

Report by CEO designate



.....
SIZWE NXASANA [CEO DESIGNATE]

INTRODUCTION

FirstRand's relative underperformance in the year to June 2009 prompted a review of the Group's strategy and operating model. FirstRand has been a successful integrated financial services group since its formation in 1998, however, recently the Group's performance has been significantly impacted by the size of its exposures in offshore trading and principal investment activities which have borne the brunt of the world financial crisis.

For the Group to reclaim its former leading position, its strategy and to some extent its operating structure, needs to evolve in anticipation of changing trends and in response to the dynamic environment in which it operates.

As management moves from the "founding fathers" to professional managers, the Group has to retain the key characteristics which have made it successful whilst recognising that certain changes are required to produce the next phase of its growth.

FIRSTRAND'S REFINED STRATEGY

Analysing where the Group significantly underperformed, a few key issues were identified. The global financial crisis exposed flaws in RMB's principal investment activities offshore where,

.....
FOR THE GROUP TO RECLAIM ITS FORMER LEADING POSITION, ITS STRATEGY AND TO SOME EXTENT ITS OPERATING STRUCTURE, NEEDS TO EVOLVE IN ANTICIPATION OF CHANGING TRENDS AND IN RESPONSE TO THE DYNAMIC ENVIRONMENT IN WHICH THE GROUP OPERATES.

in retrospect, RMB did not have a meaningful competitive advantage in the international markets where its Equity Trading and SPJi divisions operated. In addition, some of WesBank's credit mono-line businesses offshore, such as Carlyle in the UK and MotorOne Finance in Australia, which relied on expensive and sometimes unavailable wholesale and capital markets funding, have been shown to be unsustainable. Finally, risk management needed strengthening.

The 2010 financial year represents an opportunity for the Group to consolidate and refocus. Given the implications of the turmoil in global banking the Group will refine its strategy to achieve a few key objectives, namely:

- become one of the leading African financial services groups;
- through a portfolio of leading franchises, be represented in all significant earnings pools across all chosen market segments playing across the full value chain (lending, transactional, savings and risk-taking);
- effectively leverage off all Group operating platforms and building blocks;
- operate within a shared business philosophy and Group strategy;
- build revenue streams that are diverse and create long term franchise value; and
- deliver sustainable economic profits and returns to shareholders within acceptable volatility.

THE MAIN TENET OF THE INTERNATIONAL GROWTH STRATEGY REMAINS INTACT: **ENTER INTO SELECTED HIGH GROWTH EMERGING MARKETS WHERE THE GROUP BELIEVES IT HAS A COMPETITIVE ADVANTAGE.**

These objectives reflect the inherent strength of the Group's franchises which will now operate within a tighter Group strategy which in turn will ensure greater alignment between the franchises themselves.

The operating franchises remain committed to being the leading franchises in their markets and will focus on growing sustainable economic profits (more important than market share) and excellence in execution with a bias for action.

It is important therefore that FirstRand continues to attract and retain the best industry talent, and key to this is ensuring that the Group's empowering "owner manager" culture remains intact. In addition, the Group's focus on entrepreneurship and innovation will remain one of the Group's primary points of differentiation.

As outlined in the Chairman's statement, going forward there will be an increased focus on building franchises based on client driven activities rather than proprietary trading or investment activities in international operations. In addition, the Group's secondary market activities will link to client activities or leverage the existing primary market position. The Group has already exited the offshore activities of equities trading and SPJi. However, it will continue with the investment businesses

represented by the private equity operation in Australia and RMB Resources, as in both of these businesses there is a long track record of successful asset origination, and a demonstrated competitive advantage.

The Group will continue to de-risk its balance sheet and preserve capital. This shift may result in lower ROEs and less dramatic earnings growth than the Group has experienced in the past, however, it will improve quality of earnings and reduce volatility, and still produce acceptable returns to shareholders.

The Group continues to refine its international strategy in line with the need to grow the business whilst preserving capital. The main tenet of the international growth strategy remains intact: enter into selected high growth emerging markets where the Group believes it has a competitive advantage. The approach is appropriate given the impact of the current financial crisis on the global banking industry and the need to prioritise international expansion activities given the scarcity of capital.

Going forward Africa will be the primary focus and FirstRand will use its position in other markets to provide support to its strategy in Africa.

From an operational perspective the Group will focus on leveraging off existing operating platforms in Africa such as client bases, balance sheet, infrastructure, systems and products and services. FNB will be the primary platform for banking in Africa, with WesBank and RMB utilising the platform when appropriate. However, there may be jurisdictions where a different operating platform will provide better opportunities, therefore the Group will remain flexible in its approach.

Momentum has built a presence in 11 African countries and will also look for opportunities to collaborate with FNB. There has been some early progress in Namibia where the life insurance subsidiary of FNB's Namibian operation, which is the current market leader in the entry-level segment, has now added Momentum's Myriad life-cover offering to its suite of products.

"Greenfields" remains FirstRand's primary entry approach. However, the Group will consider corporate action and the acquisition of appropriate operating platforms in order to accelerate the international expansion strategy.

FirstRand's strategy in India will, in the medium term, support the African expansion activities. FirstRand India opened its doors on 2 April 2009 as a licensed branch of FirstRand Bank, and will operate as a scheduled commercial bank targeting the Indo-Africa trade corridor as an entry strategy into India.

The aim is to establish FirstRand India as the bank of first choice for Indian entities seeking to do business in SADEC and the greater Africa region. India and Africa have very strong political and economic ties and trade in the Indo-Africa corridor is expected to increase substantially in the future. India's exports

to Africa amounted to US\$11 billion in 2008 and India's imports from Africa were US\$14.9 billion in the same period. The largest African trading partners for India include South Africa, Nigeria, Kenya, Angola, Ghana, Tanzania and Mozambique. FNB and RMB have targeted opportunities in Nigeria, Tanzania and Angola in the short-to-medium term, and Ghana and Kenya in the medium-to-long term. This will further strengthen FirstRand India's positioning as a major financial services player in the Indo-Africa corridor.

The Group is currently awaiting regulatory approval for a representative office in Angola, has received conditional approval for a representative office in Nigeria and plans to commence full banking services in Tanzania in the near future. It is also actively looking at opportunities in other selected East and West African markets.

FirstRand India is focused on building a client franchise which operates actively in the corridor, including corporates, financial institutions and government institutions. Its activities will be investment banking, international banking and fixed income and currency and commodity trading.

FirstRand's position as a leading player in Africa as well as being one of the first banks from Africa to enter India, represents a competitive advantage in dominating the Indo-Africa trade corridor.

In addition, FirstRand has identified the China-Africa trade corridor as a growth opportunity and post the year end announced a strategic cooperation agreement with China Construction Bank Corporation ("CCB"), the second largest bank globally by market capitalisation. The Group believes that this cooperation agreement represents a meaningful step in FirstRand's strategy to grow more aggressively in the African continent. CCB provides a significant balance sheet to support FirstRand's investment banking franchise, RMB, which has already completed transactions in 39 countries throughout Africa. FirstRand and CCB are well positioned to participate in the large transactions and investment opportunities expected to emerge in the continent.

FIRSTRAND CORPORATE CENTRE

A number of changes at the centre have and are being made to improve the coordination of the Group's overall strategy and determine and drive the international strategy, which was previously almost entirely formulated and executed at franchise level. A Strategy committee has been formed with its primary task to define the Group strategy. The creation of the COO position will ensure a tighter coordination of strategy execution between the centre and the operating franchises. In his report on page 16, Johan Burger outlines in more detail the mandate and portfolio of the COO.

The Group is very unique in terms of its structure and culture and this translates into a strategy differentiated from its peers. The Group remains committed to its integrated financial services strategy. It believes that in the "new world" of financial services there is more, not less, value to be extracted for shareholders from increased integration between the asset origination capabilities of banks and the gathering of funds by life companies and asset managers. The Group's operating model is particularly well suited to participate in all the profit pools associated with financial services.

PEOPLE AND TRANSFORMATION

FirstRand believes that its people are its single most important resource and will only operate in a market where it can deploy the best talent which shares the FirstRand business values. The Group recruits and develops entrepreneurial self-starters that have a passion for what they do. It empowers them, holds them accountable, and rewards them appropriately.

THE GROUP VALUES DIVERSITY IN ITS PEOPLE, PARTICULARLY WHEN IT CONTRIBUTES TO INNOVATIVE THINKING.

FirstRand strives to acknowledge, understand, accept, value, and celebrate differences among its people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation, and spiritual practice.

FirstRand is committed to complying with both the letter and the spirit of the Employment Equity Act and the dti Code of Good Practice on Broad Based Black Economic Empowerment, and to move beyond procedural compliance to substantive compliance. The Group regards transformation as a critical business imperative.



Sizwe Nxasana

Chief executive officer
(designate)