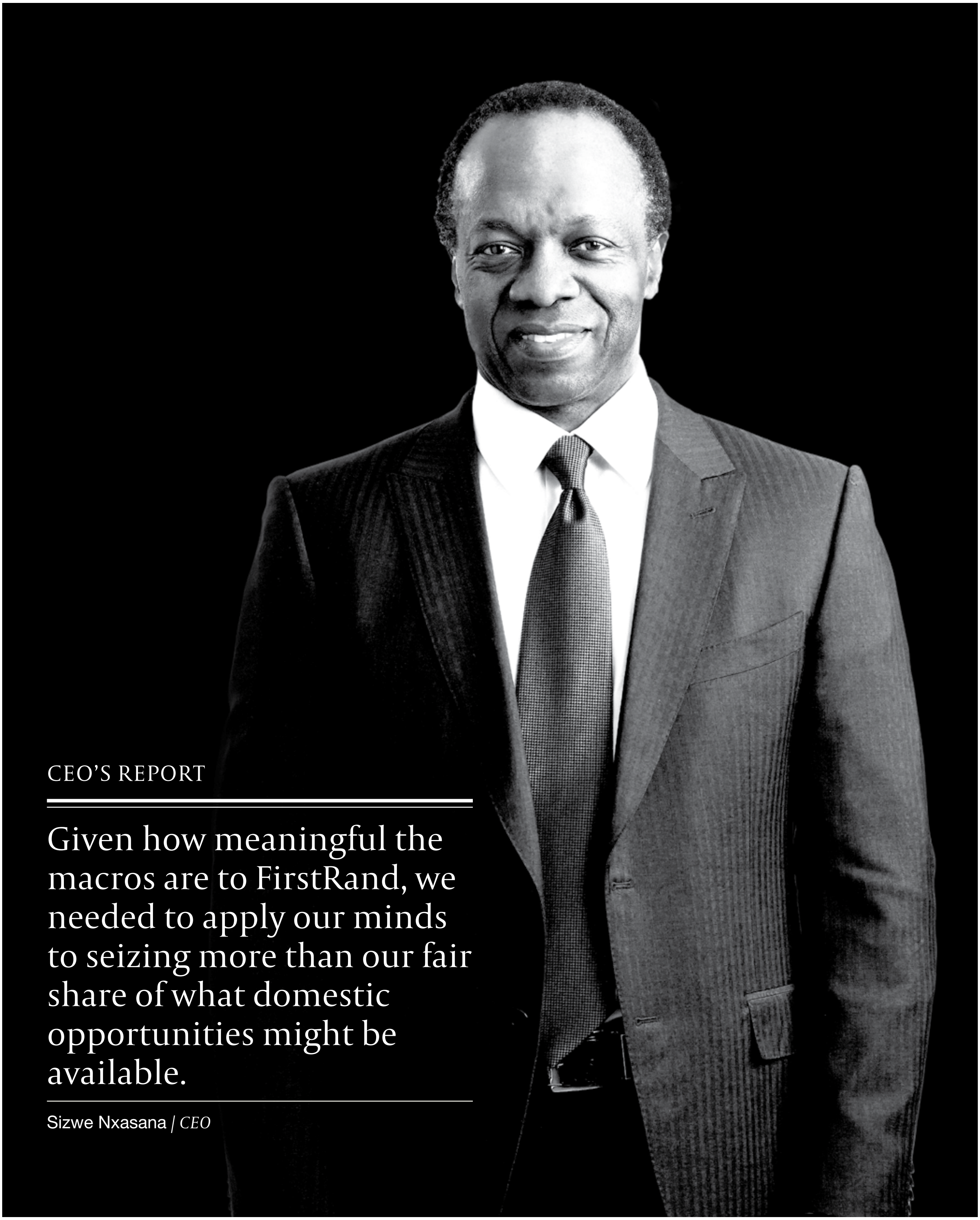


CEO'S REPORT

Given how meaningful the macros are to FirstRand, we needed to apply our minds to seizing more than our fair share of what domestic opportunities might be available.

Sizwe Nxasana | *CEO*

As the chairman has pointed out in his statement, the Group's banking franchises all produced very strong operational performances in the year under review. These performances are a direct result of FNB, RMB and WesBank consistently executing on specific strategies designed to take more growth from the system than our competitors.

This has been a very deliberate objective across the Group's entire portfolio following a recognition, around five years ago, that South Africa's GDP would come under pressure, and given how meaningful the macros are to FirstRand, we needed to apply our minds to seizing more than our fair share of what domestic opportunities might be available. Yes, it is true that the rest of Africa provides growth opportunities as well, and we have not deviated from our strategic objective to grow on the broader continent. However, given that nearly 90% of our profits are generated from South Africa and our unwillingness to rush out and "buy" earnings (and associated goodwill at the same time) on the broader African continent, we had to continue to focus on becoming the pre-eminent domestic franchise. It is our firm view that this has allowed us to attack many of the profit pools we were largely absent from five years ago, gain market share in the segments we identified as priorities and allocate capital to certain business lines over and above credit extension (with the resultant benefit to ROA and ROE).

We must also recognise that in order to stay ahead of the competition, we have to deploy a large array of strategic responses and we are very fortunate that many of the appropriate responses are already deeply embedded in our business philosophy; in particular our owner-manager culture and our ability to innovate.

I have written extensively on both of these topics in past reports, however I think another angle to how these elements of our business philosophy benefit us is that innovation creates differentiation, and we have found this to be key to growth.

Every company would like to think that it stands apart from the competition in the eyes of its customers. A company that employs a differentiation strategy does so with the intention of creating a product or service that is valued and perceived by its customers as unique and better than the competition.

I recently came across a quote that stated "companies that succeed in implementing a differentiation strategy have one or a combination of the following attributes: leading research and development, highly skilled and creative product-development personnel, a strong sales force and a reputation for quality and innovation."

This really resonated with me when I read it as I believe that the Group and its franchises can lay claim to most of these attributes.

A recent example would be FNB's differentiated value proposition that has allowed it to capture a large share of core transactional accounts through offering innovative products and channels at an acceptable cost, supported by rewards programmes, such as eBucks, SLOW lounges and fuel, data and airtime rewards, the first banking app in South Africa, cellphone banking and eWallet.

This proposition was unlike anything else in the market at the time and was backed up with a strong and effective marketing message (for those of you who remember Steve). The success of this strategy will stand FNB in good stead as we enter a tougher operating environment as a "sticky" customer base provides stable revenues and can mitigate the impact of a market downturn.

WesBank's core proposition, of dominating point of sale through alliances with motor manufacturers, is so unique that through the cycle it is able to capture and retain a significant amount of market share without sacrificing credit quality.

Another example of how we aim to grow through differentiation is our organic investment management initiative, Ashburton Investments. What is unique about this strategy is that we have created a vehicle that by accessing the origination capabilities of the banking franchises (particularly RMB), we can offer new and unique investment and asset classes to retail and institutional investors in the form of both alternative and traditional products. For example, we will provide investors with opportunities to participate in debt financing, private equity and credit investments alongside the Group, on the same commercial terms. This is a very different strategy to other domestic asset management businesses, either those within banks or standalone.

What is also important to the success of this strategy is the highly innovative culture of our investment banking franchise; the track record of RMB is a key building block to Ashburton Investments. Without RMB we would not be in a position to offer such a proposition.

There are many, many examples of differentiation within the Group, and we are very focused on transferring these strategies into other businesses. FNB's business and commercial segments are currently growing customers at above market levels following the rollout of the retail value proposition into those segments.

Having said all of that, we must guard against arrogance or complacency. In many cases our competition has come back strongly to protect market share. A company that succeeds in implementing a differentiation strategy must worry about competitors copying its business methods and luring customers away. It is also difficult to maintain differentiation for an indefinite amount of time because of competition.

When I consider the banking landscape going forward, I certainly think our ability to innovate and differentiate will help us navigate what is expected to be a difficult cycle. In addition, there are future scenarios playing out in the sector that we have to take serious notice of.

A recent piece of research by PwC, *The Future Shape of Banking*, makes for sobering reading. It describes banking as an industry facing "irresistible forces for change" mainly driven by technology, consumerism and regulation. The research foresees massive disruption and potential disintermediation for banks particularly from digitisation, which is ultimately possible given the intangible nature of banking services.

I guess what this says to bankers is "adapt or die". At FirstRand we have always believed in the adage "rather shoot yourself in the foot than get shot in the head", in other words don't be scared of cannibalising your own business, it's better than someone doing it to you. Certainly the Group has a track record of disrupting traditional markets; the creation of Discovery and OUTsurance are perfect examples of that. Ashburton Investments is a more recent example and as a management team we constantly look to execute on such ideas.

What I am clear about is that innovation and differentiation will be key to success in our chosen territories for expansion in the rest of Africa. It is unlikely that FirstRand will take a "me too" proposition to new markets, it's just not in our DNA.

As an organisation I believe we have seen both the dangers and the opportunities represented by rapid changes in technology. Certainly in many cases FNB embraced technology earlier than its peers; it was the first retail bank to deliver cellphone banking on scale and the first South African bank to provide customers with a banking app. It was also voted the most innovative bank in the world in 2012.

Another interesting point PwC makes is that banking services will increasingly migrate away from physical distribution into technology-enabled channels and that, as banking service models become more digitally enabled, the value of brand will rise.

On the first point, as a driver of its topline FNB's strategy to move its customers to electronic and online platforms has resulted in above average growth in transactional volumes, which has been key to the business's outperformance over the past few years. This, over time, will also result in a structural downward shift in cost structures as electronic channels are cheaper for both banks and their customers. We are seeing early signs of this, on page 62 of this report, FNB lists some operational highlights which clearly indicate the migration of customers onto electronic channels drives up volumes and drives down costs, particularly in relation to the branch network.

On the second point, despite the financial crisis, I still believe that banking brands have retained a reasonable level of credibility. The harder we work to ensure our brands represent trust, security, fair treatment of customers and quality of service, the more valuable they will become and therefore a key differentiator going forward. It almost seems contradictory that as transactions become more commoditised, brand becomes more important, but that is the unique nature of banking, trust is non-negotiable.

FirstRand is in the unique position of being a multi-branded business. We don't have one brand to stretch across the financial services universe; we have four primary customer-facing brands, and this provides for powerful differentiation at a product offering level, particularly as our brands are leaders in their respective markets. However, this also means that it is even more critical to retain our credibility.

Where technology is likely to play out strongly in financial services is on the broader African continent. Recent international research by the MEF, a UK-based mobile content and commerce trade association, indicates that globally mobile banking is the highest in Africa, led by Nigeria, South Africa and Kenya.

There is much debate about the value of a large physical footprint given the rapid penetration of mobile technology. However, there is no simple answer. On the one hand, yes physical footprints come with massive cost structures and it seems to make sense that branches could be redundant in the digital era. However there are a few important things to consider; firstly, many emerging economies remain predominantly cash based so branches still perform an important function for the depositing and storing of cash. This will take many decades to change. Secondly, smart devices remain unaffordable for hundreds of millions of people on the continent, this too will take a long time to change.

So whilst basic mobile transactions are growing strongly (we see this playing out in Kenya and Tanzania with players such Mpesa), it is coming off a very low base. Full digitisation of banking services is not yet on the horizon. Also, a functioning deposit franchise is critical to any bank growing a universal model on the continent and branches are key to gathering retail and commercial deposits.

What this all points to is that bricks and mortar will still be required as part of any broader African growth strategy. The key considerations will be the location, structure and efficiency of a physical network and to what extent we can build viable electronic platforms off the back of it – much like we have in South Africa.

What I am clear about is that innovation and differentiation will be key to success in our chosen territories for expansion in the rest of Africa. It is unlikely that FirstRand will take a "me too" proposition to new markets, it's just not in our DNA.

Sizwe Nxasana
Chief executive officer

DEPUTY CEO'S REPORT

FirstRand's results for the year ended 30 June 2014 reflects a high level of resilience in earnings, growth and returns and the Group has managed to further strengthen its balance sheet.

Johan Burger | *Deputy CEO*

FirstRand's franchises have consistently executed on a set of strategies which are aligned to certain Group financial strategies and frameworks designed to ensure earnings resilience and growth, balance sheet strength and an appropriate risk/return profile. Ultimately the Group seeks to create long-term sustainable franchise value and believes it is currently delivering this through the operating franchises, all of which have strong market positioning, unique customer value propositions, efficient platforms, a relentless focus on innovation and a proven entrepreneurial culture.

These deliverables are underpinned by the application of critical financial discipline through frameworks set at the centre, such as;

RISK MANAGEMENT FRAMEWORK

- assess the impact of the cycle on the portfolio;
- understand and price properly for risk; and
- originate within cycle-appropriate risk appetite and volatility parameters

PERFORMANCE MANAGEMENT FRAMEWORK

- allocate capital appropriately to capital-light or capital-intensive activities;
- ensure an efficient capital structure with appropriate/ conservative gearing; and
- ensure earnings exceed cost of capital, i.e. positive net income after capital charge (NIACC).

BALANCE SHEET FRAMEWORK

- execute sustainable funding and liquidity strategies;
- protect the credit rating; and
- preserve a "fortress" balance sheet that can sustain shocks through the cycle.

The consistent application of these financial strategies and frameworks has over time allowed FirstRand to deliver the financial metrics the Group targets on behalf of its shareholders, namely earnings growth of nominal GDP plus 3% – 5% and an ROE of 18% – 22%.

FirstRand's results for the year ended 30 June 2014 reflect a high level of resilience in earnings, growth and returns and the Group has managed to further strengthen its balance sheet. The chart below outlines how the Group looks at ensuring resilience of earnings, growth, returns and balance sheet strength and each of these topics will be discussed in more detail below.

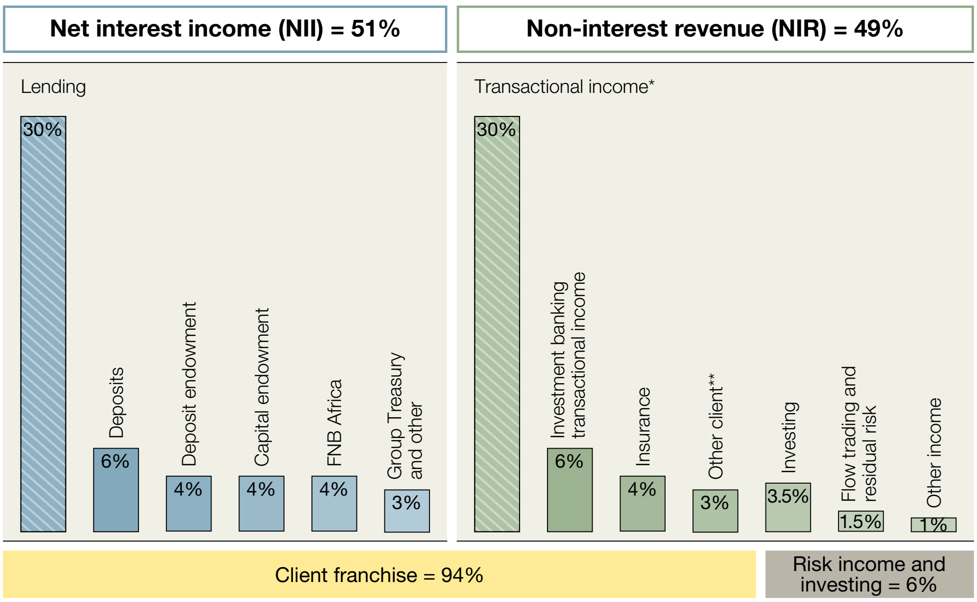
RESILIENCE OF EARNINGS, GROWTH, RETURNS AND BALANCE SHEET STRENGTH

Franchise value	Financial strength and disciplined capital allocation
Client businesses	Balance sheet structure • Economic view of the balance sheet • NPLs and coverage • Off-balance sheet reserves • Funding and liquidity strategies
Diversification	
Growth opportunities • South African financial services profit pools • Rest of Africa	
Efficiencies	Gearing and returns
Understanding risk and reward through the cycle	Capital position and dividend strategy

CLIENT BUSINESSES

Since 2007, franchise strategies have been adjusted to focus on building and growing client businesses. The chart below illustrates the success of this focus with 94% of revenues generated from client-related activities. It also shows that the Group has achieved a good balance between capital-light and capital-intensive businesses with lending and transactional activities each representing 30% of gross revenue. The strength of the Group's NIR franchise is reflected in its 49% contribution to gross revenue and it is also encouraging to see that the deposit franchise is making a meaningful contribution.

Gross revenue analysis



* *From retail, commercial and corporate banking.*
** *Includes WesBank associates.*

DIVERSIFICATION

The Group constantly evaluates the inherent value within its business model and portfolio as a whole and there are specific filters through which it makes these assessments. A key consideration is the level of diversification that exists in the portfolio and the Group considers this in the context of its strategy, performance targets and against the macroeconomic environment. Key diversification measures relate to the relative contribution to earnings from each franchise, market segment, product and geographic footprint.

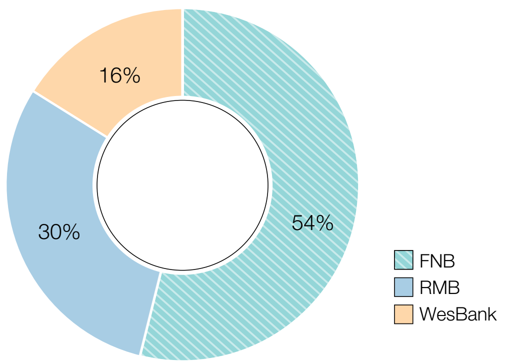
FirstRand's portfolio provides good diversification and represents the appropriate mix of business activities, at both a franchise and segment level. The Group believes that it is well represented in all segments, but not necessarily all profit pools, e.g. corporate transactional banking, insurance and investment management. These provide further opportunities for growth and there are clear strategies in place to address these gaps. These opportunities are discussed in more detail under the *growth opportunities* section on page 19.

Franchise diversification

Normalised earnings (R million)	2014	2013	% change
FNB	**9 462**	7 998	18
RMB	**5 342**	4 383	22
WesBank	**2 830**	2 774	2
FCC (incl. Group Treasury) and other*	**1 029**	265	>100
Group normalised earnings	**18 663**	15 420	21

* *Other comprises FirstRand company, consolidation adjustments and dividends paid on NCNR preference shares.*
** *FCC (which includes Group Treasury) is excluded from franchise contribution analysis chart.*

Franchise contribution to normalised earnings**



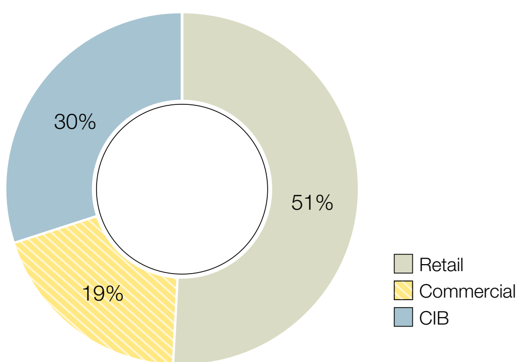
The Group believes that the relative contribution from each franchise is appropriate given the cycle. FNB represents the largest contribution at 54% (2013: 53%). RMB's contribution has increased slightly year-on-year from 29% to 30% and WesBank's contribution has reduced to 16%, which reflects the current negative vehicle and credit cycle.

Segment diversification

Normalised earnings (R million)	2014	2013	% change
Retail	**8 905**	7 868	13
Commercial*	**3 387**	2 904	17
Corporate and investment banking	**5 342**	4 383	22
FCC (incl. Group Treasury) and other**	**1 029**	265	>100
Group normalised earnings	**18 663**	15 420	21

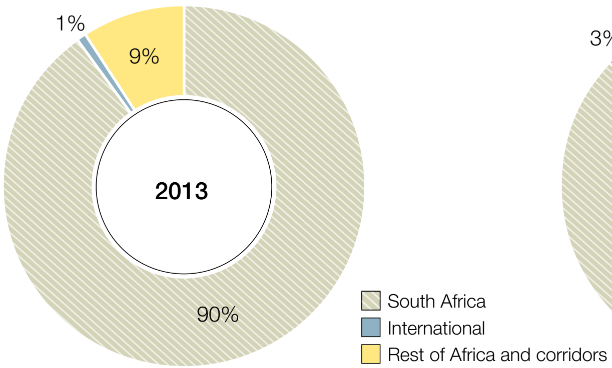
* *Includes FNB commercial and WesBank corporate.*
** *Other comprises FirstRand company, consolidation adjustments and dividends paid on NCNR preference shares.*
\# *FCC (which includes Group Treasury) is excluded from the segment contribution analysis chart.*

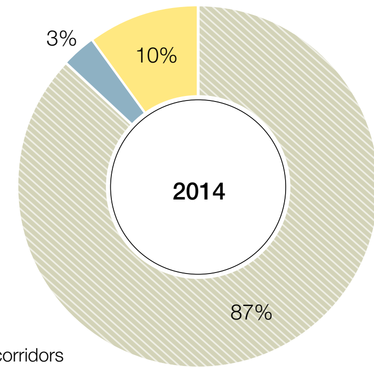
Normalised earnings mix#



FirstRand's segment diversification reflects the structure of the domestic growth profile and the relative positioning of the Group's franchises. Retail represents 51% of normalised earnings and the 19% contribution from commercial reflects good progress made in rebalancing the portfolio and growing in the commercial and business segments. The increase in CIB's contribution (to 30%) is a result of the Group's deliberate strategy to grow lending and transactional banking in the corporate segment and reflects that the investment bank is entering a period of investment realisations.

Geographical diversification



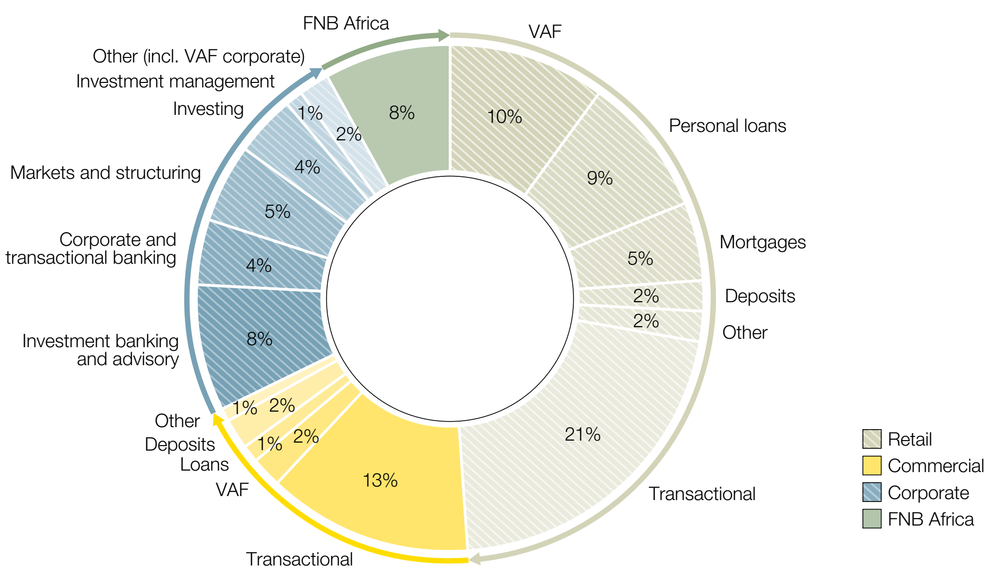


Based on gross revenue, excluding FCC (which includes Group Treasury).

From a geographical diversification perspective, on a relative basis, the South African franchise still dominates earnings at 87% (2013: 90%). As the domestic franchise is still outperforming the market, the relative contribution has not changed materially even though the rest of Africa is growing strongly.

The Group remains disciplined in its deployment of capital in the rest of Africa.

Product diversification



FCC (which includes Group Treasury) excluded from product split, which is based on gross revenue.

The Group has deep product diversification across its various segments, which further underpins its objective to mitigate earnings volatility.

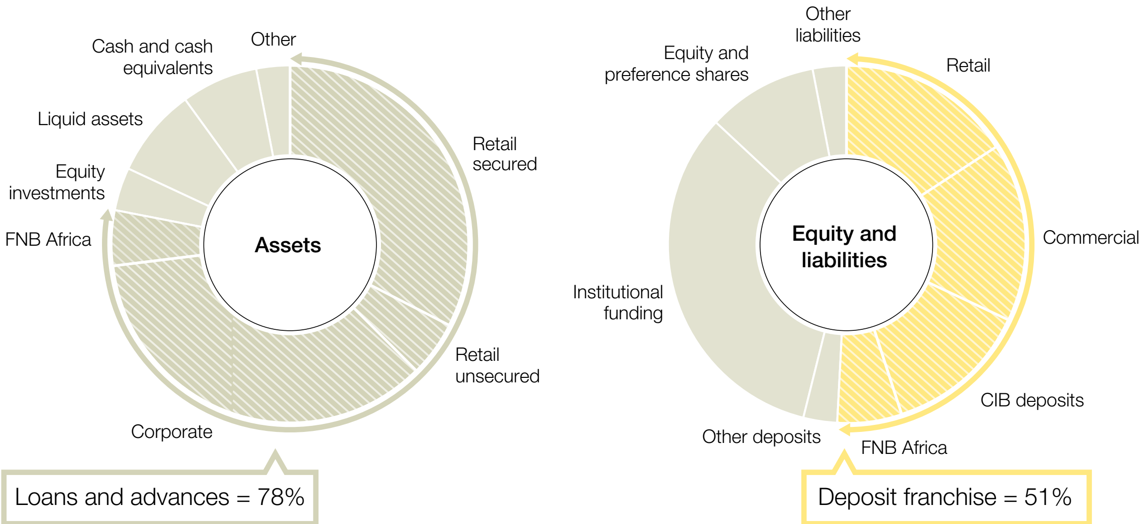
GROWTH OPPORTUNITIES

South African financial services profit pools

Deposit franchise

As shown by the chart below, the Group's balance sheet structure – with the deposit franchise representing 51% of liabilities whilst loans and advances constitute 78% of assets – reflects the structure of SA Inc but does provide a growth opportunity. FirstRand believes it can gain market share as its deposit franchise growth initiatives are gaining traction. The launch of various innovative, differentiated savings and investment products has enabled the Group to grow these balances at a compound annual growth rate of 59% over the past three years to R60 billion at 30 June 2014. These deposit strategies further assist the Group in improving its funding and liquidity profile.

FirstRand's balance sheet structure



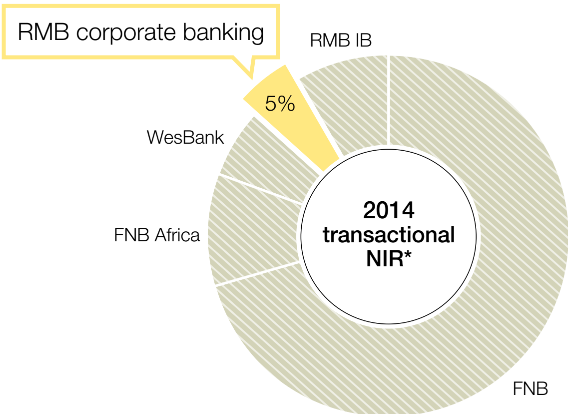
Note: Economic view of the balance sheet reflected above. Non-recourse-, derivative-, securities lending- and short trading position assets and liabilities have been netted off.

The Group remains disciplined in its deployment of capital in the rest of Africa.

Corporate transactional banking

The Group is under-represented in corporate transactional banking, which, as illustrated in the chart below, currently represents only 5% of transactional non-interest revenue.

Franchise split of transactional NIR



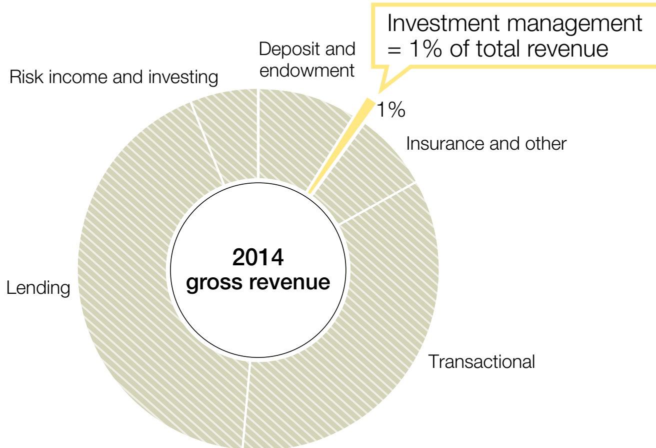
* *FCC (which includes Group Treasury) excluded from franchise NIR split.*

The Group has strategies in place to become a more meaningful player in this space, however, this will take time. It is encouraging to see some signs of significant progress both domestically and in the rest of Africa, such as:

- 18% PBT increase (based on operational performance) year-on-year;
- 51% growth in deposits delivered by the liability acquisition strategy;
- significant market share gains in trade finance and working capital;
- unlocking the benefits of relationship pricing;
- improving client service levels; and
- building out of new product capabilities in close partnership with FNB.

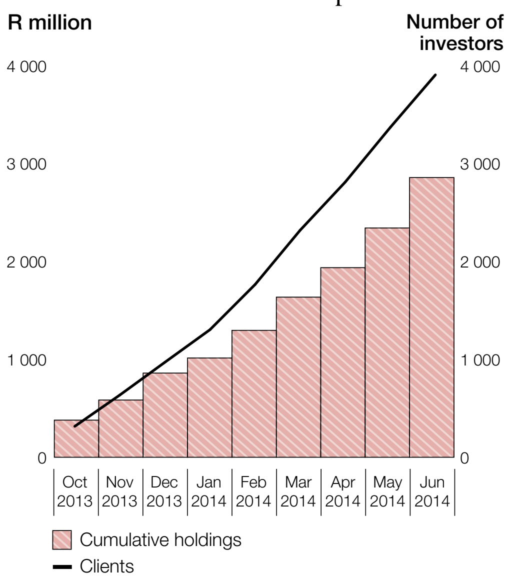
> The Group considers investment management to be a very attractive new revenue pool.

Activity split of revenue

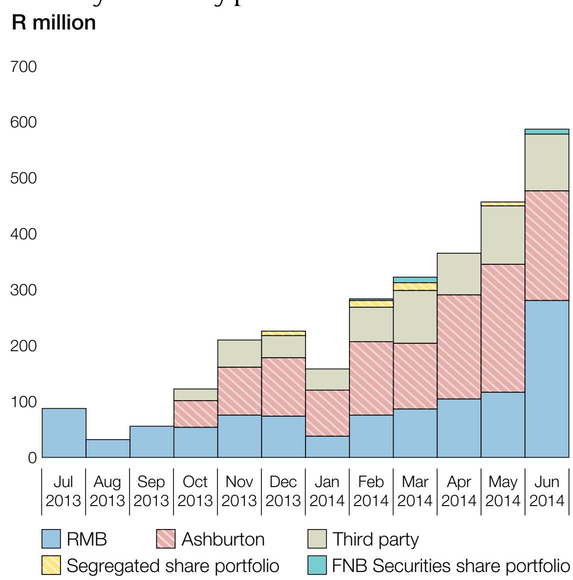


Investment management currently only contributes 1% of total revenue. The Group considers this to be a very attractive revenue pool and it launched Ashburton Investments in 2013 to address this gap in its portfolio. In the year under review, Ashburton Investments launched its own LISP platform to the Group's internal channels. The charts below illustrate the success achieved in growth in numbers of investors and monthly flows on the platform. It is also pleasing to see the strong growth in both the Group's traditional offerings (provided by Ashburton) and its non-traditional, differentiated products (originated by RMB).

Ashburton Investments LISP platform

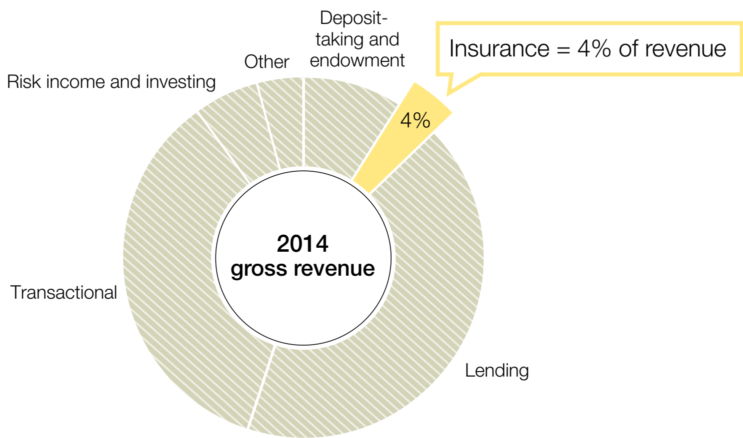


Monthly inflows by product



The Group remains convinced that investment management can become a meaningful contributor over the next three to five years.

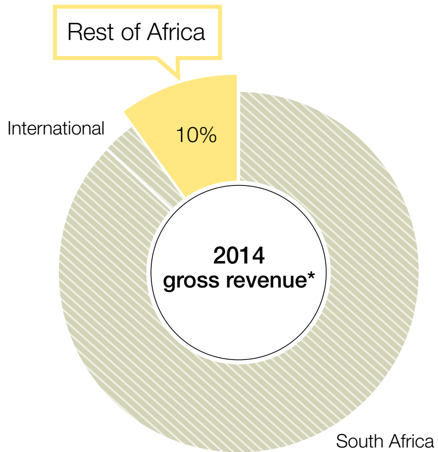
Revenue split by activity



The chart above shows that insurance activities currently contribute only 4% of gross revenue. The Group has a proven track record in providing credit life and vehicle insurance and believes that given its brands, distribution capability and client insights, it has all the building blocks to grow insurance profits more aggressively in South Africa by expanding its product range.

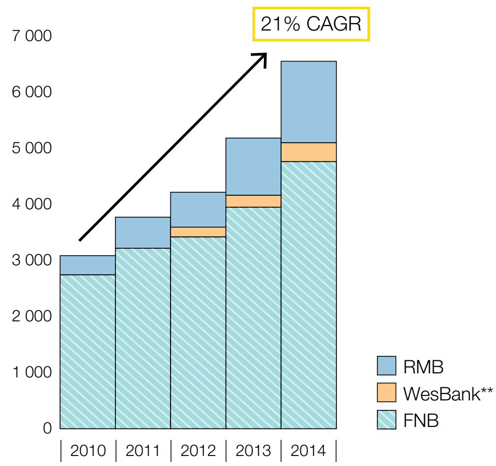
> There has been material success in the deployment of the balance sheet and intellectual capital in the rest of Africa by both RMB and FNB.

Geographical revenue split



Rest of Africa gross revenue*

R million



* *Excludes FCC (including Group Treasury).*
** *WesBank 2010 and 2011 rest of Africa revenues included in FNB figures in the graph above.*
Note: All WesBank rest of Africa profits reported under FNB Africa in the reported results.

The Group is showing a promising track record in the rest of Africa and is producing good growth and returns. Revenues have grown at a compound annual rate of 21% since 2010 with FNB, RMB and WesBank all contributing to the growth.

The Group remains comfortable that its approach to growing outside of South Africa is appropriate, given its stated intention to protect its return profile. With regard to expansion into the rest of Africa, there are three pillars to its execution:

- utilise the capabilities of the South African franchise, particularly the domestic balance sheet, intellectual capital, international platforms and the existing operating footprint in the rest of Africa;
- start an in-country franchise and grow organically; and
- small-to medium-sized acquisitions where it makes commercial sense.

There has been material success in the deployment of the balance sheet and intellectual capital in the rest of Africa by both RMB and FNB. In addition, the established subsidiaries continue to generate good growth in earnings and strong ROEs whilst the newer subsidiaries are also gaining momentum in terms of customer acquisition, product and platform rollout (particularly digital) and deposit gathering.

FirstRand has been disciplined in limiting dilution of the return profile in line with its strategic framework. Overall the subsidiaries in the rest of Africa achieved an ROE of 19.4% underpinned by a very strong ROE of 30.9% delivered by the established businesses.

The Group is considering accelerating the deployment of capital into the rest of Africa given the growth momentum it has achieved in the region.

EFFICIENCIES

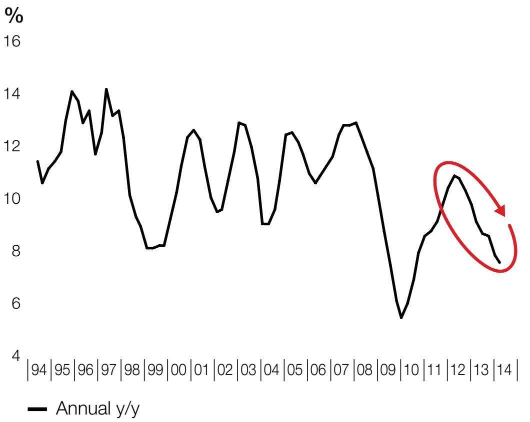
FirstRand does not target a cost-to-income ratio as it believes this to be an outcome of its ability to utilise its business model effectively in order to deliver on its growth strategies. The Group rigorously assesses cost structures at both a franchise and business unit level, but will always consider costs incurred to run the business versus costs incurred to build the business.

The Group continues to focus on achieving positive operating jaws and, as revenues grew faster than costs in the year under review, the cost-to-income ratio improved to 51.1% (2013: 51.5%).

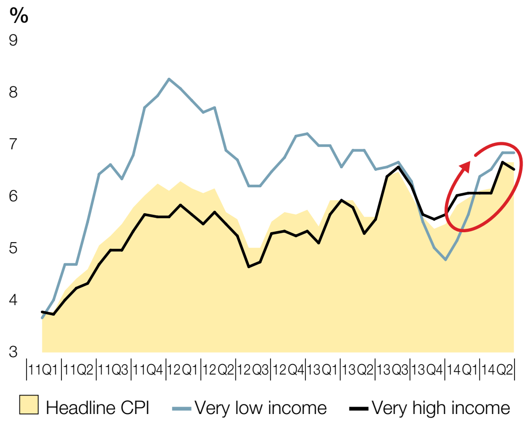
UNDERSTANDING RISK AND REWARD THROUGH THE CYCLE

The Group aims to be countercyclical with respect to origination strategies. Given the duration of its lending products it is necessary to act ahead of the cycle. A good understanding of macros is therefore critical to identify emerging risks in order to achieve this objective. From the charts below it is clear that the credit cycle has turned.

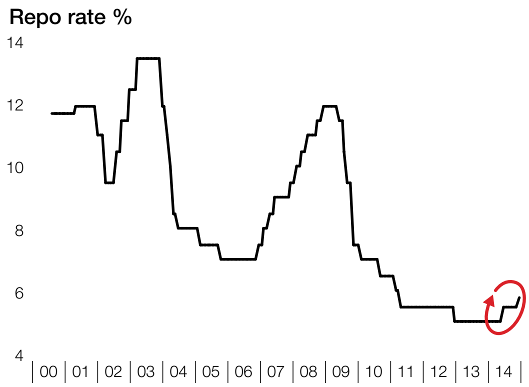
Household nominal income growth slowed



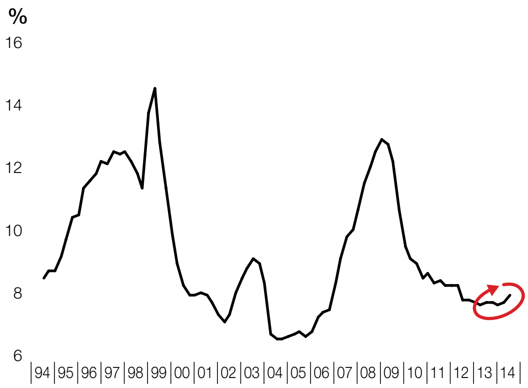
Consumer price inflation increased



Interest rates bottomed

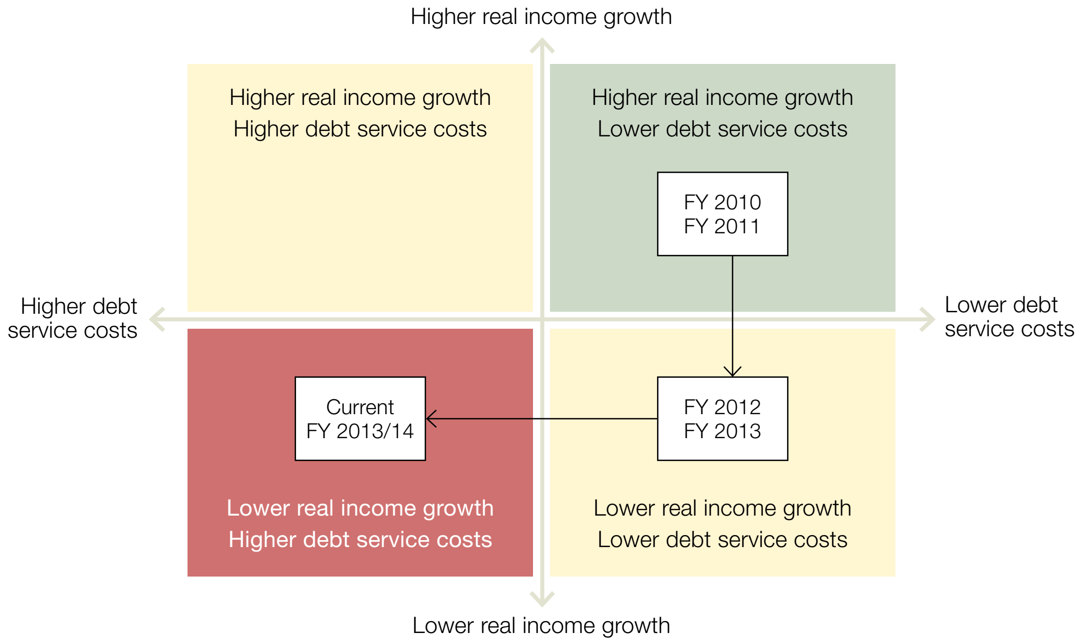


Debt service costs bottomed



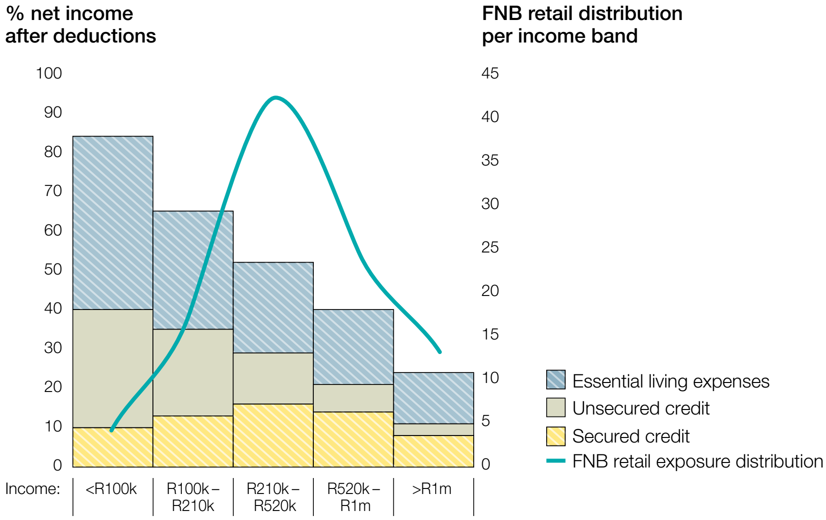
The Group therefore continues to adjust its origination strategies accordingly.

The following schematic illustrates how the Group maps its origination strategies to the macros. The top right quadrant represents the most favourable origination conditions (relatively higher income growth and lower debt service costs), whilst the bottom left quadrant represents the most challenging origination conditions (relatively lower income growth and higher debt service costs).



The Group started cutting back origination in certain retail portfolios in late 2011/early 2012 as consumers moved into a period of lower income growth whilst debt servicing costs still remained relatively low, however, debt levels in certain subsegments had stronger growth. In the Group's view, South African consumers are now moving into a period of lower income growth and higher debt service costs as interest rates have started to increase, therefore it continues to cut back on origination, especially in retail.

The Group believes it is critical to understand the affordability dynamics of the underlying consumer segments and not to only consider averages. The chart below depicts gearing levels per income band using FNB's client base as a proxy. It is clear that the consumers at the lower end of the market have considerably more pressure on disposable income with high commitments to debt and non-discretionary expenses. This picture further informs the Group's origination strategies in the subsegments.



Analysis based on Stats SA Income and Expenditure Survey 2010-2011, credit bureau data and proxies based on FNB data/analysis. FNB retail distribution calculated using FNB-banked customers as a proxy.

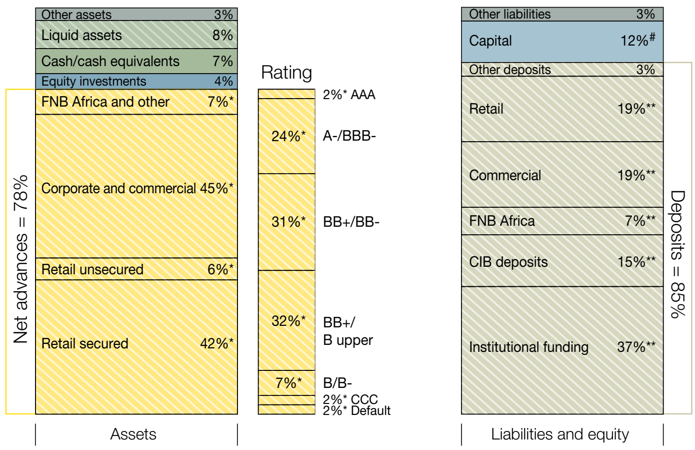
FNB's retail credit exposure has been plotted across the various income categories and it is clear that FNB's exposure is weighted more to the middle-to-upper income bands where there is less pressure on affordability.

This analysis also explains the Group's decision to cut back origination at the lower end as early as 2011 and why it continues to cut back in certain high risk consumer buckets.

> The Group has continued to reduce its reliance on institutional funding and further improve the term profile.

ECONOMIC VIEW OF THE BALANCE SHEET

The chart below depicts an economic view of the Group's balance sheet, i.e. it shows the balance sheet by risk type. Non-recourse-, derivative-, securities lending- and short trading position assets and liabilities have been netted off.



* As a proportion of loans and advances.
** As a proportion of deposit franchise.
\# Ordinary equity and non-controlling interests (10%) and NCNR preference shares and Tier 2 liabilities (2%).
Note: Non-recourse-, derivative-, securities lending- and short trading position assets and liabilities have been netted off.

When assessing the underlying risk in the balance sheet, the Group's asset profile is dominated by a balanced advances portfolio, which constitutes 78% of total assets and 57% of advances are rated BB- or better reflecting a quality loan portfolio which has been originated across different segments.

Cash/cash equivalents and liquid assets represent 7% and 8% respectively of total assets. Only a small portion of assets relates to the investment and trading businesses. Market risk arising from trading activities has remained low and the Group's equity investments stem primarily from RMB's investment activities.

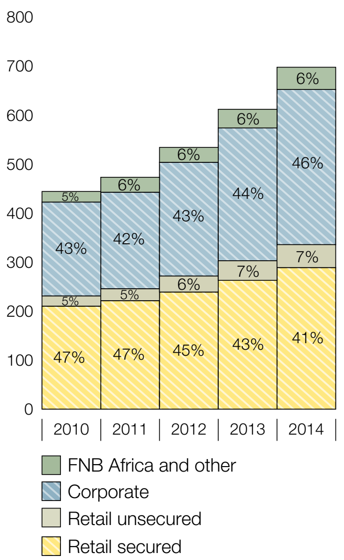
FirstRand's funding profile continues to reflect the structural funding issues associated with the South African banking sector, however, the Group has continued to reduce its reliance on institutional funding and further improve the term profile from a weighted average remaining term of 12 months in 2009 to 27 months in 2014.

The Group's capital ratios remained strong with the CET1 ratio at 13.9%, Tier 1 ratio at 14.8% and total capital adequacy ratio at 16.7% whilst financial gearing remained conservative and reduced to 11.8 times (2013: 12.0 times).

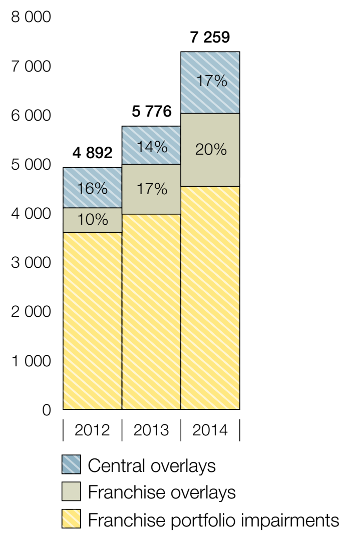
CREDIT PORTFOLIO

The chart below on the left illustrates that the Group has achieved a better balance between retail and corporate assets and that these portfolios are now similar in size (retail/corporate = 48%/46% (2010: 52%/43%). This is a result of the Group's deliberate strategy to rebalance its advances portfolio to increase exposure to the wholesale market, not by shrinking its retail exposure, but by growing the corporate book faster.

Gross advances
R billion



Portfolio impairments
R million



Appropriate provisioning against both the performing and non-performing books is important given the inherent bad debts in the Group's credit businesses which are expected to emerge over time. As can be seen in the chart on the right above, the Group created portfolio provisions in anticipation of the credit cycle in 2012, 2013 and in the current year with total portfolio provisions amounting to R7.3 billion. This reflects the Group's proactive countercyclical provisioning approach and represents a coverage ratio 44.6% against NPLs, which, when added to a specific coverage ratio of 40.8% against NPLs, results in a total coverage ratio of 85.4%, which is the highest in the peer group.

The Group believes that expressing portfolio provisions as a percentage of the performing book is a more meaningful measure than as a percentage of the non-performing book. On this basis, the coverage has increased from 0.76% in 2011 to 1.06% in 2014 and represents more than one year's bad debt experience (2014 bad debt charge was 0.84%).

	2014	**2013**
Portfolio impairments as % of performing book	**1.06%**	0.97%
Portfolio impairments as % of non-performing book	**44.6%**	33.5%
Bad debt charge* (%)	**0.84%**	0.95%
Portfolio impairments (R million)	**7 259**	5 776

* *2013 figure excludes impact of merchant acquiring event.*

In summary, the Group has a high quality advances portfolio which is well balanced between retail and corporate and is prudently provided going into the negative credit cycle.

Refer to the *CFO's report* for more detail relating to origination appetite actions across the various portfolios and detailed credit risk disclosures can be found in the credit risk section of the *risk and capital management report* on pages 179 to 211.

INVESTMENT PORTFOLIO

Equity investment risk stems primarily from RMB's investment activities. The Group's private equity portfolio is diversified across different investment teams, industries and counters and the Group follows a conservative accounting approach for the portfolio. The portfolio is held at cost on balance sheet and only reductions (not increases) in valuations per counter are brought to balance sheet. Therefore the significant unrealised value of approximately R3.9 billion (2013: R1.7 billion) is not accounted for on-balance sheet and provides a significant buffer against risk and mitigates earnings volatility. Refer to pages 231 to 233 of the *risk and capital management report* for more detail.

TRADING ACTIVITIES

RMB continues to assume market risk in relation to its client activities (market making in local markets, hedging and client facilitation). Market risk exposures are strictly monitored and managed with risk appetite and limits set in relation to the size of the earnings and capital base. VaR and ETL limits are dealt with in more detail on pages 222 to 227 of the *risk and capital management report.*

FUNDING AND LIQUIDITY PROFILE

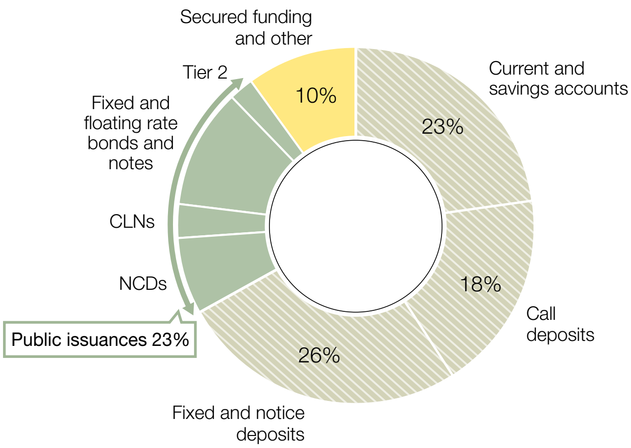
Proactive funding and liquidity management is becoming increasingly critical and FirstRand's objective is to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements.

On the back of a deliberate strategy to grow retail deposits, FirstRand now generates a larger proportion of its incremental funding from the deposit franchise in comparison to the SA aggregate, and emphasis is placed on lengthening the term profile of institutional funding.

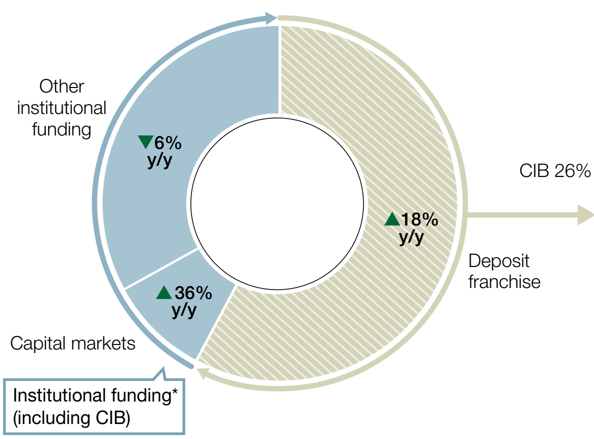
The Group has achieved a better balance between retail and corporate assets and these portfolios are now similar in size.

The charts below shows that the Group's funding is diversified across instruments and that growth can be attributed to better source and term. The deposit franchise has grown 18% and capital markets issuance increased 36% resulting in a reduction in the Group's reliance on other institutional funding, which declined 6%. The deposit franchise is also well diversified across segments.

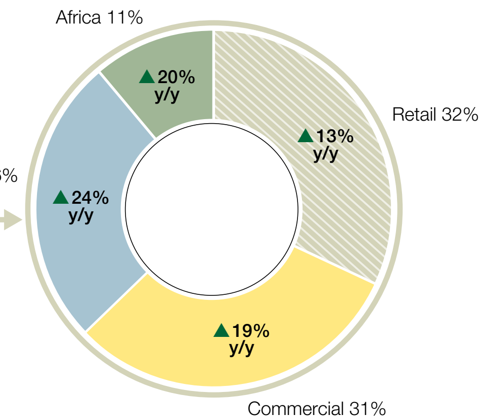
Funding diversified across instruments



Liability growth attributed to better source and term



Deposit franchise diversified across segments



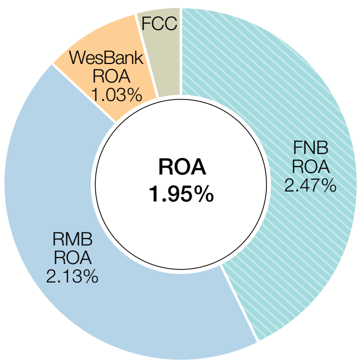
* *Weighted average remaining term = 27 months.*

From a liquidity risk perspective, FirstRand Bank (FRB) already complies with the 60% minimum LCR requirement (which comes into effect in 2015) and the Group targets a buffer of 10% above the regulatory minimum. FirstRand has identified a number of strategies relating to both sides of the balance sheet to improve its liquidity profile to minimise reliance on the contingency liquidity facility (CLF) provided by the SARB.

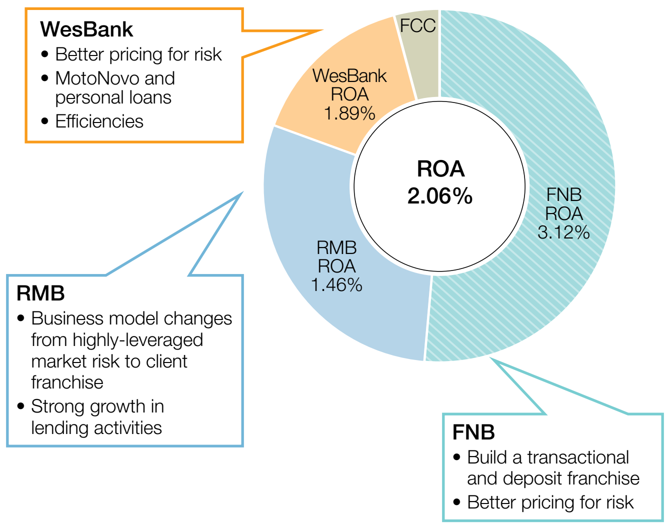
GEARING AND RETURNS

The financial strategies and frameworks are also focused on ensuring that the Group extracts the maximum quality of returns by focusing on ROA to achieve this and not excessive financial gearing. The following chart reflects that the Group's strategy has resulted in a structurally different ROA of 2.06% compared to 1.95% in 2007.

2007 normalised earn ins split



2014 normalised earnings split



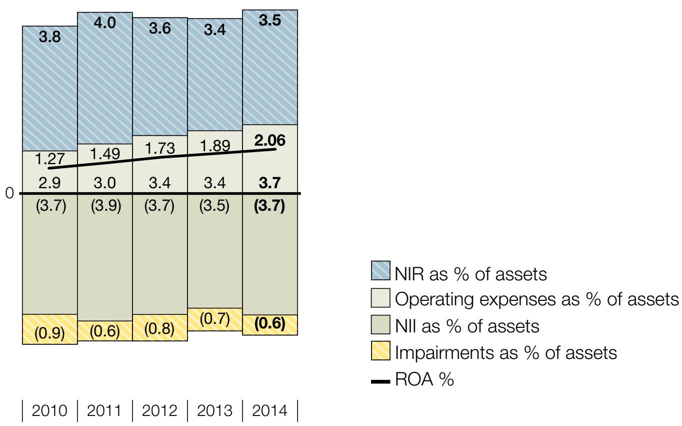
The improvement in FNB's ROA from 2.47% in 2007 to 3.12% in 2014 can be attributed to the strong growth in its transactional and deposit franchise. In addition, where FNB uses its balance sheet, it prices appropriately for risk. In this regard, mortgages have seen a meaningful improvement in ROA.

WesBank's ROA increased from 1.03% to 1.89% since 2007, reflecting better pricing for risk and a higher proportion of fixed-rate business. The growth of higher yielding businesses, such as MotoNovo and personal loans, and its focus on efficiencies have also contributed.

RMB is the only franchise where the ROA has declined since 2007 from 2.13% to 1.46%. This is the result of RMB's deliberate strategy to move away from highly leveraged market risk activities towards more client-linked activities, including increased lending. RMB remained disciplined in pricing appropriately for credit. All of these actions, whilst resulting in a lower ROE, ensures a less volatile, higher quality and sustainable return profile.

> The Group's strategy has resulted in a structurally higher ROA.

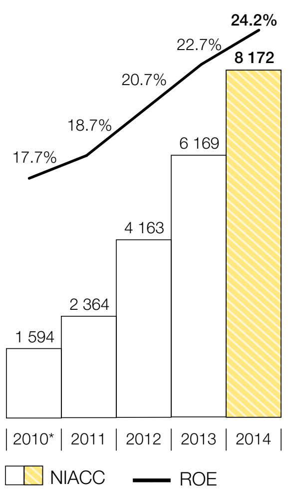
The chart below depicts a decomposition of the Group's ROA, which reflects better quality of earnings. It is important to note that the ROA is at a cyclical high as the bad debt charge has remained below the average long-run expected underwriting credit losses. This can be attributed to the slower-than-expected emergence of the credit cycle as interest rates have remained lower for longer.



The graph shows each item before taxation and non-controlling interests as a percentage of average assess. ROA reflects normalised earnings after tax and non-controlling interests as a percentage of average assets.

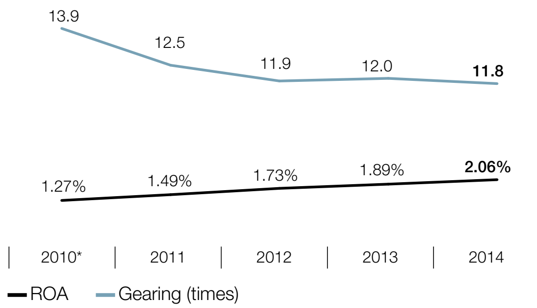
The Group fundamentally believes that net income after capital charge (NIACC) provides the best measure of shareholder value creation. The chart below shows the strong growth in economic profits (the premium above cost of equity) since 2010.

NIACC and ROE



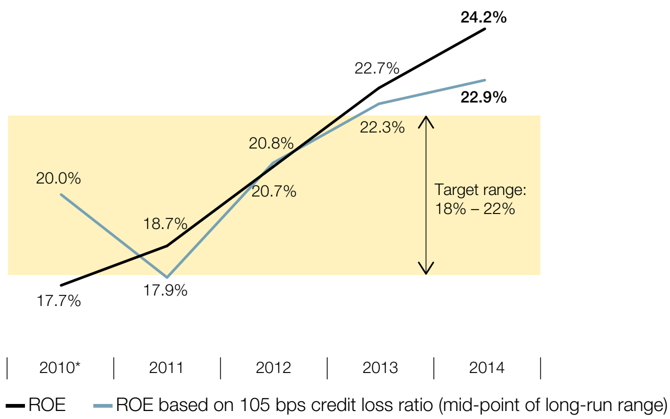
* *Comparatives prior to 2011 are for FirstRand Banking Group.*

The chart below shows that ROA, not gearing, is driving the improvement ROE.



* *Comparatives prior to 2011 are for FirstRand Banking Group.*

As mentioned before, ROA is now at what the Group believes to be a cyclical high. To illustrate this point, the chart below shows the actual ROE and the ROE calculated assuming the midpoint of the long-run average credit loss ratio of 105 bps. This adjusted ROE is consistent with the Group's communicated long-term target range of 18% to 22%. The Group expects ROE to trend downwards back into the long-run target range as the bad debt cycle continues to emerge.



* *Comparatives prior to 2011 are for FirstRand Banking Group.*

The Group believes that NIACC provides the best measure of shareholder value creation.

CAPITAL AND DIVIDEND STRATEGY

Current targeted capital ranges and actual ratios are summarised in the following table. The Group has maintained its very strong capital position with CET1 at 13.9%, well above the SARB's minimum requirement of 5.5% and the Group's own target range of 10-11%.

Capital ratios and targets

%	CET1	Tier 1	Total
Regulatory minimum*	5.5	7.0	10.0
Targets	10.0 – 11.0	>12.0	>14.0
FirstRand actual	**13.9**	**14.8**	**16.7**

* *Excludes the bank-specific individual capital requirement.*

If volatile reserves (which relate mostly to foreign currency translation and available-for-sale reserves) and ring-fenced capital are excluded, the Group's adjusted CET1 ratio would be 12.8%, which is still comfortably above regulatory requirements and internal target ranges.

The Group has previously stated that it has set aside a R10 billion capital buffer currently allocated to its expansion strategy. Given the strong capital generation from the business in the year under review and the cautious approach to deployment outside South Africa to protect the return profile, this buffer has remained in place. However, given the momentum achieved in growing outside of South Africa over the past two years, the Group is now more comfortable to accelerate the deployment of capital to these activities. Any increased deployment will remain disciplined to ensure the Group maintains its targeted return profile.

It is still the Group's philosophy to return excess capital to shareholders should it not find the appropriate opportunities, however, it believes that the next 12 to 18 months will determine whether an acceleration of deployment in the rest of Africa can deliver the level of return the Group seeks. The Group will remain disciplined in deployment to ensure required returns can be generated on invested capital.

The Group will continue to seek to protect shareholders from any unnecessary volatility in dividend.

It will, going forward, consider the level of payout within a range of 1.8x to 2.2x cover. The Group will annually assess the appropriate level and in the process take into account the following factors:

- actual performance;
- forward-looking macros;
- demand for capital; and
- potential regulatory changes.

For the year to June 2014, the Group believes 1.9x is the appropriate dividend cover.

FINANCIAL RESOURCE MANAGEMENT

The management of financial resources is critical to ensure the Group achieves its overall strategic objectives, namely to:

- deliver long-term franchise value;
- deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and
- maintain balance sheet strength.

The Group sets quantitative measures and targets outlined below (for various business cycles within a defined confidence level) to ensure the appropriate balance between growth, return and earnings volatility and to deliver on its commitments to stakeholders (e.g. providers of financial resources):

- earnings growth, returns and volatility;
- minimum capital and leverage ratios;
- funding and minimum liquidity ratios; and
- its desired credit rating.

Refer to page 159 of the *risk and capital management report* where these quantitative measures are outlined for normal business cycles.

The management of the Group's financial resources resides in the corporate centre (FCC), represented by Group Treasury, and is independent of the operating franchises and comprises capital, funding and liquidity. To ensure that business units price for these financial resources appropriately in their underlying activities, Group Treasury:

- determines the level of capital, capital structure and gearing;
- allocates capital and cost of capital to business units and sets required hurdle rates; and
- decides on the availability and pricing of funding and liquidity to business units.

FirstRand's capital, funding, liquidity and volatility targets are set with reference to its desired credit rating and the franchises' growth, return and volatility targets are aligned to ensure that the Group meets its overall objectives.

Quantitative targets and limits are augmented by a number of qualitative principles that serve to provide guidelines on boundaries for risk taking activities.

The risk/reward framework is cascaded down to the operating franchises to ensure that the Group's portfolio can deliver on stakeholder commitments. It also enables the Group to identify any gaps in the portfolio.

CONCLUSION

When assessing the results for the year to June 2014 it is pleasing to note that FirstRand continues to deliver on its strategic objectives and will measure, monitor and refine these objectives on a continuous basis. FirstRand believes that the increased focus on integrated financial resource management will allow it to further optimise the financial, strategic and operational levers required to deliver on its commitments to all stakeholders.

Johan Burger
Deputy CEO