- The single most important characteristic which differentiates FirstRand is that it has the "heartbeat of a merchant bank".
- Entrepreneurial spirit and innovation, empowerment and decentralised decision-making, profit centre focus and minimal bureaucracy, are the pervasive and dominant qualities of the ethos of the Group.
- It is the stated objective of the centre to play an enabling and facilitating role rather than a controlling role thereby ensuring that the whole is greater than the sum of the parts.
- It is also appropriate to acknowledge the enormous progress that has been achieved since the merger was announced.
- We will focus on benefits which flow from the Group's unique corporate and management structure.

FirstRand Limited is a diversified financial services group with investments mainly in banking and insurance created by the merger in April 1998 of the financial services interests of the RMB Holdings Group and Anglo American Corporation.

Results

The results of the FirstRand Group in its first full year of trading should be seen against a background influenced by events in global financial markets and internally by the demands of the merger.

Group earnings totalled R2,5 billion representing an increase of 32% on the pro forma earnings for the previous year. Approximately 75% of these earnings are attributable to banking operations and 25% to insurance and asset management-related activities. Total assets under management now exceed R255 billion.

These results, regarded by the FirstRand Board as particularly pleasing, are analysed in considerable detail elsewhere in this report to shareholders.

Heartbeat of a merchant bank

We believe the single most important characteristic which differentiates FirstRand from other major, domestic financial services groups and similar groups globally, is that it has the "heartbeat of a merchant bank". Traditionally, all over the world, merchant and investment banks have been subsidiaries of monolithic commercial banks and insurance companies. In these circumstances the merchant banks have had to battle to ensure that their "merchant banking" culture is not swamped by the more staid commercial banking or insurance culture of their parent company.

In the FirstRand Group we are in the unique position that RMB Holdings, which has been entrusted with the management of the group, has its roots in merchant banking, thereby giving the whole group "the heartbeat of a merchant bank". It means the *generic qualities* associated with merchant banking, namely entrepreneurial spirit and innovation, empowerment and decentralised decision-making, profit centre focus and minimal bureaucracy, are the pervasive and dominant qualities of the ethos of the Group.

Big and small

The individual business units comprising the FirstRand Group enjoy the obvious benefits of size, such as a large balance sheet, credibility and large customer bases and infrastructures to leverage off. At the same time they are empowered to run their "chunked" business units as autonomous profit centres with minimal interference from the centre. This is a *proven* business model in the FirstRand Group, a philosophy that is lived and applied daily and does not fall into the trap of being flavour of the month. It is the stated objective of the centre to play an *enabling and facilitating* role rather than a controlling role thereby ensuring that the whole is greater than the sum of the parts. FirstRand is not a monolithic battleship but a fleet of 100 destroyers.

FirstRand's aversion to expensive, non-value-adding structures at the centre is well known. It is gratifying to note that the after-tax cost of the FirstRand "centre" is only 0,4% of our Group's after-tax profit.

We dare to reward attitude

Attitude is the magical beginning of success.

The merger

It is also appropriate to acknowledge the enormous progress that has been achieved since the merger was announced. There were three dimensions to the merger. Firstly, the merging of the fourth and fifth biggest life assurers in South Africa. The second dimension was the simultaneous merger of two merchant banks, namely Rand Merchant Bank and FirstCorp. The third dimension of the merger was the sweeping restructuring of a retail bank. Each of the three dimensions of the merger on its own constituted a mammoth task and challenge. Collectively they demanded an almost superhuman effort from the leadership core of the Group. Achieving all our major merger milestones in a short space of time while at the same time recording excellent results in the first full year of the merger, is a tribute to the commitment, determination and resilience of the talented leaders of the FirstRand Group.

The merger, which was large even by world standards, has been completed in the very short space of the eighteen months. Therefore in future we will no longer focus on reporting the progress of the merger but rather on the transformation of the merged entities and the achievement of the benefits which flow from the Group's unique corporate and management structure. A feature of the Group's corporate and management structure is that it:

- largely eliminates the limitations imposed on operations by minority shareholders;
- allows the Group to optimise opportunities that arise from the trend to convergence in the financial services industry; and
- leverages the Group's unique combination of intellectual know-how and skills over a broad spectrum of financial services and products.

During the year under review the FirstRand Executive Committee focused on three important issues.

Firstly, procedures were put in place to migrate the FirstRand business philosophy into the Group companies. In essence this philosophy involves transforming the major business units into profit centres and grouping these centres into synergistic clusters. It also involves the movement away from a centralised management structure to an environment characterised by decentralised decision-making, accountability and an entrepreneurial spirit. Profit centres are charged for the capital required. The spreading of this philosophy throughout the restructured Group was done using workshops and, in the case of the bank, satellite TV broadcasts to 30 000 employees. Opportunities for substantial improvements in operational efficiencies are becoming apparent as the business philosophy begins to make an impact.

- We believe leveraging the intellectual skills in the FirstRand Group across operations is going to have as great an impact on future profits as leveraging the huge customer base.
- We can look back on the results of the Group in its first full year of trading as a merged entity with a great deal of satisfaction.
- The spotlight in the year ahead will be firmly on the retail banking activities.
- In the Insurance Group, there remains scope for further efficiency and productivity improvements.
- We are confident of delivering above-average real growth in earnings per share in the year ahead.

Secondly, major management changes were made to ensure that the leadership qualities and skills of the senior management teams in the different business units are appropriate to implement the strategic vision of the business units.

Thirdly, time was spent addressing the well-established trend of convergence of products and services in the financial services industry. We believe the narrow Eurocentric model of bancassurance, which implies selling more insurance products through a bank's distribution network, is merely a component of the much bigger picture.

Convergence

There are many financial services groups in South Africa seeking to exploit the convergence trend. In our view, two of the most significant barriers to entry to riding the convergence wave and entering new markets in the financial services industry, are expertise (intellectual capital) and the loyal customer bases of the existing players in that industry.

The shortage of industry-specific expertise is much greater in South Africa than in other countries which have historically provided good educational opportunities to all sections of the community. It is therefore vital that FirstRand leverages its scarce intellectual resources over as wide a base as possible. Fortunately the FirstRand Group structure facilitates this. We believe leveraging the intellectual skills in the FirstRand Group across operations is going to have as great an impact on future profits as leveraging the huge customer base we have. We have already had proven success combining the skills of Rand Merchant Bank with those of Momentum Life to produce innovative insurance products as well as structuring and sourcing assets for Momentum's annuity portfolio. Actuarial skills can be used to price credit risk for our banks and even design and manage loyalty programmes in a retail bank. We are striving to combine the intellectual skills and physical resources of banking and insurance to change the rules of the game in both industries over time.

In the "narrow sense" of bancassurance referred to earlier, our focus over the past year has been on establishing the right foundation for bancassurance rather than trying to write new business. We also embarked on a number of specific initiatives which fall within the ambit of bancassurance.

With regard to short-term insurance, we expanded the mandate of First National Insurance ("FNI"), FNB's "in-house" short-term insurer. Previously FNI provided bricks and mortar cover to customers with mortgages provided by FNB. This mandate has now been expanded to provide cover for household content and motor vehicles to the FNB customer base.

First Bowring (FNB's in-house insurance broker) has approximately 62 000 personal lines customers. It used to provide an end-to-end administrative service to these customers on behalf of short-term insurers (including claims processing). This was not cost effective and it will be handing back that administrative function to the underwriter. As part of that process it is placing the domestic lines cover of 12 000 of those customers with FNI. All 12 000 of these customers are FNB account holders. FNI's focus will be to provide a wider range of domestic cover specifically to the FNB client base.

On the life side, the first step was to move First Bowring's approximately 240 financial consultants and advisors out of First Bowring and into the client gateways like First Commerce, FNB Personal Bank and FNB Rural Bank. Half the commission the financial advisors earn from their selling activities will go to the branches rather than First Bowring. Therefore, there is a far greater incentive for the branch manager to support and provide leads to the financial advisors.

In the year ahead we will ensure that the profile of the financial advisor matches the profile of the client gateway in which he is operating. We also intend to expand the number of independent financial advisors.

Two long-term savings products aimed at education and retirement have been launched on a pilot basis and are being sold under the FNB brand by salaried consultants. These new age products which break "the mould" of traditional life insurance products, are easy to understand and represent a valuable addition to the suite of products offered to our customers. Initial results of the pilot project are encouraging.

It is important to note that the profit contribution of bancassurance, in the conventional sense of the word, is viewed at the margin. Every R25 million additional profit we are able to generate in this manner adds an extra 1% to our overall profit growth. The Banking Group already receives approximately 10% of its total profits from insurance-related activities.

Operating environment

We can look back on the results of the Group in its first full year of trading as a merged entity with a great deal of satisfaction. These results which are reviewed in detail elsewhere in this report.

The collapse of the equity market during the first half of the financial year impacted the Insurance Group's profits, where earnings are strongly influenced by the value of assets under management.

The results of the Banking Group were negatively impacted, when domestic interest rates were increased substantially in response to the external environment. This placed business and consumers under severe pressure, leading to an increase in bad debts and substantially dampening demand for credit.

Against this background, the results for the year under review are regarded as excellent.

We now turn to the year ahead. The mergers of the two life insurance companies and the two merchant banks have been put to bed. Therefore the spotlight in the year ahead will be firmly on the retail banking activities.

The restructuring of the retail banking activities is expected, over the medium term, to unlock human potential, improve efficiency ratios, eliminate loss-making activities and exploit the significant potential for improved service and profitability.

After the success of the initial cost-cutting exercise in the Insurance Group, there remains scope for further efficiency and productivity improvements.

Notwithstanding business risks relating to the advent of the millennium, there is a reasonable prospect for a further decline in interest rates and a more positive stock market sentiment. Both are key drivers of profitability in the FirstRand Group. Consequently, we are well positioned to deliver above-average real growth in earnings per share in the year ahead.

We are mindful of our responsibility towards nation building and the communities in which we operate. As part of our commitment to good corporate citizenship, the Board has approved the establishment of the FirstRand Foundation. The Foundation will be funded by contributions from the operating companies to the extent of approximately 1% of after-tax profits. The Foundation's Board of Trustees, comprising group executives and independent trustees, will oversee our social investment policy.

During the year Mr Jan Calitz, previously Managing Director of Southern Life, retired from the Board. Mr Calitz was employed by the Southern for more than 20 years and played a valuable role in the creation of the FirstRand Group. In his place we are privileged to be able to welcome former Minister of Transport, Mr Mac Maharaj, to the FirstRand and FirstRand Bank boards. He is an incisive strategic thinker who will undoubtedly make a valuable contribution to the deliberations of the Board. Mr Maharaj has kindly consented to devote extra time to the Group over and above the time required for his responsibilities as a non-executive director.

Thanks

Mr Neal Chapman retired as Chairman of First National Bank in May 1999, thereby ending an association with the bank that spanned thirty seven years. His valuable contribution to the bank, firstly as a full-time executive and then as Chairman, is appreciated by everybody who worked closely with him. He was a businessman who always retained a strong sense of community spirit and was a gentleman at all times.

The excellent results and the success of the merger are a monument to the commitment, enthusiasm and work ethic of our staff and their leaders. We salute them.

G T Ferreira	L L Dippenaar
Chairman	*Chief Executive Officer*