNB and ensure that we address issues of importance to staff.

- **Staff Development and Upskilling:** This remains a key focus area and is included in our business strategy for the new financial year. Last year we spent 0.7% of our payroll on staff training. The training budget has been tripled this year.
- **Staff Wellness and the Issue of HIV/Aids:** A key issue in the country is that of HIV/Aids. Swaziland's infection rate is the highest in the world. We have a comprehensive HIV/Aids policy that covers the areas of risk reduction, response management and impact mitigation. We interact closely with FNB SA's National

HIV/Aids Manager and obtain support and guidance for local initiatives. We have also employed a full-time counsellor to assist affected staff.

- **Ethics, Accountability and Responsibility:** We wish to engender the concept of accountability and responsibility in all we do through training and advice. We expound the FirstRand values system of good ethics and remain committed to good corporate governance.

## **Suppliers**

While much of our procurement spend is directed by the group (e.g. branded stationery and ATM facades), we have a procurement policy in place to support local procurement whenever we can. Examples of such support include maintenance services, security and courier systems.



## **Our Direct Environmental Impact**

While Swaziland does not yet have a specific focus on this area, we are likely to be aligned with international practice in the near future.

Our direct impacts are through our four branch operations, six agencies and head office premises. Our impact includes the use of water, electricity, paper and other office consumables. We monitor our consumption and try to minimise costs where possible through initiatives such as switching off electricity and air-conditioning at night.

## **The Community**

### ***Why the Community Matters to Us?***

The local communities are critical to us because they, together with other stakeholders, constitute the environment in which we operate. In line with this, we started engaging with the FNB Foundation (SA) and have now set up an FNB Swaziland Fund, which follows the same principles for governance and community engagement.

### ***Who is the Community?***

The communities seeking funding include virtually all sectors of the nation. We work with communities via non-governmental and community-based organisations. During the coming year we will invest more time and money in identifying key sectors of the community with whom we can work.

### ***What Matters to the Community?***

Given the local HIV/Aids status, there is a dire need to support orphaned children and the elderly. With the high national unemployment rate, we also focus on skills and job creation initiatives.

### ***Our Strategic Key Focus Areas***

In line with FNB's motto of "how can we help you?", we are focusing our involvement at grassroots level and within communities. We have divided our bank staff into 10 teams, which enables us to spread our efforts countrywide. Each team is headed by a committee that identifies worthy projects, submits a brief business case for approval and then implements the projects. We committed E271 562.00 to our CSI fund during the past year.

Funding is provided through the FNB Swaziland CSI Fund which is now included in our budget. There is also a high level of support from the FirstRand Foundation / FNB Fund. A CSI Committee is being formed and will be given suitable training and guidance.

Our contribution towards the alleviation of unemployment also takes our procurement policy into account. We try to source and purchase required commodities and services locally wherever possible.

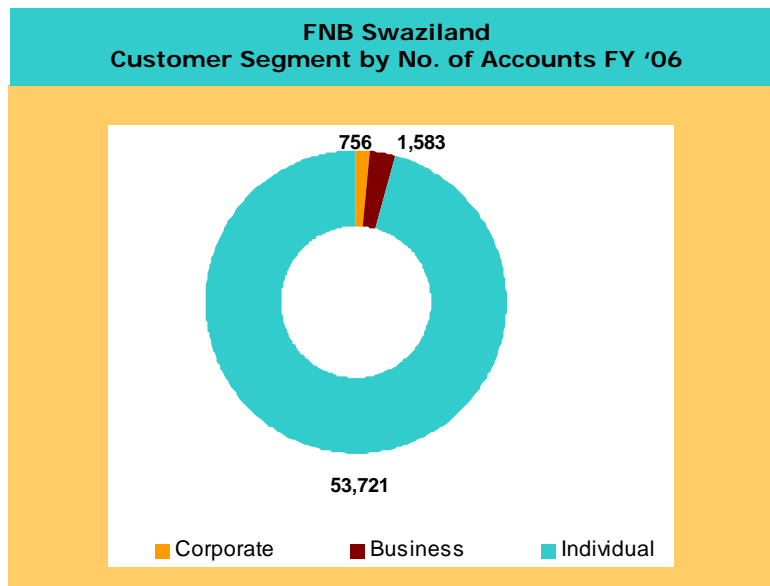
## Our Customers

### *Why our Customers Matter to Us?*

FNB is focused on developing sustainable, rewarding relationships. As a key stakeholder in our business, we are committed to ensuring that we work with and for our customers to achieve mutual benefits. We would be unable to achieve our key goals, such as sustainable growth in the customer base, without considering what matters to our customers and how to deliver what they value in an efficient, effective and helpful way.

### *Who are our Customers?*

We have just over 56 000 customers in the individual, business and corporate segments, as indicated below.



### *What Matters to our Customers?*

Customer service is critical in our market. With four banks and one building society in Swaziland offering similar products,

#### **What We Offer Our Customers**

- Cheque, transmission and savings accounts
- Electronic banking (individual and business Internet Solutions)
- Home loans, overdrafts, personal loans and commercial loans
- WesBank finance solutions
- Credit cards
- FNB Trust (Wills)



At a Glance

customer service and support is a key requirement for success.

***Our Strategic Key Focus Areas and What We Are Doing About Them***

- **Customer Service:** This is a key focus area. Complaints are dealt with immediately. Where possible, we have made improvements in the levels of customer service.
- **Enhancing outlet-level service delivery:** We restructured our outlets and adopted the FNB SA-based branch banking concept.

***Objectives for the Coming Year***

Our objectives for the upcoming year follow on from our efforts to entrench improved customer service:

- We will measure our performance through the development and implementation of a Customer Satisfaction measurement tool.
- We will continue to enhance our network infrastructure. We will be relocating one branch and upgrading existing branches and agencies. We are also undertaking strategic placing of our ATMs around Swaziland and anticipate growing our Mini-ATM network by 48% (12 additional devices).
- We intend launching new products, such as debit cards and telephone banking services, by mid-2007.

## **Our Regulatory Environment**

### ***Who are Our Regulators?***

FNB Swaziland is regulated by the Central Bank of Swaziland.

We interact with our regulatory authorities in a generally positive and co-operative manner. We also engage formally and informally with a number of bodies such as the Bankers' Association and the local Chamber of Business, on an ongoing basis.

### ***Why the Regulatory Environment matters to us?***

A sound regulatory regime protects the interests of both consumers and financial institutions. It also contributes towards a stable macro-economic environment.

While we are in many instances subject to regulation and legislation pertaining to the FirstRand Group (SA legislation), compliance with Swaziland's regulations is both necessary for operations and ensures that we are seen as credible and a good corporate citizen. We are fully committed to upholding good corporate governance and compliance. We are represented in many forums, including the local Chamber of Business.

### ***Feedback on Last Year's Major Issues***

- The new Financial Institutions Act of 2005 replaced our previous regulation, the Financial Institutions Order of 1975.

### ***What are the major Regulatory Issues for Us to address this Year?***

- **BASEL 2:** FNB Swaziland, like the rest of the FirstRand Banking Group, will be fully Basel 2-compliant. We have offered our services, with Group support, to advise and assist the Central Bank of Swaziland with implementation.

## Overview

### *Our focus this year*

#### **Our aim at Discovery is to touch people's lives**

At Discovery, our core purpose is to make people healthier and to enhance and protect their lives. We operate in international insurance markets, and deliver a range of related financial services products. But at their heart, each of our products and services is structured around people's greatest and most vulnerable asset, their health.

#### **We understand how far-reaching our impact is**

We understand that what we do affects the everyday lives of at least two million paying clients. As we broaden our focus to include our shareholders, our employees, our business partners, our suppliers and the community as a whole, it is clear that our actions create ripples around the world.

#### **Sustainability has always been a part of our approach**

Our approach to sustainability is an organic one, and has not changed significantly in the past year. Our business model has always hinged on organic growth driven by our ability to create products that truly make a positive difference in people's lives. We believe we can only be successful if we find ways to do the right thing for each of the stakeholders that our business affects. Whether you call it the balancing of interests, ensuring sustainable business practices or the aligning of incentives – at Discovery it is simply the way we do things.

We have, however, in the past year applied a more stringent focus to the operational aspects of risk management in our business through an extensive process of internal auditing and risk reporting. We are encouraged by what the process has revealed. While there are definite areas for procedural improvements, the process has borne out the soundness of our organic, values-based approach.

#### **Feedback on last year's issues**

Last year, we identified the following as material non-financial risk issues for our business:

- Our reputation for good products and services
- The targets relating to various industry charters
- The complexity of our regulatory environment
- The potential impact of HIV/AIDS.

## **Discovery**

While we have made good progress in all arenas, these issues remain of perennial importance to our business.

### ***Products and services***

In terms of our reputation for good products and services, this year's Customer report highlights the growing demand our industry has seen from consumers over the past year for good value for money and for products that meet their expectations. The report also explains how we are meeting the demand through innovative products and through access for consumers to the right information at the right time.

### ***Transformation***

Discovery's Black Economic Empowerment transaction took place in the past financial year, placing Discovery firmly on track in terms of ownership. In the various sections of this report, we outline what progress we are making in other areas of transformation – affirmative procurement (Supply Chain), enterprise development (People, Supply Chain), affirmative employment practices (People) and access to products and services (People, Regulatory, Customers). We are particularly excited about the initiatives underway at Discovery and in our respective industries to expand access to private health care and other long-term insurance products.

### ***Regulatory environment***

As discussed in our report on our regulatory environment, the financial services environment remains a complex one. Within the life assurance industry, longstanding business practices have come under public scrutiny. In the health care environment, regulatory reform continues apace. We provide information on how Discovery is dealing with these issues in both the Regulatory and Customer sections of this report.

### ***The impact of HIV/AIDS***

Discovery Health is proud of the way it has approached the management of HIV/AIDS in its product design. While the disease remains an issue of national concern, our products are designed to encourage disclosure and lifestyle management of the disease, including providing access to anti-retrovirals. Our approach allows us to manage the risk effectively. Discovery's employees have access to the same benefits as our members (see HIV/AIDS table in our People report). At the time of writing this report, Discovery Health is working on enhancements to our HIV/AIDS offering, aimed at equipping corporates to create the right



## **Discovery**

incentives for their employees to prevent and manage HIV infection. Details will be announced in September. Discovery is also in the process of enhancing its HIV/AIDS offering to employees and has embarked on research among employees, including focus groups and a company-wide survey, to help us understand their needs and expectations in this regard. We will roll this initiative out over the next year.

## **Other highlights of this report**

The various sections of this report provide an insight into how we approach specific issues and stay in touch with key stakeholder groups. It details important developments in these areas in the past financial year. However, the highlights below provide a sense of the most important themes and achievements in the realm of sustainability for Discovery in the past financial year.

- Our employee engagement survey shows that our people feel more engaged in their work. We report back on what we are doing to attract and keep good people, develop greater diversity and support employee wellbeing.
- We have implemented our empowerment deal. We provide information on how it is helping to empower communities.
- We are doing more to ensure the corporate social investment projects we support are sustainable.
- We have more suppliers who are empowered, and better systems in place to support them.
- We are putting affordable access to our products and services within reach of more people.
- We have created products that better meet consumer needs, despite a challenging year for our industry.
- We continue to make sure we limit our impact on the physical environment.

## ***Reporting to our stakeholders and the scope of this report***

We have a variety of stakeholders. In the list below, we highlight the key stakeholders addressed in this report as well as any stakeholders we have not explicitly included.

<b>Relevant sections of the report</b>	<b>Stakeholders</b>
<p><i>Our people</i></p> <p>The <i>People</i> report provides information on how we engage with our employees and the actions we have taken to address their needs.</p>	<p>The people in Discovery’s employ who are based in South Africa, including employees who support Destiny Health and PruHealth (our offshore subsidiaries).</p> <p>Notes:</p> <ol style="list-style-type: none"> <li>1. This report does not include detailed information on employees based in the UK and US. Wherever possible, we have included links to useful information pertinent to those markets.</li> <li>2. This report does not include people in the employ of Discovery Consulting Services, our owner-managed distribution franchises. While Discovery provides them with training and branding support, these franchises are independently owned. We require regular reports from them, including audited annual financial statements from the franchisees, as well as comprehensive information about their employees and business practices in relation to their employees. This allows us to identify and address any problems or risks proactively. We are comfortable that there are no material risks to report on.</li> </ol>
<p><i>Our supply chain</i></p> <p>The Supply Chain report includes information on our procurement practices and tools in place for engaging suppliers, with a specific focus on affirmative procurement issues.</p>	<p>Suppliers to Discovery’s local operations:</p> <ul style="list-style-type: none"> <li>• Discovery Holdings</li> <li>• Discovery Health</li> <li>• Discovery Life</li> <li>• Discovery Vitality</li> <li>• The South African-based local operations of PruHealth and Destiny Health.</li> </ul>
<p><i>Our customers</i></p> <p>The Customers report includes information on Discovery’s</p>	<p>Members and policyholders of Discovery Health and Life</p> <p>Employers who rely on us to provide their employees with employee benefits (medical aid and group risk cover)</p>

## Discovery

customer base, with the focus on our Discovery Health members and Discovery Life policyholders.	The trustees of the medical schemes we administer
<i>Our regulators</i> The Regulators report provides information on the key regulatory issues we face, including changes to the medical schemes industry, the new National Credit Act and the Financial Intelligence Centre	The regulatory industry bodies we are accountable to in the life assurance, medical schemes and financial services arena. We have also listed the major regulatory bodies we are accountable to in the UK and US markets, and where possible, provided links to pertinent information specific to those markets.
<i>Our partners</i> Our Customer report provides information on the tools we use to identify our partners' needs.	The independent financial advisors who sell our products
	Our Vitality partners and DiscoveryCard partners
	The Health care professionals who care for our members
<i>Our community</i> The Community report provides information on our Corporate Social Investment programme and other community-directed initiatives.	Community projects we support
	Non-governmental organisations
	Government
	The broader South African community
<i>Our environment</i> The Environmental impact report provides information on what we are doing to ensure we limit our impact on the natural environment	Our employees who work in the eight buildings we occupy across South Africa, as well as customers and suppliers that visit our buildings
	Our neighbours
	The broader South African community.
<i>All sections</i>	Investors and shareholders. This Sustainability report contains information of interest to all investors and shareholders. However, our Annual Report is our primary reporting mechanism to this stakeholder group.  Note: Our Annual Report provides information on strategic issues pertinent to our UK and US operations.

## **Our People: Information**

### ***Why our People matter to us***

#### **Our people create our success**

Discovery's people set our organisation apart in every respect. Our ability to create innovative products that meet people's needs is what is our business success. Our people give us this ability. They have the interest, empathy and research abilities needed to understand consumer needs and the talent and expertise to invent unique new products to meet them. Our products are also intangible, and the way in which our clients experience or access those products therefore relies on the quality of the service that our people provide. It also relies on the systems and processes our people have established. We are able to lead in our chosen markets by virtue only of our exceptional people.

#### **Their needs are important to us**

Because our people matter to us, we focus on engaging with them and meeting their needs. Our approach is a consultative one, especially when it comes to dealing with the ongoing change that accompanies Discovery's operating environment and rapid growth. Managers are tasked with constantly improving the levels of employee engagement within their teams. Discovery leaders are empowered to lead their teams creatively and inspirationally – and are held accountable not only for their team's performance, but also for meeting the team's needs.

#### **We address our people's needs in three specific areas**

##### ***1. Growth needs***

This includes the needs of our people in relation to learning and development, and career growth. We provide experiential, classroom and online learning opportunities for our people. Employees also have access to career growth opportunities through promotions and alternative internal career opportunities.

##### ***2. Personal needs***

We support our people in achieving a balance between the demands of their personal and work lives through a range of onsite support services and structures. These include: a 24-hour confidential telephonic counselling service, crèche, doctor, dietitian, chiropractor,

## **Discovery**

psychologists, biokineticists, hair salon, beauty salon, dry cleaner and postal service – to name but a few.

We also ensure that our core purpose of making people healthier extends to our people. We focus on supporting their wellbeing through healthy lifestyle campaigns, an onsite gym and healthy meal options at our employee restaurants. We run wellbeing campaigns throughout the year, which focus on wide-ranging issues like personal safety, parenting skills, HIV/Aids prevention, healthy relationships, and the benefits of exercising and planning nutritious meals.

### ***3. Cultural needs***

Discovery's culture is values-based and vibrant. We embrace diversity and our culture is one of positive energy, rapid change and constant challenges. The people who flourish here are those who are smart, dynamic and take ownership. They have the courage to change their environment for the better, so that our clients may benefit. We recognise their achievements through a variety of programmes and events that celebrate their success and nurture their growth.

## ***Who are our people***

### **Our people are spread around the country**

We employ 4 122 permanent employees, with the majority based in our head offices in Sandton. We also have offices in Cape Town and Durban and have recently opened a branch in Centurion too.

### **Our people also serve international markets**

A number of our Johannesburg-based employees provide the call centre and administrative infrastructures to service our international operations, Destiny Health in the US and PruHealth in the UK. Importantly, while both these companies employ people in these overseas markets, this report focuses purely on employees based in South Africa – and includes SA-based employees who service our international operations.

### **Our people are special**

Our people are bright and optimistic. They are caring and courageous. They continually seek change to the benefit of our clients, and are driven to achieve in all they do. Discovery's people are team players with a keen sense of their own identity. They are decisive and action-oriented.

## Discovery

### **Our people are diverse**

Discovery's people bring together a multitude of different skills – from actuarial and clinical skills to technological, managerial administrative and client service skills. They are equally diverse demographically, and we are working hard to ensure our company's profile reflects the demographics of our country more accurately.

### ***What matters to our people***

#### **We use a number of tools to find out what matters to them**

Discovery has adopted various tools to help us stay in touch with our employees' needs. These include discussion forums, surveys, feedback forms and exit interviews among others.

Annually, we participate in the Best Companies to Work for Survey, and have for the past two years used the Gallup Q12 employee survey as our primary sensing tool. The Gallup survey measures employee engagement, rather than satisfaction. It is possible for employees to be satisfied with their work environment, without being productive. Gallup's international research has shown that employees that are engaged, are excited about what they do and perform at their best. We believe engagement therefore provides a better indication of the issues that have a direct bearing on our people's performance.

#### **Three important issues that mattered to our people this year**

We have categorised the issues of importance to our people in the 2006 financial year in three broad categories: communication, culture and personal engagement.

##### ***1. Clear and ongoing communication matters to our people***

Our people have expressed the need to know more about the company's strategic direction, its current priorities and how they as individuals fit into this picture, with a specific focus on what they can do to make a difference. Our people want to receive regular strategic, formal and informal communication. They want opportunities for dialogue and interaction – to be spoken *with*, not *to*. It matters to our people to know that there is room for them to express themselves and that their opinion counts.

## ***2. A culture of trust matters to our people***

Our people place a high value on a culture of trust, respect, support and fairness. It matters greatly to them that they are part of a successful, highly-regarded organisation and that they can be proud of its purpose. Our employees also believe it is important to be involved in the community. Volunteerism is a strong component of our culture and our people give generously of their time and resources.

## ***3. A sense of personal engagement matters to our people***

Discovery people are generally passionate about their jobs, the company and the people they work with. The most recent Gallup Q12 survey has shown that personal growth and development are high on our employees' list of priorities. Our people also want to be recognised, and want to feel that their work is challenging and important. Employees also place an important value on competitive remuneration and attractive incentives for good performance.

### **We have improved our score for employee engagement in every aspect**

Discovery achieved a 77% satisfaction score in this year's Gallup Q12 employee engagement, and an overall average score of 76% for the level of personal commitment or engagement of our employees. In every category of employee engagement measured in the survey, Discovery's score has improved since the previous year. A total number of 3262 Discovery employees participated in this year's survey.

### ***Our key strategic focus areas***

#### **Attracting and retaining top talent is our number one strategy**

Because our business relies on the talent and spirit of exceptional people, our overarching strategic focus has been to attract and retain top talent. Importantly, we are not only making sure we have the people with the right skills and experience. We are also looking to attract and keep the right people for our company culture. This theme has throughout the year infused each of the activities outlined in the section entitled "What are we doing about it" below.

## Discovery

### **Transformation is another area of strategic importance**

Transformation remains a key focus area, with the total commitment and support of our executive committee. Within Discovery, transformation objectives are decentralised to a divisional level, and are strongly linked to management incentives. We outline below the broad focus on transformation in the past financial year in the section below.

### ***What are we doing about it***

#### **We focus on communicating, fostering the right culture and engaging our people**

In terms of the specific issues of importance raised by our employees, we have programmes in place to address each.

#### **1. Communication**

Over the past year, we have created new forums for regular communication with our people. For example, in addition to our regular weekly email newsletters for employees, we have for the past year published a quarterly Discovery People magazine. The magazine not only provides updates on key strategic issues, but also provides our people with a platform for interaction and discussion through employee profiles, letters and more. This supplements regular quarterly strategy presentations to employees and managers, monthly manager forums and our policy review meetings where employees are invited to comment on and approve new company policies – or on changes to existing policies.

We have also recently introduced a more conversational approach to performance reviews. Whereas our focus in the past has been on giving managers the tools needed to lead this process, we have shifted it to empower employees with tools to help them initiate meaningful dialogue with their manager about their performance. For example, during our May/June 2006 review process, each employee received a set of conversation cards to keep on their desk, which they could use as a practical prompt during their performance appraisal.

#### **2. Culture**

As mentioned in the report on *Our Community*, we have in the past year devoted great attention to our employee volunteer programme. The response from our people has been overwhelming. Teams are now choosing volunteer activities over traditional team building



## Discovery

exercises. Our people have even set a Guinness World Record this year for collecting a record number of food cans for charity during Volunteer Week. We have also seen our focus on regular, two-way communication contribute to a greater sense of trust among our employees – and a greater awareness of Discovery’s purpose and achievements.

### **3. Engagement**

- Discovery has invested significantly over the past year in providing a variety of learning opportunities, drawing on international best practice and local expertise, to promote the growth and development of our people.
- We continue to promote our Star Awards and Dazzling Moment recognition programmes among managers and employees as powerful tools for recognising and rewarding exceptional performance. The Star Awards are viewed as particularly prestigious, as annual winners are celebrated at our year-end function. Their prizes include learning opportunities at international institutions of excellence.
- The theme of fair treatment of employees and transparency has been of particular importance to us this year. In addition to the consultative policy review mechanisms mentioned above, we have also put in new more rigorous and transparent processes in place to govern promotions.
- In terms of remuneration, Discovery is doing even more to ensure that salaries are benchmarked against industry best practice, and that packages are structured to incentivise and reward good performance. Compared to last year, Discovery employees have a larger element of performance-based pay built into their remuneration packages.

### **We use learnerships to bring about transformation in our company**

Discovery’s transformation committee monitors transformation progress in every aspect of our business – from our people to procurement, corporate social investment, BEE verification and access to financial services. We provide more details on these initiatives in the other sections of this sustainability report.

In terms of our people, Discovery supports learnership and skills development programmes to increase the number of black professionals being trained in South Africa, and where possible, to offer them employment opportunities at Discovery. In April 2006, 43 learners graduated from Discovery’s four learnership programmes. Of these graduates, 22 have been placed

## **Discovery**

successfully in our business – eleven in permanent positions, and eleven on a contract basis. We have recently launched four new learnerships, with 50 students enrolled.

### **We equip our leaders to attract and keep the best people**

Over the past year, our leadership initiatives and interventions has set our leadership team the following challenge: “What if we became known internationally as the world’s finest management team, made up of the most outstanding leaders?” We have developed and delivered a number of unique experiential leadership modules to help our leaders hone their people management skills. The emphasis has also been on coaching – both in teaching our leaders how to use coaching as a people management tool and in providing individual leaders with the opportunity to be coached by Discovery executives. We have also linked our leaders’ management incentives closely to measures around employee engagement and transformation.

### **We use employee wellbeing initiatives to support our people**

Discovery offers employees a number of support services that bolster our ability to attract and retain talented people. In the past year, we have focused on supplementing these services through a number of campaigns specifically to do with employee wellbeing. We are addressing issues such as fitness, prevention and healthy eating. We are also talking to our employees specifically about their needs around HIV/Aids support services – not only to support employees affected by the disease, but also to educate and empower employees who believe they are not affected. Discovery will be rolling out an enhanced HIV/AIDS programme to employees in the year ahead, and has, with the help of our EAP providers, embarked on research with employees aimed at understanding their needs and expectations. The HIV initiative will begin in August 2006 and continue indefinitely.

## ***Objectives for the coming year***

### **Getting and keeping good people is still our most important goal**

This remains our most important strategic objective. The emphasis remains on people who fit the Discovery culture and who allow us to align more closely with our country’s demographics. In the year ahead, we will also do more research into the reasons why people leave Discovery.

### **We will introduce a proactive people management tool**

We are in the process of developing and implementing a proactive people management tool. It will allow us to document the talent within our business, and help us identify and grow the

## **Discovery**

skills our business needs. Importantly, it will allow us to increase diversity at more senior levels within the business.

### **We will introduce more employee wellbeing initiatives, especially around HIV/Aids**

We are planning the roll out of a comprehensive HIV/Aids awareness campaign, as well as a number of other wellbeing initiatives. We are also working on the launch of an exciting and innovative Discovery product to encourage and reward employee wellbeing.

### **We will provide world-class learning opportunities for our people**

We are planning a number of learning interventions at every level of the organisation to provide employees with the opportunity to unlock their potential. Again, our transformation objectives will provide the framework and we will pay particular attention to creative, experiential ways of learning as we believe these are the most effective.

## **Our Supply Chain**

### ***Why our Suppliers matter to us***

#### **Our suppliers influence the quality of our delivery**

Our suppliers matter to us at Discovery because they provide many of the tools, processes and frameworks to support us in our service delivery to our clients. Theirs is an enabling role and central to our business success. Our suppliers allow us to achieve and sustain our competitive advantage and for this reason, we view them as business partners of strategic importance.

#### **Knowing what matters to our suppliers is good for our business**

Over the past few years, Discovery has, under the leadership of our central procurement division, intensified its focus on supplier relationships. This focus has developed out of an evolving understanding of the critical role our suppliers play in our business success. Their input and feedback allows us to contain costs, streamline processes, address problems and increase efficiencies within the supply chain to the benefit of our business and its clients.

### ***Who are our Suppliers***

#### **Our suppliers operate in diverse product and service categories**

Discovery has around 1600 suppliers on our books at present, of which 182 have been pre-assessed and accredited in terms of our supplier management system, B1SA. This includes Discovery's Vitality partners, DiscoveryCard partners and cash book suppliers. They range from suppliers of office equipment, stationery and corporate gifts to software vendors, professional consultants, marketing and design agencies, warehousing facilities, couriers and many more.

#### **Our suppliers reflect our commitment to transformation**

An important area of focus for Discovery in the past year has been the need to ensure that our procurement practices and our supply chain support our commitment to the economic upliftment and transformation of our society. In terms of the requirements of the Financial Sector Charter, we exceeded our scorecard target in 2005 for affirmative procurement.

## ***What matters to our Suppliers***

### **Discovery stays in touch with suppliers on a daily, monthly and annual basis**

In our previous report, we described our regular interaction with suppliers through the introduction of annual supplier summits, and our online Vendor Management System, which provides suppliers with regular updates and newsletters from Discovery. We have now also appointed a Supplier Relationship Manager, whose function is to deal with supplier queries, elicit their feedback and communicate any Discovery issues to them. We do not yet have a formal supplier survey in place, but through the touch points described here, we do have access to regular supplier feedback and input.

### **Being BEE compliant matters to our suppliers**

We have had regular queries and feedback from our suppliers around the BEE accreditation process we introduced last year when we implemented our Vendor Management System. Their concerns are around their ratings, how they are faring in terms of compliance and what they can do to address areas of non- or partial compliance. They have also expressed a need for training on our systems and processes, and on the Codes of Good Practice published by the Department of Trade and Industry.

### **Being paid on time matters to our suppliers**

Last year, we flagged delays in payment as a key area of concern for our suppliers. While we have made good progress in this regard this year, delays do sometimes still occur and affected suppliers still rate this as a major area of importance for them.

## ***Our key strategic focus areas***

### **Transformation is as important to us as it is to our suppliers**

Discovery has identified preferential procurement and enterprise development as key strategic deliverables for our business – not only in the context of the Financial Sector Charter, but also as a direct result of our optimism about and commitment to our country's future. Discovery has been built on a spirit of entrepreneurship, and has grown entirely organically. We believe that we can add value to our suppliers and contribute significantly to our country's economic progress by imparting our skills and expertise in this arena.

## ***What we are doing about it***

### **We are updating our supplier information to provide accurate BEE ratings**

Our suppliers are presently updating their company information and BEE credentials on our Vendor Management System (B1SA). This information includes, for example, company size, scorecard ratings and SIC (Standard International Codes) commodity codes. Vendors must certify that the scorecard information they provide is correct and agree that an independent rating agency or auditor may review the information for accuracy. Vendors who have already had their ratings verified, are required to send us a certified electronic copy of their rating certificate. The information is downloaded back into our central procurement and financial systems, allowing us to make accurate, compliant and responsible procurement decisions.

### **We are measuring our progress in terms of the FSC scorecard**

As mentioned elsewhere, we have made excellent progress in terms of our affirmative procurement targets. We have not had our results verified by an external agency as yet, but based on the Financial Sector Charter scorecard requirements, in period January 2005 to December 2006 we achieved a rating of 13.25 points out of the possible 15. This excluded exempted spend.

### **We provide training and regular feedback to our suppliers on BEE issues**

Our supplier summits are proving to be popular and effective tools for supporting our suppliers in understanding our processes and answering their questions on issues related to affirmative procurement. They have access to additional information, including the relevant charters and Codes of Good Practice through our online Vendor Management System.

### **We have reengineered our internal processes to facilitate faster payments**

We have identified the key areas of inefficiency within our internal processes that cause payment delays. The introduction of a centralised vendor management system, and more efficient processes to facilitate the interaction between supplier, our central procurement division and the actual business areas reliant on the supplier, have made a marked difference. We will keep driving faster turnaround times for payment.

## ***Objectives for the coming year***

### **We will continue our focus on BEE accreditation**

In the year ahead, we hope to use our supplier summits as opportunities to educate and assist our suppliers with their issues and concerns around affirmative procurement. We will also again renew and revise our supplier's BEE accreditation ratings to ensure compliance with the codes of good practice.

### **We will focus on helping suppliers with enterprise development**

Discovery is working actively to create opportunities for individuals, specifically previously disadvantaged individuals in small and medium enterprises through lending support to micro-enterprises and qualifying small enterprises. We also provide assistance to BEE accredited suppliers in the form of skills transfer and infrastructure, technical and administrative support. For example, in Discovery's distribution environment, we have created a joint venture with a black broker firm, PFM. We have also in this financial year opened our first Soweto office through our Discovery Consulting Services franchise model. In both cases, we have created partnership that allows us better penetration into emerging markets. In turn, we provide the resources and expertise to help individuals from previously disadvantaged communities develop viable business enterprises.

With the help of our empowerment partner, WDB Investment Holdings, we are looking into building an enterprise development unit. The aim of this unit would be to identify black-owned and managed businesses who are existing or potential suppliers or financial advisers and through an intensive skills transfer programme help them develop into independent, successful businesses.

### **We are busy working on a supplier satisfaction survey**

Another exciting development in the year ahead will be the introduction of a supplier satisfaction survey to our online vendor management system.

## Our customers

### *Why our customers matter to us*

#### **Discovery’s business model is a consumer-driven one**

We have built our business by honing in on consumer needs and meeting them through innovative, specialist products. As Adrian Gore, CEO of Discovery puts it: “Importantly, because our core purpose is about our clients, it talks directly to the trend of consumerism that is sweeping through the financial services industry the world over. Discovery’s fundamental role is to be an advocate for its clients within the health and life assurance environment. Therefore, our strategy puts us on centre stage in this emerging consumer-driven market.”

It stands to reason then, that we put our customers – the consumer – at the centre of everything we do.

### *Who are our customers?*

#### **We offer financial protection to two million customers – and interact with many more**

At Discovery, we approach all our stakeholders as we would any client – with a commitment to providing them with excellent service, to understanding their needs and to making a positive difference to them. Viewed broadly like this, our customer base extends to around two million consumers, 30 000 health care providers, 20 000 employers and around eight thousand intermediaries.

Approached more narrowly, we provide health cover, life cover and related benefits directly to:

South Africa	<b>Discovery Health (all schemes under administration)</b>	
	• Lives covered	1 939 473
	<b>Discovery Life (Individual)</b>	
	• Lives assured	250 261
	<b>Discovery Life (Group)</b>	
	• Principal lives	128 985
	<b>Vitality</b>	
• Lives	1,168 million	



## Discovery

	<b>DiscoveryCard-holders</b>	
	• Principal card-holders	286 410
	• Cards in issue	328 124
Internationally	<b>Destiny Health</b>	
	• Lives	62 250
	<b>PruHealth</b>	
	• Lives	58 912

### Discovery Health's customer base continues to grow steadily

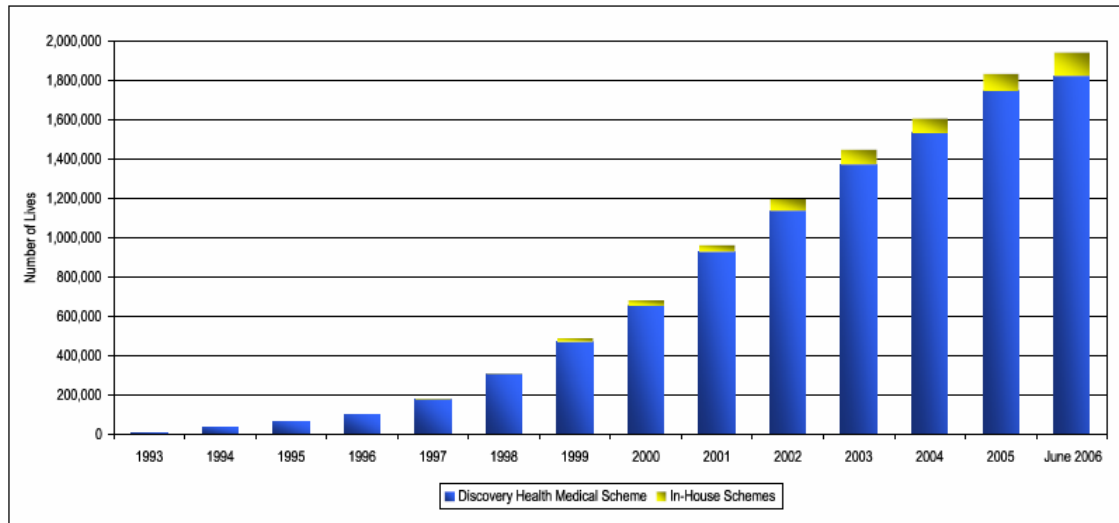
The Discovery Health Medical Scheme has added an additional 40 000 principal members to its membership base (as at December 2005). Discovery InHouse, our administration offering for closed medical schemes received a significant boost this year with the addition of the Lonmin Medical Scheme, adding around 19 000 additional principal members. This brings the number of principal members belonging to closed medical schemes under our administration (excluding the Discovery Health Medical Scheme) to around 65 000.

Discovery Health's customers are employed South Africans who typically earn a monthly household income of R6 500 or more. Around 8% of the Discovery Health Medical Scheme's membership base is made up of pensioners. Based on the latest statistics, the average family belonging to Discovery Health is made up of two people and the average age of a Discovery Health principal member is 42 years.

Our KeyCare Plans are aimed at the lower income market and cater for families who earn a monthly household income of between R3 500 and R6 500. Encouragingly, KeyCare has grown to cover over 120 000 lives, compared to just over 80 000 last year.

## Discovery

### Administrator profile



### Discovery Life continues its rapid growth

Discovery Life's growth has been phenomenal. In its first five years of operation, its rate of growth has far outstripped that of more established players in the market. Discovery Life has grown from a zero base in October 2000 to cover 200 000 lives through its individual risk policies and another 130 000 lives through its group risk offering. Discovery Life currently operates in the middle to higher income categories, offering pure-risk life assurance, disability and severe illness cover, and retirement funding. However, plans are currently underway for its entry into the low income market with an exciting new product. Discovery Life also offers funeral cover to Discovery Health members who belong to KeyClub, a loyalty programme for KeyCare members.

### The majority of our members also belong to Vitality

Customers of both Discovery Health and Discovery Life have access to Vitality. In fact, the Vitality concept underpins all Discovery's businesses and members in the US and UK markets can join tailored versions of Vitality through [Destiny Health](#) and [PruHealth](#).

In South Africa, close to 1,2 million people enjoy the health and lifestyle benefits associated with Vitality. The DiscoveryCard, our credit card offering linked to Vitality, has been independently rated the best value consumer credit card (Razor's Edge Business Intelligence Survey 2005) in South Africa and there are more than 350 000 cards in issue.

## ***What matters to our customers?***

### **We stay in touch with our customers through a variety of sensing tools**

Discovery has thousands of interactions with its clients every day. For example, in Discovery Health's case alone, we:

- Receive 95 000 claims every day
- Pay R6 million in claims every hour
- Answer 35 500 calls per day
- Process 1 000 new business application daily
- Bill a total of R18 billion annually
- Our website generates 16 million page impressions every month.

Among Vitality members, we have 250 000 gym members who collectively work out 350 000 times a month. Vitality members fill 100 Ster-Kinekor movie theatres a night, book 4 000 days of car hire every month and board 4 000 flights a month.

Through these interactions, as well as more formal feedback tools, we are able to understand our customers' needs and gauge how well we are meeting them.

The formal tools we use include:

- **Email and telephone surveys following customer interactions.** We conduct an average of 25 email and telephonic surveys per Discovery Health call centre service consultant every month, requesting that members who have just made use of the service provide us with feedback on the quality of the interaction. We receive a response to 35% of the email surveys. Since our previous report, the average rating per consultant for the telephonic surveys has increased from 8.8 to 9.2 out of ten. Email surveys have only been included in our monthly reports from August 2005. By June 2006, the average email rating increased from 8.53 last year to 8.75 this year.
- **Regular industry surveys.** Discovery Health is a regular participant in the TWIG SA industry survey, an annual Markinor survey evaluating customer touchpoints and the annual Synovate SAS Index. The TWIG SA survey and Markinor survey provide feedback from intermediaries and health care professionals as well, providing Discovery with insights not only into the issues affecting the consumer, but also the issues of importance to our partners in delivery to our members.
- **Ad hoc research and periodic benchmarking exercises.** We also undertake research around specific topics from time to time, or evaluate our data against international

## Discovery

standards. For example, we have recently commissioned an independent audit of 97 of Discovery's marketing and communications documents across the four key local brands against international plain language benchmarks to check for clarity and fairness in our communication. We achieved a rating of 6.4 against the international best practice standards of 7 out of ten. We tested these findings in a series of focus groups and one-to-one interviews with customers and telephonic interviews with other stakeholders, allowing us to gain a better understanding of customer needs when it comes to communication.

Here are more examples of how we perform against international servicing benchmarks.

<b>Query metrics</b>	<b>US benchmark</b>	<b>Discovery Health</b>
Answer speed	80% in 21.93s Average: 38s	35 000 calls per day Actual: 85% in 10 seconds Average: 8 seconds
Rate of calls abandoned	Average: 4.58% Best 3.52%	Actual 2005: +1.75%
First call resolution	Average: 75.33% Best: 79.32%	>90%

*Source: 2005 Purdue report on health insurance industry call centres*

<b>Claims metric</b>	<b>US benchmark</b>	<b>Discovery Health</b>
Turnaround	HMOs*: Mean 71 days Medicare**: 95% of claims in 30 days	2 million claims per month Avg < 1 Day > 96% in 3 Days
Accuracy	US Managed Care***: 98% - 99.1%	> 99% accurate

\* From *Interstudy 2000 analysis of 600 Health Management Organisations in the US*

\*\* From *US Managed Care Handbook*

\*\*\* Cap Gemini, Ernst & Young *US Managed Care Benchmark Study 2002*.

We also receive regular feedback through the media, through our members' correspondence with us, through the intermediaries who service our clients, through the health care professionals who look after our clients and, in the case of members who belong to a Discovery Health or Discovery Life group scheme, through our clients' employers. Based on this feedback, we have identified the following issues of importance to our customers in the past year.

## Discovery

### **The personal touch matters to our customers**

Our size and scale creates unique opportunities for efficiencies in our servicing environment, but makes it more challenging to retain a personal touch in our service. In addition, our research among customers shows that, because of the inherent complexity of life and health assurance products, especially within the South African context, customers need a high degree of personalisation to help make communication relevant and understandable to them.

### **Good value for money matters to our customers**

The health care environment is by its nature an inflationary one. Good health care requires specialist skills and scarce resources; and in South Africa in particular, demand far outstrips supply. This is compounded by the inflationary pressures created by a constant stream of revolutionary, but expensive, new medical technologies and the influence of a host of other macro-economic factors. The result is a major challenge for private health care funders – how to fund increasingly expensive health care in a way that remains affordable and sustainable into the future. Consumers are paying more for health care every year, and they are demanding good value for their money in return.

This holds even truer for the long-term insurance industry. Following the Pension Funds Adjudicator's rulings against the long-term insurance industry last year, and a string of media reports on issues like up-front commissions, bulking and hidden penalties, consumers are more conscious than ever of how much money they're spending with our industry, and what they are entitled to receive in return. And now, with new entrants in the credit card environment focusing on bank charges, consumers are turning their attention to other sectors of the financial services industry too.

### **Clear, timely and effective communication matters to our customers**

This point ties into customers' need for personalised, relevant information and transparency. In all our research on communication preferences, customers have expressed a need for instant and ongoing access to information specific to their personal circumstances that is available to them in a convenient, digestible format.

### **Peace of mind matters to our customers**

When our customers buy our products, they are not buying goods they can keep or consume. Instead, they are buying something infinitely more precious – peace of mind. Our customers want reassurance that they have bought a product that will give them the protection they need when they need it. They need to know that their expectations will be met when the time comes to claim.

## Discovery

### **Our expertise matters to our customers**

The success of the Discovery Hospital Rating Index, launched in September 2005, has emphasised the need among consumers to be able to tap into Discovery's knowledge and expertise where relevant to help them make informed decisions.

### ***Our key strategic focus areas***

#### **Extending access to financial services is a priority**

Both Discovery Health and Discovery Life are focused on the need to broaden access to our products and services to a greater segment of our population. In the case of Discovery Health, this is reflected in the effort we have made in the steady growth in membership of our KeyCare Plans, our participation in the Low Income Medical Scheme industry initiative (see regulatory report) and the addition to our books of the LA Health Medical Scheme in 2005 and Lonmin Medical Scheme in 2006. Both these schemes, operating in the local government and mining sectors respectively, have large concentrations of members in the previously uninsured market.

In the case of Discovery Life, we have to date provided access to funeral cover underwritten by Discovery Life to members of KeyClub, the loyalty programme for KeyCare members. Discovery Life is currently working on an exciting initiative that will provide cover for the lower income market, which we plan to take to market towards the end of 2006.

#### **Rolling out our consumer-driven retirement funding product is a key strategic focus area**

Discovery Life has from the outset understood and embraced the worldwide shift to consumerism. It has brought Discovery's unique consumer-driven model, first pioneered in the sphere of health care, to bear in developing products that engage consumers and meet their needs. Discovery Life identified the shortcomings in retirement funding products early on. In June 2005, following a product development period of close on two years, it announced its entry into the retirement funding market with the launch of the Discovery retirement Optimiser.

The most fundamental breakthrough of the Optimiser is the continuation of Discovery Life's risk-based approach. Based on the insight that consumers' need for life assurance cover reduces in retirement, the Optimiser uses unneeded life cover to boost retirement income. This has the effect of doubling or even trebling income in the first five years of retirement.

## **Discovery**

Discovery Life also guarantees policyholders that they will receive back at least 90% of their retirement fund value if they have to surrender their policy.

The response has been positive, with the retirement Optimiser capturing a 17% share of the independent broker retirement annuity market in its first four months. New industry developments indicate a shift in the life assurance industry's approach to retirement funding. For example, the LOA has proposed a similar model to that used by Discovery Life to determine early termination values for the industry.

### **Integration across the Discovery brands is of strategic importance to us**

Our ability to integrate our offerings to enhance customer value is a key strategic differentiator for Discovery. We believe it offers a significant competitive advantage for all our businesses, but particularly for the future growth of Discovery Life. For customers, it goes a long way towards answering the call for value for money offerings in the long-term insurance space. This is demonstrated by Discovery Life's most recent product innovations, outlined in "What are we doing about it" below.

### **Increasingly, quality of delivery is a key differentiator in the health environment**

With both newly-implemented and proposed regulations in the health care environment leading increasingly to a lack of differentiation between the benefit designs of different medical schemes (see Regulatory report), superior delivery and the ability to add value is becoming more and more important for Discovery Health. We must use our scale and size, as the largest medical scheme administrator in South Africa, and administrator of the largest open medical scheme, to our advantage. The past year saw us introduce Discovery 911, for example. This dedicated rapid response emergency service is exclusive to Discovery members and leverages our bargaining power to the benefit of our members.

### ***What are we doing about it?***

#### **The right information, at the right time**

Discovery's servicing and communication model is evolving to stagger communication, so that members receive information at the time they need it – when they are using our products and services. We are tapping into technology wherever possible to reach members at the right time, through SMS notifications for example. We are using the findings of our recent communications audit to address the communication gaps we identified, so that our communication is clearer and easier to understand. We are also using technology and its

## Discovery

ability to profile communication, to help us achieve a higher degree of personalisation and relevance for our members.

### Value for money offerings in the Discovery Life environment

Discovery Life in June launched a number of product enhancements that provide increased value for money by integrating with other Discovery products. These include:

1. **The DiscoveryCard Protector.** With the DiscoveryCard Protector, Discovery Life will pay off the outstanding balance on a policyholder's DiscoveryCard, up to R30 000, and cover the cost of their key living expenses for the next twelve months in the event of death, severe illness or disability. Average card protection plans cover debts, whereas the DiscoveryCard Protector covers both card debts as well as the future cost of daily living expenses. The amount paid out is based on the policyholders' average card spend on these key expenses in the previous year. Importantly, the DiscoveryCard Protector premium is fixed at R49 per month, no matter what the benefit payout is.
2. **The DiscoveryCard Integrator.** The DiscoveryCard Integrator allows policyholders to grow their Discovery Life Plan's benefits based on their DiscoveryCard spend. This is achieved through a simple mechanism that provides policyholders with credit for their DiscoveryCard spend upfront and then dynamically adjusts the policyholder's future Discovery Life premiums based on actual spend and Vitality status. The result is an immediate 15% discount on life policy premiums.
3. **The Severe Illness Benefit.** Discovery Life has significantly enhanced its Severe Illness Benefit to meet consumer needs. Policyholders can now choose to have their treatment in South Africa (resulting in a 100% payout of the amount their claim qualifies for) or to receive a lumpsum payment of 80% of the sum assured PLUS have treatment at leading facilities within our US-based medical facility network. Discovery Life has also introduced the Parent Severe Illness Benefit, which allows policyholders to take out additional severe illness cover for their parents.

### Solutions for expensive new technologies in the Discovery Health environment

Discovery Health, like other health care funders in South Africa and around the world, is increasingly faced with the challenge of providing sustainable cover for expensive new technologies. This challenge was most clearly demonstrated with the complexities we faced in finding a responsible funding solution for the biological breast cancer drug, Herceptin. Fortunately, in working with leading industry experts, including the SA Oncology Consortium,



## **Discovery**

we were able to find a funding solution for Herceptin that provides access to the drug to those members in need, while protecting the sustainability of the Discovery Health Medical Scheme for all its members. All members now have access to funding in full for the nine-week short course for Herceptin in early breast cancer, in line with the SA Oncology Consortium's recommendations.

However, as more and more scientific breakthroughs are made, it is likely to remain a challenge for us and other health care funders to find affordable, sustainable funding solutions. In all of these cases, we will be guided by the principle that we want to fund appropriate and effective medication and new technologies for our members.

Discovery's view is that we have a responsibility to all our members to ensure that they have access to the best health care available in South Africa at a cost-effective and affordable rate, today and into the future. To ensure that we are able to fulfill this responsibility in a credible and consistent manner, Discovery Health follows a rigorous process which includes a Health Economics Evaluation, as a mechanism to guide our funding policies. This entails detailed clinical and economic modeling, based on the gold-standards of evidence-based medicine, to develop the most appropriate health care funding decision for a particular therapy.

Many of these technologies have proven clinical benefits, while the scientific evidence for others is less clear. Discovery Health is continuously hard at work in evaluating these various products. We work with the medical profession to ensure that we keep up to date with the latest clinical evidence. On behalf of our members, we also engage the pharmaceutical manufacturers in evidence-based and commercial discussions to reduce their costs. In short, we make every effort to find sustainable solutions for our members. We will continue to do so.

## ***Objectives for the coming year***

Based on the information provided above, some of our key objectives for the year ahead will be to:

- Simplify our communication even further, make sure we communicate at the right time and provide more personalised information.
- Discovery Health's growth in the KeyCare market – we hope to achieve the 150 000 life mark soon – and focus on the industry's Low Income Medical Scheme initiative (outlined in the regulatory report) in readiness for 2008
- Enter the low income market with an innovative new Discovery Life offering. We will have more news on this in the last quarter of 2006.
- Further enhance the Discovery Health value offering and leverage Discovery Health's expertise to help consumers make more informed health care decisions. We will be

## Discovery

announcing enhancements in this regard at our Discovery Health launch in September this year.

- Develop strategies for managing the complexity of increasing health care costs, specifically with regard to meeting members' expectations around the funding of new technologies without compromising the sustainability of their medical scheme benefits. We hope to report back positively on this issue in our next report.

## Our regulatory environment

### *Who are our regulators?*

#### **Discovery is accountable to various regulatory bodies within different sectors**

While all Discovery's activities take place within the context of the financial service sector and centre on health and lifestyle protection, they are wide-ranging in their regulatory impact – as demonstrated by the list of Discovery's key regulators in the table below.

#### ***Key regulators***

[Financial Services Board](#)

[Council for Medical Schemes](#)

[Life Offices Association](#)

[Financial Intelligence Centre](#)

[Pension Fund Adjudicator](#)

[National Credit Regulator](#)

[FAIS Ombud](#)

[Long Term Insurance Ombud](#)

[Financial Services Authority \(UK\)](#)

[Financial Ombudsman Services \(UK\)](#)

[Division of Insurance \(USA\)](#)

An important addition to our list of regulators this year is the National Credit Regulator. This follows the implementation of the first section of the National Credit Act in June 2006.

We have also included here the regulatory bodies that have jurisdiction in our international businesses for the sake of accuracy and comprehensiveness. While the relevant legislation may differ, we believe their spirit is the same. We adhere to the same principles of full compliance and good governance in both our local and international operations. However, the focus of this report is on our local operations. (View corporate and legal compliance information [on Prudential plc](#), our joint venture partner in the UK and [Destiny Health](#), our US subsidiary.)

## ***Why the regulatory environment matters to us***

### **Discovery is committed to protecting the best interests of the people we serve**

Discovery believes strongly in good corporate citizenship. We believe our position of leadership in the industries we operate in, and the personal nature of the products we create for people, bring with them an important ethical responsibility. We are proud of our country, and of the fact that our constitution protects the people of our country. We share our regulators' commitment to the economic upliftment and social transformation of our country, and the protection of the rights of the stakeholders affected by our actions. For all these reasons, we ensure our full compliance with all the legislative and regulatory requirements that apply to our business.

### **We have a leadership role to play in the regulatory issues that affect our business**

We are proud of our open and constructive relationships with the various regulatory bodies to whom we are accountable. We regularly engage and interact with these regulatory bodies:

- When new regulations or legislative proposals are tabled that may affect our business, the industries within which we operate, or that may affect any of our stakeholders
- When we embark on new ventures, so that we can take into account during the development phase any relevant regulatory issues
- On an ongoing basis, to verify the compliance of certain processes
- Our new Regulatory Change Process allows us to alert Discovery's leadership team to any regulatory changes of relevance.

## ***Feedback on last year's major issues***

### **1. Issues of importance to Discovery Health this year**

#### ***We are seeing greater use of ICD-10 coding***

Discovery has been in ongoing contact with the Council for Medical Schemes and other industry players about the implementation of ICD-10 coding. ICD-10 codes are international codes that convey diagnostic information in a coded format. Since last year, health professionals have been required to indicate these codes on their invoices and claims. Health care funders may not reimburse claims without this information. Initially, the number of health

## **Discovery**

care providers including ICD-10 codes on their claims was so low that we were unable to reject claims payments without negatively affecting our members. However, the compliance levels have increased sufficiently for Discovery Health and other medical scheme administrators to start rejecting claims received from non-compliant health care providers. While we expect that this may increase our administrative burden incrementally, we do not see it as a significant risk at this stage.

### ***We expect the final medicine dispensing fee to be announced soon***

Since the Constitutional Court's ruling that the pharmacy industry and regulator must work together to agree a fair dispensing fee for pharmacies, there have been no significant developments regarding the medicine pricing regulations we reported on last year. The Discovery Health Medical Scheme has for the past two years reimbursed claims for dispensing fees at a rate higher than R26 cap suggested by the original regulations. We therefore expect that, when the industry and regulator do announce their new rate, there will be no negative impact for Discovery Health. We expect the fee to be finalised in the last quarter of 2006.

### ***The industry is working clear up small uncertainties about the prescribed benefits***

We are fully compliant with the requirements of the legislation around the Prescribed Minimum Benefits, basic benefits that regulations say all medical schemes must give their members. However, the medical schemes industry has raised with the regulator some specific benefit areas where it is not entirely clear what a medical scheme's obligations are to its members. We expect this interaction to clarify some areas of the regulations that are still open to interpretation. In general, the trend is towards expanding the coverage provided for conditions that fall under the Prescribed Minimum Benefits. The Discovery Health Medical Scheme, in common with the rest of the industry, has experienced increased risk expenditure on benefits related to the minimum benefits. We will price the cost of these expanded benefits into our future contributions to ensure sustainability.

### ***GEMS has not had a significant impact on Discovery Health***

The Government Employees Medical Scheme was implemented on 1 January 2006, under administration of the Metropolitan Health Group and initially targeting those lower earning employees who have not been covered before. This has not had any real impact on Discovery Health thus far. Among Discovery Health's existing membership base, approximately 50 000 members could potentially become GEMS members in the future. However, based on our competitive benefit offering, we do not expect this to happen in the near future. Nevertheless, we are giving the matter close attention to ensure we minimise any potential risks.

## Discovery

### ***We expect the Risk Equalisation Fund dates to confirmed soon***

Discovery Health is playing an active role in developing the Risk Equalisation Fund, and participates in the Risk Equalisation Technical Advisory Panel. This regulatory initiative aims to equalise the risk profiles between schemes with a healthier, younger membership base and schemes with a sicker, older membership base. Once implemented, schemes with a better risk profile will contribute to the fund and schemes with a worse risk profile will receive subsidies from the fund. We expect the impact on Discovery Health to be minimal, with the Discovery Health Medical Scheme being a small net receiver of funds. We expect the legislation to be passed and the time table for implementation to be announced later this year.

### ***Two other issues we reported on last year***

- Social health insurance: There were no major developments on this issue in the year under review.
- Ruling against variable Medical Savings Account contributions: Following a ruling of the Council for Medical Schemes, all Discovery Health plan options now fix Medical Savings Account contributions at 25% of the overall medical scheme contribution. We successfully implemented this change from 1 January 2006.

## **2. Issues affecting Discovery Health, Discovery Life and DiscoveryCard this year**

### ***We monitor all our business activities to ensure FAIS compliance***

We continued to focus on compliance with the requirements of the FAIS Act this year. We have put in place an ongoing, comprehensive monitoring programme to measure compliance and have not found any major incidents of non-compliance.

## **3. Regulatory issues of importance to Discovery Life and DiscoveryCard this year**

### ***We monitor all our business activities to ensure FICA compliance***

During the past year, the Financial Intelligence Centre indicated that they would focus their attentions on compliance in the long-term insurance industry in particular.

## ***What are the major regulatory issues for us to address this year***

### **1. Discovery Health**

#### ***We will stay in touch with Risk Equalisation Fund developments***

We have initiated a project within Discovery Health to ensure we are ready to implement the requirements of the Risk Equalisation Fund once the legislation is passed and implemented. We expect implementation on 1 January 2008, but the timelines have not yet been confirmed. In the meantime, Discovery Health will remain involved with the industry discussions around this initiative.

#### ***We will participate in industry debates around Circular 8***

The Council for Medical Schemes published a number of proposals for changes to the design of medical scheme benefits across the industry and for expanding the Prescribed Minimum Benefits further. Discovery Health is an active participant in the industry debates around the proposed changes. We are also assessing their potential impact on Discovery Health and the Discovery Health Medical Scheme. Overall, we expect them to be positive.

#### ***We will also focus on the Low Income Medical Scheme process***

We have been closely involved with the private health care industry's investigation into extending access to medical scheme benefits into the low income market. We expect to see the activity around this new class of medical schemes – the Low Income Medical Scheme – to intensify during the year ahead. Again, we expect implementation in January 2008. Discovery Health will continue its active role in this process, in line with our commitment to making quality health care accessible to a greater proportion of South Africans.

### **2. Discovery Life, Discovery Health and DiscoveryCard**

#### ***We will train registered employees and financial advisors to ensure FAIS compliance***

The FAIS Act requires that by 30 September 2007, all employees and financial advisors providing financial advice must attain specific minimum credits. We have been working hard over the past few years to ensure full compliance. We will undertake rigorous training of our employees and accredited financial advisors to equip them to achieve these credits in time for the September deadline.

### 3. Discovery Life and DiscoveryCard

#### ***We will stay focused on FICA compliance***

The Financial Intelligence Centre will be turning its attention from the banking sector to the long-term insurance industry. Discovery will continue to ensure our compliance with the requirements of FICA.

#### ***We will make sure our process comply with the National Credit Act***

The first sections of this legislation came into effect on 1 June 2006. The remaining sections will be implemented on 1 September 2006 and 1 June 2007 respectively. Some of Discovery Life's operations and our DiscoveryCard credit card offering fall within the Act's definition of Credit Facilities. We have launched a project to review all our existing processes and ensure full compliance with the requirements of the Act. We look forward to reporting back on this initiative in our next regulatory report.



## **Our work with the community**

### ***Why our community matters to us***

#### **We develop resources in indigent communities to create a healthier South Africa**

Discovery's core purpose is to make people healthier and enhance and protect their lives. We believe we need to contribute to the wellbeing not only of our clients, but to the community as a whole.

For our clients, we deliver on this core purpose through products and services that empower them to take good care of their health. We also provide them with financial protection against many of the financial burdens that come with poor health.

But our commitment to helping people extends beyond the boundaries of our business. Discovery's corporate social investment programme allows us to deliver our core purpose to the broader community.

For this reason, the focus of our corporate social investment activities is on resource development to enable healthier communities.

### ***Who are our communities?***

#### **Discovery CSI partners with community partners to reach indigent communities**

Discovery's CSI programme focuses on the needs of previously disadvantaged communities and our community partners are all non-profit organisations. These represent both non-government organisations, with strong community representation, and government institutions by and large. The reach of our CSI programme is national, and we work hard to ensure we focus our activities in the areas of greatest need. For this reason, we do have a preference for community projects in rural areas.

## ***What matters to the community?***

### **We engage with communities to understand their needs**

Corporate social responsibility is not about benefits to the company as is the case with sponsorships. It is about benefits to communities and it is for this reason that the communities which whom we work are of paramount importance in every CSI project we undertake.

We can only ensure that the projects we support have widespread community buy-in if we engage with the relevant stakeholders to ensure that whatever interventions are proposed meet the needs of that community, if we consult with communities concerned and ultimately, if we ensure the communities feel a sense of ownership for the project.

### ***To this end, we engage with projects in different ways, as outlined below.***

1. **Through a structured report-back mechanism**, which monitors the progress of the project.
2. **Through our employee volunteerism**, which provides a less formal, but more dynamic form of engagement that helps to meet the ongoing needs of the project and directs us to potential future support.
3. **Through our regional Discovery Consulting Services offices**, our distribution franchises across the country. These offices have a direct presence in the affected communities, facilitating regular interaction. Their feedback provides us with very useful guidance to where our support should go. We have been using this as a channel of communication and engagement with communities since March 2006 and believe that it will bring us much closer to the development needs of previously disadvantaged communities.

### **We focus on issues of health care access and community wellness**

Discovery's strategic focus fall within the arena of health and wellness, and we have aligned our community investments to this overarching theme. We have embarked on consultation with our stakeholders to establish how we can best support the community in this arena.

#### ***1. Grant-making in the arena of health care must remain our primary objective***

Discovery uses 1% of its after-tax profits to make grants in the health arena – in other words, in investments that have a direct impact on community's access to health care facilities. Based on the feedback from stakeholders, both within the communities

## Discovery

themselves, and from the providers of health care in these communities, we have now allocated these funds as follows:

- 55%: Primary health care with a preference for rural interventions, HIV/AIDS programmes and treatment of infectious diseases. This may include support for a capital infrastructure project that will enhance the delivery of the above services. With only seven million South Africans currently enjoying access to private health care, this is by far the greatest area of need.
- 20%: Healthy lifestyle interventions, for example programmes that promote good nutrition and regular exercise for chronic disease sufferers
- 15%: Education and bursaries focusing on health disciplines
- 10%: Our Volunteer Programme, our involvement with the Business Trust and support for public policy in the health care arena.

### ***2. We also make grants to support community wellness***

Discovery has committed R12,5 million over a period of five years (equating to R2,5 million per year) to projects that promote the wellbeing of communities through the Laureus Sport for Good Foundation. Laureus uses sport as a tool to help communities address social challenges. This ties into the need, expressed by the community stakeholders we engage with, for projects that support their social and emotional wellbeing, not just their physical health.

### ***3. Communities want our community to become a part of theirs***

While the need most often expressed by communities is for financial support, it is not the area where they appreciate support. Our Employee Volunteer Programme has grown dramatically over the past year, because of the mutual need expressed by the communities we work with, and by Discovery employees, for support that extends beyond grant-making. This allows us to develop an ongoing relationship with the community projects we support, and amplifies the impact significantly. We receive positive feedback regularly from both our employees and the community about the benefits of this approach.

#### **4. *Communities appreciate other support too***

We have also found a need among community projects for “other support”, for example sharing our skills with them or providing assistance in securing other benefactors. For example, this year we launched a coffee table book entitled *Face Up* recently, which profiles some of the project that we support. The book shows the extent to which communities have taken ownership of bringing excellent health care to previously disadvantaged communities. It also demonstrates how partnerships between corporates like Discovery, non-governmental organisation and government can enable communities to take charge. The story is one of hope, despite all the development challenges South Africa faces.

#### **5. *Communities want to become more self-sufficient***

We have found increasingly that communities want to be less dependent on funders. They want to take ownership and achieve a greater degree of sustainability. To this end, at Discovery we are challenging ourselves to find more innovative ways of providing support beyond the traditional grant-making functions.

### ***Our strategic focus areas and what we are doing about them***

In the previous paragraphs, we have outlined a number of the principles of our approach that flow directly from the feedback we have received from our stakeholders and the communities we work with in the past year. In addition, Discovery has identified a number of key focus areas or principles that we deem integral to the success of our corporate social investment programme.

#### **We support projects that align with Discovery’s objectives**

We make grants only for projects that align with Discovery’s core purpose, and its business strategy and that support the three focus areas discussed above.

#### **We support projects that focus on development**

Projects must demonstrate a strong focus on the development and empowerment of the communities they serve.

#### **We support projects that are sustainable**

We believe for our contribution to truly benefit the communities they support, it is essential that projects are structured sustainably.

## Discovery

### **We support projects that have the buy-in of the community**

The support of the community and a sense of ownership is a critical factor in ensuring the long-term success of any intervention.

### **We support projects that engage the relevant stakeholders**

We believe that it is important to involve all the people who are affected by a project.

### **We support projects that promote public-private sector partnerships**

Especially in the case of large infra-structural projects, we believe in the value of partnerships between the public sector, private sector and civil society.

### **We work with stakeholders to identify projects proactively**

Our interaction with the community places us in an ideal position to identify projects in need in a proactive manner, rather than waiting to be approached with funding requests.

### **We support projects that demonstrate good governance**

We believe we have a responsibility to ensure that the projects we support are well run, so that the communities we aim to support are able to benefit from the intervention. The factors we look at include:

- The project's structures must comply with legislation, must be representative of the community and must demonstrate good governance in all its activities
- The project must have a clear business plan, which shows its objectives, timelines, the projected extent of its impact and how it will measure success
- The project must be managed soundly and must have the right people in place
- The project must provide us with regular written feedback once implemented, including information on any lessons learnt and problems experienced.

### **We are auditing our existing projects to establish how well we are meeting needs**

We are currently in the process of arranging an audit of our CSI projects and policies, specifically aimed at measuring how well we are meeting the needs of the projects we support. While we regularly interact with community stakeholder groups, the feedback is often provided in an informal context, and is more anecdotal than scientific. Through our audit process, we aim to apply a more formal approach to understanding the community's needs and measuring

## **Discovery**

how well we are in fact addressing them. We look forward to reporting back on our key findings in our next sustainability report.

### **We are updating our CSI policy documents to make them clear and simple**

As reflected in this report, over the past year we have made an effort to refine and more clearly articulate our focus areas, both in terms of the community's needs and our own requirements. Our challenge going into the new financial year is to make sure we make this information more accessible to stakeholders. We are in the process of documenting the principles outlined above in a reader-friendly, accessible format to help applicants and other stakeholders gain a clear understanding of our approach. This will be available on our [online CSI](#) information, in our application guidelines and in any other media where we talk about Discovery's impact on the community.

## Our Environment: Direct

### *Why the environment matters to us*

#### Healthy people need a healthy environment

As a company operating in the financial services sector, Discovery is in the fortunate position that our direct environmental impact is limited to the resources we use to house our employees and service our clients every day. Here our core purpose of making people healthier and enhancing and protecting their lives provides the framework for all our activities. Our primary concern in the context of our direct environmental impact is with ensuring that we create a safe and healthy environment for our employees to work within. We have an environmental policy in place that focuses on the health and safety of our employees, which we update and review on a regular basis.

We also understand that our business practices have a broader impact on the wellbeing of our clients, other people living and working in our immediate vicinity, the citizens of our country and ultimately, future generations of South Africans.

### *Where is our direct impact?*

#### Discovery has offices in eight buildings around South Africa

Discovery currently has offices in eight buildings around South Africa. In our previous sustainability report, we reported only on our head offices based in Sandton. This year, our report extends to all our buildings.

<b>Address</b>	<b>Space</b>	<b>Employees (+/-)</b>
Discovery (head office) 155 West Street Sandton	24 000m <sup>2</sup> rentable space	2 000
Discovery 16 Fredman Sandton	22 000 m <sup>2</sup> rentable space	2 000

## Discovery

Discovery Institute 25 Fredman Sandton	8 270 m <sup>2</sup> rentable space	650
Discovery Highveld Techno Park Centurion	8 600 m <sup>2</sup> rentable space	360
Discovery 2 Frosterley Crescent Umhlanga	2 400 m <sup>2</sup> rentable space	200
Discovery Heron Crescent Cape Town	5 300 m <sup>2</sup> rentable space	300

These buildings house much of the back-office infrastructure and many of the employees who support our international operations. However, this report does not provide information on the direct environmental impact of the offices and employees based in the UK and US. (PruHealth is a joint venture between Discovery and Prudential plc in the UK. [View Prudential's corporate responsibility report.](#))

## ***Where are our direct impacts?***

### **We use and generate paper in large quantities**

At Discovery we believe one of the most powerful improvements we can make to limit our environmental impact is to create a paperless environment. With over 4 000 employees, many in administrative functions, and a total of close to two million clients across our businesses, we use tons of paper every year. This is especially true of Discovery Health, where we daily receive thousands of paper claims and send out thousands of printed claims statements.

### **Our business is growing, requiring more resources and more space**

An important development in the past financial year has been the opening of a new Discovery building in Sandton in July of last year and more recently the establishment of an office in Centurion. This not only reflects the continuing growth of our company, but also demonstrates how our service strategy is decentralising to offer more focused regional support to our clients. We are mindful of the fact that, as our physical presence grows, so does our impact on the environment.



## Discovery

### **Our vehicle fleet has grown too**

Discovery Life's vehicle fleet has increased since our previous report to 33 in total. Other than the purchase of an additional four SmartCars at the beginning of this year, Discovery Life has replaced the rest of its fleet of SmartCars with Ford Fiestas. As with the Smart Cars, the Ford Fiestas were chosen for their economy and limited environmental impact – they are 85% recyclable, fuel efficient and have low carbon emissions. Discovery Health's vehicle fleet has increased by two vehicles to 21 in total. The average number of kilometres travelled a day has increased slightly, with the average Discovery Health vehicle traveling between 100 and 200 kilometres per day and the Discovery Life vehicles traveling between 150 and 300 kilometres per day. We have also introduced Discovery 911, a dedicated rapid response medical emergency service for Discovery members, in partnership with Netcare 911 – view [Netcare's Annual Report](#). The fleet of branded Discovery 911 emergency response vehicles are owned and maintained by Netcare 911.

### ***What are we doing about it?***

#### **We use technology to reduce our paper usage**

We continue to focus on encouraging health care professionals to submit their claims to us directly via electronic switches and to register for electronic funds transfer. This has not only helped to reduce the amount of paper we generate, but also the amount of business travel associated with collecting, delivering and posting paper claims. We have seen the ratio of electronic claims to paper claims improve by another 4% in the past financial year: currently the figures stand at 84% for electronic claims and 16% for paper claims.

We have over the past year made significant enhancements to our Discovery website and electronic communications offerings to encourage our members to interact with us electronically. This year, 447 440 Discovery members are registered to receive their claims statements electronically, compared to 367 152 last year. We have this year also reduced the number of Discovery magazines we mail to each of our principal members and policyholders from four editions to only three editions per year. We mail out over 800 000 magazines of 80 pages each with every edition, so the improvement is a significant one. We have also signed up for Computershare's initiative, eTree, which allows us to mail our annual report to shareholders and analysts in an electronic format.

Other examples of initiatives underway include the use of bar coding and scanning technologies for all application forms and other correspondence documents (25 000

## **Discovery**

documents are scanned a day), allowing us to store information electronically. This is in addition to the shredding and recycling activities we already have in place.

We also installed hand dryers in all our washrooms this year to replace the paper hand towels we used before, creating a saving of R384 00 per year.

## **We manage space and resources with care**

As Discovery's footprint expands, so does its impact on the environment and on various stakeholder groups affected by the environment.

A simple yet powerful example of this fact was a noise pollution complaint we recently received from the residents of a block of flats situated close to our new building in Sandton. The noise emanated from a chiller plant situated on the roof of our new building. While we urgently sought a long-term solution from our landlord, we had no choice but to shut the chiller plant down at night. As a result, our Sandton-based Destiny Health employees suffered the inconvenience of working in uncomfortably hot conditions for a number of weeks. We did everything in our power to address the situation urgently and arranged to have an acoustic wall built around the chiller plant to ensure the comfort of both our neighbours and our employees.

We have in the past year also implemented a strategy around improving the efficiency and consolidation of vacant space. This allows us to operate more efficiently, use fewer resources and limits our impact on our immediate environment. This supplements the numerous initiatives we already have in place to manage resources in an environmentally-friendly way in all our buildings.

## Appendix

### Our People

#### Scope

We employ 4 122 permanent employees, with the majority based in our head offices in Sandton. We also have offices in Cape Town and Durban and have recently opened a branch in Centurion. A number of our Johannesburg-based employees provide the call centre and administrative infrastructures to service our international operations, Destiny Health in the US and PruHealth in the UK. Importantly, while both these companies employ people in these overseas markets, this report focuses purely on employees based in South Africa – and includes SA-based employees who service our international operations. Most of our employees are call centre agents, or fulfill administrative functions (processing health and life assurance claims) or are technical staff within our systems/IT environment.

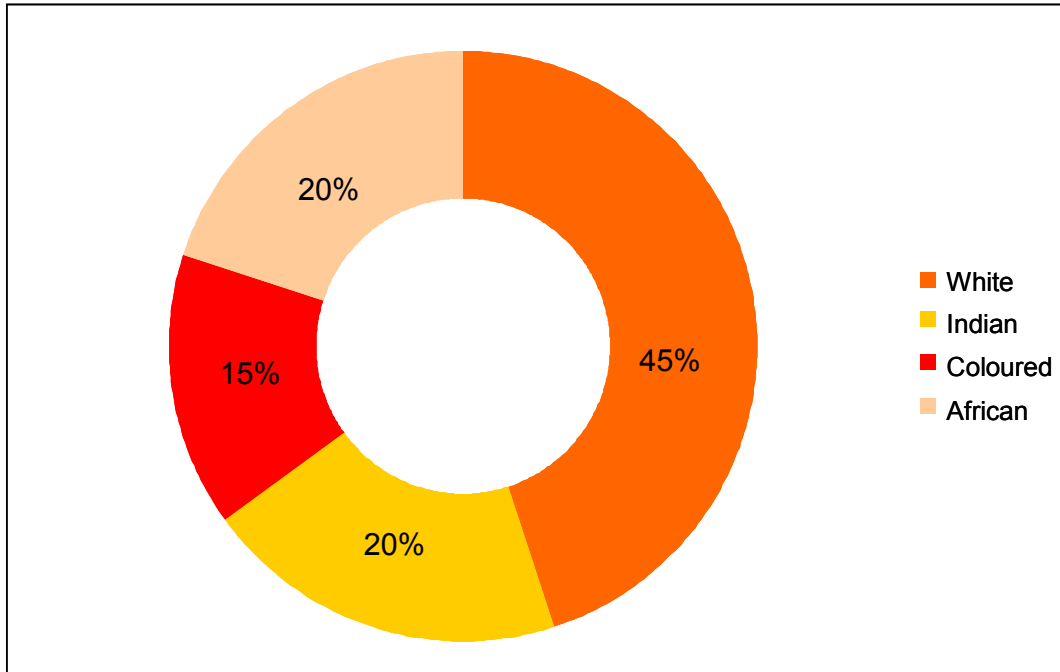
DIVISION	Permanent							Contractors		Total
	TOTAL	% FEMALE	% EE	Management		EE	% EE	PAYROLL	AGENCY	
Corporate	196	50%	53%	27	14%	2	7%	5	19	220
Corporate Is	369	39%	31%	51	14%	6	12%	11	46	426
Exec Cost Centre	13	46%	15%	5	38%	1	20%	0	0	13
Destiny	331	54%	45%	28	8%	4	14%	1	111	443
Finance	127	72%	56%	21	17%	3	14%	10	3	140
Health	1888	66%	64%	146	8%	45	31%	102	173	2163
Life	447	55%	49%	68	15%	21	31%	36	33	516
Marketing	265	58%	57%	45	17%	11	24%	4	3	272
People	118	87%	50%	25	21%	6	24%	5	2	125
PruHealth	224	57%	46%	21	9%	3	14%	8	208	440
Vitality	144	54%	69%	13	9%	3	23%	0	11	155
Grand Total	4122	60%	56%	450	11%	105	23%	182	609	4913

Average Age: 32

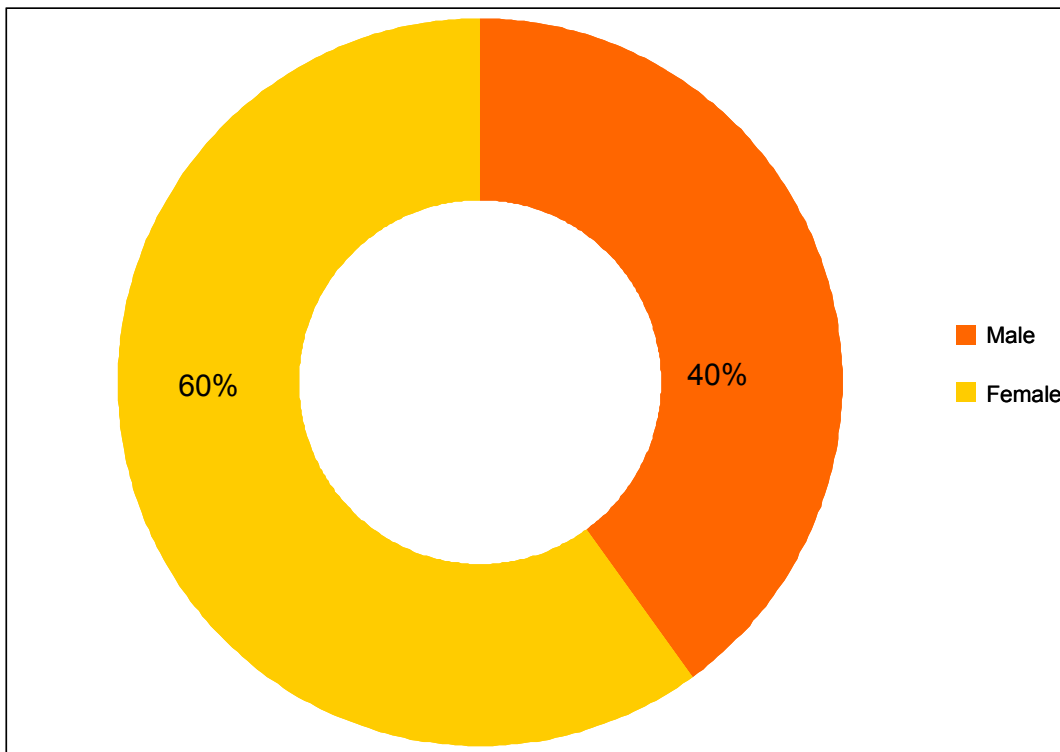
Total Permanent Staff as at 30 June 2006: 4122

## Discovery

Discovery Staff Race Profile as at 30 Jun 2006

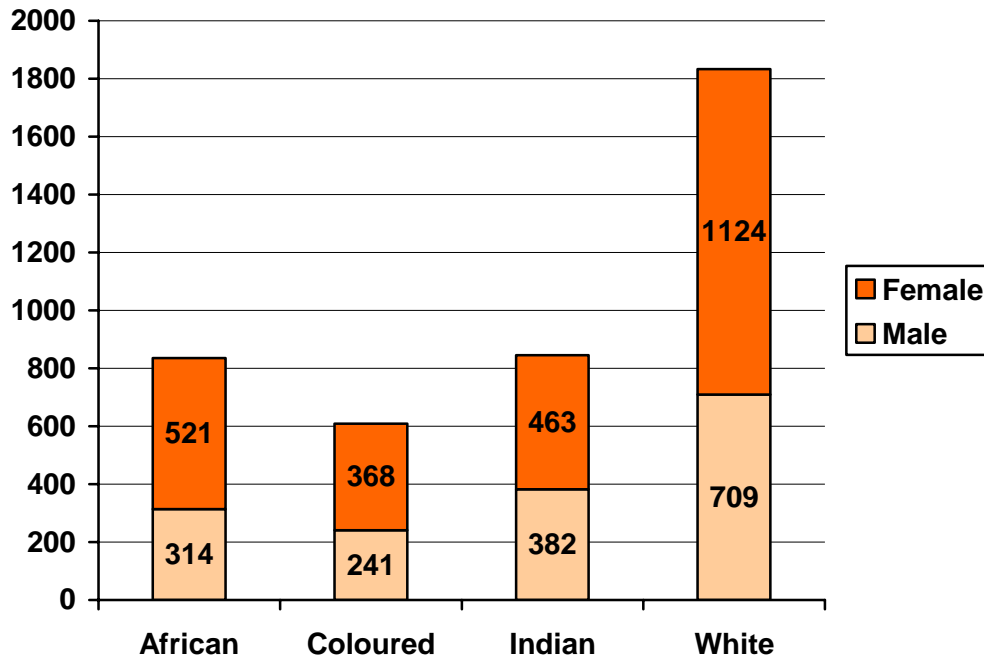


Discovery Staff Gender Profile as at 30 Jun 2006

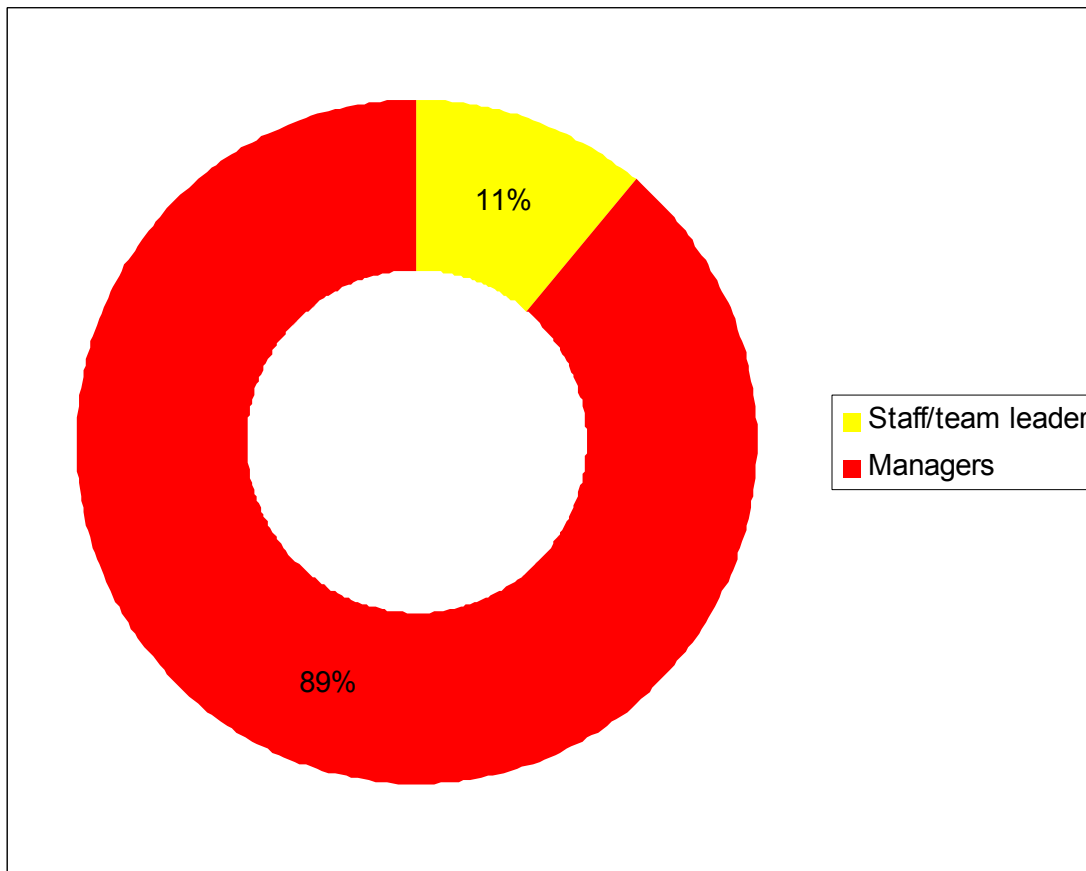


## Discovery

Discovery Staff Race/Gender Profile as at 30 Jun 2006



Discovery Staff and Management Comparison as at 30 June 2006



## Discovery

### Issues of major concern relating to staff

We use various channels to identify issues of major concern to our employees.

#### ***Exit interviews***

We provide the information gathered through exit interviews to our Discovery HR Exco and from September 2006 it is also documented and presented to our Discovery Holdings Exco. Depending on the nature of the issue, HR or the business unit head is responsible for addressing issues and reporting back to Exco.

#### ***Employee engagement surveys***

Discovery uses an annual online engagement survey. The result of this research is provided to every individual member of the management team, providing specific data pertaining to their own team. Executives see the results for their business unit within Discovery, as well as the overall results for Discovery. Each manager is responsible for addressing issues in their own teams and ongoing measurement tools, along with performance measurement, is in place to assess the impact of the action taken.

<b>Measure</b>	<b>Average % Score*</b>
I would recommend Discovery as a great place to work	81.4%
I know what is expected of me at work	86.2%
I have the materials and equipment I need to do my work right	82.2%
At work, I have the opportunity to do what I do best every day	75.4%
In the last seven days, I have received recognition or praise for doing good work	65.2%
There is someone at work who seems to care about me as a person	76.6%
There is someone at work who encourages my development	71.4%
At work, my opinions seem to count	68.6%
The mission or purpose of my company makes me feel my job is important	79.2%
My fellow employees are committed to doing quality work	77.0%
I have a best friend at work	71.6%
In the last six months, someone at work has talked to me about my progress	76.2%
This last year, I have had opportunities at work to learn and grow	76.6%
How satisfied are you with Discovery as a place to work?	77.4%

\* Scores out of five from The Gallup Organization

## **Discovery**

### **Measurements**

Based on the Gallup Q12 employee engagement survey, the average satisfaction score of Discovery people translates to 77.4%. The overall average employee engagement or commitment score is 75.6%. Comparing this year's results to last year's results, Discovery has improved in every aspect of employee engagement.

### ***Divisional staff morale surveys***

Survey results are provided to divisional heads (as and where required). Divisional heads are responsible for addressing the issues and monitoring the results. This is often linked to the manager's management incentive measures.

### ***Informal group discussions***

We have found that the classroom often provides a forum for people to raise and discuss issues about the workplace that they are not comfortable sharing elsewhere. While the data gathered is obviously anecdotal rather than scientific, we have empowered trainers to escalate, where appropriate, these issues to their line manager or the Head of Discovery People (HR).

### ***Recruitment***

It is Discovery's policy to recruit internally wherever possible. Our recruitment staff often receives valuable feedback about employee concerns during the internal interview processes and where appropriate, they raise these concerns with senior management within our HR environment.

### ***Grievances***

We have a formal grievance procedure in place, which is managed by our Employee Relations team. They provide regular reports to the Head of Discovery People on any issues of concern. Depending on the issue at hand, either the Head of Discovery People or the head of the relevant Discovery business unit is tasked with taking action.

### ***Voluntary escalations***

Managers sometimes also request the assistance of our HR division in resolving issues within their teams. Here the focus of any intervention is on providing support and playing a facilitation role, rather than disempowering the manager.

## **Discovery**

### ***Policies***

Discovery engages employees in the discussion, agreement and approval of all its employee policies. Proposed policies are published on our Intranet site, and employees are invited to review and comment on these policies.

The following policies are currently in effect and available to all employees on our Intranet:

Assessment  
Bursary  
Code of Conduct  
Company Property  
Domestic Relocation  
Disciplinary and Grievance Policy (Labour Relations Act)  
Dress Code  
Educational Assistance  
Employee Assistance Programme  
Employee Reimbursement Policy  
Employee Sponsorship  
Exit Interview  
Fraud  
HIV/AIDS  
Health and Safety Policy and Procedure  
Leave Policy (Basic Conditions of Employment Act)  
Life-threatening Diseases  
Management Incentive  
Moonlighting  
Network Access  
Passing of an Employee  
Promotions  
Recruitment Policy (Employment Equity Act)  
Restructuring Policy (Labour Relations Act)  
Safeguard of Persons and Property  
Sexual Harassment Policy (Employment Equity Act).  
Smoking  
Substance Abuse

Proposed new policies currently in discussion:

Network Access



## **Discovery**

### Parking

We have not drafted specific policies around human rights or freedom of association, as we subscribe to the tenets of the South African constitution in this regard.

### ***Trade unions***

Discovery has never had any trade union interactions.

### ***Health and Safety***

Discovery has committed itself to ensuring the health and safety of our clients and employees. As our functions are mainly administrative, we have experienced no work-related injuries or deaths.

Even so, we have set up a network of emergency numbers within our buildings in Sandton, which employees or any visitors may use during office hours to call for help or report any issues. For example, by dialling 911# on Discovery's internal telephone handsets, employees will reach the emergency controller and by dialling 912#, they will reach the emergency controller for our building at 155 West Street.

Discovery has among its employees a number of trained medical professionals, including doctors, paramedics and nursing staff. Many of them act as volunteer health and safety coordinators. We have well-equipped medical rooms in all our building where emergency first aid treatment can be administered by trained personnel. For example, the rooms have an AED defibrillator machines which can be used in the case of any employee or visitor suffering a heart attack while on our premises.

A health and safety-related issue is accessibility for disabled employees. We've ensured that our building is accessible and safe for disabled employees – measures include the use of Braille markings on lift buttons, wheelchair ramps hand rails, ample disabled parking and a wheelchair that can be used by frail or elderly visitors to our building.

We have implemented a comprehensive risk management programme for use by members of our Health and safety committee, building and floor coordinators. The programme includes risk assessment and identification, monthly health and safety inspections and a log of minor and major injuries.

## **Discovery**

In accordance with the requirements of the Occupational Health and Safety Act, we have appointed all the relevant parties:

16.1 Adrian Gore CEO.

16.2 John Robertson.- CIO

16.2 Assistant: David Pierre-Eugene.

16.2 Assignee assistants: Fanie van der Nest and Andre Weber.

EMR2 Freddie van Deventer.

GMR2 Dawid Westermann.

Coordinators for each building

Coordinators for each floor.

## Discovery

Health and training statistics							
<b>AUG</b>							
	<b>155 West Street</b>	<b>25 Fredman</b>	<b>3 Alice Lane</b>	<b>Umhlanga</b>	<b>Cape Town</b>	<b>16 Fredman</b>	<b>PTA</b>
Incidents	2	0	0	0	0	0	0
Accidents	2	0	1	0	0	0	0
Training	0	0	0	0	0	0	0
<b>JULY</b>							
Incidents	2	0	0	0	0	0	0
Accidents	2	0	1	0	0	0	0
Training	0	0	0	0	0	0	0
<b>JUNE</b>							
Incidents	2	0	0	0	0	0	0
Accidents	2	0	1	0	0	0	0
Training	0	0	0	0	0	0	0
<b>MAY</b>							
Incidents	0	0	0	0	0	0	0
Accidents	0	0	0	0	0	0	0
Training	3	2	2	0	0	2	1
<b>APRIL</b>							
Incidents	0	0	0	0	0	0	0
Accidents	0	0	0	0	0	0	0
Training	4	1	1	0	0	4	0
<b>MARCH</b>							
Incidents	0	1	0	0	0	3	0
Accidents	0	0	0	1	0	0	0
Training	4	0	1	0	0	5	0
<b>FEBRUARY</b>							
Incidents	0	1	0	0	0	3	0
Accidents	0	0	0	1	0	0	0
Training	12	4	4	0	0	0	0
<b>JANUARY</b>							
Incidents	2	0	1	0	0	4	
Accidents	1	0	0	1	0	1	
Training	0	0	0	0	0	0	

## Discovery

### **Training**

Rands spent on training over the year (excludes Destiny Health and PruHealth)

Direct training costs

Internal cost	R 20 382 524.98
External cost	R 5 226 332.12

Total	R 25 608 857.10
-------	-----------------

Spend per employee

Ave spend per employee	R6 646
------------------------	--------

Training hours per employee

Each employee spent an average of 11 hours receiving training during the year under review.

### **Training**

1	Description of HIV/Aids policy	In 2004, Discovery reformulated its HIV/Aids policy in consultation with staff. The policy commits us to non-discrimination, the right to non-disclosure, confidentiality upon disclosure and counselling support for employees and their families. It also offers guidelines to managers on what to do if an employee discloses to them that he or she is HIV- positive.
2	Strategy for managing the HIV/Aids risk	The majority of Discovery's employees are members of the Discovery Health Medical Scheme. In terms of our Discovery Care programme for HIV/Aids, we encourage members to undergo voluntary testing and counselling and encourage members who are HIV-positive to enrol in the programme. The programme places strong emphasis on confidentiality and focuses on a lifestyle management approach which helps to keep these members healthy.  Employees have access to an onsite doctor who consults, counsels and tests employees confidentially and assists with the

## Discovery

		management of the condition in employees who are HIV-positive.
3	Extent of preparedness and contingency planning in anticipation of expected HIV/Aids impact	While no HIV/Aids prediction model is currently in place in relation to employees specifically, we are able to extrapolate prevalence rates among our employees using the model we use for Discovery Health medical scheme members. The prevalence rates are very low and so the impact is minimal.
4	Monitoring of progress and reports in respect of above indicators	This applies only in terms of employees who belong to the Discovery Health Medical Scheme and have enrolled on our HIV/Aids management programme
5	Stakeholder involvement in formulation of policy, strategy and implementation	Our policy was formulated and implemented in consultation with staff, HR representatives and management representatives

### Measurement, monitoring and evaluation

6	Prevalence rates	No prevalence studies have been conducted by the employer. However, predicted prevalence of <b>4.2%</b> has been predicted using the medical scheme's behaviour model based on claims experience. However, this does not take non-scheme members into account
7	HIV/Aids associated costs and losses: Absenteeism, employee benefits (death benefits), recruitment and training costs due to death and disability, cost associated with compassionate leave, negative staff morale, general loss of turnover and profits	Not measured at the moment
8	Total assumed future HIV/Aids costs and losses	Not measured at the moment

### Workplace conditions HIV/Aids management

9	Workplace-related HIV/Aids programmes and interventions	Employees have access to HIV/Aids counselling and training on sexual health issues through the Discovery Employee Assistance Programme
10	Budget allocation	This falls within our budget for our employee wellness programme and no separate budget has been set aside specifically for HIV/Aids programmes for our employees. We are in the process of recruiting a new manager for

## Discovery

		our Employee Wellness Programme and we are extending the scope of this role to include a greater focus on HIV/Aids related wellness initiatives. The new manager will make recommendations on budgetary spend to support these initiatives.
<b>Depth, quality/sustainability of programmes</b>		
11	Voluntary counselling and testing	See the information under point 2 Vitality members earn Vitality points for undergoing voluntary counselling and testing
12	Other support programmes	Please see the information provided under point 9
13	HIV/Aids education and training programmes	HIV education is offered to all employees as part of Discovery's induction programme. In addition, we offer periodic seminars through the Employee Assistance Programme on sexual health issues.
14	Condom and femidom distribution	Free condoms are placed in staff toilets on various floors of Discovery's buildings. We currently do not distribute femidoms
15	General healthcare provisions	Employees have access to a broad range of wellness related services, including an onsite doctor, onsite wellness assessments and information, confidential counselling services and more.
16	Additional benefits and support for employees, sick, dying or deceased from HIV-related conditions	All Discovery employees have access to benefits through their Discovery Group Risk cover and medical cover for employees belonging to Discovery Health Medical Scheme.

## ***Examples of learning and development programmes***

### **The Fit to Lead Development Programme**

The Fit to Lead Development Programme is an integrated Management Development Programme built around a model that reflects the evolving development needs of leaders as they progress from individual contributors to managers of people, then to managers of functions, and ultimately to business managers.

Leaders are provided with a variety of developmental offerings and methodologies to increase their personal impact, enhance their interpersonal skills, improve their business understanding, and develop a global perspective. Based on individual needs identified through assessments and performance discussions, each leader is able to map and track his/her personal leadership development journey.

## **Discovery**

### **The Licence to Lead Development Programme**

Licence to Lead is a modularised programme designed to equip emerging leaders with the fundamental skills required to effectively lead teams of people. The six modules specifically address the immediate needs of new leaders: EQ, personal mastery, interpersonal skills, problem solving and decision-making ability, and team leadership skills.

### **Skills @ Work**

Skills @ Work is a suite of business-oriented training programmes available to all Discovery staff members to enable them to improve their effectiveness at work. The programmes are grouped into five competency areas: project management @ work, communication @ work, service @ work, innovation @ work, and MS Office @ work.

### **Generic Online Courses**

Generic courses are off the shelf courses which are primarily developed abroad. These courses are made available to employees for their person development or even as a reference tool to assist in difficult areas within their jobs. We offer our employees an online course catalogue of 250 courses. These include basic computer skills, advanced programming, networks, finance, marketing, business skills etc.

### **Custom Online Courses**

We are currently involved in developing all our custom online courses in house. We manage the instructional design and then develop in flash. Custom courses focus on the products we have to offer as a company. This is made available to all employees who are given the opportunity to learn and increase their knowledge at the comfort of their desk without impacting on their day to day operations

### **Online Assessment and Survey tool**

Used to manage assessments and surveys to all employees within the company. As an assessment tool it is used for incentives as well as pre and post training assessments. As a survey tool we are able to develop and deploy survey to employees in a very short space of time. Such surveys include exit interviews, client relationship surveys etc. A wide range of detailed reports are available for both assessments and surveys

### **Simulation Tools**

A simulation provides a realistic emulated environment in which employees perform a realistic task (sometimes with help, reference, or support) and experience appropriate consequences resulting from their actions. These are used mainly to train systems.

## Discovery

### Remuneration

Discovery's overarching remuneration philosophy is to balance a flexible approach that recognises differences in individuals' performance, value and contribution to the organisation, with a consistent framework that ensures equitable pay levels and defensible pay decisions.

Remuneration management within Discovery is guided and supported by the following principles:

1. We pay competitive packages
2. We measure, recognise and reward contribution to business success
3. There is a clear link between performance and reward
4. We are committed to equity across the business
5. Remuneration must reflect a mix of individual, team and business performance
6. Remuneration must reflect a cascade of objectives from top to bottom
7. Timely and fair setting of targets
8. Recognise non-financial rewards in total package.

We continuously benchmark our packages against the market to ensure that we remain competitive. We participate in established remuneration surveys twice a year. All employees have an element of performance based pay as part of their total package (cost to company).



## Discovery

### *Our customers*

#### Scope

Discovery is a specialist risk assurer operating in international health and life assurance markets. While we have recently entered the UK private health insurance market through our 50/50 partnership with the Prudential plc, called PruHealth, and have been operating in selected US markets since 2000 through our wholly-owned subsidiary, Destiny Health, the focus of this report is primarily on stakeholder engagement in the South African operations. Importantly, most of the back office and call centre functionality for these ventures is located at our head office in Sandton, and therefore the processes and principles outlined here apply to these operations.

Discovery sells private health care cover in the open medical scheme market through Discovery Health and offers administrative services to large closed medical schemes through its Discovery InHouse offering. We also provide risk-only cover for life, disability and severe illness benefits through Discovery Life. In June 2005, Discovery Life launched its first investment product, the Discovery Life retirement Optimiser. Discovery

#### **Life also offers group risk benefits to medium and large employer groups.**

Through Discovery Vitality, we provide our members with access to various health, leisure and lifestyle services in partnership with leading lifestyle brands. Financial services was added to this list when we launched the DiscoveryCard, a unique rewards-based creditcard, underwritten by First National Bank's Card division.

For Discovery, the customer means many different things – our customers include members of the Discovery Health Medical Scheme, individual and group life policyholders, the employers of medical scheme members and group risk policyholders and the trustees and members of closed medical schemes. In addition, we provide services to a wide range of stakeholders who are not our direct customers, but as key partners and stakeholders, are treated with the same focus on service delivery as our direct customers. These would include the health professionals whose claims we pay and who care for our members, our Vitality partners and the intermediaries who provide service support and advice to our members.

Almost 2 million lives are covered by the Discovery Health and Life Plans, and our customer base therefore reflects a very broad and diverse range of customer segments. In the Discovery Health environment, where regulations stipulate community rating and open enrolment, our target market is essentially any employed individual who requires

## Discovery

access to private health care cover. We offer a series of plans to cater for the differing financial and health needs of different individuals. Our KeyCare Plans cater specifically for the lower income, employed but uninsured market (employed individuals earning a household income of less than R6 500 per month).

In terms of Discovery Life, our target market for individual life business at present is the middle to higher income earner typically between the ages of 25 to 55.

As a company that touches people's lives, keeping our clients and stakeholders informed is a key component of our ability to build and maintain relationships of trust. Discovery utilises state-of-the art technology to keep in touch with our clients and provide them with relevant, personalised information. We use electronic newsletters, SMS and email notifications to provide the right information to the right people at the right time. Discovery also makes use of its in-house publications, the Discovery magazine and the Discovery Health Partner magazine to communicate to clients and health professionals respectively.

Discovery maintains regular communication with shareholders and the investment community through the media, SENS, our annual report, annual general meetings for the Discovery Health Medical Scheme and the Discovery Group, as well as regular results presentations and one-on-one interviews with the media and analysts.

Copies of Discovery's latest results announcements, press releases and media activity are available at [www.discovery.co.za](http://www.discovery.co.za) on our Investor Relations Zone. An important aspect of our stakeholder communication strategy is to provide various channels of response, so our clients and stakeholders are able to reach us when they need to and in a way that is convenient to them.

Again, technology plays a key role and clients have the ability to email us, visit our website, call into dedicated call centres or make use of voice recognition software to give us feedback and request further information. These are supplemented by regular client feedback surveys conducted by our Client Research division, as well as independent surveys and focus groups conducted by independent research companies.

## ***Our supply chain***

### **Scope**

Discovery's central procurement division is responsible for the processes related to creating, managing and terminating contracts with suppliers within our South African operations – including the local operations of Destiny Health and PruHealth situated at our Sandton head office. The division works in partnership with each area to identify the right supplier, negotiate the right price and track and manage service delivery. While the procurement division manages the accreditation and payment of suppliers and the periodic re-evaluation of contracts, we view compliance with our procurement policies as a shared responsibility. In this framework of co-responsibility, the role of the procurement division is to facilitate and add value to the supplier-client relationship, rather than merely to enforce rules.

Discovery's procurement strategy is underpinned by the belief that procurement is a means of creating sustainable competitive advantage, rather than purely a cost management function. An important theme for us is the need to invest in the transformation and economic upliftment of South African society.

For this reason, Discovery is committed to ensuring that, wherever possible, procurement is focused on the empowerment of black economic entities. In addition, we are focused on developing sustainable enterprises through joint ventures and direct investment in black or empowered entities. Here our aim is to transfer our skills and operational capacity to the developing entity.

Discovery's procurement division has adopted the tenets of triple bottom line reporting as a framework for its business practice. They therefore focus not only on issues of economic empowerment, but also the impact of the supply chain on the environment and society.

### **Procurement Policies**

Discovery has a clear set of rules in place, governing issues such as fraud, corruption and nepotism. These rules deal with issues like accepting gifts from suppliers, maintaining appropriate relationships with suppliers, requesting three quotes for any goods supplier and so

## Discovery

on. In addition, Discovery has documented the following policies and procedures, which will be implemented once signed off by our executive committee:

- **Affirmative Procurement**

Aimed to set clear guidelines for the identification of broad based black economic empowerment suppliers, as well as the process that should be followed to determine the level of strategic importance of these suppliers in view of our overall procurement strategy. The document sets out Discovery's commitment to support new and existing black suppliers and to put in practice a transparent process through which all affirmative procurement is to be both considered and awarded. This is revised as the codes of good practice are changed and released. We also communicate and educate Discovery as well as the suppliers on all changes to the codes of good practice.

- **Enterprise Development**

The purpose of Discovery's Enterprise Development Policy document is to set clear guidelines around the process to be followed and the issues that should be considered in Enterprise Development. The document sets out the commitment to support new and existing enterprise development initiatives and to put in practice a transparent process through which these initiatives are reviewed and managed. This process has been successfully implemented and uses a methodology that makes sense and grows suppliers into sustainable businesses that can opt for business in other large corporate tool.

- **Nepotism and Conflict of Interest Policy**

Discovery has constructed its own policy on Conflicts of Interest, taking into account the local conditions in South Africa, in order to control and regulate conflicts of interest in alignment with Discovery's policy statement.

- **Travel Policy**

Discovery has constructed its own policy on travel, but we do coordinate this with the FirstRand Travel division. Travel takes into account all travel decisions and any changes that might occur in the near future, and includes the contracts we have with our travel partners and our in-house travel agent.

## Discovery

### Discovery BEE spend 30 Jun 2005 – 1 July 2006

Total spend (GL)	2,209,057,896.43	
Total exclusions as per Financial Sector Charter	1,060,379,460.00	
Total Vitality Spend (exclusion as per FSC)	513,900,554.13	
<b>Total Discretionary Spend for BEE Reporting</b>	<b>634,777,882.30</b>	
<b>Total Spend per BEE Accredited Supplier (Empowerdex &amp; B1SA)</b>	<b>Spend</b>	<b>Recognised Spend</b>
A	103,165,301.22	128,956,626.53
B	22,495,769.72	22,495,769.72
C	-	0
D	21,740,649.32	10,870,324.66
Level 1	-	-
Level 2	14,552,155.35	18,190,194.19
Level 3	13,427,768.81	14,770,545.69
Level 4	32,347,649.35	32,347,649.35
Level 5	27,861,131.37	22,288,905.10
Level 6	45,625,122.18	27,375,073.31
Level 7	12,193,945.72	6,096,972.86
Level 8	29,444,823.91	2,944,482.39
Total BEE Spend		<b>286,336,543.80</b>
<b>Total BEE % of Discretionary Spend</b>	45%	

## Our regulatory environment

### Scope

While all Discovery’s activities take place within the context of the financial service sector and centre on health and lifestyle protection, they are wide-ranging in their regulatory impact – as demonstrated by the list of Discovery’s key regulators in the table below.

Regulator	Purpose	Company				
		Discovery Health	Discovery Life	Discovery Vitality (Discovery Card)	Destiny Health	PruHealth
Financial Services Board	<p>The Financial Services Board is a unique independent institution established by statute to oversee the South African financial services industry – excluding the banking sector.</p> <p>The board’s purpose is to promote sound and efficient financial institutions and services in South Africa, and also to create mechanisms for investor protection in the markets they supervise.</p>		X			
Council of	The Council for	x				

## Discovery

Medical Schemes	Medical Schemes is a statutory body established by the parliament of South Africa to oversee the medical schemes industry.					
Life Offices Association	The Life Offices Association provides a forum for the interaction of member life offices. Its role is to promote the interests of the long-term insurance industry and its current and future stakeholders.		X			
Financial Intelligence Centre	The Financial Intelligence Centre was established under the Financial Intelligence Centre Act, 2001. Its aim is to identify the proceeds of unlawful activities and to combat money laundering activities. Its objectives will expand to include combating of terrorist financing offences.		X	x		
Pension Fund Adjudicator	The purpose of the Pension Funds Adjudicator is to resolve disputes in a		X			

**Discovery**

	<p>procedurally fair, economical and expeditious manner. The Adjudicator's office investigates and rules on complaints of: abuse of power, maladministration, disputes of fact or law and employer dereliction of duty in respect of pension funds.</p>					
<p>National Credit Regulator (*)</p>	<p>The National Credit Regulator was established as the regulator under the National Credit Act 34 of 2005 and is responsible for the regulation of the South African credit industry. It is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints and enforcing of the Act</p>		X	x		
<p>FAIS Ombud</p>	<p>The office of the FAIS Ombud has been established in an effort to protect consumers from poor or</p>	x	X	x		



## Discovery

	<p>inappropriate advice when it comes to the financial services. The objective of the FAIS Ombud is to consider and deal with complaints by clients against financial services providers in terms of the FAIS Act</p>					
<p>Long Term Insurance Ombud</p>	<p>The function of the Long-Term Insurance Ombud is to mediate in disputes between long-term insurers and their policyholders.</p>		X			
<p>Financial Services Authority (UK)</p>	<p>The Financial Services Authority (FSA) is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000, to regulate the financial services industry in the UK. Its four main objectives are to promote market confidence, promote public awareness, protect consumers and reduce financial</p>					x

## Discovery

	crime.					
Financial Ombudsman Service (UK)	The Financial Ombudsman Service was set up by law to help settle disputes between consumers and financial firms in the UK. The service considers complaints about a wide range of financial matters, including savings, investments and insurance.					x
Division of Insurance (USA)	The mission of the Division of Insurance in the USA is to protect consumers by providing assistance and information, by efficiently regulating the insurance industry's market behaviour and financial solvency, and by fostering a competitive insurance marketplace.				x	

*\*With the implementation of the first sections of the National Credit Act during June 2006, certain activities within Discovery now fall within the jurisdiction of the National Credit Regulator.*

Discovery Health also participates in various industry and business forums and associations. These include the Board of Healthcare Funders and Private Healthcare Forum. We occasionally

## Discovery

also engage with other government departments such as the Department of Health, the Treasury, the Department of Trade and Industry on certain issues.

### **Discovery has the following mechanisms in place for interaction with the relevant Regulators:**

- The Financial Services Board: no regular formal meetings are in place, but Discovery's compliance department maintains ongoing communication with the FSB.
- The Council for Medical Schemes: most interactions with the Council for Medical Schemes are channelled through the Principal Officer of the Discovery Health Medical Scheme. There are regular quarterly meetings between Discovery Health and the Council for Medical Schemes and the compliance department maintains close contact with relevant departments overseeing compliance to the Medical Scheme Act and Regulations.
- The Life Offices Association: interactions are channelled through Discovery's compliance department and the office of the CEO of Discovery Life.
- Pension Funds Adjudicator: the Discovery Life legal department interacts directly with the Adjudicator's office as and when issues arise.
- Long-term Insurance Ombud: the Discovery Life legal department interacts directly with the Ombud as and when issues arise.
- Office of the FAIS Ombud: Discovery's legal and compliance departments interact directly with the Ombud as and when issues arise.
- Financial Intelligence Centre: the compliance department interacts directly with the Centre as and when issues arise.

## ***Our work with the community***

### **Structural and governance information**

The structure of Discovery's corporate social investment programme is encapsulated in the graphic below.



### **The Discovery Fund is independent of the FirstRand Foundation**

The Discovery Fund is no longer an associated Fund of the FirstRand Foundation, but a separate fund in its own right. We are currently in the process of registering it as a separate legal entity. It will comply with all legislation pertaining to Public Benefit Organisations and sections 30 and 18A of the Income Tax Act. Trustees have been appointed and include:

- Mr Barry Swartzberg – Chair
- Mr Hylton Kallner
- Dr Keith Kropman
- Ms Ruth Lewin
- Dr Craig Nossel
- Ms Suzanne Stevens.

## **Discovery**

### **The trustees' responsibilities**

The trustees will meet on a quarterly basis to:

1. Consider requests for funding;
2. Debate the strategic direction of the Fund;
3. Ensure proper governance of the Fund;
4. Ensure that the correct procedures are in place for the sound financial management of the fund

The day-to-day management of the Fund is outsourced to Tshikululu Social Investments – a not-for-profit corporate social investment consultancy.

## Discovery

### Data pack

#### Fund allocation as percentage of post tax profit

1.7% of after tax profit

- Health – 1%
- Wellness - 0.7%

#### CSI Spend by Sector

55% **Primary Health Care** with a preference for rural interventions, HIV/AIDS programmes and infectious diseases. This may include support for a capital infrastructure project that will enhance the delivery of the above services.

20% **Healthy Lifestyle Interventions Healthy**

15% **Education or bursaries focusing on health disciplines**

#### CSI Spend by Region

Volunteer hours contributed: **148**

Matching funds contributed: **None**

Volunteer funds contributed: **R54 800**

Matching funds contributed: **R23 342**

### Anecdotal stories

[Download Discovery's CSI coffee table book, \*Face Up\*.](#)