CEO's report

IT'S ALL ABOUT DELIVERING A SUSTAINABLE PERFORMANCE OVER THE LONGER TERM

FirstRand's performance this year was most satisfactory and I am extremely pleased that we have regained our position as a leading financial services group, delivering sustainable returns to our shareholders within acceptable levels of volatility. A detailed explanation of our financial performance can be found in the COO & CFO's report on page 14.

One of the most critical aspects of running a business that provides employment to thousands of people and is core to broader socio economic development is ensuring the long term sustainability of that business. As we have seen all too recently, when banks fail the economic stability of nations and indeed the entire global financial system are threatened. This has brought the issue of "sustainability" into sharp focus. Sustainability has been considered somewhat of a "soft" topic until fairly recently, an addendum to the normal course of running a business and relying too heavily on anecdotal evidence rather than measurable benchmarks. This approach is now a thing of the past.

The new King III Code on Corporate Governance in South Africa, which is recognised as a highly progressive standard internationally, calls for integrated sustainability reporting among other governance requirements. Underlying this is the need for management to show how social, economic and environmental issues impact on growth drivers, as well as how they are managing these issues as an inseparable function of business strategy and risk management.

At FirstRand we recognise that delivering our growth objectives is contingent on our approach to sustainability. As a large financial services group, the health of our business depends on a stable political and fiscal environment; our ability to attract the best and most appropriate skills; providing an excellent service to our customers and maintaining constructive relationships with governments, providers of capital and the broader community. All of these considerations are embedded in our strategic thinking and operational execution.

Stakeholders require management to prove the sustainability of their business through a rigorous examination and explanation of the specific linkages between strategy, operational execution, risk management, customer and staff satisfaction, and financial performance. This ultimately represents a truly "integrated" investment picture, and this year's annual report builds on FirstRand's efforts to present such a complete investment picture. I believe this is particularly important for a business such as ours, given the importance of banks to the economies and communities they serve.

Against this background, in my CEO's report this year I would like to cover three topics I believe are key to FirstRand's future success and sustainability, namely our owner-manager culture, our approach to transformation and our strategy. These topics do not in any way represent an exhaustive list but they are aspects of our business that will ensure we thrive as an organisation over the longer term. Elsewhere in the annual report you will find explanations of other key issues such as financial performance and risk management (the COO & CFO's report, starting on page 14),

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operational execution (Review of Operations, pages 35 to 53) and governance (starting on page 55).

FirstRand's "owner-manager" culture – critical to delivering franchise value and superior returns

On the cover of this annual report we list the key components of our investment proposition – through our owner-manager culture and innovation we are successfully building franchise value. I strongly believe that this linkage is a powerful and positive differentiating factor for FirstRand.

Much has been made of the negative aspects of our business model and "empowering" culture, with some commentators suggesting that the losses the Group incurred in 2009 were a direct result of our operating model. Their criticism supposed that our controls became too loose, people were overly empowered and able to ignore risk limits and frameworks. It is important to understand that the disappointing performances from our international portfolios related to poor judgement rather than a breakdown of risk controls. This can happen in a centralised structure as much as in a federal model such as FirstRand's.

FirstRand's owner-manager culture is unique. It is rooted in the belief held by the founders of the Group that if a manager runs a business as if they are an owner, the manager will make decisions that are tightly aligned to the interests of shareholders. They are also likely to be more entrepreneurial and innovative if they take ownership of the success (or failure) of the enterprise.

It is worth spending some time explaining how this owner-manager concept translates practically into financial performance. Last year FNB implemented an initiative designed to put the Group's owner-manager culture to work in its branches. Known as the Associate Model it was designed around global franchising principles. Evidence suggested that a synergistic business relationship between franchisor and franchisee had the ability to release entrepreneurial talent, resulting in:

- increased customer growth and product holding by customers;
- significantly improved customer service and satisfaction;
- engaged and energised staff; and
- sustainable growth in profits.

OWNER-MANAGER CULTURE

FNB embarked on the roll out of the Associate Model early in 2009, identifying the top 20% revenue earning branches and placing the most experienced and proven managers in these branches to run them with an underlying owner-manager mandate.

The table below demonstrates that the owner-manager culture makes a significant difference. All key financial measures such as net profit before tax, cost growth and non interest revenue growth reflect favourably compared with other branches. Customer service and leadership also showed an overall improvement.

Measure	Traditional branch	Associate branch
NPBT growth (excl B/D)	8%	10% ✓
Direct cost growth	8%	5% ✓
NIR growth	9%	10% ✓
Leadership index	80.48	81.61 ✓

This is one of many such initiatives throughout the Group and we believe that they contribute meaningfully to the sustainability of the business. Not only does this approach provide real financial

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returns but it also manifests in a strong track record of innovation, our ability to start completely new businesses that often change the shape of entire industries, and the superior ROE that the Group has produced since listing in 1998.

Our culture is also why we are fortunate to attract and retain some of the best people in the financial services industry. One of the statements I made last year in my report was "It is important 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."

We anticipate that the war for talent will only intensify, particularly as major international banks focus seriously on South Africa and Africa. We are hopeful that the empowering environment we provide to smart, motivated people will result in good retention in the face of inevitable poaching by increasing competition.

Transformation – a genuine approach

A critical component of sustainability is our approach to transformation. We view our role in society as one which must contribute positively and respond effectively to the needs of every country in which we operate. The Group therefore has the objective of conducting business in such a way that its activities help to create better lives for all of the people of South Africa and our other chosen markets. Meeting this broader objective also has positive implications for FirstRand's viability as a business since transformation initiatives help to ensure that we remain an organisation with which present and future decision makers, client bases, employees and other stakeholders can identify positively. At a product and services level we also understand the competitive advantages associated with facilitating socio economic development and demographic transformation within the entire financial services value chain.

One practical example of our integrated approach to transformation is our employment equity and diversity management programme. FirstRand is committed to complying with the letter and the spirit of the Employment Equity Act of South Africa, and moving from procedural compliance to substantive compliance. We strive to acknowledge, understand, accept, value and celebrate differences among our people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation and spiritual practice. We regard transformation as a strategic imperative and will remove barriers in employment practices, procedures, policies and organisational attitudes for the benefit of the effectiveness of our workforce and the social consciousness of the individuals who comprise it.

Another example, at a product level, is FirstRand's strategy to "take banking to the people" through products such as FNB's cell phone banking and eWallet. These products enable broad access to financial services for customers living in remote areas and the take up has been significant as evidenced in the fact that FNB has two million customers for its cellphone banking product in South Africa.

Our vision for transformation goes beyond compliance and scorecards – it's about making a positive difference in all of the communities we serve.

Our refined strategy – effective execution in SA and gaining traction elsewhere

One of the topics I covered extensively in my report last year was the refinement of Group strategy following FirstRand's relative underperformance in the financial year to June 2009.

FRANCHISE VALUE

Our strategic intent is now very clear: to be the African financial services group of choice, creating long term franchise value and delivering superior and sustainable economic returns to shareholders within acceptable levels of volatility.

This is driven through two clear growth strategies:

- Become a predominant South African player focusing on both existing markets and those markets where the Group is currently under represented.
- Further grow our existing African franchises, targeting those markets that are expected to produce above average domestic growth and are strongly positioned to benefit from the trade and investment flows between Africa and Asia, particularly China and India.

We continued to make significant progress on these growth plans, which are executed through our operating franchises, and are unpacked in more detail by each franchise in the Review of Operations section on pages 35 to 53.

Given a key aspect of the Group's overall objective is to grow in certain domestic markets where we are currently under represented I would like to focus on two particular strategies we believe will drive growth going forward.

The first is FNB's increased focus on the lower end of the market. During the year FNB continued to invest in its domestic footprint, particularly electronic channels and cellphone banking which has been particularly successful in the mass market where FNB has built a strong franchise in transactional banking but has historically been under represented in lending. This is being addressed through new strategies such as the rollout of the Easy Plan branches and products.

The second relates to our objective to rebalance our portfolio through a greater weighting in the corporate sector, and the creation of a Corporate and Investment Banking Unit ("CIB"). Over the past 10 years FNB Corporate Banking Group ("CBG") and RMB have built excellent independent franchises in transactional banking and investment banking respectively. Through these franchises corporate customers have had access to 'best of breed' solutions spanning the entire spectrum of their banking needs. However, the lack of alignment between RMB and FNB CBG resulted in insufficient coordination of client activities and this will be fully addressed by CIB.

FNB CBG's and RMB's existing management teams and reporting structures have remained fully intact and continue to benefit from separate support functions and operate under two brands. This allows the two businesses to maintain and preserve their respective identities and cultures. However, to manage the interface with the customer we have created a combined "client coverage" team which will focus on maximising value from the full suite of CIB products for our corporate customers and will operate across all of our targeted geographic markets. The team is supported by the existing wholesale credit team, which already services both FNB CBG and RMB clients.

I am confident that this integrated approach to servicing our corporate clients will allow us to enhance service levels, increase our competitive advantage, deliver a superior offering to clients and significantly improve our share of revenues in the corporate, institutional and interbank markets. In support of this strategy we have increased our risk appetite and adjusted certain prudential limits in investment grade and defensive counters.

With regards to our strategy to grow outside South Africa, the Group's international expansion is gaining traction. Our business plans in Nigeria, Zambia, Angola and Tanzania are on track and our China-Africa corridor strategy has resulted in a number of transactions and a healthy deal pipeline going forward. FirstRand India is developing into a meaningful franchise for the Group, focusing equally on investment and trade flows as part of its strategy to build a robust client base.

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Looking ahead – we remain cautious

We expect revenue growth in the medium term to remain challenging, despite the improvement in the retail credit environment. Growth in retail advances will remain low as levels of consumer indebtedness persist at historic highs and growth in corporate advances is expected to also be subdued.

Given these anticipated pressures on the topline the Group is extremely cognisant of the need to manage costs and we are focusing on optimising operational leverage across our entire portfolio. We believe there is significant room for improvement.

However, the Group remains committed to growing the "muscle" in its business, even as it cuts as much "fat" out of the system as possible. We will continue to invest in our infrastructure in South Africa, particularly in segments with high growth prospects and growing our footprint and client franchises in other selected African markets will remain a priority.

I believe that the combination of our current growth plans, the quality of our underlying client franchises and the energy and commitment of management and staff will allow the Group to deliver on its strategy over the short, medium and longer term. We have a dynamic and exciting business with a strong and sustainable investment proposition.

Sizwe Nxasana
Chief excecutive officer