JOHAN BURGER | Chief Financial Officer

CFO'S REPORT

The Group's performance management strategy is a cornerstone of the Group's overall strategy and is closely aligned with operational and financial objectives.

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INTRODUCTION

This FirstRand Limited ("FirstRand") CFO's Report represents a high level overview of:

- The Group's performance management strategy, covering;
  - risk management strategy;
  - capital management strategy;
  - assessing performance;
- Excess capital and capital raising;
- The future impact of International Financial Reporting Standards (IFRS); and
- The Group's dividend policy.

Details pertaining to these issues where they specifically relate to the two wholly-owned subsidiaries of the Group namely FirstRand Bank Holdings ("the Banking Group") and Momentum Group Limited, and its 64.7% subsidiary Discovery Holdings Limited, can be found in the respective CFO reports on page 121 (Banking Group) page 228 (Momentum) and page 300 (Discovery) of the Annual Report.

FINANCIAL HIGHLIGHTS

The Group achieved excellent results for the year to June 30th 2005, and its performance in summary is:

R million	2005	2004	% growth
Headline earnings for the FirstRand Limited Group	7 602	5 763	32
Currency translation (gains)/losses on integrated foreign operations			
– Banking Group	(264)	370	
Headline earnings excluding impact of foreign currency translation	7 338	6 133	20
Cents			
Earnings per share (cents)			
Basic	154.3	110.0	40
Diluted	151.2	107.4	41
Headline earnings per share (cents)			
Basic	146.2	111.0	32
Diluted	143.3	108.4	32
Headline earnings excluding impact of foreign currency translation per share (cents)			
Basic	141.1	118.1	19
Diluted	138.3	115.3	20

The weighted average number of shares used to calculate earnings per share was determined as follows:

Million	2005	2004
Number of ordinary shares in issue	5 613.6	5 476.4
Less: Treasury shares held	(426.2)	(249.7)
Total	5 187.4	5 226.7
Number of ordinary shares in issue at beginning of year	5 476.4	5 460.3
Adjusted for:		
– Treasury shares	(293.7)	(268.2)
– Odd lot offer (less than 100 000)	(–)	–
– Conversion of "A" preference shares	2.2	–
– BEE transaction	15.0	–
Weighted average number of shares	5 199.9	5 192.1
Plus: Potential dilution relating to share options		
– "A" preference shares	42.4	62.1
– Share options	64.1	62.9
Diluted weighted average number of shares	5 306.4	5 317.1

The relative contributions to headline earnings excluding impact of foreign currency translations by the three main subsidiaries were:

%	2005	2004
Contribution		
Banking Group	79.2	78.1
Momentum	16.4	17.6
Discovery	4.4	4.3
Total	100	100

GROUP PERFORMANCE MANAGEMENT STRATEGY

The Group's performance management strategy is a cornerstone of the Group's overall strategy and is closely aligned with operational and financial objectives. Whilst recognising the Group's overall business philosophy which is to run a decentralised management structure with autonomous business units, certain principles are formulated at the centre, designed to optimise performance and deliver superior and sustainable shareholder value.

One key area where these principles are applied is risk management which breaks down into the following components, (these are covered in more detail further in this report):

- Credit risk management;
- Interest rate management;
- Liquidity risk management;
- Market risk management; and
- Underwriting risk management.

Other key risks are covered fully in the Risk Reports of the Banking Group and Momentum. These include:

- Operational risk management;
- Insurance risk management;
- Business continuation and disaster recovery risk management;
- Legal risk management; and
- Compliance risk management.

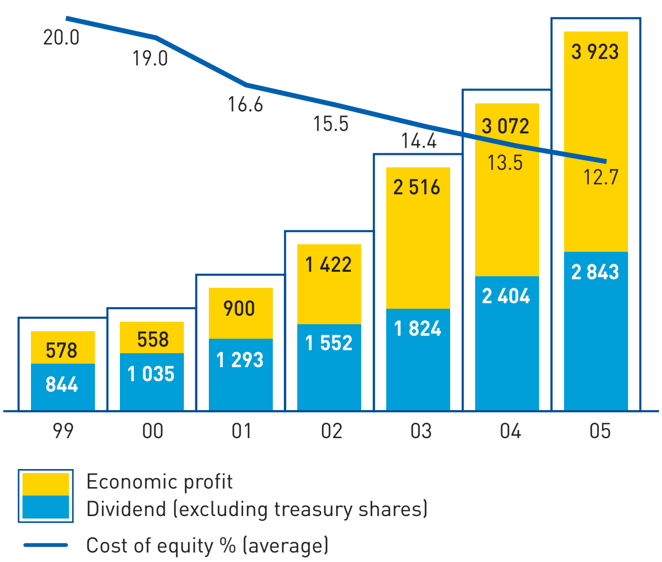
The second key area is Capital Management and on page 17 of this report is a detailed explanation of the Group's Capital Management strategy.

Economic capital and risk adjusted performance measurement principles have been embedded in the management culture of the organisation through economic profit contribution measurement. Business units are assessed on their contribution to the Group's profits, after the deduction of a capital charge on the higher or risk adjusted capital or regulatory capital allocated.

Economic profit ("EP"), (also referred to as net income after capital charge), is a function of the headline earnings and the capital utilised in the businesses. This measurement aligns the interests of management and shareholders.

The table below illustrates the benefits of this approach:

Total shareholder value-add
(R million)
CAGR: 30%



Risk management

A successful business has to manage all its business risks effectively in order to achieve optimal performance, avoid adverse outcomes and prevent reputational damage. FirstRand's risk management philosophy has been inculcated throughout the organisation and the underlying businesses apply its key principles rigorously. Certain risks, which require specialist skills are managed at the centre.

FirstRand sees risk management as a critical tool to:

- identify strategic and operating business risks
- track that these risks are properly managed to yield a return commensurate with the risk, and correct shortcomings
- capitalise a business to match its risk profile in order to ensure its sustainability.

Credit risk

As credit risk represents 79% of the overall group risk profile it remains a critical area of focus. FirstRand believes it has very sophisticated rating methodologies and credit scoring models which are applied universally across all the businesses. This allows the Group to appropriately price for risk and put assets on the book of the quality required to generate adequate profits and achieve targeted return on equity.

The Group manages the credit exposure on its books as an active portfolio and this approach allows it to ensure an optimal credit risk profile.

Interest rate risk

The Group applies a similarly dynamic approach to interest rate risk which is managed in a specialist central department and the strategy is to protect the interest rate margin by way of interest rate hedges. In 2003 the Group identified the potential decline in interest rates and put certain interest rate hedges in place. To date the hedges have provided R1 billion protection to the endowment effect. These hedges will contribute additional income of R400 million over the next two years (R250 million in 2006 and R150 million in 2007) provided interest rates remain at current levels.

Since 1998 the Group has adopted Matched Maturity Funds Transfer Pricing to manage its interest rate risk. The mechanism of funds transfer pricing removes the hedgeable interest rate risk from the business unit and transfers it to the centre. This enables the centre to focus on the interest rate mismatch and allows the business units to focus on client and product profitability. The intention is that the business units should use the funds transfer price (being the cost of funds) as an input to their commercial pricing decisions.

Liquidity risk

The liquidity risk management framework aims to ensure that the Banking Group has sufficiently diversified funding sources to meet obligations when they fall due, as well as funding ongoing lending and trading activity under increasing levels of stress at a minimum acceptable level of cost.

The Group includes the liquidity risk cost in the Matched Maturity Funds Transfer mechanism which ensures that the business units are priced accordingly for the liquidity risk that is transferred to the Group's balance sheet.

Market risk

The Group manages market risk by means of stress loss limits which has resulted in market risk representing only 2% of the overall Group risk profile. The Group is positioned as an execution agent for clients in the financial and capital markets rather than a proprietary trader. For more detailed analysis of our market risk exposure, please refer to page 136 of the Annual Report.

Underwriting risk

Momentum proactively manages its underwriting risk by:

- conducting regular investigations into actual mortality and morbidity experience; and
- reinsuring non-standard risks and mortality risks above a defined retention limit.

The reinsurance is placed with a panel of treaty partners selected from the top local reinsurers. The cost of reinsurance is included in the product pricing.

Capital management

FirstRand has always adopted the philosophy of charging its business units for the use of capital. In 2001 the Group recognised that Basel II, the international framework for measurement and minimum capital standards (to be implemented globally in 2007) would provide sophisticated tools to further enhance this practice. As a result the Group has already fully incorporated a number of the principles applied by Basel II into its existing capital management strategy. This has not only allowed the Group to become more efficiently capitalised but it also means that the impact of full implementation of Basel II in South Africa, in 2008, will be minimal.

The overall framework for the management of the Group's capital base consists of three pillars as depicted in the diagram below: Active capital management is one of the five pillars in the growth strategy of FirstRand which is outlined in Laurie Dippenaar's CEO's Report.

Through the framework and its associated processes, Capital Management aims to enhance shareholder value. This is achieved through the proactive management of the level of capital, the investment of capital and the allocation of capital as indicated in the diagram below:

	Level of capital	Investment of capital	Allocation of capital
Objectives	• Minimise economic risk exposure • Optimise cost of capital through choice of capital instruments	• Investment capital base to maximise wealth within acceptable earnings at risk and economic risk	• Strategic decision making • Risk adjusted performance measurement • Pricing and reversing for expected and unexpected losses
Principles	• Internal capital adequacy assessment process • Capitalise at highest of economic capital or regulatory capital plus appropriate buffer	• Profile managed by specialist business unit • Rolling investment profile • Invest in Government assets or provide funds to funding pool	• Bottom-up calculation on risk adjusted basis • Credit, market, investment, interest rate, operational, insurance and other residual risks
Focus	**Capitalise in line with economic risk exposure of FirstRand**	**Invest capital to produce optimal risk adjusted return**	**Alignment of managers' and shareholders' interest**