Banking group results benefited from

excellent organic growth

assisted by increased collaboration and an improved economic environment

CFOs' REPORT | JOHAN BURGER / Chief Financial Officer

Introduction / The FirstRand Group of companies ("FirstRand" or "the Group") produced excellent results, which were achieved in a favourable economic environment.

This provided strong organic growth opportunities especially for the Banking Group, which was evident in the strong new business growth of WesBank, FNB HomeLoans and medium corporates. The sustained lower interest rate environment also resulted in improved credit quality with non-performing loans ("NPLs") and bad debts in the Banking Group at historic lows.

Strong new business growth was experienced by Momentum in the risk, linked investment and unit trust businesses. Momentum also benefited from the restructuring of its shareholders' portfolio.

Discovery once again delivered exceptional results due to strong business growth in its Life and Health divisions.

Since 30 June 1999, the first full year after the merger, FirstRand has grown headline earnings (excluding translation gains and losses) by 18.5% on a compound basis, from R2 610 million in 1999 to R6 097 million in 2004.

The relative contributions of the components of the Group are set out in the table below:

	2004		2003	
	R million	**%**	R million	%
Banking Group	**4 760**	**83**	3 829	79
Momentum	**1 081**	**19**	947	19
Discovery	**265**	**5**	178	4
FirstRand Limited	**(274)**	**(5)**	(39)	(1)
Consolidation of share trusts	**(105)**	**(2)**	(68)	(1)
Headline earnings	**5 727**	**100**	4 847	100

These are the first set of year end results presented which show the current and comparative results on a post-AC 133 basis.

As previously discussed and extensively documented, AC 133 introduces a certain amount of additional volatility into the reporting of companies' results. Not all the hedging transactions undertaken met the strict criteria of AC 133's hedge accounting principles, which resulted in the hedges being reflected at fair value. The underlying advances are carried at historic cost.

Furthermore, the translation gains and losses on currency movements are, consistent with the prior year, reflected in the income statement to the extent that the underlying operations are defined as integral to the South African based businesses.

The table below discloses the effect of the above on the headline earnings of FirstRand:

R million	**2004**	2003	% change
Headline earnings	**5 727**	4 847	18
Foreign currency translation losses – Banking Group	**370**	532	(31)
Headline earnings excluding currency translation losses	**6 097**	5 379	13
AC 133 mismatch losses/(profits)	**233**	(237)	>100
Headline earnings excluding AC 133 volatility and currency movements	**6 330**	5 142	23

The above analysis represents a sound basis for assessing the sustainable future performance of the Group. The AC 133 mismatched profits and losses and foreign currency translation losses could be volatile and cannot be forecast with any certainty.

The Group indicated last year that it was of the opinion that in the era of AC 133, there is likely to be an increased focus on Net Asset Value ("NAV") growth and Return on Equity ("ROE"). The graphs that follow illustrate the Group's strong growth in NAV and its consistently high ROE. FirstRand will continue to target these measures as the most reliable indicators of shareholder value creation.

FirstRand covers the spectrum of financial service offerings across all market segments and is, as a consequence, a more difficult group to measure. We believe the following measures of the component parts of the Group indicate the value created. The first graph measures NAV growth in the Banking Group. The second graph illustrates embedded value growth in the Momentum Group and the third illustrates embedded value growth in the Discovery Group. These measures are considered reliable proxies for measuring the creation of shareholder wealth in the respective industries and groups.

Group reporting structure / Internally, FirstRand's management structure is aligned in accordance with target markets which group the various businesses into four core segments, targeting the Corporate, Retail, Wealth and Health markets.

Although this structure has been changed since year end as detailed more fully in the report of the CEO, these results are presented on the basis which was in place at June 2004.

Detailed reports relating to the performance of each of these businesses are set out on pages 22 to 52.

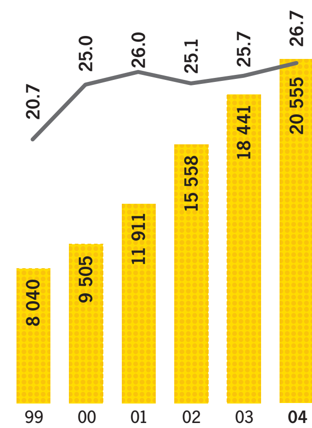
FirstRand is subject to regulation by the South African Reserve Bank and the Financial Services Board. To better comply with the legal requirements of each of these separate regulatory authorities, the Group's legal structure closely follows the mandate of each of the separate authorities. Consequently, the legal structure of the Group comprises distinct banking, insurance and health operations. The Banking, Insurance and Health Group's results are dealt with in detailed CFO reports set out on pages 115 to 121, 216 to 224 and 288 to 292 respectively.

A comprehensive Group structure is reflected on page 13.

Role of FirstRand / FirstRand has, at its core, a philosophy which fosters entrepreneurial thinking and action. At the heart of this philosophy are empowered and independent business units which are niche operators in their chosen markets. These businesses have the benefit of being backed by a large balance sheet and capital base, while simultaneously retaining all the benefits of being small and flexible.

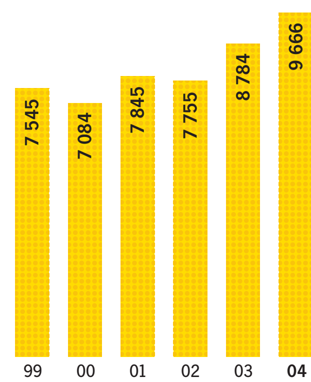
Risk management is dealt with in the following manner:

The central finance and risk function provides the framework within which each of these business units must operate, and is designed to maximise each unit's freedom of action while maintaining risk within the board's established tolerance levels. The framework has been implemented across the Group and is designed to cover all business and financial management issues affecting business risks. The Group accepts that losses are inevitable within a financial services environment, and sets out to manage the risk factors within their desired outcomes.



Banking Group NAV

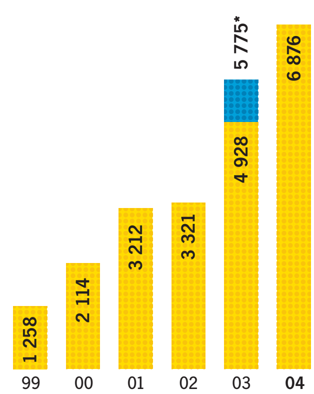
NAV (R million)
Return on average equity (%)



Momentum Group embedded value (R million)

Annual compound growth: 5%

Prior year numbers have been restated to take account of the transfer of Discovery to FirstRand.



Discovery Group embedded value

Annual compound growth: 40.5%

Embedded value (R million)
Capital raised

**In June 2003, Discovery proceeded with a clawback offer to raise R875 million at an issue price of R6.50 per share. These shares were listed on the JSE on 28 July 2003. At 30 June 2003, the capital raised was reflected as a short-term loan owing to FirstRand, and is excluded in the 2003 embedded value figure reflected above. Including the capital raising, the embedded value at 30 June 2003 was R5 775 million.*

Momentum's results benefited from good **new business growth** in risk products, linked investment products and improved results from the asset management operations

FirstRand acts as the strategic enabler for the various entities within the greater Group. The central financial function has the following primary functions:

- capital optimisation;
- structural optimisation;
- risk management;
- corporate reporting; and
- investor communications.

FirstRand also coordinates the financial and risk management functions of the Group to optimise the use of resources and ensure that best practices are adhered to.

Material accounting issues

Consolidation of Share Trusts / In line with the evolving acceptable industry practice regarding the interpretation of "AC 132 – Consolidated financial statements and accounting for investments in associates", together with "AC 412 – Consolidation – special purpose vehicles", FirstRand has changed its accounting policy to consolidate its share incentive schemes with effect from the current financial year.

The primary impact of the consolidation of the share incentive schemes within the Group is that the loans to the respective share trusts are eliminated and shares held by the share trusts are brought on to the balance sheet. FirstRand shares held by the trusts are treated as treasury shares and are disregarded for purposes of determining earnings per share. Dividends received in respect of the FirstRand shares held by the trusts are reversed on consolidation.

Acquired trademarks, patents and similar intangible assets / The Group generally expenses the costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which costs were incurred.

During the financial year, the Group changed its accounting policy in respect of material acquired trademarks, patents and similar rights, to capitalise the acquisition costs where it will receive a benefit from these intangible assets in more than one accounting period.

Amortisation and impairments of intangible assets are reflected under operating expenditure in the income statement.

Impact of these changes in accounting policy on opening retained income

The table below sets out the effect of the changes in accounting policy on opening retained income:

R million	
Closing balance at 1 July 2002 as previously stated	8 983
Retained income adjusted for:	
Impact of consolidation of share trusts	125
Restated opening balance at 1 July 2002	9 108

Impact of changes in accounting policy on current period income

The following table sets out the effect of the changes in accounting policy on current period income:

R million	Net interest income	Other income	Operating expenses	Total
Amortisation of trademarks	–	–	(17)	(17)
Consolidation of share incentive schemes	(96)	(9)	–	(105)
Gross adjustment before taxation	(96)	(9)	(17)	(122)
Taxation	–	–	6	6
Net adjustment	(96)	(9)	(11)	(116)

The table below indicates the imact of the consolidation of the share trust on the number of shares in issue:

Actual shares at 30 June

	Actual		Weighted average	
Million	**2004**	2003	**2004**	2003
Total number of shares in issue	**5 476.4**	5 460.3	**5 460.3**	5 448.1
Less: Treasury shares held in the share trust	**(249.7)**	(232.7)	**(268.2)**	(206.8)
Number of shares in issue	**5 226.7**	5 227.6	**5 192.1**	5 241.3
Dilution effect	**117.3**	102.1	**125.0**	102.4
Diluted shares	**5 344.0**	5 329.7	**5 317.1**	5 343.7

Share-based expenses

During February 2004 the International Accounting Standards Board issued a new accounting standard, IFRS 2, which requires the cost of share options to be expensed. The statement is effective for financial years commencing on or after 1 January 2005.

FirstRand conducted an exercise to establish the expenditure that would have been recognised had it applied the standard in the year ended 30 June 2004. Although the transitional provisions of the standard require that only share options granted after 7 November 2002 be expensed, the exercise included all share option grants since 1 July 1998.

The table below sets out the effect on the income statement of the Group:

Share incentive scheme

R million	**30 June 2004**	30 June 2003
FirstRand	**103.2**	92.6
Outperformance	**87.4**	122.6
Discovery	**41.8**	40.7
OUTsurance	**5.5**	3.9
Total	**237.9**	259.8

The table below sets out the effect on the reserves of the Group:

R million	**Closing balance 30 June 2004**	Closing balance 30 June 2003	Opening balance 1 July 2002
Retained earnings	**(237.9)**	(259.8)	(538.1)
Non-distributable reserves	**237.9**	259.8	538.1
Effect on net asset value	**–**	–	–

Overview of results

Banking Group

The Banking Group results benefited from excellent organic growth assisted by increased collaboration and an improved economic environment.

Executive summary / The Banking Group produced excellent results for the year, benefiting from exceptional performances by Rand Merchant Bank, FNB Retail, WesBank and FNB Corporate.

The Banking Group achieved attributable earnings of R4 712 million (+24.9%) and headline earnings of R4 760 million (+24.3%).

Drivers of growth

Net interest income and interest margin / Net interest income before impairment of advances reduced by 2.2% year-on-year. The lower interest rate environment reduced endowment income and also placed pressure on interest margins. The negative effect of lower rates was to some extent offset by hedges put in place by the Banking Group to mitigate against the expected effects of the lower interest rates.

Interest margins experienced an overall decline during the year from 5.02% to 4.47%.

The retail banking operations in general experienced margin compression on advances during the year. Linked-rate advances remained under pressure relative to their cost of funding. The exception was in respect of fixed-rate advances, specifically in the instalment finance environment, which benefited from widening margins in the rapidly reducing interest rate environment. A portion of this book benefited from a small interest rate mismatch which is expected to run down as older advances are replaced by new business at lower rates. Interest income benefited from strong new business growth.

Based on the Banking Group's existing interest rate view, new hedging instruments and structures have been put in place to provide continuing protection of margins during the 2005 financial year, although not to the extent experienced during the 2004 year.

Non-interest revenue / Non-interest revenue increased by 25.9% to R8 970 million (2003: R7 123 million). Non-interest revenue (excluding currency translation profits or losses) increased by 22.0% to R9 340 million (2003: R7 655 million). Non-interest revenue represents 49.6% of the Banking Group's total income.

Banking fee and commission income increased by 13.0% to R5 782 million. Trading income increased by 33.2% to R2 121 million, benefiting from increased opportunities in trending markets.

Balance sheet growth / Total assets of the Banking Group grew by 6.4% during the year. This was in part as a result of satisfactory advances growth of 11.0%, assisted by exceptional new business growth of 67% and 26% respectively in FNB HomeLoans and WesBank in a lower interest rate environment.

Retail advances contributed 65% of total advances which have shown strong growth of 26%. Large corporate advances had negative growth of 30% as a result of continued disintermediation, however, medium corporates have shown strong growth of 31%.

Deposit growth from customers was robust at 11.0%, driven by significant demand for shorter dated retail products. Corporate deposits growth of 13.8% benefited from strong demand in the mid-corporate market. This allowed the Banking Group to reduce the professional funding component of deposits.

Non-performing loans and credit impairment charge / The credit quality of the advances book has continued to improve in the year under review. Non-performing loans as a percentage of gross advances decreased from 2.4% in 2003 to 1.6%. The total provision reflected in the balance sheet represents a conservative 1.4% of advances (2003: 1.7%).

The income statement charge for impairment of advances reflects a 43.6% decrease to R833 million, which is 0.4% of advances (2003: 0.8%).

Discovery produced an **excellent performance** reflecting a combination of strong organic growth and increased efficiencies across all its businesses

Operating expenditure and efficiency ratio / Non-interest expenditure increased by 10.1% in the current year.

Staff costs were limited to an increase of 7.6%. Major increases were experienced in professional fees (+42.1%), primarily due to fees paid in the Retail bank environment, as well as non-recurring increased costs incurred in fees paid to the auditors (+29.1%).

The cost to income ratio (excluding the effect of currency translation losses) deteriorated slightly from 55.3% at 30 June 2003 to 55.8%. Including translation losses, the ratio improved slightly from 57.0% to 56.9%.

The deterioration was mainly due to the real growth in operating costs, together with the pressure in net interest income due to the margin pressure experienced during the year. These negative factors were to some extent compensated for by the increase in non-interest revenue and income from associated companies.

Momentum Group

Executive summary / Momentum's results benefited from good new business growth in risk products, linked investment products and improved results from the asset management operations. This resulted in headline earnings increasing by 14% to R1 081 million and earnings attributable to ordinary shareholders increasing by 73% to R1 065 million.

The embedded value of Momentum increased by 10% from R8 784 million at 30 June 2003 (restated to take account of the transfer of Discovery to FirstRand), to R9 666 million at 30 June 2004. The embedded value profit for the year to 30 June 2004 totalled R1 455 million which represents a return of 16.6%.

Drivers of growth

New business growth / New annualised individual life recurring premium business increased by a pleasing 6% compared to the prior year. The main driver behind this growth was the 51% increase in recurring risk product sales as the Myriad product gained further market acceptance. Lump sum inflows increased by 18% to R7.1 billion, mainly due to the strong increase in linked product sales, both locally and in Momentum's international operations.

The embedded value of new business increased by 5% from R273 million to R288 million. New business profit margins increased from 16.5% to 17.3% due to increased volumes of more profitable business written.

Growth in assets under management / The local and international asset management operations contributed a strong performance during the year, generating a 40% increase in operating profit after tax to R175 million.

Total assets under management increased by 10% to R150.2 billion, assisted by exceptional growth of 35% in local unit-trust inflows during the year.

Investment income on shareholders' assets / The after tax investment income earned on shareholders' assets increased by 19% to R311 million. This was mainly due to the higher cash balance in the shareholders' portfolio arising from the restructuring of the portfolio as detailed in the prior year's results announcement. The most significant aspect of this restructuring was the disposal of Momentum's investment in Discovery to FirstRand for R740 million in cash. The after-tax earnings on these proceeds totalled R59 million for the year.

Expenses / The administration expenses of the Momentum Group increased by only 4% from R1 419 million to R1 482 million. The Group is targeting a real reduction in expenses over the next three years.

Discovery

Executive summary / Discovery produced an excellent performance reflecting a combination of strong organic growth and increased efficiencies across all its businesses. This performance translated into a 102% increase in operating profits to R708 million (2003: R350 million).

Drivers of growth

Discovery Health / Discovery Health produced a strong performance with operating profits increasing 40% as a result of improved efficiencies and new business growth. Discovery Health's strong performance is reflected in an increased market share of 22.8% (2003: 20.8%), and a growth in membership to 1.6 million members.

Discovery Life / Discovery Life exceeded expectations, further consolidating its leadership position within the pure risk assurance market and increasing operating profits by 138% to R271 million (2003: R114 million).

This exceptional performance resulted from significant new business growth, with policyholders increasing by 91% to 119 884.

Destiny Health / In February 2004, Destiny Health's core Illinois business achieved its goal of break-even and made an operating profit of US$190 000 for the last six months of the financial year.

Destiny benefited from a 66% increase in membership during the year, primarily as a result of a 70% increase in new business to US$73 million (2003: US$43 million).

Dividend policy / The Group bases its dividend policy on sustainable earnings growth. Dividend cover is based on headline earnings excluding non-operational anomalies, such as AC 133 adjustments and currency translation gains or losses.

The table below provides an analysis of the non-operational issues which have been taken into account in 2004:

R million	
Headline earnings	5 727
Translation losses	370
AC 133 anomalies	233
Headline earnings for dividend calculation purposes	6 330

The dividend cover has been reduced to 2.5 times, which the Group believes is a sustainable dividend cover given the internal earnings generation capacity and capital requirements of the businesses.

Strategic issues

During the year the following strategic issues were addressed:

Ansbacher disposal / FirstRand signed an agreement on 1 July 2004 to dispose of its interest in Ansbacher to Qatar National Bank at an immediate premium to NAV of £7.5 million and a possible future premium of £7.5 million depending on the performance of certain business units. The NAV of Ansbacher is estimated to be approximately £90 million at completion date. The transaction is awaiting regulatory approval and completion is expected to be achieved in October 2004.

Ownership transaction / FirstRand has reaffirmed its commitment to meeting or exceeding its responsibilities under the Financial Services Charter. The Group has made significant progress towards the finalisation of an empowerment transaction. At present, together with its four broad-based partners, the Group is negotiating the funding agreements with a view to implementing the empowerment transaction envisaged in the Memorandum of Understanding.

Settlement of Irish litigation / On 16 December 2003, Ansbacher (Cayman) Limited, a subsidiary of the Banking Group, reached a full and final settlement of €7.5 million (approximately R61 million) with the Irish Government in respect of its disputed tax liability in Ireland.

The decision to make the payment was prompted by an assessment of the likely protracted and lengthy litigation and the consequent substantial legal costs, as well as management time which would be involved going forward in these complex proceedings.

FirstRand capital strategy / The Group actively manages its capital base, in order to enhance shareholder value through its capital management framework. Capital was allocated to business units on an economic risk assumed basis, founded on Basel II principles, as from 1 June 2003.

In order to further optimise the level and structure of the Group's capital base, the Group has decided to issue R2.5 billion non-redeemable, non-cumulative preference shares in FirstRand. This will result in a reduction of the weighted average cost of capital. It is anticipated that these instruments will be listed on the Johannesburg Securities Exchange by the end of October 2004.

As a result of the above issue of shares and the release of capital following the sale of Ansbacher UK, the Group will have excess capital.

Subject to the completion of the disposal and the share issue, the board will evaluate the following options to deal with excess capital:

- reduce the existing gearing in FirstRand;
- commence a share buy-in programme;
- BEE funding; and
- growth opportunities.

Decisions in this regard will be communicated to shareholders.

Capital centre's financial performance / The table below reflects the headline earnings of the Group's capital centres and costs incurred by FirstRand.

R million	**2004**	2003	% change
Banking Group	**112**	221	(49.3)
Momentum	**311**	261	19.2
FirstRand	**(274)**	(39)	(100.0)
Total	**149**	443	(66.4)

FirstRand issued R1.4 billion cumulative preference shares in July 2003 to fund the restructuring of Momentum's shareholders' portfolio and the rights issue of Discovery. The funding costs of these preference shares of R108 million and Secondary tax on company dividends of R115 million (2003: R12 million) contributed to the loss of R274 million in FirstRand.

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13 September 2004