



Paul Harris CEO FirstRand

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CEO'S

S T A T E M E N T

One of the issues most frequently raised by FirstRand's shareholders relates to the Group's strategy to grow in markets outside South Africa. This report seeks to outline for shareholders the Group's philosophy and approach to international expansion and provide context for its current and future initiatives.

Following the success of its growth strategy in South Africa, FirstRand now occupies a dominant position in the South African market. We believe that there is still significant growth potential in South Africa in many of the major markets in which our diversified portfolio of businesses are active. The growth potential is on the back of the growth themes of the South African economy, namely, the favourable macro economic fundamentals, the sound management of the economy, infrastructure spend, a fast growing black middle class and BEE. In addition, many of our business units are confident that they can continue to grow market share.

While growth in the South African market remains our highest priority, we believe that as a Group we have the maturity and capacity to seek growth opportunities outside our borders.

The Group is a collection of businesses operating in a complex environment which changes quickly. Because we have businesses in all sectors that make up the financial services sector in South Africa (eg retail banking, investment banking, asset finance, asset management, life insurance, short term insurance, etc), which means that both the nature of the businesses and the dynamics of markets in which they operate are unique. In addition we have the added

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complexity arising from the diverse nature of the South African market place. For example we are active in the mass market on the one hand and the highly sophisticated capital markets on the other. Consequently we do not believe that we can or should attempt to replicate FirstRand in other jurisdictions. We believe that it would be too complex and risky and we would have to "cover too much ground" to create the scale required to be successful. Our strategy is therefore to drive our international expansion at divisional level within a strategic framework approved and monitored at Group level.

Each of the divisions constantly assesses its own core competencies in relation to the market. Divisions are encouraged not to confine their focus only to South Africa but to also view their potential in a broader international perspective. They are encouraged to find and pursue opportunities in international markets where they have a competitive advantage. The objective is to ensure that each division's growth prospects are not limited by the size of the South African market.

Whilst playing an enabling and facilitative role, FirstRand has nevertheless identified countries it believes offer the best future growth prospects for several of the Group's divisions. In order to provide a regulatory and administrative infrastructure in these countries, FirstRand will, where appropriate, create a small physical presence as a "beachhead" to assist divisions in familiarising themselves with that market.

The Group has a well articulated strategy that has been approved by the Banking and Insurance Group exco's and boards. However, within this broad strategy each division drives its own international strategy which is carefully monitored by the FirstRand Excos and Boards.

FIRSTRAND'S PHILOSOPHY ON GROWTH

FirstRand's growth philosophy has its roots in our entrepreneurial culture. The Group believes that every expansion initiative it pursues must make business sense. A FirstRand business will only enter a new market if we believe its core competencies, that have proved successful in South Africa, can provide a sustainable competitive advantage in the new market and that they suit the structure and economics of the new market.

FirstRand has a preference for emerging markets because we believe our strengths can be translated into the biggest opportunities at an acceptable level of risk. FirstRand's primary growth markets are Africa, India and Brazil.

GREENFIELDS AND "ACCELERATED GREENFIELDS"

The Group has a proud history of starting and developing new businesses. Likewise, in the international markets this

"Greenfields" approach is our preferred strategy. We believe that it minimises risk and protects shareholder value. Furthermore, when entering a new jurisdiction and making acquisitions of existing businesses, we prefer such acquisitions to be relatively small so that we do not pay too much goodwill. The capital commitment is such that the Group can comfortably afford to write it off if unsuccessful and we are able to use the acquisition as a stepping stone to potentially larger acquisitions. Small acquisitions are made to provide access to local knowledge in foreign countries or access to basic operating infrastructure and/or licences for regulated jurisdictions. We refer to these small acquisitions as "accelerated Greenfields".

The nature of start-ups means that capital and funding is allocated to these ventures incrementally as they prove themselves. The Group accepts that some initiatives will not succeed but the benefit is that they can be terminated when this becomes evident. It also means that even in the event of failure, the Group is unlikely to lose amounts of capital which materially impact the capital adequacy of the Group. We accept that in an entrepreneurial culture mistakes will be made. What is important is that we learn from them and they are not too costly.

PARTNERSHIPS AND ALLIANCES

The Group also favours partnerships with "best-of-breed" local players in countries where establishing our own brand would be costly, time consuming and risky. We have a carefully developed partnership and alliance framework honed by many years of experience from WesBank who have built their business on a partnership model.

Partnerships with strong local or regional players enable FirstRand to offer complementary skills, systems or product expertise to complement the partner's brand, client base, distribution network and/or balance sheet. This strategy also allows for a quicker start-up time, lower capital investment and greater flexibility.

ACQUISITIONS

We do not exclude the option of making significant acquisitions in other jurisdictions. However, unless there is a very compelling case, we would prefer to consider such acquisitions once we have established a successful track record on the back of a Greenfields or partnership strategy.

KEY MARKETS

Africa

FirstRand is a leading financial institution in Africa and its various brands such as First National Bank, Rand Merchant Bank, WesBank, Momentum and OUTsurance are already established in several African markets.

The Group seeks to expand its activities on the African continent by;

- Leveraging synergies and platforms between its various brands;
- Growing the commercial banking activities initially in Sub-Saharan Africa and later potentially in East, Central and West Africa; and
- Growing its investment and merchant banking activities in various parts of the continent where it has a product and skills competitive advantage.

India

FirstRand hopes to be the first bank from the African continent to be granted a branch licence to operate in India. It will initially focus on trade with Southern African and other selected African countries. We believe that there are significant opportunities in these markets. India's trade with Southern Africa comprises about 20% of the total trade with Africa, and this percentage increases significantly if one excludes Nigeria's oil exports. FirstRand has already established a representative office in Mumbai. It is staffed by seconded FirstRand staff and new Indian management. It is able to pave the way for the various FirstRand divisions that are already implementing business plans that have been through the internal approval process. They also support those divisions that are still conducting research into new opportunities.

Brazil

South Africa is part of the India, Brazil and South Africa (IBSA) initiative which was signed by the respective governments to promote trade and other relations between the three countries. Brazil is a potentially significant trading partner of South Africa. It has a population of 160 million, a GDP growth of about 4%, a stable political environment and a commitment to sound macro economic policies. FirstRand believes that there are many similarities between the Brazilian and South African economy that provide excellent opportunities for some of our divisions.

CURRENT INTERNATIONAL OPERATIONS AND PLANNED INITIATIVES

The most appropriate way to detail the Group's current international operations is by franchise.

FNB, the commercial bank, is already present in Namibia, Botswana, Swaziland, Lesotho and Moçambique. These operations currently represent around 5% of total Group earnings and have consistently delivered strong growth in profits and superior ROE's.

Going forward, FNB's strategy is to enter certain additional strategic African markets with particular focus on the SADEC region given its proximity to South Africa. FNB's long term objective is to become a full service bank offering a comprehensive range of commercial, retail and corporate transactional banking products and services. It has already

demonstrated that in these markets it can offer a competitive advantage particularly given its strong brand and innovative technology platforms.

FNB favours a "Greenfields" or "accelerated Greenfields" approach, and board approval has been granted to pursue the establishment of a branch in Zambia and a representative office in Angola.

RMB has already had success in several business areas, including Private Equity in Australia, Infrastructure and Project Finance predominantly in Africa, Trade Finance in Africa and other emerging markets and Resources in Africa. It is well placed to capitalise on the planned infrastructure plans of rapidly emerging African economies such as Nigeria and Angola and is focused on building this already successful business.

RMB is currently exploring investment banking partnerships with local banks in several jurisdictions that have the presence and balance sheet to complement its expertise in investment banking, most notably in Nigeria.

WesBank has identified the Brazilian asset finance market as its most attractive off shore business opportunity due to the macro economic environment and the rapid growth in vehicle finance. At this stage WesBank is investigating entering this market via a partnership with Banco do Brazil. It will allow WesBank to access a powerful brand, funding from a strong balance sheet and a very extensive distribution network.

In addition to the Brazilian initiative, WesBank currently operates in the UK market with the Carlyle Finance franchise. This is a niche operation which has now found itself in a very difficult market, so its focus is on achieving operational efficiencies in order to create a stable platform for future growth.

Momentum's strategy in Africa is currently focused on a health product driven strategy. It currently operates in 8 countries.

In addition it has a successful London office of RMB Asset Management, which operates alongside Ashburton, the established fund and private client investment manager based in the Channel Islands. Together they provide a comprehensive range of international asset management capabilities to South African and international clients.

In conclusion, FirstRand's primary focus is on the South African market where we believe we have significant opportunities for growth. In addition, we are actively exploring international markets in our divisions with the objective of providing growth impetus to the Group over the medium to long term.



PK Harris

Chief executive officer