ceo's report

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Introduction

The level of improvement in the group's performance demonstrates the quality of FirstRand's portfolio of businesses and their ability to capitalise on the economic rebound that is taking place. Normalised earnings grew 54% to R26.6 billion and the group produced R4.9 billion of economic profit. Pleasingly, pre-provision operating profit increased 5%. FirstRand's ROE of 18.4% is back within the target range of 18% to 22%, which reflects its determination to quickly revert back to producing superior returns to shareholders.

A detailed explanation of the group's financial performance is provided in the CFO's report, and supporting financial and operating reviews of the underlying businesses can be found on pages 47 to 62.

This report deals with the group's strategic framework and provides an update on how the business is executing on its growth strategies.

Strategic framework

FirstRand Limited is a portfolio of integrated financial services businesses operating in South Africa, certain markets in sub-Saharan Africa and the UK. Many of these businesses are leaders in their respective segments and markets, and offer a broad range of transactional, lending, investment and insurance products and services.

FirstRand's focused regional strategies, enabling digital platforms, disciplined financial resource management (FRM) and people philosophy continue to underpin what is an increasingly distinctive investment proposition. For many years the South African banking sector looked very homogenous, but there are clear distinctions emerging among the large players as each one pursues very different strategies, particularly with regard to geographic diversification.

The following schematic exhibits the strategies FirstRand has been shaping for many years, and the group's long track record of delivering growth and superior returns is reflective of consistent execution on these strategies. It also reflects the disciplined allocation of financial resources to support them.

ALAN PULLINGER ~ Chief Executive Officer

Group strategic framework

FirstRand commits to building a future of SHARED PROSPERITY through enriching the lives of its customers, employees and the societies it serves. This is the foundation to a sustainable future and will preserve the group's enduring promise to create long-term value and superior returns for its shareholders.

DIVERSIFIED PORTFOLIO WITH UNIQUE STRATEGIES:

SOUTH AFRICA	REST OF AFRICA	UK
Platform-enabled integrated financial services providing ecosystems that create long-term value for clients and shareholders	Build competitive advantage and scale to deliver economic profit and dividends	Modernise, digitise and scale to a more valuable UK business that delivers economic profit and dividends

Enabled by digital platforms

Disciplined management of financial resources (capital, funding, liquidity and risk capacity) to deliver on financial commitments

Committed, accountable and empowered people key to delivering continued outperformance

The group's purpose statement frames the group's aspiration to deliver value to its various stakeholder groups. This is described in more detail later in the report.

FirstRand's earnings remain significantly tilted towards South Africa and are mainly generated by its large lending and transactional franchises, which have resulted in deep and loyal customer bases. These domestic banking operations are mature and systemically important. Against a backdrop of weak macroeconomic growth, given the group's size, any aspiration to outperform "the system" requires strategic distinction combined with sound execution. The key growth imperative in the domestic franchises is to grow customers, do more business with those customers, and do this more efficiently. Sector competition is fierce, so customer propositions need to resonate deeply. The group is also heavily invested in building capital-light revenues in adjacent activities such as insurance, and wealth and investment management.

South Africa

FirstRand has transformed into a financial services business with a fully integrated, customer-centric approach. The group adopted this integrated approach in 2018, which has now translated into a real competitive advantage, bringing efficiencies, better service and improved value propositions for customers, and increased returns to shareholders.

Critical to delivering this integrated strategy is the group's platform-based business model which is already well established.

The group's journey to this point started with its desire for digital, which began 20 years ago when FNB pioneered mobile and online banking and started its e-currency initiatives. Then ten years later, FNB was the first retail and commercial bank to launch a mobile banking app.

The next shift to "truly digital" required reconfiguration of all parts of the organisation and a re-engineering of technology infrastructure and applications, to promote agility and scalability. Truly digital does not mean branchless, in fact branches remain valuable spaces for interpersonal customer advice and assistance. However, platform tools and processes will always underpin the customer engagement.

This journey can be unpacked as four ongoing and simultaneous processes: build, utilise, migrate and decommission, as described in the chart below.

BUILD	**UTILISE**	**MIGRATE**	**DECOMMISSION**
> Single, secure platform > Own IT talent pool > Interface integration > Create/partner/buy > Consolidation and alignment of platform architecture to enable consistent execution > Platform-enabled support functions > Flexible, agile, efficient, scalable	> Customer digital interactions enable contextual, data-based offerings > Data > Products > Sales > Underwriting > Collections > Compliance > Network effects	> Migration of "work items" onto platform > Ultimately no work items off-platform	> Decommission systems/processes > Eliminate duplication and legacy costs

Ongoing evolution of platform – strong momentum across all streams

The build process required investment in talent and interface integration. The group could then start to utilise capabilities such as decisioning tools and data science. The next step was to migrate all offerings and customer requests onto platform. The final step will be to decommission the resultant redundancies.

The group has made significant progress in this journey which is already delivering scale for volume and customer growth.

The next schematic demonstrates how the platform unlocks a powerful customer experience.

Customer experience

MULTIPLE PLATFORM-INTEGRATED INTERFACES

> Secure interfaces providing access across all customer segments:
- App
- Online
- Mobile banking (USSD)
- Online Banking Enterprise™
- Platform engagements can be assisted or unassisted

SINGLE CLIENT PROFILE DELIVERS CUSTOMISED, CONTEXTUAL EXPERIENCE

> FirstID
- Register/log in
- Authenticate/verify
- Security
- Mandates
- Consent management
- Secure contracting, messaging, calls

- MyProfile – manage regulatory compliance on platform
- All engagements and data captured on platform
- Sophisticated AI decisioning engine to deliver insight-driven offerings and contextual experiences

ACCESS TO SECURE ECOSYSTEM OFFERING FINANCIAL SERVICES +++

> Integrated financial services
- Transact
- Lend
- Invest
- Insure

> Platform leverage: FNB Connect

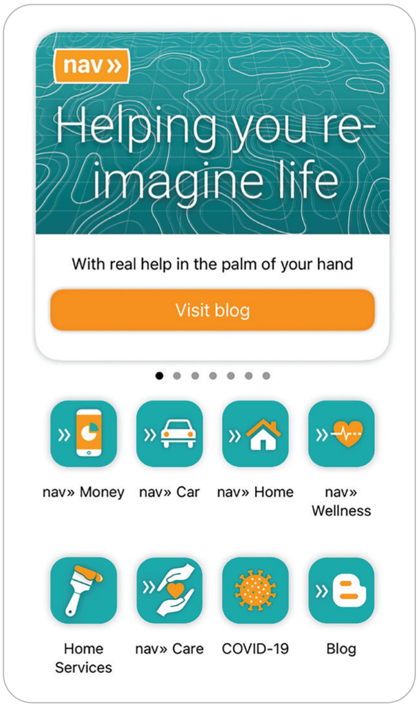
> Platform behavioural: eBucks

> Ecosystems: nav» (home, car, money, wellness)

> Third-party products and services – providing an open, participative structure for interactions with strategic partners

Customers can choose a large or small screen interface to digitally engage the platform. Then they register with FirstID which is a unique, secure, digital passport that enables the identified and authenticated customer to travel within the ecosystem. This, together with MyProfile, ensures the customer enjoys a digitally productive engagement on platform.

Following registration on platform, customers gain access to the ecosystem of integrated financial services such as real-time telco services that are fully integrated into the banking system. They can engage with ecosystems such as nav-igate life (nav») which has multiple offerings from the bank, as well as third-party products and services such as prepaid electricity and lotto, as outlined in the graphic below.



- **nav» Home** assists customers with buying/selling property
  - Provides free instant access to property valuation reports and instant pre-approval of financing as well as home services
  - R26.8 billion in payouts, 970 current listings
- **nav» Car** enables customers to manage vehicles in a single ecosystem
  - Shop for cars, pay fines, renew licence discs and obtain valuation estimates
  - 667k vehicles loaded
  - Delivered 60k vehicle licences during Covid-19
  - WesBank fully integrated
- **nav» Money** provides customers with simple, easy-to-use money management tools
  - Empowers customers to track spend, view credit scores, etc.
  - 2.1 million users, overall "customer experience" rating of 4/5
- **nav» Wellness** provides customers with tools and tips to navigate their journey to wellness (physical exercise, diet, mindfulness, goal-setting)
  - 276k users

This powerful nav» ecosystem was initially launched in 2016 and has gained significant traction.

It is a platform ecosystem designed to help customers navigate their lives, in a safe and secure manner, with the network effects of this nav» ecosystem building as customer engagement grows. The products and services on nav» not only aim to reduce pain points for customers (such as renewing vehicle licences), but also improve customer outcomes in asset ownership (car, home, money) across time, from acquisition to realisation.

In addition to the immense benefits to customers, the monetisation of the platform-based operating model is also delivering growth and returns for shareholders. It unlocks revenue opportunities through growth in active customers and results in higher levels of cross-sell and better customer retention. By way of example, the group's digitally active customers have two to four times more products and services and they engage with the group far more.

Because platform can deliver contextual offerings based on data insights it unlocks increased volumes. Current monthly digital offerings across credit, invest, insure and transact are tracking at 30 million a month. It also unlocks opportunities to diversify non-interest revenue streams through network effects which bring commission-based digital sales.

Platform delivers real efficiency outcomes. These are captured through:

- speed to market of new products and services;
- origination on platform at zero cost supports margins;
- better customer insights providing better credit decisions and collection outcomes; and
- elimination of back-end duplication and legacy costs.

Rest of Africa

Turning to the group's strategy outside of South Africa, it remains focused on growing its presence and offerings in certain key markets in the rest of Africa, where it believes it can build competitive advantage and scale over time. The strategic framework informing the group's activities in these markets is pictured below.

Rest of Africa strategy

	INTEGRATED FINANCIAL SERVICES BUSINESSES	BANKING	SPECIALIST BANKING AND FINANCIAL SERVICES
Strategic ambitions	Platform-based ecosystems that create long-term value for clients and shareholders	Top-tier banks with clear competitive advantage and scale	Niche offerings where there is a clear competitive advantage
Activities	> Transact > Lend > Insure > Invest	> Transact > Lend	> Transact > Lend
Client focus	All customer segments and product offerings	Commercial, corporate and investment banking (CCIB) and the related retail ecosystem	Corporate and investment banking (CIB) only
Countries	Namibia, Botswana, Eswatini	Ghana, Mozambique, Lesotho, Zambia	Nigeria
	Mature subsidiaries	Growth-phase subsidiaries	

FirstRand is very clear about its ambitions in the rest of Africa, what kind of businesses it wants to grow, where it wants to be represented, and what success looks like.

The group's expansion strategy is largely organic, complemented where possible by bolt-on acquisitions. This allows the group to execute disciplined capital allocation to drive economic profit generation and dividends back to the shareholder. There is a strong focus on building in-country deposit franchises.

Overall, the portfolio has steadily improved its performance, anchored by large, successful return-generative and dividend-paying operations particularly in Botswana and Namibia, which share large aspects of the platform enablement benefiting the South African businesses. The growth subsidiaries are pursuing segment-specific strategies and, notwithstanding their nascent status in a tough environment, have all delivered a pleasing performance.

UK

In the UK, the group believes the Aldermore investment case offers significant optionality in a large market with lower risk. The strategic rationale for the acquisition of Aldermore has delivered the desired outcomes, providing a sustainable and efficient funding base for MotoNovo and delivering appropriate risk-adjusted returns to shareholders.

The group of businesses continues to integrate, and to invest in people and processes, although more work needs to be done to fully realise the ambition to have an integrated business ready to scale efficiently. Despite this, Aldermore as it stands today has several attractive features, with healthy margins, a diversified asset portfolio, a scalable deposit franchise and a small share of very large profit pools.

The group remains confident it can build a larger, more valuable business in the UK. With the arrival of a new CEO, Steven Cooper, the UK team is currently shaping strategic plans for future growth, considering options for capability build-out, modernisation and scale.

Shared prosperity

Turning back to the group's purpose statement covered earlier, FirstRand is dedicated to delivering what it refers to as "shared prosperity", which it sees as a blend of financial and social outcomes to a broad stakeholder group, defined as equityholders and debt providers, customers, employees, and society at large.

These principles underpin the group's view that it must intentionally use core business activities, including its role in allocating capital to the economy, to add value to society – profitably and at scale. The group views this as a transformative and sustainable business strategy, albeit a long-

FirstRand is dedicated to delivering what it refers to as "shared prosperity", which means intentionally using its core business activities to deliver a blend of financial and social outcomes to its broad stakeholder groups.

term journey. It requires the group to commit to extracting economic and social value from its activities and operations, and to deliberately measure this value. Integral to this objective is assessing whether the group's products and services, and the way they are delivered to customers, address social imperatives or only drive profitability. Many of the jurisdictions where the group operates face meaningful social challenges, and whilst FirstRand cannot solve all of these challenges, as a systemic financial services business it has the capacity to be a force for good. Using its core business resources and activities the group can deliver positive, scalable and high-impact financial and social outcomes. The group's balance sheet alone has the heft to drive profound social change.

Below are some examples of where the group's lending activities are supporting growth and social upliftment.

- The single most important role of a bank is to protect deposits – FirstRand is the trusted repository of R1.5 trillion of the country's savings.
- Home ownership is a major enabler of intergenerational wealth creation. Proven outcomes of asset ownership are higher levels of education and financial well-being. At c. R290 billion, residential mortgages represent 23% of the group's total advances, demonstrating that the group is putting its balance sheet to work in this important asset class. FirstRand is particularly focused on growing its affordable housing book to help low-income customers.
- The group recognises the role banks need to play in supporting small and medium-sized enterprise (SME) growth ambitions, as SMEs are among the most important engines of productive capital formation, economic growth and job creation.

What is key is that the group is achieving these outcomes whilst ensuring that it continues to deliver growth and superior returns to its shareholders.

The group is actively engaged with shareholders on a number of environmental, social and governance (ESG) topics. As outlined in the chairman's report, climate change is a key focus area and the group continues to make steady progress as it increases its understanding of this challenge.

Prospects

Looking forward, in South Africa the group expects a modest credit cycle to emerge, mainly driven by recovery in consumer and corporate incomes, a gradual lift in business and consumer confidence and pent-up private sector demand. These trends will underpin some advances growth, with a slowdown in deposit growth as consumers draw down on precautionary savings. Advances growth will be driven by retail portfolios, with commercial advances likely to follow thereafter. Corporate advances growth is expected to remain weak given low demand and excess capacity. Recent momentum in transactional activity is expected to grow as the economy continues to open up.

Whilst a fourth domestic Covid-19 wave remains probable towards the end of the 2021 calendar year, the severity of this wave is expected to be reduced given the levels of vaccination rates in the vulnerable age groups.

The group also sees modest improvement in the rest of Africa portfolio as many of the jurisdictions where it operates will continue to benefit from the commodity cycle.

The rebound in the UK economy is expected to be maintained, although the pace of the sector-led recovery could slow. Non-performing loans (NPLs) may continue to build as the government withdraws its various stimulus packages which have softened the impact for many UK households. This benefited the UK operations' current-year performance. The business remains appropriately provided, however, absolute growth in earnings will likely be constrained for the next 12 months.

The group previously indicated that it expected to reach peak earnings during the 2023 financial year. However, the speed, extent and breadth of the rebound has exceeded expectations and the resultant momentum has carried into the new financial year.

Consequently, FirstRand expects peak earnings to be achieved earlier than previously thought, particularly given that the group produced its highest yet level of six-month earnings in the second half of the 2021 financial year. The ROE is expected to remain in the stated range of 18% to 22%, and capital generation is likely to exceed demand in the 2022 financial year.

The group further expects to revert back to its long-term target of delivering real growth in earnings (defined as real GDP plus consumer price index (CPI)).

ALAN PULLINGER ~ CEO