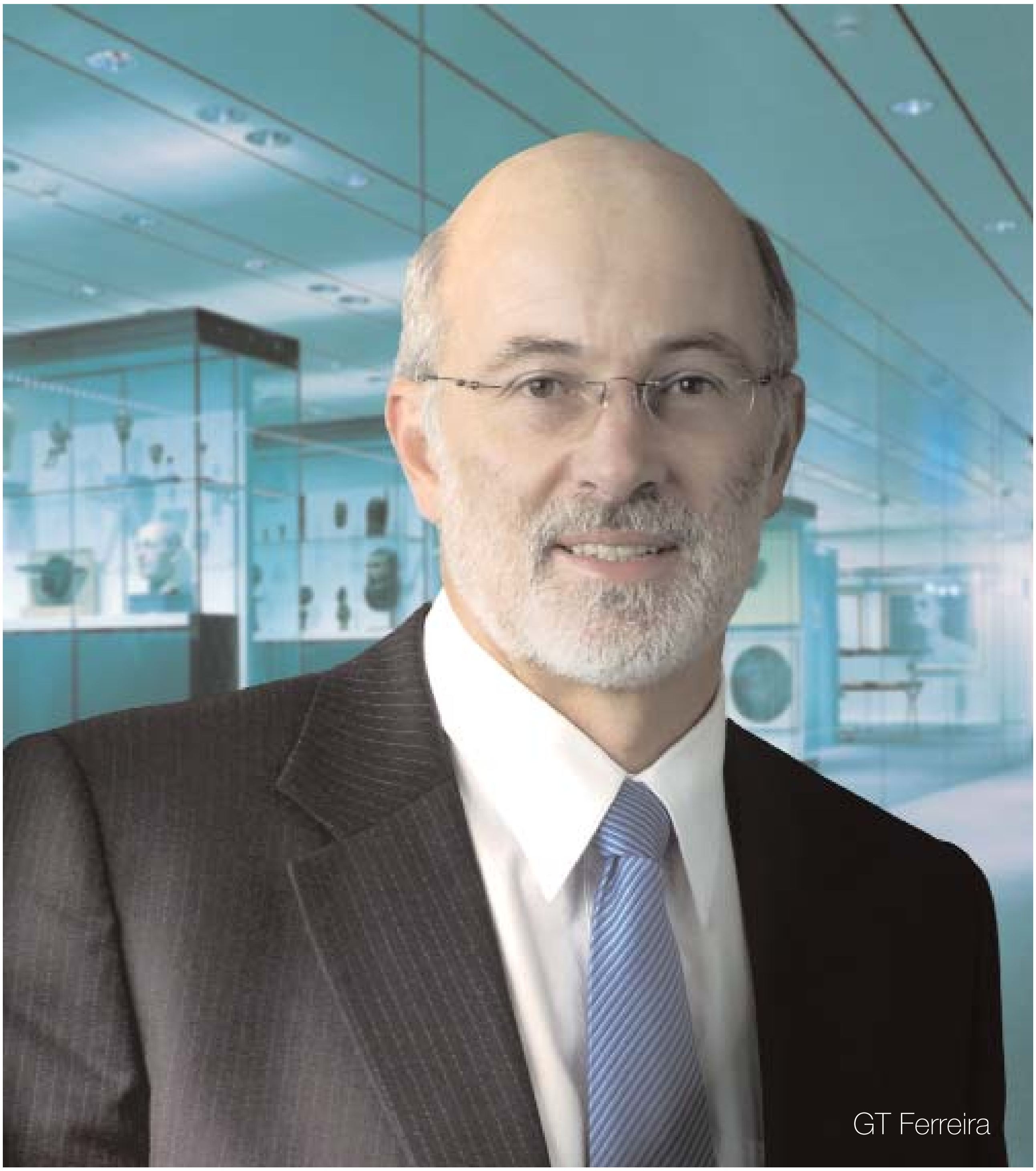
Chairman's report

"In the face of some significant challenges, FirstRand produced excellent results with core headline earnings increasing by close on a billion Rand."



GT Ferreira

Five years of sustained growth

In the five years since the creation of FirstRand:

- Our business philosophy has been inculcated throughout the organisation;
- Our vision of a fully integrated financial services group has been attained; and
- We have created a potent franchise of some of South Africa's most well recognised and respected brands.

This enabled us to achieve five years of sustained growth, with the following compound growth rates being achieved:

• Core headline earnings	+20% pa
• Dividends	+23% pa
• Net asset value	+19% pa

Our philosophy, people and brands should ensure another five years of sustained value delivery.

Dear Shareholder

The year to 30 June 2003 was characterised by high interest rates, extreme directional volatility in the Rand exchange rate and poor investment markets. Notwithstanding such challenging market conditions, FirstRand once more produced excellent results, with core headline earnings per share increasing by 23% over the prior year.

This year's performance

FirstRand is the first major South African financial services group to present a full year's financial results in accordance with the requirements of a new statement of South African Generally Accepted Accounting Practice *"AC133 – Financial Instruments: Recognition and Measurement"*. The impact of this new accounting standard on your group's results are analysed in detail elsewhere in this report. To facilitate comparison between years I have, except where indicated, consistently made use of results produced on a "Pre-AC133" basis in the analysis that follows.

As stated, the Group produced excellent results, benefiting from diverse income sources, strong organic growth, benefits of scale crystallised from prior year acquisitions, and lower bad debts. To some extent, such gains were muted by the negative effects of a strengthening Rand on international income and poor equity investment markets.

The convergence of the positive factors is reflected in the excellent 28% increase in core headline earnings reported by the Banking Group. While the negative factors manifested themselves in subdued demand for retail investment products, Momentum Group continued to produce solid results with a 9% growth in core headline earnings. This performance is pleasing when weighed against that of its peer group.

Core headline earnings, which exclude translation gains and losses, increased by close on a billion Rand (23%), from R4 186 million (76,9 cents per share) to R5 151 million (94,5 cents per share). After incorporating AC133, the increase amounted to 30% (99,6 cents per share).

We have declared a final dividend of R1 010 million (18,5 cents per share), bringing the total dividend for the year to R1 909 million, or 35 cents per share (2002: 28,5 cents per share). This represents an increase of 23% in the total dividend per share over the prior year and is in line with the growth in core headline earnings.

Some significant challenges

This excellent performance was produced in the face of some significant challenges, two of which have been particularly vexing.

During the year we attracted further negative publicity relating to Ansbacher (UK) and the "Irish tax matter". Since our last report, progress has been slow. The Irish tax authorities contacted us for the first time in November 2002, after which our independent advisors submitted a detailed reply to the authorities in May 2003. We acknowledge that the Irish tax authorities believe there is a claim, however, the submission further substantiates our initial contention that there is little or no exposure to tax in Ireland in relation to this matter. We will continue to keep shareholders updated as the matter progresses.

The second difficult issue the Group faced during the year was the press allegations of corruption levelled at one of our directors, Mac Maharaj. These allegations related to his tenure as Minister of Transport prior to him joining the FirstRand Group. Following

FirstRand benefited from diverse income sources, strong organic growth, benefits of scale from prior year acquisitions, the strong interest rate environment and lower bad debts.

the initial allegations in the *Sunday Times* during February 2003, Mr Maharaj offered to either resign, or take leave of absence while he addressed the matter. The Board felt that to accept his resignation at that point would have led to a presumption of guilt, and therefore granted Mr Maharaj leave of absence, in order to give him time to prove his innocence.

Given the serious corporate governance issues the allegations raised, together with the particularly rigorous requirements regarding directors set out in the Banks and Long-term Insurance Acts, FirstRand needed to satisfy itself and the regulators that it was not in breach of the governing legislation. To this end, we allocated significant resources to an independent enquiry into the allegations by accountancy firm Deloitte & Touche and attorneys Hofmeyr Herbstein & Gihwala. This was done not only to ensure a fair hearing for Mr Maharaj, but also to protect the reputation and interests of FirstRand, its shareholders, and the various communities it serves.

The final report on that enquiry was submitted to the Board during July 2003. We accepted the investigative team's finding that there was not any evidence to substantiate the allegations of corruption against Mr Maharaj. However, there were still certain questions which remained unanswered.

Given the emotional debate being publicly waged around his personal affairs, Mr Maharaj believed that his continued association with FirstRand may lead to further negative publicity for the Group and therefore submitted his resignation, effective 31 August 2003. Under the circumstances the Board accepted his resignation as a director and employee of the FirstRand Group.

The Group continues to focus on corporate governance. We have adopted the recommendations of the King II report on corporate governance and all companies in the Group remain committed to the highest standards of corporate governance. Elsewhere in this report we have presented a detailed analysis of the ongoing steps being taken to ensure consistency and best corporate governance practice throughout FirstRand.

Five years of sustained growth

It is now five years since the formation of FirstRand through the merger of our interests in Rand Merchant Bank and Momentum with First National Bank and Southern Life, then controlled by the Anglo American group.

While I do not intend dwelling on the rationale for the merger nor the details of the last five years as this is now well documented history, I would like to reflect upon what has been created during this period. In particular:

- The merged Group has undergone fundamental change as the FirstRand business philosophy has been implemented throughout the organisation.
- The aim of creating an integrated financial services group structured with critical mass to take advantage of the blurring of boundaries in financial services and the convergence of products and services between banking, insurance and asset management has been achieved.
- We have a potent franchise of some of South Africa's most well recognised and respected brands, each one strongly positioned in its own market space.

The Group has produced five years of sustained growth. This translates into compound annual growth in core headline earnings of 20%, in dividends per share of 23% and in NAV of 19% over the five-year period. This excellent track record is, I believe, testament to the quality of our people and the commitment and energy they have displayed in every area of our business.

Going forward, our philosophy, people and brands remain the pillars on which the Group relies to maintain its minimum targeted 10% real growth rate.

There are challenges ahead

The year ahead is not without significant challenges. The start of our second five year growth path also signals the end of the first ten years of our new democracy. Government is under increasing pressure to demonstrate that it is delivering on its promise to create a better life for all.

Broad-based Black Economic Empowerment ("BEE") is a critical process to ensure the full participation of all South Africans in the economy. The financial services industry voluntarily engaged with government to evaluate how it can best contribute to this process, the result of which will be a BEE Charter for the Financial Services Sector ("The Charter").

The publication of The Charter, which is expected to be towards the end of 2003, will represent the culmination of months of proactive and rigorous discussion between the financial services players (FirstRand included) and government representatives. To ensure broad-based black empowerment The Charter will focus on the following key areas:

- Ownership
- HR development
- Empowerment financing
- Procurement
- Enterprise development
- Access to financial services.

I believe that The Charter is an extremely positive development and that the financial services industry's commitment will ensure that genuine and broad-based empowerment will be created. FirstRand continues to make significant progress in most of the areas under consideration. We are proactively working towards the targets being envisaged in the proposed charter.

As regards BEE share ownership initiatives for FirstRand, we are vividly aware of the unique position that FirstRand, as one of South Africa's "big four" banking groups, occupies within the South African community. All of our business units operate under some form of regulatory dispensation, including the Banks Act and the Insurance Acts (both long- and short-term). As a result of our deposit taking activities and the life assurance/investment products that we market, FirstRand may rightly be regarded as a major and important custodian of "the nation's savings". Such realisation is playing a significant role in shaping our approach to the proposed FirstRand BEE ownership initiative that we are developing. Specifically, we believe that:

- Such a BEE ownership structure should be broad based, to reflect our diverse stakeholders;
- The BEE ownership structure should enhance our operational ability. All of FirstRand's operating units are adequately capitalised at present. However, structures that utilise the Group's capital or result in an economic or statutory impairment of FirstRand's capital base will stunt its ability to fund future growth from internal resources;
- The BEE initiative should bring about active and constructive Black economic participation in FirstRand's management processes;
- The BEE ownership structure must be sustainable.

FirstRand's group structure is unique in the South African financial services sector in that it is the only group where substantially all of the operating entities are wholly-owned. The operational freedom/value that the Group derives from this structure – through elements such as the ability to move manpower and capital resources to where best applied, cross selling and economies of scale – are part of our strategic differentiation relative to our competitors. Against this background we have spent significant time debating whether the envisaged BEE share ownership structure should take place at divisional, subsidiary or holding company level.

At the outset we believed that BEE share ownership should take place at divisional or subsidiary level, this being where specific BEE partners could have the greatest direct impact on the Group's operational approach. In addition, such an approach exposes the BEE partner to a smaller funding strain. This had to be weighed against the fragmented group structure that would come about – with potentially up to one hundred distinct minority shareholders at various levels within FirstRand. In addition, the potential strategic input from BEE shareholders would be foregone at group level. Consequently, we have concluded that it

I believe the BEE charter will be an extremely positive development. At FirstRand we continue to make significant progress in most of the areas under consideration and are proactively working towards meeting the targets envisaged.

will be in our best interest to launch a BEE initiative at the FirstRand (holding company) level.

I recognise that by introducing the BEE shareholding at the top of the Group structure, the Group's absolute size becomes an impediment to the initiative (in the sense of the amounts of capital/funding required), but we believe that the ultimate sustainability of both the BEE initiative and the Group itself is enhanced in the longer term. We will keep shareholders informed as we crystallise our initiatives in this area.

Of growing importance is the impact of HIV/Aids on the workforce and the South African economy in general. FirstRand has adopted an HIV/Aids policy that is based on education, communication, prevalence testing, counselling and confidentiality. A group-wide HIV/Aids project is currently being conducted to ensure that the present strategy is effective relative to the incidence of HIV/Aids within the Group.

Prospects

We are cautiously optimistic about the prospects of an improved economic outlook in the year ahead. A lower interest rate environment will benefit growth and increase the likelihood of a favourable movement in the stock market. This will be conducive to good new business growth across all units in the year ahead. In addition, the benefits of a lower interest rate environment include an anticipated increase in the demand for credit and a lower level of bad debt provisioning. However, this will, to an extent, be offset by lower margins. Fortunately, the Group implemented hedging strategies to protect the endowment margins over the short to medium term.

Significantly improved results are expected from the Group's local and international asset management activities after a disappointing year. The proposed disposal of Ansbacher (UK), in whole or in part, is expected to free underperforming capital currently held offshore.

Companies such as Discovery, OUTsurance, eBucks.com and RMB Private Bank, which are all entrepreneurial, new ventures started in the last ten years, are expected to continue to grow strongly and provide a meaningful enhancement to the Group's overall earnings growth rate.

Finally, I believe that our strong brands, our talented people and our proven business philosophy should ensure that FirstRand continues to deliver superior returns for all our stakeholders.

A word of thanks

No one outside FirstRand can truly appreciate what has been achieved in the last five years. This period encompassed both the integration of the new Group and possibly the most turbulent financial market cycles ever experienced by our generation.

FirstRand achieved the sustained and excellent results that it did over the period only as a result of a superhuman effort from our management and staff. On behalf of the board of directors and the shareholders, I thank them most sincerely for their contribution.

We are at present re-evaluating the composition of our Boards, at group level as well as subsidiary level, and announcements in this regard can be expected shortly. I would like to thank Mr Maharaj for his contribution to the Group whilst he was a director. To our other directors, thank you for your wise counsel, patience and support.

Finally, a special word of thanks to you, our shareholders. Without your support, FirstRand cannot grow and prosper. We shall endeavour to reward your faith by ensuring that you receive the best possible returns on your investment.

GT Ferreira
Chairman

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15 September 2003