

A close-up photograph of a person wearing a blue suit jacket and blue jeans. They are holding a tablet computer in their left hand and a pair of glasses in their right hand. The background is blurred, suggesting an office or professional setting.

**report to
society
2014**



FNB
First National Bank

— how can we help you? —

Message from the CEO

Once again, FNB has consolidated its reputation as **South Africa's most innovative bank**. Looking ahead, the challenge is to keep channelling our innovative energy into creating pioneering banking solutions that deliver long-term value to our people, our customers, their communities, South Africa as a nation and the rest of Africa as a continent.

“Where to now? The answer lies in focusing and fine tuning our pioneering vision to ensure the solutions we innovate over the coming years make a tangible, measurable and long-term difference to the people they are designed to benefit.”

Introducing my first FNB report to society marks a special moment for me and the stories filling these pages are an enormous source of personal pride. Through the sheer energy and dedication of my colleagues and our partners, we have further reinforced FNB's position as South Africa's most dynamic, innovative and forward-thinking bank.

We do not innovate for the sake of it. We're talking about bold thinking and game-changing products, services and programmes that create real benefits for the people who have invested their money and trust in our brand.

Our talent for pioneering new banking models begins with our own people. For example, we highlight the success of our outcomes-based remuneration model that motivates our people by giving them the freedom to earn in line with their value creation.

We are also playing an instrumental role in uplifting the lives of the customers and communities that we serve. Throughout the year, for example, we continued to educate South Africans about the importance of financial discipline and saving while implementing new ways of making it easier for them to bank. Meanwhile, the millions of rand we invest into school education programmes nationwide is creating new opportunities for learners to develop their skills.



Internally and externally, we continue to embrace the letter and the spirit of transformation, with a particular focus on supporting the small- and medium-sized enterprises that are so important to South Africa's future success.

Talking of transformation, perhaps the most compelling example of our brand in action is the support we are giving to the Free Market Foundation's efforts to address South Africa's land issue. FNB is assisting in a small way in two projects by helping to give up to 10 million black South African families title deeds to their homes. This ground-breaking initiative is set to have a profound impact on communities nationwide.

Where to now? The answer lies in focusing and fine tuning our pioneering vision to ensure the solutions we innovate over the coming years make a tangible, measurable and long-term difference to the people they are designed to benefit. In other words: we are determined to make innovation sustainable for the good of our employees, our customers, our communities – and South Africa.

Jacques Celliers

Jacques



18%

normalised earnings

37.4%

return on equity



10%

core advances

Invested in our people

Outcomes-based remuneration

Rewarding the spirit of enterprise

It's simple: the more people get out, the more likely they are to put in. In recent years, FNB has pioneered an award-winning salary model that puts this principle into practice by allowing our people to increase earnings through adding more value.

“Giving our people the chance to take control of their own income continues to motivate and inspire them with new possibilities to improve innovation, service and efficiency.”

Winning ways!

In October 2013, the South African Rewards Association awarded our banking channel's teller outcomes-based remuneration model its prestigious Reward Project of the Year trophy at its annual awards dinner.

The association's aim is to promote, empower and develop South Africa's increasingly important rewards management profession. It has over 3 000 members including most of the companies listed on the Johannesburg Stock Exchange (JSE).

Among other criteria, the judges chose the teller model for its innovative strengths and because it directly reinforces FNB's uniquely entrepreneurial culture and long-term strategic objectives.



We work hard to instill our people with a sense of ownership while fostering an entrepreneurial culture in which initiative and innovation combined with efficiency and hard work translates into rewards.

With this in mind, we pioneered a remuneration model that rewards and motivates our people by linking salaries directly to the results they produce.

Developed by FNB's outcomes-based remuneration division, our model comprises a **75% fixed basic salary with a variable component that aligns with additional value creation by the employee.**

The first banking channel outcomes-based remuneration (OBR) model – the teller OBR model – was successfully launched in October 2012. While existing tellers could opt to join the scheme voluntarily, all new tellers automatically become part of it. By June 2014, 881 staff members had opted to be part of the model, which rewards tellers for speed and accuracy.

The initiative is producing impressive results. Among other positives, teller differences* decreased 50%, motivation increased, overtime dropped 30% and OBR tellers 35% more productive. Significantly, there has been an overall improvement in customer service levels.

Launched towards the end of 2013, the sales OBR model has been equally successful. By rewarding our sales people for closing quality sales, the scheme attracted a total of 1 247 staff by the end of June 2014, including our lifestyle easy plan teams.

Overall, rewarding staff for the quality of their performance has helped to reduce costs and increase efficiency, optimise capacity management and boost morale. What's more, giving people the chance to take control of their own income continues to motivate and inspire.

** The difference (positive or negative) between the system balance and actual cash tellers have in their tills at the end of the business day.*

Invested in our customers

Title deeds and reform

“It’s the single most important thing we can do for South Africa”.

key stats

Up to ten million South African families still don't have the title deeds to the homes that many have lived in for generations. So, what are we doing to right this wrong?



Land reform is arguably the single most pressing challenge facing South Africa and FNB is playing an instrumental role in addressing it.

The Free Market Foundation, one of South Africa's leading policy organisations, has seized the initiative and unveiled plans to launch a land reform programme that will give full freehold title of South Africa's state-owned homes to the people living in them. In the process, over R1 trillion of tradable capital will be transferred into the hands of South Africa's poorest people.

With our support, the Free Market Foundation established a pilot project with the Ngwathe Municipality in the Free State. The immediate aim was to upgrade all legally held plots in Ngwathe to unambiguous, tradable and mortgageable ownership, preferably at no cost to the lawful residents. This would make Ngwathe the first urban area in the country where black people own their land under exactly the same title as white people. The long-term aim is to replicate the Ngwathe model throughout all parts of the country where pre-1994 ownership patterns persist, setting a precedent for land reform nationwide.

The pilot research revealed the true complexity of South Africa's land ownership problem. Among other issues, it is not clear to what extent properties with title deeds have restrictive conditions. Nor is it always clear how to remove those conditions. In addition, the initial survey showed that some of the title deeds legally are simply a random mix of property rights granted over the years. And the pilot team found that a significant number of properties have no title deeds at all.

Consumer education

Making finance make sense

Through our consumer education programme, we are helping to raise the levels of financial literacy while fostering a healthier savings culture. The aim is to build a stable financial sector based on the principles of sound and sustainable banking practices.

“It’s an open secret that South Africans are not good savers. Our consumer education programme is specifically designed to address this weakness, which has a direct impact on the wellbeing of customers and their families.”

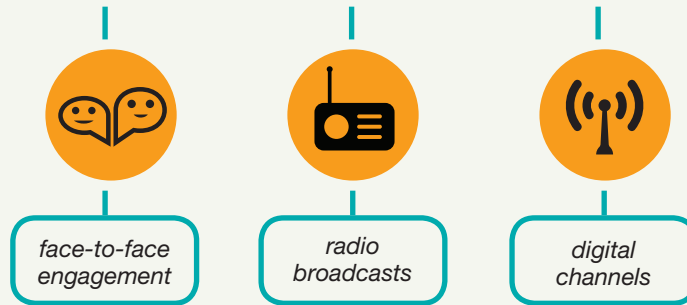
key
stats

151 123

people attended our face-to-face programme sessions versus a target of 60 000.



Our consumer education programme, **Be Financially Smart**, operates on three platforms:



Here, we review some of the programme's highlights from the 2013-14 financial year:



face-to-face

	2013 (target 60 000)	2014 (target 60 000)	Growth
Sessions	769	898	26%
Participants	71 322	151 123	123%

There are various reasons behind the impressive growth in the number of people taking part in our face-to-face sessions and the number of sessions we ran. Among others:

- Launching the Teach Children To Save (TCTS) initiative in Mpumalanga (July 2013) and Thaba Nchu, Free State (March 2014) attracted a large number of learners.
- In April 2013, the programme team attended the Cell C Take a Girl Child to Work Day and Men in the Making initiatives events at the Banking Association and FNB respectively.
- In May 2014, two of the programme's educators attended the Rural Education Festival 2014 in Tzaneen, where they accessed over 11 000 participants during the week.
- In the same month, more than 2 000 people took part in face-to-face sessions at the Career Expo in Kimberley, hosted by the Northern Cape Department of Education and the JB Marks Education Trust Fund.

Valuable insights

Our face-to-face sessions produced some notable feedback and insights into customer behaviour, which we will use to improve and refine our services. For example:

- Customers applying for home bonds do not always understand the criteria and find it difficult to raise deposits while financially constrained customers find it frustrating when trying to make payment arrangements.
- Many consumers do not understand the purpose of the Credit Amnesty Bill. A significant number assume it is designed to clear all negative listings and outstanding debt for all consumers listed with credit bureaus restoring their buying power in the process.
- Some people believe they are over-indebted because banks lure consumers with advertisements and play a role in increasing interest rates. There is a tendency for consumers to seek quick fixes to financial problems rather applying financial discipline.
- Some indebted consumers are resigned to accessing their pension funds to pay off some debts.



radio

Be Financially Smart, our financial literacy radio series, is **broadcast on nine SABC radio stations** during the week and **five community stations** for 30 minutes at a time. It includes a monthly competition which awards the winning customer R1 500 per station.

Are these broadcasts effective? In an effort to find the answer, we appointed leading global information and measurement specialists, AC Nielsen, to carry out research. Phase one of the research showed that 42 out of 150 active listeners indicated that Be Financially Smart had helped them manage their finances and not overspend, while 39 indicated that the programme taught them about saving for the future. Savings, managing money and investing are the top three most popular topics.



digital channels

Since we launched Be Financially Smart on our website (www.fnb.co.za/smartereducation), there has been a steady growth in the number of page views and comments. We also started the process of adding content to the dot.mobi platform.

Anti-fraud and money laundering measures

Keeping it clean

Digital technology has revolutionised banking, opening up access to tens of thousands of previously unbanked citizens. It has also created new opportunities for fraudsters and money launderers. Here's is our response to the dangers they pose.

“We cannot win the war against fraud alone. Accordingly, we work closely with the South African Police Service (SAPS) and other law enforcement professionals at home and abroad to track down and apprehend fraudsters.”



Protecting our bank and our customers from criminal activity is fundamental to preserving the trust and confidence they invest in our brand. With our shared interests in mind, we work tirelessly to embed robust anti-fraud and money laundering controls and processes across our banking channels.

Anti-fraud



FNB is a leader in pioneering innovative, reliable strategies to prevent fraud. In 2011, for example, we were among the first South African bank to introduce biometric identification and verification at branches. This innovation was the result of an agreement between the South African Banking Risk Identification Centre (SABRIC) and Department of Home Affairs that allowed banks to access the Home Affairs National Identification System. In early 2014, our biometric capabilities took another step forward when we announced plans to install fingerprint recognition technology on ATMs.

Other anti-fraud measures include the wide use of chip-enabled cards to prevent card cloning; using SMS technology to alert customers whenever there are transactions on their accounts; and employing advanced scoring models based on customers' online profiles to keep our website secure. Meanwhile, detection capabilities have been significantly reinforced by increasingly sophisticated data analytic tools that help predict and prevent fraud.



We cannot win the war against fraud alone. Accordingly, we work closely with SAPS and other law enforcement professionals at home and abroad to track down and apprehend fraudsters. Through SABRIC, we also share information and collaborate with other banks across a number of areas, among them: identifying trends, launching customer awareness campaigns, working with SAPS on investigating high-profile fraud suspects and applying strategic thinking to combatting shared threats.

While there is no room for complacency, our continuing efforts to beat fraudsters is producing reassuring results. For example, there has been a significant drop in the number of complaints to the banking ombudsman from customers who have fallen victim to fraudsters.

Anti-money laundering



Banks are under intensifying scrutiny to reinforce anti-money laundering controls from regulators worldwide. Our regulator, the South African Reserve Bank (SARB), is no exception. In response, we continue to invest intensively in people and technology to further improve this critical area of our business, with a particular focus on combatting terror funding.

We work closely with the SARB and the Financial Intelligence Centre (FIC) to ensure that South Africa never becomes a money-laundering haven by using world-class systems to monitor customer transactions and detect criminal activity. The correct management of client documentation is critical to this process and we pay particular attention to ensuring our Know Your Customer (KYC) documentation is fully up-to-date.



In recent years, we have worked with SARB and FIC on several high-profile money laundering cases. A notable success was in early 2014 when we helped to expose the potential threat of alleged criminals setting up a Ponzi scheme targeting South African investors. We worked quickly to alert the SARB and FIC, who then froze the rogue accounts to protect FNB customers who might have joined the scheme.



An ethical approach

As well as combatting criminal activity outside FNB, we also work hard to ensure that our own people live up to highest standards of ethical banking.

As part of the FirstRand Group, FNB is governed by the Group's stringent code of ethics, which is overseen by a dedicated ethics office. Among other roles, this office sets the standards for good business conduct in each FirstRand franchise and manages the processes that ensure these standards are met. It also works hard to embed a culture of ethical banking among staff through its extensive ethics training programme.

We are also governed by FirstRand's robust anti-bribery policy, which is the cornerstone of the Group's anti-bribery and corruption programme. Other measures in this area include giving staff access to a safe, responsive and effective whistleblowing system. The Group also rewards staff who show high levels of vigilance in helping FirstRand to detect and prevent theft, fraud and corruption. **Last year, these awards totalled R2.5 million and included one award of R1 million, another worth R500 000 and seven awards of R50 000 each.**

Invested in our supply chain

Focusing on BEE

Embracing the spirit of transformation

FNB lives and breathes the principles of transformation, which are hard wired into our culture. We place a particularly strong emphasis on supporting black-owned small- and medium-sized enterprises, which hold the key to South Africa's future success.

“The spirit and letter of transformation go hand-in-hand because an organisation is a living, dynamic organism comprising a collection of heart's minds and souls.”

Jacques Celliers, CEO, FNB

key
stats

R598 million
is how much we spent in 2013
with black women suppliers

283 black-owned suppliers
had been integrated into our
supply chain by the end of 2013



An uncompromising commitment to transformation is hard-wired into our business culture. In practice, this means that our approach to transforming our business, our communities and our country goes well beyond ticking boxes by complying with the Financial Sector Code (FSC) and the Department of Labour's employment equity numbers. Of course, we acknowledge the importance of the laws governing black economic empowerment and we follow them to the letter.

During the year, FirstRand achieved a Level 2 BEE rating under the FSC scorecard. This was the result of concerted across all parts of our businesses reinforced by a clear strategic commitment to living and breathing the principles of transformation.

Among other responsibilities, this involves ensuring that our supply chain actively supports black-owned businesses, especially the small and mediums enterprises (SMEs) that are fundamental to driving South Africa's growth, creating job opportunities – and ensuring that more people from across our national demographic benefit from the country's success.

Given South Africa's turbulent history, achieving true transformation is a formidable challenge and we recognise that we can always do more to address it. That said, the latest supply chain figures highlight some very encouraging trends. In 2013, for example, our spend with entities owned by black women rose by 63% from R366 million in 2012 to R597 million.

Significantly, this increase was not the result of specific initiatives or campaigns. Rather, it represented a positive return on investment into a combination of initiatives underpinned by FirstRand's Group-wide BEE strategy. **FNB is fully aligned with this strategy and we place a particular emphasis on supporting our current supplier base through the transformation process; engaging new BEE suppliers; and increasing our spend with current BEE suppliers who have been through the transformation process.** At the end of the 2013 BEE reporting period, we were spending with 283 black-owned suppliers and 119 suppliers owned by black women.

Invested in our communities

Education

Lessons learned

Equipping people with the knowledge, skills and confidence to achieve their full potential is essential to the future of our business, our communities – and our country. Through the FNB Fund, we invest millions of rand every year into a range of programmes designed to raise education standards from early childhood development onwards.

FNB early childhood development programme

“FNB’s intensive efforts to raise educational standards are based on a clear rationale. Research indicates that the more educated people are, the stronger their desire to become entrepreneurs. Clearly, a thriving business culture and a world-class education system are two sides of a high-value coin.”

key
stats

R6.5 million
invested in ECD

775 ECD
practitioners reached

Our early childhood development (ECD) programme aims to increase access to and quality of ECD services to as many children as possible. Last year, we funded 20 partners through this programme and reached over 19 000 children through various activities.

This investment is producing results. In recent years, the number of ECD practitioners has remained stable, but the number of practitioners improving their daily programme in pre-schools after training on our ECD programme has increased significantly year-on-year.

In 2013, the FNB Fund also became an equal partner with the DG Murray Trust and ELMA Philanthropies in the Ilifa Labantwana initiative, which aims to help bring about systemic change in the ECD sector.



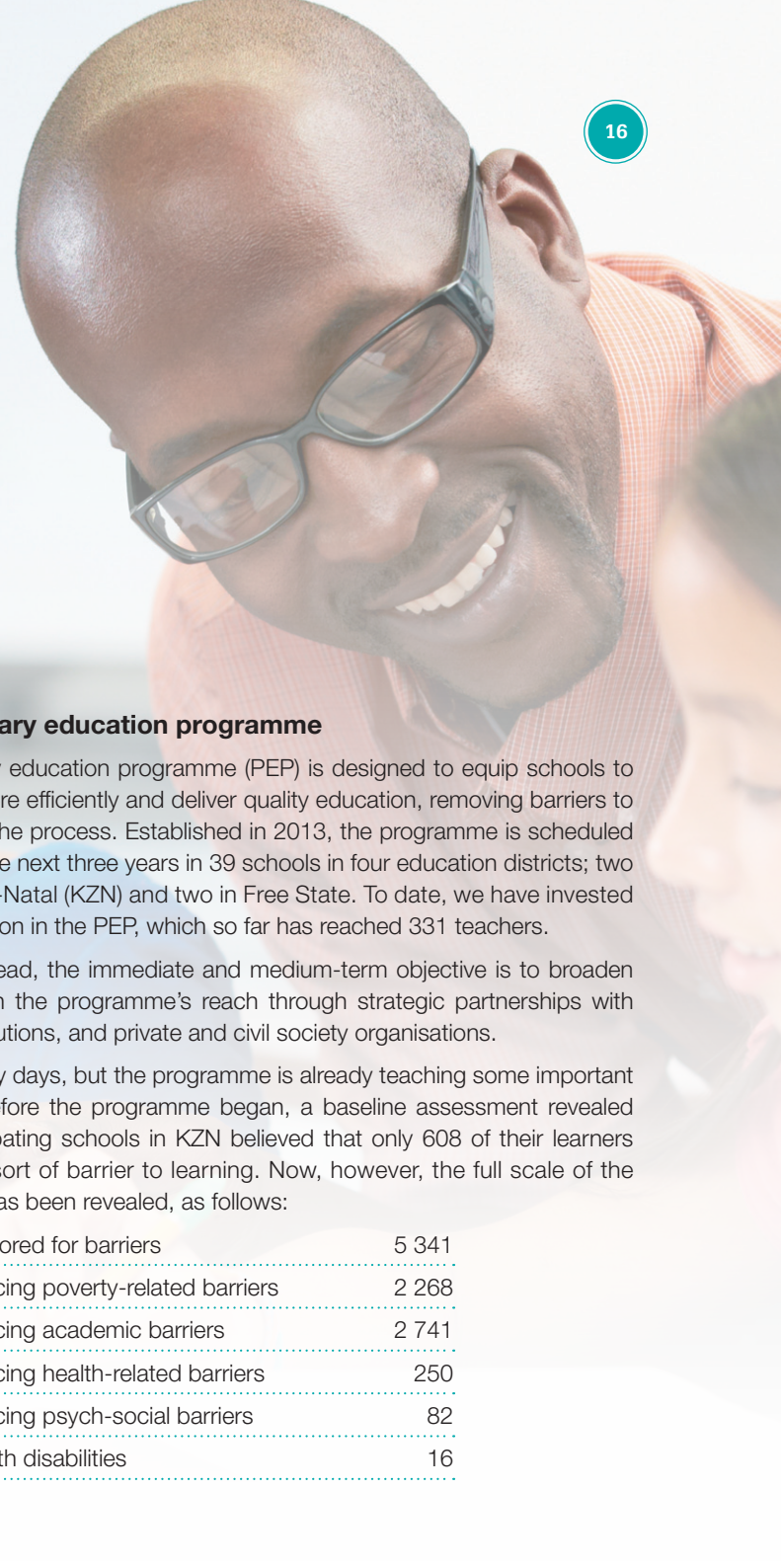
FNB primary education programme

Our primary education programme (PEP) is designed to equip schools to function more efficiently and deliver quality education, removing barriers to learning in the process. Established in 2013, the programme is scheduled to run for the next three years in 39 schools in four education districts; two in KwaZulu-Natal (KZN) and two in Free State. To date, we have invested R8.339 million in the PEP, which so far has reached 331 teachers.

Looking ahead, the immediate and medium-term objective is to broaden and deepen the programme's reach through strategic partnerships with public institutions, and private and civil society organisations.

It is still early days, but the programme is already teaching some important lessons. Before the programme began, a baseline assessment revealed that participating schools in KZN believed that only 608 of their learners faced any sort of barrier to learning. Now, however, the full scale of the challenge has been revealed, as follows:

Learners scored for barriers	5 341
Learners facing poverty-related barriers	2 268
Learners facing academic barriers	2 741
Learners facing health-related barriers	250
Learners facing psych-social barriers	82
Learners with disabilities	16



Maths education chairs

key
stats

R7.5 million invested in maths chairs | **63** primary/
secondary reached

179 teachers reached by in-service programme

The key focus of this new programme is to provide quality in-service training for teachers in mathematics while also conducting research into pedagogical challenges facing mathematics education in the country. The aim is to find practical solutions to these challenges and to disseminate them widely to improve performance and the quality of mathematics education.

Bursaries and scholarships

key
stats

R16.4 million invested in bursaries

248 students enrolled on the FNB tertiary
bursary programme

The FNB Fund tertiary bursary programme provides financial support to students who have academic potential but are financially disadvantaged. In the past financial year, the programme's annual budget was increased by 26% to reach more students, and, once again, pass and graduation rates outperformed national averages.

It is particularly encouraging that while the number of bursars increased by 22%, those who passed increased by 33% and the number of drop-outs substantially decreased.



**how can we
help you?
www.fnb.co.za**