G T FERREIRA

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Report of the Chairman and the Chief Executive Officers

We are able to report another year of excellent performance

PAUL HARRIS

At the end of our fourth full year of operations since the formation of FirstRand in 1998, we are able to report another year of excellent performance.

Market overview

Macro-economic environment

The year to 30 June 2002 was the third year of South Africa's current business cycle upswing, with the economy growing by approximately 2,5%. Consumer spending during the year under review grew at a rate of over 3%, and fixed investment expanded briskly. The JSE All Share Index gained 17% compared to 19% in the previous year. Most of this gain can be attributed to the mining and resources sector.

The year under review will be remembered for the 11 September attack on the World Trade Centre and the precipitous drop in the value of the rand which followed it. The rand's subsequent recovery was not sufficient to prevent a substantial rise in domestic inflation and the Reserve Bank reacted by raising its repo rate by a total of 300 basis points between January and June 2002.

International financial markets performed poorly. Equity prices were affected by uncertainty regarding the recovery of the US economy, major corporate failures and declining credit ratings. Argentina defaulted on its debt obligations and this created concerns regarding the potential for defaults in other emerging markets. This led to increased uncertainty and market volatility.

Competitive environment

Competition in the South African banking industry remained intense. Market concerns about second tier banks led to a flight by depositors to the larger financial institutions. The turmoil that affected South Africa's second tier banks resulted in further consolidation within the industry and FirstRand Bank was an active participant. Some international banks downsized their operations in South Africa as the weaker rand impacted on their global earnings.

Insurance companies experienced a decline in the demand for investment products which was partly offset by an increased demand for risk related products. Companies providing health insurance struggled with regulatory uncertainty and the demands of the authorities to increase solvency requirements without the use of reinsurance. Earnings from asset management operations were subject to volatile stock market performance both locally and abroad. Some local firms restructured their asset management operations to recognise the strategic importance of black economic empowerment and market pressure on fees.

Regulatory environment

A feature of the year under review was significant regulatory change and regulatory uncertainty. This is unfortunate as all investors seek regulatory certainty in making decisions on prospects for sustainable long-term growth.

During the year, banks moved to meet the higher capital adequacy requirements introduced by the Reserve Bank with effect from October 2001. The South African Revenue Services focused their attention on the banking industry and structured finance projects in particular. Government indicated that it was concerned about access to banking services for the emerging market and the industry responded by signing the Nedlac Financial Services Charter. In terms of the charter, the banking industry has agreed to work with government and other interested parties to make financial services and, in particular, credit more accessible to this market. The banking community expressed severe reservations regarding the first draft of the Community Reinvestment Bill. It has been withdrawn pending further discussion.

Insurance companies across the country prepared themselves for the implementation of the new Financial Advisors and Intermediaries Services Bill. The government's decision to limit payroll deductions for state employees (Persal) contributed to an increase in policy lapses. The limitations placed by the Reserve Bank on foreign portfolio investments by insurers had a negative impact on new individual life business, particularly in Momentum's target market.

The Financial Services Board is in discussion with the life insurance industry to determine new methods of calculating the surplus capital of life insurers. The new proposals, if implemented, will result in a more conservative valuation method in respect of listed and unlisted shares held in the shareholder portfolios of life insurance companies.

During the process of formulating new legislation affecting South Africa's financial services industry, co-operation and co-ordination between government departments and between the private sector and government has been sub-optimal. It is important for the financial services industry in South Africa that this situation improves.

South Africa is undergoing a dramatic societal transformation as it adjusts to shake off the legacies of apartheid. It is incumbent on the South African business community to assist government in achieving commonly accepted social goals while at the same time ensuring that the confidence of international and domestic investors in the South African economy is maintained.

FirstRand executives will give of their best endeavours to work with the authorities to ensure that new legislation affecting South Africa's sophisticated financial services industry is appropriate for this time in our nation's development. Nepad is an exciting concept with the potential to create further opportunities for the group to use its skills and knowledge to the benefit of the African continent.

Value strategy

Vision and strategy

FirstRand's guiding vision remains unchanged. FirstRand seeks to build an integrated financial services group, structured with critical mass to take advantage of the blurring of boundaries in the financial services industry and the convergence of products and services. In this regard, the reputation of the group companies for excellent products and services is paramount. Our mission is to passionately build and nurture the most compelling range of financial service brands in the business.

Goals and objectives

FirstRand seeks to increase earnings per share by a minimum of inflation plus 10% and to generate a return on equity of more than 20%.

The strategy in the year under review was one of external focus and growth. This followed three years of fixing and getting the basics right. During this period there was a focus on rationalisation, turn-arounds, efficiency gains and, where appropriate, the exiting of businesses which were unable to deliver the demanding returns required by management. At the same time, considerable effort was directed at inculcating the FirstRand business philosophy across all group companies.

The executive team has identified growth, empowerment and being the employer of choice as the strategic drivers of earnings in the year ahead.

There are multiple drivers of growth. These can be broadly categorised as organic growth, acquisitive growth and international expansion.

Organic growth will be achieved through the implementation of targeted marketing campaigns aimed at new customers and collaboration between business units to ensure that existing customers are exposed to a complete range of products and services.

Historically, growth by acquisition has been achieved by targeting companies much larger than ourselves. Growth by acquisition will now target niche businesses which add real value and do not involve additional infrastructure and overheads.

One of the growth strategies that the group has excelled at in the past, is the establishment of greenfield operations. Our success formula has been to enter a mature industry and to take on the established players by "changing the rules of the game". We invest only a modest amount of start-up capital which we then increase as necessary. Our success in this regard is impressive, with Discovery and OUTsurance being good examples. Where opportunities are identified, we will pursue them subject always to the condition that they will provide the necessary returns.

International expansion as a growth strategy will always be subject to the filters or principles which underlie our strategy. In the first place, any proposed offshore expansion must have a strategic fit with domestic strategy. Secondly, we do not have a FirstRand "view of the world". A group as diverse as ours cannot be replicated in any one country. Business units will have a preference for different continents. For example, the African continent is an interesting investment destination for the Retail Bank, which already has substantial operations in Namibia, Botswana and Swaziland. However, it is not particularly interesting to Discovery because Africa, excluding South Africa, has an under-developed health insurance system. This is one of the reasons why we believe our international expansion should be driven at business unit level but co-ordinated and monitored at the centre. Finally, our international expansion does not involve the flight of capital and we will not blindly pursue hard currency earnings. We will always ensure that existing operations and future start-ups or acquisitions have a sustainable competitive advantage internationally.

FirstRand is now in a position where approximately 15% of the group's earnings originate outside of South Africa and where one in every eleven of the group's employees currently resides outside of South Africa.

FirstRand recognises empowerment as a strategic imperative. A legacy of unjust laws and prejudices has left many South Africans without the benefits of the free market system. A stable political environment requires that opportunities are created for upliftment and inclusion of these previously disadvantaged people. The potential impact of the government's black empowerment policy on entire industries is taxing the minds of both domestic and international investors. We have seen how the topic has the potential to result in a great deal of volatility in the share prices of affected industries. We believe that the issue of black economic empowerment is much broader than shareholdings and so we have established an empowerment division to develop and implement a comprehensive strategy across the group. Their brief includes reviewing shareholdings, joint ventures, procurement and the group's relationship with the state and parastatals.

It is worth noting that to date our empowerment strategy has been to bring in partners at the business unit level rather than at holding company level. Futuregrowth and WesBank have been successful in this respect and we are currently seeking an empowerment partner for some of the activities in the employee benefits area. We are making good progress in the provision of financial services to previously disadvantaged groups and are pioneering a new affordable housing initiative. We are working with government on the Umsobomvu Youth Fund, a R100 million SME empowerment fund focusing on emerging businesses in South Africa. Our private equity divisions have played a major role in providing finance for BEE transactions and we think we can justly claim to be leaders in the arena of public private partnerships for the financing of major infrastructure projects.

On the matter of corporate social investment, we have possibly been unduly modest and it is worth noting that since its formation in 1998, FirstRand has donated more than R100 million to worthy causes.

Attracting and retaining the best people is the last of our strategic initiatives in the year ahead. We were particularly pleased when Deloitte & Touche Human Capital announced that four of our companies, RMB (2nd), Discovery (4th), Momentum (5th) and WesBank (10th) were ranked in the top ten of their "Best Company to Work For" survey.

Our diversity and employment equity plans form an important part of this strategy.

Organisational structure

FirstRand Limited has two wholly owned subsidiaries. These are FirstRand Bank Holdings, whose subsidiaries are involved in retail, corporate and investment banking activities, and Momentum Group, whose subsidiaries are in the insurance and asset management businesses. These subsidiaries, which are separate legal entities, with independent boards of directors, are subject to the oversight of the SA Reserve Bank and the Financial Services Board respectively.

FirstRand comprises a number of business units each operating independently with its own executive team. Mindful of the need to provide customers with a comprehensive range of products and services, these business units have been clustered according to specific target markets. The clusters are:

- Retail Cluster targeting individual consumers;
- Corporate Cluster targeting large corporate and commercial enterprises;
- Wealth Cluster targeting individuals in the middle and upper income market;
- Health Cluster targeting the health insurance market; and
- International Cluster targeting high net worth clients worldwide

A Capital Cluster manages the capital of the Banking and Insurance operations.

The cluster concept, which was announced last year, was taken a step further this year with the appointment of cluster CEOs and the formation of cluster executive committees. The principle role of the cluster CEO is to promote collaboration between the business units within each cluster and across clusters. Reward systems have been aligned to support collaborative behaviour.

The legal structure of the group is shown on page 36 and the internal management structure promoting collaboration is shown on page 13.

A FirstRand Executive Committee is responsible for developing group strategy and overseeing its implementation. This committee, which is chaired by the FirstRand CEO, includes the cluster CEOs, and other group specialists.

Governance

The integrity of the Board of Directors and group companies is maintained by adherence to the highest levels of corporate governance practices which are described in detail from page 27.

Managing for value

Strategic initiatives

During the year the group was involved in further important strategic initiatives.

These included:

- In July 2001, the acquisition of a further 32% in the international asset manager, Jersey General Group (Ashburton), bringing the total shareholding to 87%.
- In January 2002, the sale of 40% of Futuregrowth, the group's specialist fund manager, to WipCapital in a major black economic empowerment initiative.
- In February 2002, the successful merging of the back-office processing, administration and management teams of Ansbacher South Africa and Origin to eliminate duplicated cost infrastructures while allowing each to retain its distinct and unique service offering to high net worth customers.

- The acquisition in March 2002 of the NBS homeloan book valued at R11,5 billion. The group's short-term insurer, OUTsurance, benefited from the acquisition of the NBS insurance book relating to these properties.
- In May 2002, the taking-on of the deposit client base of Saambou valued at R12,8 billion and, as part of the same transaction, the acquisition of the homeloan book of R4,9 billion.
- The establishment with effect from June 2002 of Momentum International MultiManagers through the consolidation of the local multi-manager, Momentum Advisory Service with Ansbacher International MultiManagers in the United Kingdom. The result is a focused multi-manager product house catering for both local and international investors.

Other strategic interventions included the successful resolution of the Banking Group's risk concentration in the furniture and retail credit markets. Further consolidation of back-office operations in the Retail Bank improved operating efficiencies. Two major securitisation deals assisted the bank in its capital optimisation programme.

The resolution of the dispute between Discovery and the Council for Medical Schemes regarding the level of fees and reinsurance arrangements was important as it removed uncertainty from the operating environment.

Financial overview

This year's results reflect yet another year of sustained growth. A compound annual growth rate of 23% in headline earnings per share has been achieved since 1999. The compound annual growth rate in respect of assets under management and administration during this period is 22%.

FirstRand's results demonstrate the resilience of its diversified earnings base during times of economic uncertainty and volatility.

The year was characterised by good organic top-line growth in banking and two significant strategic acquisitions. The top-line growth was achieved by the Banking Group without compromising the risk profile of its domestic lending portfolio. Shocks in the international debt markets led to losses being incurred on the bank's international lending portfolio. These losses were partly offset by good profits in the trading divisions which benefited from the uncertainty and volatility created by the self-same shocks.

The Insurance Group experienced a decline in new business growth but in spite of this achieved robust double digit headline earnings growth which exceeded R1 billion for the first time.

The devaluation of the rand gave rise to abnormally large translation gains which are not expected to be repeated in the coming year.

Financial results

The financial results of FirstRand's Banking and Insurance subsidiaries are dealt with in detail in the reports by their respective CFOs commencing on pages 64 and 136 respectively.

Consolidated headline earnings can be summarised as follows:

R million	2002	2001	% change
Banking Group	**3 744**	2 787	34
Core operations	**3 196**	2 580	24
Foreign currency translation gain	**548**	207	>100
Insurance Group	**1 038**	943	10
Core operations	**1 038**	911	14
Foreign currency translation gain	**–**	32	(100)
FirstRand Limited	**(61)**	(41)	(49)
Headline earnings	**4 721**	3 689	28
Less: Foreign currency translation gain	**(548)**	(239)	>(100)
Core operational headline earnings	**4 173**	3 450	21
Core operational headline earnings per share (cents)	**76,6**	63,4	21
Headline earnings per share (cents)	**86,7**	67,7	28
Dividend per share (cents)			
Interim	**13,50**	11,25	20
Final	**15,00**	12,50	20
Total	**28,50**	23,75	20

Consolidated headline earnings for the year to 30 June 2002 totalled R4 721 million (86,7 cents per share) representing an increase of 28% on the R3 689 million (67,7 cents per share) of the previous year. If the impact of the foreign currency translation gain relating to integral business is removed, core operational headline earnings grew by 21% to R4 173 million (76,6 cents per share).

Attributable earnings, which include goodwill amortisation, asset impairment and other exceptional items, increased by an excellent 26% to R4 509 million.

Banking operations contributed 77% to core operational headline earnings with insurance and asset management operations contributing the balance. Earnings from international operations, which included another satisfactory year from the African banking subsidiaries, represented 15% of core operational headline earnings (2001: 18%).

A final dividend of 15 cents per share (2001: 12,5 cents per share) has been declared bringing the total dividend for the year to 28,5 cents per share (2001: 23,75 cents per share). This represents an increase of 20%. Dividend cover based on core operational headline earnings was retained at approximately 2,7 times.

The group's assets under management and administration now total R473 billion, an increase of 27% on last year.

Segmental reporting

The FirstRand Group has a diversified earnings base. A summary of these earnings by cluster is set out below. A report on the financial highlights, operational achievements, and prospects of the business units in each cluster appears on pages 11 to 26.

R million	2002	%	2001	%
Retail Cluster	**1 761**	**42,2**	1 577	45,7
Corporate Cluster	**1 436**	**34,4**	1 194	34,6
Wealth Cluster	**398**	**9,6**	289	8,4
Health Cluster	**131**	**3,1**	115	3,3
International Cluster	**8**	**0,2**	62	1,8
Capital Centre	**439**	**10,5**	213	6,2
Core operational headline earnings	**4 173**	**100,0**	3 450	100,0
Currency translation gains	**548**		239	
Headline earnings	**4 721**		3 689	

Share price

The FirstRand share price, which was impacted by world events and an international re-rating of banking shares, fluctuated widely during the year. The weighted average share price was 772 cents per share with a high of 905 cents per share and a low of 615 cents per share. Turnover represented 69% of the free float.

Return on equity

The structure of the group and the different accounting practices adopted by the Banking and Insurance Groups, mean that the consolidated return on equity statistics should be viewed with caution. This year's calculation is also influenced by the substantial translation gains arising from the decline in the value of the rand.

Capital is a scarce resource. We seek to optimise our return on capital and to do this, we aggressively manage the capital which is allocated to the various operating companies. Each business unit is required to meet ROE hurdles.

The structure of wholly owned banking and insurance subsidiaries facilitates the transfer of capital across the group, depending on needs and available returns. The return on average equity for the year, based on core operational headline earnings, was an excellent 25,6% compared with 25,2% the previous year. For the purpose of this calculation, the convertible preference shares of the OutPerformance Incentive Scheme are treated as debt.

Capital management

At 30 June 2002, the consolidated capital adequacy ratio of the Banking Group was 11,6% (2001: 11,4%) compared with the statutory requirement of 10%. The shareholder surplus in the Insurance Group covered the statutory capital adequacy requirements 2,4 times (2001: 2,4 times).

Reference has already been made to the changes in regulatory capital requirements implemented by the South African Reserve Bank and those proposed by the Financial Services Board.

The bank's capital ratios were influenced by the new regulatory changes and its strategy of selective acquisitions and strong top-line growth. Strong new business growth in Discovery Life and Destiny Health is expected to create a demand for additional capital in the Insurance Group.

The review of capital requirements is ongoing. This includes evaluating the benefits of the further securitisation of the bank's advances book, the better utilisation of the group's international capital base and the raising of international tier-2 capital. The group is reviewing the way in which its constituent parts are held in order to optimise capital utilisation.

Risk management

We pride ourselves in our ability to manage risk across the group. An extensive system of risk management controls is in place covering all aspects of our business. Details of this important aspect of our business are provided in the Report on Risk Management and Internal Control on page 30 and the Reports of the two Chief Financial Officers commencing on pages 64 and 136 respectively.

Value platform

With an increase in the emphasis being placed on triple bottom line reporting, this topic is dealt with in a separate Corporate Citizenship and Sustainable Business Practices Report which appears on page 32. This report, which underlines the importance that we place on good corporate citizenship, deals with the interaction of group companies with their primary stakeholders. These have been identified as shareholders, customers, employees, suppliers, the regulatory authorities and the communities in which we operate.

Prospects

At the time of the merger in April 1998 we said that it would take between three and five years for the full benefits of the merger to be achieved. As we enter the final lap of this five-year period, we look back with great satisfaction on the progress made to date.

FirstRand operates in a challenging environment which is not helped by regulatory uncertainty. Inevitably, our prospects are influenced by political and economic events both locally and internationally.

Our strategic initiatives in the year ahead will continue to be outwardly focused. Our internal structure, which is aimed at optimising collaboration between business units, is starting to bear fruit. We have excellent people and the successes in the past year have contributed positively to the increased staff morale. We will continue to acquire businesses which utilise our existing infrastructure. The financial benefits of the two acquisitions made in the past year will be reflected in earnings in the future.

We are satisfied with the quality of our earnings and are confident that shareholders can continue to expect positive real growth from our well-diversified earnings base.

Thanks

These excellent results are a tribute to the people who work in FirstRand Group companies. To all of them and the directors we extend our sincere thanks.

To our customers and intermediaries, we record our gratitude for their support and urge them to continue to communicate with us about their needs and their levels of satisfaction.

Finally to our twenty-two thousand FirstRand shareholders, we know that you will be pleased with our progress during the last year and assure you that all thirty-four thousand people in the group will continue to work towards ensuring that you receive superior returns on your investment in the future.

G T Ferreira
Chairman
FirstRand Limited

L L Dippenaar
Chief executive officer
FirstRand Limited

P K Harris
Chief executive officer
FirstRand Banking Group