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CHAIRMAN'S REPORT

GT FERREIRA / Chairman

This year's performance

The Group's results reflect how well positioned FirstRand is to take advantage of the current economic environment. The Banking Group had another very strong year, delivering exceptional headline earnings growth of 24% on the prior year. This was mainly due to organic growth aided by a buoyant retail market and outstanding performances by both the investment and corporate banking operations.

The Momentum Group's 14% growth in headline earnings was due to good new business growth in risk, linked investment products and unit trusts, and the restructuring of its shareholders' assets. Thanks to improved investment markets and good inflows of new business, the asset management businesses showed good growth.

Discovery Group delivered an excellent performance across all its businesses with both the Life and Health divisions showing strong new business growth and improved efficiencies respectively. The US Illinois operations of Destiny Health have turned profitable and the new joint ventures are on track.

The Group's overall headline earnings (excluding translation losses) grew 13% to R6.1 billion with headline earnings per share increasing 19%. We have declared a final dividend of 26.75 cents with the total dividend for the year increasing by 31% from 35 cents to 46 cents. We have taken the decision to reduce the dividend cover 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.

Our dividend policy is to focus on sustainable dividend growth. The Group's headline earnings include certain once-off items such as translation gains and AC 133 adjustments which introduce volatility, and are therefore excluded from the dividend calculation.

Strategic issues

FirstRand signed an agreement on 1 July 2004 to dispose of its interest in Ansbacher to Qatar National Bank at an immediate premium to net asset value of £7.5 million and a possible future premium of £7.5 million depending on the performances 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.

The Group's intentions regarding the capital to be released following the disposal are dealt with in Johan Burger's CFOs' report and the Group's future international strategy going forward is covered in detail in Laurie Dippenaar's CEOs' report.

Relevant to Ansbacher, in the first half of the year FirstRand reached a settlement with the Irish Tax Authorities relating to its alleged tax liabilities in Ireland and a payment of €7.5 million (approximately R61 million) was agreed in full and final settlement of the matter.

Whilst we still believe, based on independent legal advice, that there was no liability to Irish tax at all, it was clear that the complexity of the legal issues, aggravated by the lack of records available as the matter dated back almost 30 years, would result in protracted and very expensive litigation.

Our legal teams advised that the litigation costs going forward would be considerable with the litigation process running for probably a further five years. Whilst we still firmly believe that ultimately we would have been successful in court, to get to that point would have incurred significant legal costs and consumed considerable management time. Therefore we decided to take a reduced level of cost "on the chin" now through this settlement, so that Ansbacher and FirstRand could resolve this issue and bring certainty to shareholders. The settlement was therefore reached on a pragmatic and realistic basis.

The Financial Services Charter

FirstRand remains focused on meeting or exceeding its responsibilities under the Financial Services Charter. However, the Charter is not a sprint race, and we are wary of quick fixes that may come back to bite us, therefore our strategy is to meet the Charter targets based on solid business principles that will effect real and sustainable transformation.

As far as the current score card is concerned, the targets remain challenging but we are doing quite well in most of the categories. In terms of HR development we are well positioned in both the junior and middle management segments, although senior management remains one of our greatest challenges.

Our retail bank FNB has made significant progress in rolling out real solutions to the access to banking challenges. The innovative delivery channels such as the mini ATMs and portable branches are examples of solutions that not only make banking immediately accessible to remote communities, but are also efficient and therefore impact positively on the bottom line.

The Group is very well positioned in terms of empowerment financing. Rand Merchant Bank (RMB), the Group's investment bank, is a leader in BEE funding and was voted by the Business Map Foundation, for the second year running, the top commercial (ie, non-government) financier of BEE deals. RMB also has a leadership position in transformational infrastructure finance. In fact BEE transactions have had a positive impact across many of our investment banking operations, particularly structured finance, private equity and corporate finance.

I believe that the benefits of the Charter are already showing. Just the fact that FNB alone has rolled out over a thousand mini ATMs means that thousands of South Africans in remote communities are able to have access to a basic need – cash. Our portable branches in townships mean that people do not have to travel long distances to withdraw money or deposit savings, thus providing a secure and viable solution.

The Charter is certainly harnessing the muscle of the financial services sector to ensure genuine and practical empowerment for millions of South Africans.

Structuring the Group's own BEE ownership deal has been a very complex challenge. We have made significant progress towards an empowerment transaction with our initial energies focused on securing third-party funding. It appears however as if the size of our BEE transaction (± R6 billion) will force us to also consider vendor or own financing, as we have been unable to secure sufficient third party finance for our BEE partners.

In an effort to ensure meaningful transformation and empowerment by spreading the economic benefits over as wide as possible a section of previously disadvantaged South Africans, one of the key criteria used in choosing our BEE partners has been the broad base of their constituencies. The Group has signed a Memorandum of Understanding with its four broad-based BEE partners and is currently finalising the funding agreements. FirstRand is hopeful of announcing the detailed terms of the transaction by the end of the calendar year.

Prospects

Looking forward we continue to feel cautiously optimistic about the year ahead.

The South African economy is expected to show accelerated growth during the 2005 financial year, barring any unforeseen external shocks and following the 50 basis point reduction in rates during August 2004, interest rates are expected to remain stable during the coming financial year.

Overall we believe such an environment is positive for financial services. Although the lower rate environment is expected to continue to put pressure on the Banking Group's margins, the higher levels of disposable income of retail consumers and buoyant residential property and vehicle markets are expected to generate further growth in credit demand. This in turn will result in growth in volumes which will partially counteract the margin impact.

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The disposal of Ansbacher should be completed during the first half of the current financial year. As previously indicated, this should free up significant capital for redeployment.

The Group believes that the underlying strength of all its businesses, the diversity of its earnings base and its relentless focus on both innovation and operating efficiencies, will continue to deliver good organic growth. This, combined with a favourable operating environment, opportunities generated through further collaboration across business units and the development of new markets, both locally and internationally, means that the Group will maintain its long-term historic real return to shareholders.

Board restructure

During the year we restructured the FirstRand boards, with the appointment of two new directors to the FirstRand Limited board, four new directors to the FirstRand Bank board and five new directors to the Momentum Group board.

The FirstRand Limited board was joined by two independent non-executives, Lulu Gwagwa, previously CEO of the Independent Development Trust and currently a non-executive director of ACSA and HSRC; and Gugu Moloi, the CEO at Umgeni Water. Barry Adams resigned from the FirstRand Limited board after 10 years of association with the Group, as he wishes to reduce his business commitments in order to spend more time with his family.

The FirstRand Bank board appointed four independent non-executive directors, Irene Charnley, commercial director for the MTN Group, Roger Jardine, CEO of Kagiso Media Limited, Sizwe Nxasana, CEO of Telkom SA and Ben van der Ross, previously CEO of Business South Africa and an existing director of the FirstRand Limited board. Sadek Vahed and John Gafney, who both reached retirement age, retired from the board after many years of service, respectively on the FNB and RMB boards. In addition Michael Brogan, chairman of RMB International, stepped down from the board due to his increased international commitments.

The Momentum board appointed two independent non-executive directors, Sipho Sithole, deputy CEO of Gallo Music Group, and Phillip Mjoli, deputy CEO of Transnet Pension Fund Administrators. In addition, three executive directors, Danie Botes, Kobus Sieberhagen and Frans Truter, were appointed to the Momentum board.

The restructuring was the result of a strategic review of all the boards in the FirstRand Group and should be seen as the first step in an ongoing process across the group with a view of creating boards that are both appropriate to the FirstRand vision going forward as well as achieving a better balance in terms of gender and colour.

We are very pleased to welcome the new directors to the FirstRand Group and excited at the prospect of fresh perspectives and new thinking that these appointments bring. At the same time I would like to thank the retiring directors for their invaluable guidance and wisdom over the past years and wish them well in their retirement.

Finally, I would like to thank the management and staff of the entire FirstRand Group for their continuing commitment to the business. Our successful track record is due to the hard work of every one of our very special people and I am personally very privileged, proud and honoured to be associated with the FirstRand Group.

GT Ferreira
Chairman

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13 September 2004