Sizwe Nxasana | CEO

CEO'S REPORT

Our operating franchises FNB, RMB and WesBank outperformed the market on most financial and operational metrics.

A STRONG PERFORMANCE

FirstRand's diversified financial services portfolio produced another strong performance for the year to June 2013, demonstrating once again the quality and resilience of our operating franchises, FNB, RMB and WesBank; all of which outperformed the market on most financial and operational metrics. A detailed explanation of our financial performance can be found in Johan Burger's COO & CFO's report on page 14.

CONSISTENT EXECUTION ON OUR STRATEGY

This year's performance was again underpinned by the consistent execution on a number of growth strategies as we strive to meet the Group's overall objective; to create long-term franchise value and deliver superior and sustainable returns to our shareholders.

The growth strategies are executed at a franchise level and more detail on progress can be found in the *Review of operations* on pages 35 to 44.

The strategies exist within a strategic Group framework to:

- become a predominant player in all of the financial services profit pools in South Africa, growing in existing markets and those where we are under-represented; and
- grow our franchise in the broader African continent, targeting those countries expected to show above average domestic growth and which are well positioned to benefit from the trade and investment flows between Africa, China and India.

When considering the first objective; growing in all of the profit pools in South Africa, the first consideration is just how competitive the landscape is, both in terms of traditional and new entrants. When markets are this competitive, it is critical to differentiate.

Over the past few years FNB has successfully grown profitable shares in many of its target markets through developing a highly differentiated customer offering. This has been possible due to its ability to innovate and take new ways of banking to market in a compelling but cost-effective way. For example, FNB's recent growth has been driven by a focus on growing and retaining core transactional accounts by offering customers a uniquely structured banking proposition, supported by exciting rewards programmes and platform innovations such as the banking app, cellphone banking and eWallet. Positive outcomes from this strategy have been the strong increase in transactional volumes, which this year contributed significantly to FNB's overall growth in non-interest revenue, and growth in retail deposits.

Shareholders often ask about the sustainability of FNB's market leadership, and we cite the business's ability to innovate as a key component of ensuring market leadership, particularly when the operating environment becomes even more difficult. We understand that to determine the future performance of a large and complex business on a concept as seemingly "woolly" as innovation may appear simplistic. Therefore, this year we have tried to provide some concrete linkages between FNB's innovation programme and profitability. These examples are described in the *FNB review of operations* on page 36 of this report.

FNB's challenge is to keep innovating and stay ahead of its customers' expectations and needs.

Testament to the success of the innovation programme, FNB was named the most innovative bank in the world during the year under review – a truly remarkable achievement.

Going forward there is no doubt that our competition will continue to "copy" our new products and channels, so FNB's challenge is to keep innovating and stay ahead of its customers' expectations and needs. Having said that however, we also believe it will be difficult for our peers to overtake us, particularly as FNB's innovation programme, which this year alone resulted in over 2 500 implemented innovations, has taken ten years to build. It now has considerable momentum and a deeply embedded business culture driving that momentum. This is not that easy to replicate

Innovation is also an integral part of RMB's DNA and is a key differentiating factor from both a client facing and operational excellence perspective. RMB provides bespoke solutions and unique structures that are tailored to client needs, and in several instances, introduce new products to the South African market. RMB has implemented the NOVA initiative, which is a programme focused on harnessing innovative thinking throughout the organisation so as to improve operational and risk management processes and generate business growth through new products, marketing and customer services.

At WesBank there is a strong focus to innovate and introduce labour saving and customer enhancing propositions, in addition to value-added products. Examples include:

- iContract in motor was introduced about a year ago and allows for customers to contract online at the point of sale, improving turnaround times and, therefore, positively impacting new business volumes (iContract penetration in the past four months exceeds 70% of deals done).

- FleetVantage was recently launched; the only fuel management system that enables fleet management functionality regardless of card service provider and allows for integration into related interfaces. It is the first fully fledged aggregator of fleet management requirements in the market place and generates additional revenue as it is a "charged for" service.
- The first fleet EMV (credit card chip-based) card was launched late in the financial year in conjunction with FNB. It will result in a major reduction in fraud.
- An inbound corporate acquisition process in the commercial segment is expected to drive growth. It is an automated asset-based finance application and approval process for companies with turnover between R10 million and R40 million. The current turnaround on smaller finance requirements has, to a degree, constrained origination, however, this new electronic application and approval process takes less than 24 hours, is scorecard driven and has grown to around 1 500 applications per month.
- On the operations side, WesBank introduced Dealer on Line, a self-help online process, which has reduced call centre volumes by 20 000 calls per month.

Turning now to those markets or profit pools where we believe we are under-represented. During the year under review, we formally introduced to investors the Group's new generation investment management franchise, Ashburton Investments; FirstRand's fourth financial services franchise sitting alongside FNB, RMB and WesBank.

Since Momentum was unbundled from the Group in 2009, asset management was an identified gap in the Group's portfolio and we recognised that we had the appropriate platforms and skills to now enter the investment management space with innovative investment products. The Group has a track record in creating new businesses that challenge conventional thinking and bring new propositions to customers. To this end we use the track records, skills and operational platforms of our existing businesses as the building blocks for new and disruptive franchises such as Discovery and OUTsurance and now Ashburton Investments. By accessing the origination capabilities of our existing franchises – particularly RMB – we can bring new investment and asset classes to retail and institutional investors. This will be in the form of both alternative and traditional products, which will provide investors with a far wider investment choice than currently exists, offering more sources of return and making it easier for South Africans to save.

Ashburton Investments will differentiate itself by offering sources of return that are not available elsewhere to individual and institutional investors.

The strategic objective of Ashburton is to become the leading new generation investment manager in Africa offering South African, African, Asian and Chinese investment opportunities. In addition to providing traditional, long-term investments in single manager, multi manager and offshore funds, Ashburton Investments will differentiate itself by offering sources of return that are not available elsewhere to individual and institutional investors. For example, we will offer investors the chance to invest in debt financing, private equity and credit investments alongside Ashburton Investments, on the same terms. Product providers to Ashburton Investments will be RMB and Ashburton.

Ashburton Investments is managed completely separately from the banking businesses, namely FNB, RMB and WesBank, which will avoid potential conflicts of interest. Systems are ring-fenced to ensure client information confidentiality.

GROWING IN NEW MARKETS TAKES TIME BUT WE ARE MAKING PROGRESS

I would now like to focus on the progress we are making in our non-domestic growth strategies, the rest of Africa and India.

FirstRand has been consistently executing on its strategy to grow its franchise on the African continent, matched with a highly disciplined approach to protecting shareholder returns. As Laurie stated in his chairman's statement in the 2011 annual integrated report:

"The Group has undertaken to protect its ROE as it builds its presence outside of its core South African operations.

It prefers greenfields operations or small rather than significant acquisitions, and whilst this means that expansion takes longer, potential dilution of returns can be contained."

We believe this strategy is on track and making good progress and there are three pillars to its execution.

1. Utilise the capabilities of the South African franchise, particularly the domestic balance sheet, intellectual capital and its international platforms. The Group believes this is very effective in those territories where a physical presence is not required in the short to medium term. RMB has been particularly successful in executing on this strategy, and in total has conducted 28 transactions in 13 African countries, to a value of R19.5 billion. It has also grown advances in the rest of Africa 75% from R9.4 billion to R16.4 billion, representing 11% of RMB's structured lending book.

2. Start an in-country franchise and grow organically (greenfields). Over and above its established franchises in Botswana, Namibia, Swaziland and Lesotho, FNB continues to build its operating footprint in Zambia, Mozambique and Tanzania and has successfully rolled out both traditional and electronic products and platforms in these markets. The African subsidiaries of FNB, which also include WesBank's vehicle and asset finance (VAF) operations in those countries, contributed normalised earnings of R695 million, despite the significant investment taking place in the newer territories.

   In addition, since 2010, RMB has successfully deployed Global Markets and Investment Banking teams into the FNB subsidiaries. These activities have generated a compound annual growth rate in profits of over 40%.

   RMB has been granted an investment banking licence in Nigeria and this presence, along with the representative office in Kenya, is generating good profits from cross-border activity in both the east and west African economic hubs and with the Asian investment corridors.

3. Corporate action. The Group will undertake small or medium sized acquisitions in the rest of Africa where it makes commercial sense and if these are platforms that can contribute scale and/or provide access to local deposits, skills and client bases. The Group does not, however, believe that large transformational acquisitions, which can significantly dilute returns, are necessarily the most effective way to establish a footprint in other African economies given the trade off between the sometimes significant legacy costs of a physical infrastructure and revenues that can potentially be generated from economies with very nascent retail markets. The Group is also of the view that mobile and electronic innovation is transforming the nature of banking footprints globally and this will also play out in Africa over time. FNB's strong track record in developing such platforms in South Africa means it can build a competitive advantage in this space in a number of other territories.

The growth rate, absolute size and return profile of the Group's growing presence in the rest of Africa is already apparent. Much of this has been achieved through organic expansion which has had the desired effect of protecting the ROE.

FirstRand remains the only South African bank with a branch in India, focusing on trade finance, investment banking, fixed income, currency and commodity products as well as debt capital markets and other structured products. It also started offering retail and commercial banking products.

The India platform is incrementally gaining good traction in-country and adding value to the African expansion strategy as a whole. Since the year end, RMB facilitated the largest ever investment by an Indian company in South Africa, when it advised Mumbai-listed pharmaceutical group, Cipla India, in its acquisition of South Africa's Cipla Medpro for R5 billion. This was a very significant cross-border transaction in the India/Africa corridor and is indicative of the opportunities that exist.

LOOKING FORWARD, IT REMAINS TOUGH

The global economic situation will continue to place pressure on our earnings and growth potential in the 2013/14 financial year. Macros are a large driver of earnings growth and are becoming tougher. Despite increased domestic headwinds FirstRand expects to continue to produce good organic growth and our franchises have compelling strategies to grow their respective toplines.

In sub-Saharan Africa growth is expected to further strengthen and we will continue to build on our progress in our priority countries.

Sizwe Nxasana
Chief executive officer