NATURE OF BUSINESS

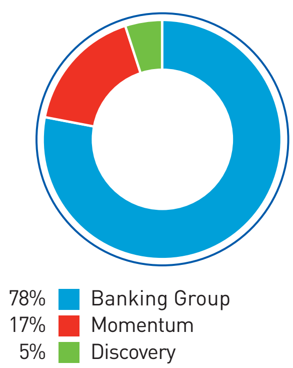
Listed on the JSE and the Namibian Stock Exchange, FirstRand Limited is an integrated financial services group providing a comprehensive range of products and services to the South African market and niche products in certain international markets.

Since the creation of FirstRand in 1998 the diversified earnings base of the Group has delivered strong growth in earnings, assets and dividends. The Group's track record has been achieved through a combination of organic growth, acquisitions, innovation and creating extra sources of revenue through the start-up and development of completely new businesses such as Discovery Group and OUTsurance.

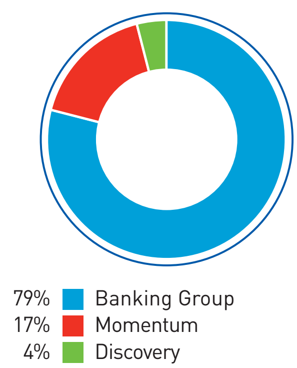
The Group is differentiated by its de-centralised structure and owner-manager culture. It has a portfolio branding strategy and there are a number of leading brands within the Group such as Rand Merchant Bank ("RMB"), First National Bank ("FNB"), WesBank, Momentum and Discovery.

RESULTS HIGHLIGHTS

Normalised earnings analysis
2006



Normalised earnings analysis
2005



Financial highlights

	% change
Headline earnings	+21
Diluted headline earnings per share	+20
Normalised earnings (unaudited)	+21
Diluted normalised earnings per share (unaudited)	+19
Ordinary dividend per share	+20
Total assets under management or administration	+24

RUDOLF GOUWS / Chief Economist, Rand Merchant Bank

The economy's good performance continued in the Group's past financial year. Against a backdrop of relatively stable inflation and interest rates, there was again strong growth in expenditure, income and output. These favourable conditions allowed corporate profitability and private sector fixed investment to rise appreciably, which supported job creation.

The favourable position in which consumers found themselves over the past financial year is reflected by the record high levels of the FNB/BER Consumer Confidence Index. The positive mood, coupled with low interest rates and easy financial conditions, encouraged substantial increases in consumer borrowings. Demand for asset-backed credit was especially strong, driven largely by mortgage finance. Further income tax relief and the increase in Government grants boosted the income of many of the poor and so supported consumer spending.

Companies that were positioned to take advantage of the buoyant domestic demand experienced strong increases in profitability. This was reflected in the RMB/BER Business Confidence Index, which maintained record high levels. Though the corporate sector in general is cash flush, corporate credit demand strengthened somewhat as companies took advantage of the strong economy and favourable financing conditions to fund capital expenditure projects. The rise in private sector fixed investment is increasingly being underpinned by the investments of public corporations, which are the engines of Government's capital expenditure drive now getting underway.

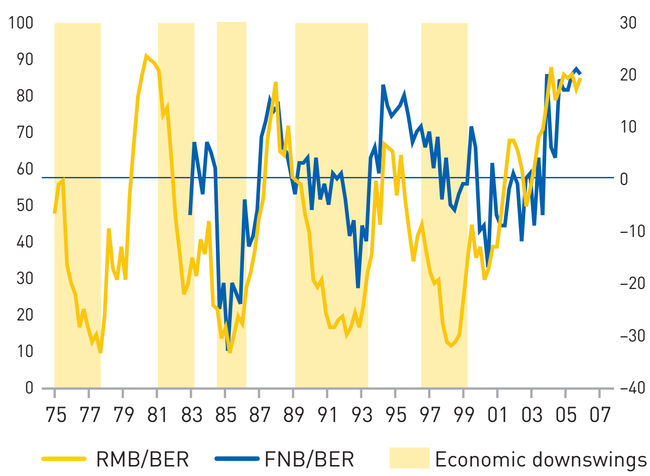
Notwithstanding tightening of policy by a number of central banks, and sharply higher international oil prices, the global economy sustained the strong growth of the past two years. This was attributable partly to the continued robustness of key emerging market economies, most notably China, which also helped boost commodity prices. This benefited South Africa, which enjoyed improved terms of trade with the rest of the world. Export-oriented and import-competing industries did feel the adverse impact of the strengthening currency, but the economy seems to have grown more resilient to a strong Rand over the past four years.

The economy's higher growth path attracted portfolio inflows into the equity market. These and other foreign investment inflows enabled South Africa to run an overall balance of payments surplus. This allowed the South African Reserve Bank to build its foreign exchange reserves. Following Barclays' acquisition of a majority stake in ABSA, the volume of foreign direct investment gathered pace, the most significant transaction subsequently being the increase by Vodafone of its shareholding in Vodacom.

Following the sharp declines of the previous two years, short-term interest rates held steady during the Group's past financial year. The low level of interest rates supported further asset price growth, with share prices on the JSE scaling new highs as companies reported record earnings. However, without the boost of further interest rate reductions, property prices lost some of the momentum of previous years.

CPIX
(y/y%)

RMB/BER Business Confidence and FNB/BER Consumer Confidence Index



The rise in private sector fixed investment is increasingly being underpinned by the investments of public corporations, which are the engines of Government's capital expenditure drive now getting underway.

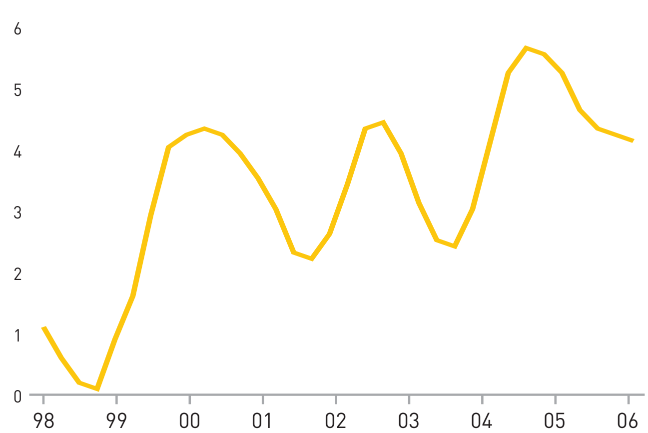
CEES BRUGGEMANS / Chief Economist, First National Bank

Robust economic growth led to tax revenues overshooting, and resulted in a substantial narrowing of the budget deficit. This reduced the supply of Government paper in the domestic bond market, driving yields to record low levels midway through the financial year. Upgrades by all three major credit rating agencies helped ensure that the sovereign spread of government's latest Eurobond issue was the lowest ever achieved. This is confirmation that foreign investors have become more confident about the Government's macro-economic policies.

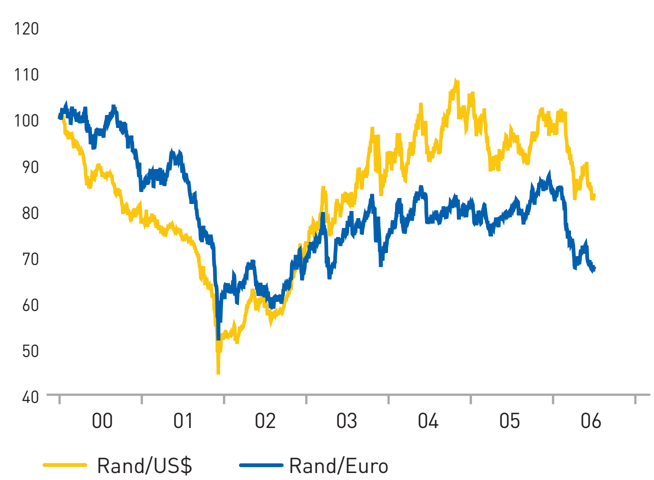
During the second half of the financial year it became clear that the long phase of strong growth in domestic demand had eventually started to generate macro-economic imbalances. In particular, the strong rise in consumer spending boosted imports which, along with a further sharp rise in international oil prices, substantially widened the current account deficit. At the same time, rising global interest rates brought about a re-pricing of risky assets by global investors, contributing to a sharp fall in the Rand and other emerging market currencies. An increase in global risk aversion and expectations of further international interest rate hikes saw asset prices give up some of the gains seen earlier in the year. The results of the weaker currency and sharply higher oil price could also be seen in higher inflation at both the consumer and producer levels. Together, these developments prompted a tightening of the monetary policy stance in South Africa, with increases in the Reserve Bank's repo rate in June and again in August.

The year ahead is unlikely to quite match the past year's economic growth performance. With higher interest rates and inflation, as well as the need for households to digest the sharp increase in their indebtedness of the past four years, consumer spending growth is expected to slow down. As a result, the growth in credit extension to households is also likely to moderate, while banks' bad debts may increase somewhat from current low levels. However, buoyed by public sector investment spending and sound long-term economic prospects, private fixed investment (and the demand for credit and capital) should continue to expand.

Real growth in domestic product
(y/y%)



Exchange rates



With 2010 and the Soccer World Cup on the horizon, Government's stated commitment to investment in services and infrastructure, strong corporate balance sheets and a growing consumer base, all contribute to a positive picture in South Africa for the next few years.

GT FERREIRA / Chairman

Dear Shareholder

The Group's performance

Often a Chairman's statement will start with a long exposition on the state of the economy, something I have also attempted in the past. However, FirstRand benefits from the views of two eminent South African economists, Rudolf Gouws of RMB and Cees Bruggemans of FNB and their extremely comprehensive overview of the SA economy can be found on pages 2 and 3 of this Annual Report.

I would simply like to reiterate that, during my lifetime, the SA economy has never been in better shape and I do believe that we have achieved, through excellent fiscal decision making by the Government, a structurally lower inflation and interest rate environment. This does not of course mean that we will not experience cyclicality and as this year drew to a close we started to see relatively small incremental increases in interest rates. These increases are not, in my view, the beginnings of another boom bust scenario, they are corrections required due partly to concerns of overheating in some segments of the economy but mainly due to significant external issues such as US and global interest rate increases, an increasing oil price and the large deficit on our current account.

With 2010 and the Soccer World Cup on the horizon (something I will return to later in this statement), Government's stated commitment to investment in services and infrastructure, strong corporate balance sheets and a growing consumer base, all contribute to a positive picture in South Africa for the next few years.

FirstRand produced excellent results for the year, growing normalised earnings by 21%. The Banking Group, which produced normalised earnings growth of 20% to R7.268 billion, benefited from an outstanding performance from Rand Merchant Bank ("RMB") and strong performances from First National Bank ("FNB") and WesBank. Sustained low interest rates continued to result in strong advances growth for FNB and WesBank although margin pressure increased. The strong equity markets and a healthy pipeline of BEE transactions underpinned the excellent performance of RMB's businesses.

Momentum delivered strong results in what remained a challenging operating environment, growing normalised earnings 23% to R1.564 billion. The combination of buoyant equity markets and the continued success of Momentum's distribution model resulted in a significant increase in lump sum investment inflows. Sales of recurring premium risk policies continued to also show strong growth, although sales of recurring premium investment products were negatively impacted by a reduction in retirement annuity sales.

Discovery delivered an excellent performance growing normalised earnings by 34% to R424 million. This performance reflects the success of Discovery's organic growth strategy.

Some of the challenges we faced during the year

One of the most significant challenges facing financial services globally is ever increasing regulation and South Africa has not escaped this trend, in both the banking and insurance sectors.

The Centre for the Study of Financial Innovation, in association with PricewaterhouseCoopers Inc., conducts an annual survey on the risks facing the banking industry worldwide, and compiles a document called the Banking Banana Skins Report. This year they surveyed 468 banks in 60 countries. It is interesting to note that for the second year running, banks worldwide regarded excessive regulation as the most important risk factor (ahead of credit and derivatives) facing the banking industry. The reasons include cost, diversion of management time and the sheer volume of regulatory initiatives.

Banking in particular is one of the most regulated industries in the world, which is appropriate given the influence these institutions have within economies. Systemic risk is something to be avoided at all costs but at the same time, it is also critical that financial institutions are profitable.

South Africa is committed to being a free market and therefore banks have to compete for capital, both funding and equity. If the return on the equity portion is inadequate, the banks will not attract further capital and debt funding, thus constraining their ability to lend and therefore grow. This in turn can constrain the growth of the economy.

It is also critical that the banks retain the trust and confidence of depositors that their money is safe and that their capital and interest will be paid. The reputations of banks therefore must be protected.

There is no doubt that over regulation can have a significant impact on profitability. In his introduction to the Banking Banana Skins 2006 report Andrew Hilton, Director of the Centre for the Study of Financial Innovation says "...regulation is not a free good; it is added to the cost of every single financial product and if it is excessive, that excess means we will all earn less from (and pay more for) the financial services we purchase. Over regulation also means that another row of bricks will have been added to the barriers that keep new entrants out of the banking industry – and that, inevitably means less competition, less innovation and generally higher charges".

Whilst I am not suggesting that we are in a situation of over regulation in South Africa, it is important that our policymakers understand the correct balance between risk and benefit. There may be some practices in the system that must change and the introduction of FAIS, FICA and the National Credit Act are all broadly positive for the banks and the consumer. However, we have a very sophisticated and robust financial services industry in South Africa that is admired in many developed and emerging markets and we must be careful not to regulate that industry out of business or erode its image in the eyes of its customers.

It is also important that policymakers do not fall into the trap of believing that all risks can be "regulated away". Banks are fairly good at managing risk, and it is a key competitive advantage for their business. We are fortunate that we have a regulator that understands the importance of this delicate balance.

Clearly, however, the combination of healthy regulation and consumerism can be a very positive force for change. I believe the investigations by the Pension Funds Adjudicator ("PFA") resulted in good news for the consumer and will ultimately be constructive for the insurance industry as a whole. Momentum is certainly applying its mind to providing value for money products to its customers and whilst this may in the short term impact negatively on margins, it is a fundamentally more sustainable way of dong business.

Banking fees remain a very relevant issue but an emotionally charged one. Those with a vested interest to bash the banks tend to ignore the facts and the media have dedicated thousands of column inches to the topic with varying degrees of insight. There have been a few research papers which have tried to apply a more scientific assessment of South African fees and benchmark them against other markets. For example, in their study for Finmark Trust, Genesis-Analytics noted that "the banks' cost of operations may also have an impact on prices charged to consumers. In Brazil, Kenya and South Africa, where labour costs are high, the bank charges at first glance seem amongst the highest in the accounts surveyed. In contrast Malaysia's low labour costs are reflected in lower bank charges".

There is no doubt that the cost of running a traditional bricks and mortar infrastructure is a large part of a bank's cost base, which ultimately has some impact on fees and FNB, in particular through its pricing strategy, has tried to migrate its customers to cheaper channels such as ATMs, the Internet and cellphones.

There is also much talk about the fact that the UK banks provide "free" banking for individuals (it is not free for SMEs). The fact is that the UK banks have very similar levels of profitability to banks in South Africa but generate their revenues in different ways. UK banks focus more than South African banks on interest revenue (from borrowing and lending) as well as charging more penalty fees. This approach to pricing hides the true costs to consumers and results in borrowing or lending customers cross subsidising transacting customers. It is worth noting that the net interest margins of the South African banks are over a third lower than the average for Global Emerging Markets' banks. These differences as well as many others, such as disparities in demographic profiles (South Africa has high inequality and many lower income consumers), financial literacy, security costs and regulation make simple comparisons difficult and ultimately misleading.

This debate will go on for a long time and in the end, the banks and the policymakers all need to be pragmatic. However, what is important is that the facts must take precedent over fiction particularly if it is designed to place un-commercial pressure on the banks.

There needs to be a resolution where everyone benefits. Such an example is the introduction of the National Credit Act. The Act is somewhat of a double edged sword in that whilst there is a component of FNB's fees which will come under pressure, on the other hand it creates a "level playing field" in certain segments, where the retailers and other non-regulated providers of finance have operated very profitably, which the established players can now enter. My view is that one of the reasons this Act is largely constructive is that there was effective engagement between the regulators and the industry, something that was also a crucial element of the PFA resolution.

We are also fully committed to working with the Competition Commission to ensure that customers get value for money but at the same time South Africa maintains a world-class payment system and highly competitive banking industry.

We believe that competition between the banks is already vigorous. Our view is that a competitive market drives innovation and change, improving our business, our customers' experience and ultimately our country. We will continue to compete aggressively on product, service, channels, price and brand to attract and retain customers.

There is no doubt that regulation and consumerism will continue to be part of the financial services landscape for quite some time. We remain hopeful that regulation will continue to focus on the promotion of a healthy banking and insurance system and not a response to populist thinking or political expediency. This is particularly critical if we wish to maintain shareholder confidence and continue to attract international investors to our banks and insurance companies as this is ultimately what creates capacity to grow.

2010 a catalyst for growth

Moving on to a very different topic, I was particularly fortunate this year to attend the Soccer World Cup in Germany. Not only was it a truly memorable sporting experience but it provided me with a real sense of the benefits the hosting of this event will bring to South Africa and the rest of Africa. It will certainly put the Continent, and especially the region, "on the map" with millions of people who have only a very limited appreciation of how exciting Africa can be. As a veteran spectator who attended three Soccer World Cups, four Rugby World Cups and six Olympic Games I think I have a valid perspective.

Can we handle the World Cup? I have no doubts that we can. I believe we will provide the venues, manage the logistics and provide a safe and efficient environment for the expected 500 000 visiting spectators during their 30-day stay in South Africa. Whilst we cannot afford to underestimate the challenges, Danny Jordaan has already stated publicly that he will pull together a "dream team" of local and international experts to ensure that we host an outstanding event. In addition, Government is behind it, business is behind it and over the next four years and beyond the economy will benefit from the anticipated investment required in roads, airports and technology, to deliver it. The transport and accommodation market has a way of sorting itself out (with a little bit of help from the authorities).

Michael Jordaan, the CEO of FNB, was with me in Germany while FNB was successfully negotiating to become an official National Sponsor of the FIFA 2010 World Cup. Michael lived in Germany at the time the Berlin Wall came down and he commented that in his view the real unification of East and West Germany finally happened in June this year courtesy of one of the greatest German soccer sides in recent history. I think therefore that in 2010 we could experience a further cementing and celebration of the South African unification story – although Bafana Bafana will need to get down to some serious training to make the semi-finals as the Germans did in 2006. At least we seem to have the right coach on board!

FNB was successful in its bid to become the first South African corporate to sign up as the financial services National Supporter of the 2010 World Cup for a total cost of $30 million. A key business benefit is that FNB takes on the role of the Official Bank of the 2010 FIFA World Cup and will be well positioned to compete for all business related opportunities. These range from tourism and hospitality to forex, transport and infrastructure and returns from these activities are expected to be well in excess of the sponsorship cost.

Major marketing benefits include access to tickets, direct association with FIFA and the official emblem and official provider of all event related financial services products. Ultimately, we believe that FNB's high profile association with the event will significantly enhance its brand and market share in the growing black middle market.

Management and vote of thanks

In September 2005, we announced that Laurie Dippenaar had decided to step down from his position as CEO at 31 December 2005. He remains on the board of FirstRand as a non-executive director and retains his position as chairman of Momentum Group, Discovery Holdings and OUTsurance. He also serves in a non-executive capacity on the board of FirstRand Bank Holdings and certain other group subsidiaries.

As a result of Laurie's decision, Paul Harris CEO of FirstRand Bank Holdings was appointed to replace Laurie at the FirstRand level and Sizwe Nxasana, previously a non-executive director of the Banking Group and CEO of Telkom, replaced Paul effective 1 January 2006.

The Group's succession plans have worked well and the changes have been relatively seamless.

Laurie Dippenaar has served our Group well in various executive and non-executive positions over the past 30 years. He was appointed CEO of FirstRand when the company was formed in 1998 and during his tenure as CEO, group earnings grew by an annual compound rate of 20%. We are delighted that the Group still enjoys his strategic input and in recognition of the remarkable contribution that he has made over the last eight years have decided to establish a post-graduate scholarship fund in his honour, with an initial seed capital contribution from the Group of R12 million. Laurie will contribute an additional R1 million of his own money to the fund. The scholarship, to be known as the FirstRand/Laurie Dippenaar Scholarship will form part of the FirstRand Foundation Educational Trust. It is envisaged that the Trust will grant one or two post-graduate scholarships each year for study at overseas universities. Details of the scholarships will be announced in due course and will be targeted at benefiting the brightest minds in South Africa.

Lastly, I wish to thank our shareholders, board of directors and last, but not least, our management and staff, for their efforts and contribution over the last year. Without your assistance FirstRand could never be the special company that it is and it is indeed an honour and a privilege for me to serve as the Chairman of the FirstRand Group and I am incredibly proud to do so.

GT Ferreira
Chairman

PAUL HARRIS /
Chief Executive Officer

FirstRand's performance in the year to June 2006 represents the continuation of a track record of excellent growth and returns to shareholders since its inception in 1998. The Group has delivered a compound annual growth rate of 21% in earnings and 23% in dividends and has also maintained a return on equity ("ROE") well ahead of our stated target of 10% above the weighted average cost of capital.

The Group has achieved this consistent performance through focusing on a number of core strategies which underpin the way we run this business. During 2006, the combination of these strategies and a strong external environment meant that despite the high base created last year, the Group exceeded its earnings growth target of 10% above inflation.

With regard to the external environment we believe that there has been a fundamental structural change in the South African economy. Political and economic reform has essentially restructured the economy and increased competition across all sectors. This, together with a sound monetary policy and fiscal discipline has provided a favourable climate for growth in the economy and financial services has been one of the sectors to benefit. Micro-economic reform has increased social delivery and we have seen formal employment expand. Tax and interest rate cuts have increased disposable income levels and the impact of Black Economic Empowerment, particularly in the area of employment equity, is creating a new black middle class, which is critical to a stable political and economic landscape.

For FirstRand, this environment has provided a number of key growth themes, against which our businesses are particularly well positioned.

Firstly, lower interest rates and inflation created a climate for strong organic growth for our commercial bank, First National Bank ("FNB"), our instalment finance business, WesBank and our insurance businesses, Momentum and Discovery.

In every area of its business, in almost every segment and product line, FNB not only had robust growth but also grew faster than its peers and therefore grew market share. A pleasing feature was that both FNB and WesBank not only grew volumes but also had good growth in new customers. FNB's growth is evidenced in the table below.

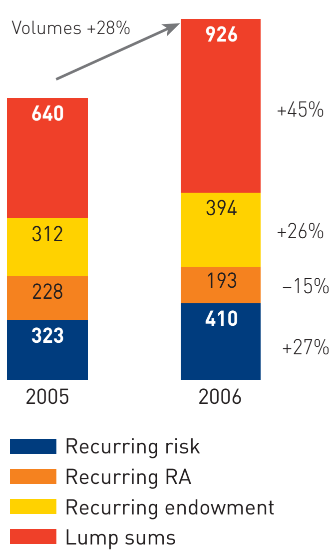
FNB growth in customers

	June 2005 000's	**June 2006 000's**	Volume growth %
Customer base*	4 422	**5 153**	↗ 17
InContact	1 855	**3 417**	↗ 84
eBucks customers	865	**982**	↗ 14
Internet bankers	389	**537**	↗ 38
Telephone bankers	159	**192**	↗ 21
Cellphone bankers	74	**218**	↗ >100

** Including WesBank, customers amount to 5.6 million.*

Momentum also benefited from the strong economy. As can be seen from the chart below, new business volumes grew strongly across all the main product areas except for retirement annuities.

Momentum's new business annualised premium income (Rm)



As a result of Black Economic Empowerment, significant wealth transfer has taken place in South Africa. The combination of employment equity policies, black ownership transactions, procurement policies and enterprise development has resulted in the rapid emergence of a new black consumer. The main beneficiaries of the rapid growth of this market have been FNB, WesBank, Momentum and OUTsurance. For example, the strong growth in transactional accounts, debit cards, micro loans and affordable housing loans experienced by FNB in the past year is off a low base but reflects how well positioned FNB is to capture customers in this market segment.

BEE has also been a big driver of growth at Rand Merchant Bank ("RMB") which has developed considerable expertise in advising, structuring and funding BEE transactions. Although RMB took advantage of the strong equity markets and realised three large investments in its Private Equity portfolio during the year, BEE created opportunities to provide capital to a number of new BEE entities that have established themselves in the market and add attractive investments to the portfolio.

In terms of BEE transactions, RMB's Structured Finance and Corporate Finance divisions have a dominant market share and have been mandated for 44% of the total BEE deals done to date by value since 2004.

I now turn to the core strategies of the Group that we believe have contributed to the Group's growth, over and above the opportunities provided by the market. For the past 18 months FirstRand has been consistently positive on the macro, environment and has pursued an aggressive organic growth strategy. As a result of this strategy strong organic growth was experienced across all of our main businesses, which resulted in excellent top line growth as a whole.

The table opposite, which is not an exhaustive list, provides a good indicator of how this strategy enabled the Group to perform ahead of the growth provided by the market, and in many areas grow market share.

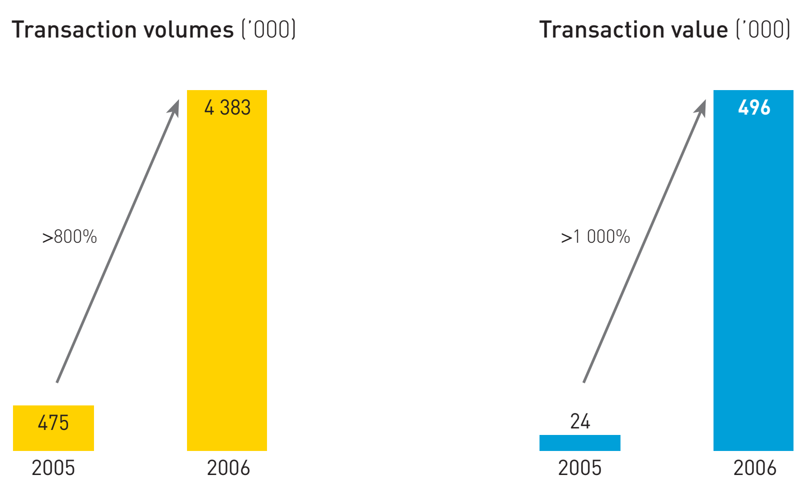
Organic growth indicators

WesBank new business	+28%
FNB HomeLoans new business	+58%
FNB Card advances	+36%
FNB Corporate deposits	+29%
RMB Private Bank advances	+28%
Momentum new business	+39%
Discovery Life new business	+25%

A critical driver of our organic growth strategy is our almost obsessive focus on innovation which I believe differentiates us from our peers, both in banking and insurance. Our innovative approach has its roots in our entrepreneurial culture and it has continued to thrive due to our structure and business philosophy.

A particular segment where we have used innovation to good effect is in the mass market. In this segment the challenge for the banks is to provide accessible and cost effective products and channels for customers. FNB has been particularly effective at responding to this challenge and has successfully used technology to provide low cost solutions. The mini ATM is a good example of deploying technology in an innovative way to service customers in rural communities and we have now deployed about 1 500 of these devices throughout South Africa. FNB's cellphone banking offering has also shown exponential growth since its launch in March 2005 (as can be seen in the charts below) and is the leading cellphone banking offering in South Africa.

FNB Cellphone banking



Given the levels of cellphone penetration in the country, we expect this growth trend to continue for some time.

We have often commented on the benefits of FirstRand's integrated structure in that it allows each business to leverage off the systems, platforms, client bases and skills of the rest of the Group. Significant top line growth has been created through the various businesses working together, we refer to this strategy as collaboration.

Examples of growth from collaboration include the success of the Discovery Card which made a significant contribution to the excellent performance of FNB Card, delivering 9% of the FNB Card's 33% growth in customer spend and 9% of its 36% growth in advances.

FNB's collaboration with Momentum has also gained traction. The strategy of selling Momentum manufactured but FNB branded insurance products through FNB's distribution channels contributed to Momentum's strong new business growth and showed an increase in earnings from R18 million in 2005 to R58 million in 2006. Momentum's short-term insurance start-up, which together with OUTsurance leverages off the skills and platform of FirstRand Short-Term Insurance, is well ahead of the business plan.

The table below demonstrates that collaboration between the banking and insurance businesses continued to contribute significantly to the Group's overall growth.

Retail NPBT from insurance operations

	June 05 (Rm)	**June 06 (Rm)**	% change
OUTsurance	214	**225**	5
FirstLink	60	**68**	13
WesBank	267	**394**	48
HomeLoans	63	**63**	0
FNB Life	20	**49**	>100
FNB Consultants	49	**63**	29
Total	673	**862**	**28**

The last point I would like to cover under our growth strategy is the extent to which our **business philosophy** has empowered our divisions and their management to provide the results we are reporting.

Unlike its peers, the Group is structured as a federation of profit centres or business units that are active in the various sectors of the financial services market. This structure is successful because it allows FirstRand to function as a number of small focused businesses that can find and swiftly exploit profitable niches. At the same time they can benefit from the financial muscle and operational critical mass of the Group. In this context we refer to FirstRand as a "jugger-niche" – a juggernaut with a niche market mentality.

Each profit centre has its own strategy and its own empowered management team supported by a brand specifically positioned to service that particular market segment or customer base. The Group has a strong portfolio of leading brands in FNB, RMB, WesBank, Momentum, OUTsurance and Discovery. All of these brands are "seeded players" and most are either the number one or two in their market segment. All this, combined with our focus on innovation has allowed us to exploit the growth opportunities the market has offered.

Looking forward, we remain generally positive on the overall macro environment, albeit that growth may not be at the exceptional levels of the past year. Our philosophy is that whilst the macro environment may make growth easier it is our business philosophy and the quality and empowerment of our staff and our strategies that must provide superior growth.

There are a number of issues and challenges that we need to address. GT Ferreira has covered at length in his Chairman's statement that one of the major issues facing financial services is **increasing regulation.** The only comment I would like to add is that both regulation and consumerism are "here to stay" and the financial services industry needs to get its house in order and focus on winning the customer over.

Transformation is an issue we take very seriously at FirstRand as we believe it is a significant contributor to the sustainability of the South African economy. We have spent a great deal of time trying to understand what transformation entails and have provided our business units with a detailed framework on how to implement it. We have communicated these guidelines internally and externally and I believe that we have been able to inspire our management to tackle transformation "from the heart" rather than as a "ticking the box exercise".

The five pillars of our strategy that are equally important are:

- Contributing to a better macro environment;
- Redressing investment imbalances;
- Employment equity;
- Facilitating the emergence of black businesses;
- Facilitating equitable ownership and control of companies.

Whilst the above pillars are relevant to all aspects of the Financial Sector Charter and Department of Labour measurements we see them as real deliverables and we have "hard-wired" them into every element of our business.

One of the perceived gaps in FirstRand's growth strategy is our apparently cautious approach to **African and international expansion.**

There are a few key principles that underpin our international strategy. The first is that we cannot replicate FirstRand internationally and we will therefore only expand the activities of those businesses within the Group that have a competitive advantage in other jurisdictions. This means that international expansion is driven at business unit level with the centre playing a facilitative and supportive role.

Looking forward I believe that the Group is in good shape and all our businesses are settled and focused on growth. We have a well-diversified earnings base, a portfolio of leading brands and empowered and committed people.

Another key principle is that we have an incremental approach to international expansion and would seek to establish "greenfields" operations or joint ventures with partners who can provide brand credibility and distribution in chosen markets.

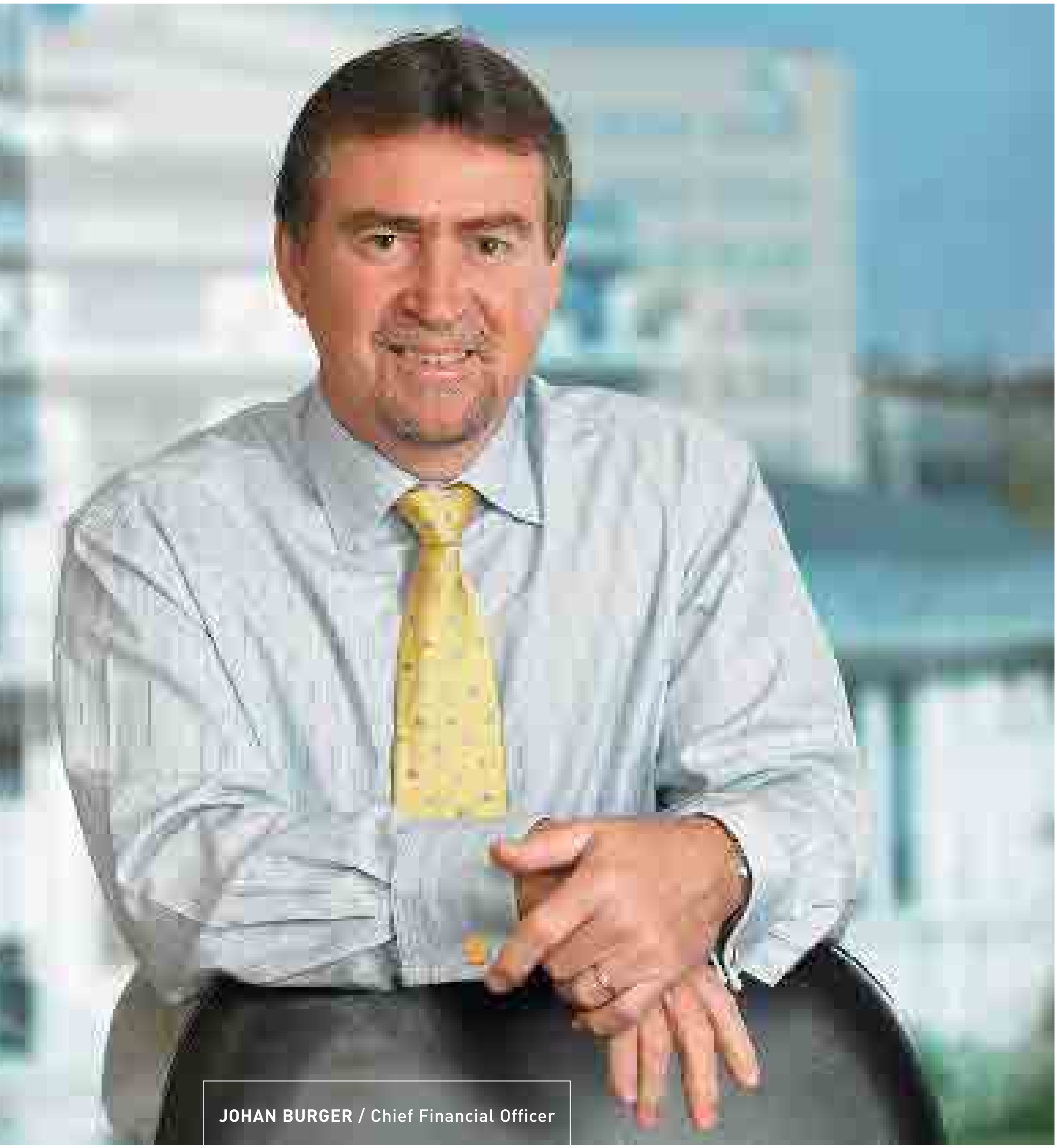
To illustrate this approach is the great success of our greenfields Australian Private Equity business which was achieved by leveraging off the infrastructure and skills developed in South Africa. Another example is Discovery's joint venture in the UK with Prudential which has a formidable presence in its markets and provides substantial benefits in terms of brand credibility and distribution capabilities.

The last strategic issue I would like to cover, is our decision to focus on maintaining ROE and not aggressively growing market share for the sake of it in those business lines that have become increasingly commoditised. This does not mean that we will not continue to grow in these businesses but we will focus on products that are profitable and provide our targeted returns. Whilst this may result in a loss of market share in some areas of our business we are comfortable with this strategy as we are confident that we can deploy our scarce capital in areas that provide a more sustainable ROE.

In summing up, I would like to join with GT Ferreira in acknowledging the hard work and commitment displayed by FirstRand's management team and staff to deliver these excellent results. Looking forward, I believe that the Group is in good shape and all our businesses are settled and focused on growth. We have a well-diversified earnings base, a portfolio of leading brands and empowered and committed people. All these, combined with a healthy operating environment, should allow us to continue to grow profits and deliver superior returns to shareholders in the coming years.

PK Harris
Chief Executive Officer
FirstRand Limited

Our approach to performance management is to maximise the spread between return on equity, ("ROE") and cost of equity ("COE") and to measure ourselves on our ability to maintain and grow that spread over time.

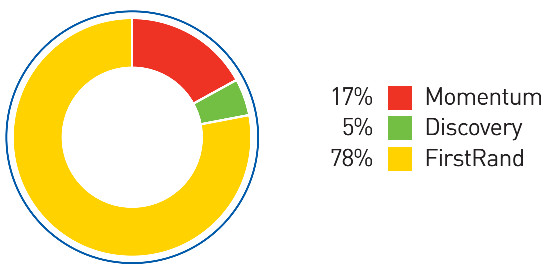


JOHAN BURGER / Chief Financial Officer

Introduction

The CFO's report represents a high level overview of the Group's performance, risk and balance sheet management strategies, which form a major part of the Group CFO's portfolio. This overview covers the three main operating subsidiaries of the Group, FirstRand Bank, Momentum and Discovery. The chart below illustrates the relative contribution by these subsidiaries to the normalised earnings of the Group.

Normalised earnings – 2006



The Group's operational style is to break the main operating subsidiaries down into a portfolio of separately branded businesses. We are therefore structured along "federal" lines with autonomous business units, each responsible for the daily management of business, financial and operational risks and for the delivery of:

- targeted return on economic capital;
- growth in net income after cost of capital ("NIACC"); and
- improvements in efficiency.

The CFO's portfolio includes certain strategies designed to augment the business unit returns and reduce earnings volatility through the economic cycle ("the cycle"). These strategies relate to:

- performance management;
- risk management; and
- balance sheet management.

Performance management strategy

As outlined in last year's report, FirstRand's performance management strategy is a key component of the Group's overall strategy. Its focus is to deliver superior, sustained returns to shareholders.

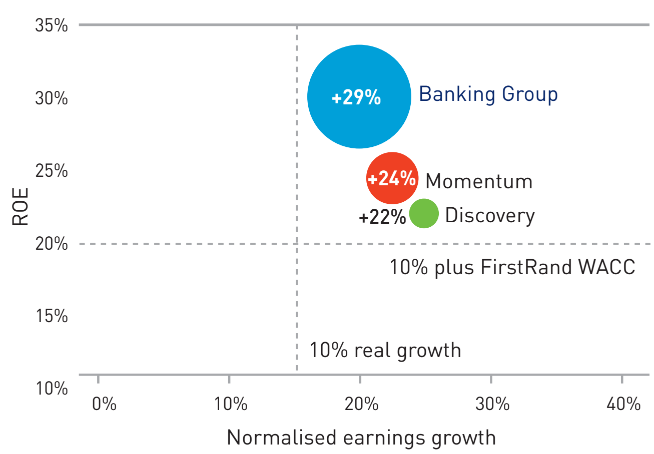
Our approach to performance management is to maximise the spread between return on equity ("ROE") and cost of equity ("COE") and to measure ourselves on our ability to maintain and grow that spread over time.

We continue to monitor the effectiveness of our performance management strategy using two financial targets, namely 10% real growth in normalised earnings and return on equity of 10% plus FirstRand's weighted average cost of capital.

During the year, FirstRand produced excellent results, growing normalised earnings by 21%. Headline earnings also grew 21%, however we believe normalised earnings most accurately reflects the operational performance, given non-operational and accounting anomalies that impact headline earnings. The table below shows the reconciliation between normalised earnings and headline earnings.

R million	Year ended 30 June **2006**	2005	% change
Headline earnings – audited	**8 115**	6 723	21
Adjustments	**703**	553	
Private equity realisations	**219**	406	
Agreement with National Treasury	**30**	–	
Discovery BEE transaction	**102**	–	
Treasury shares	**352**	147	
Normalised earnings – unaudited	**8 818**	7 276	21

During the year to 30 June 2006, against all relevant targets the three main operating subsidiaries operated in the top quadrant, thus delivering superior value for shareholders.



The business units within the Banking Group also delivered ahead of targeted return on economic capital as indicated in the table below.

ROE	**2006**	2005
For the year ended 30 June 2006		
FNB	**32%**	32%
RMB	**36%**	33%
WesBank	**29%**	22%
FirstRand Africa and Emerging Markets	**29%**	29%
Total	**29%**	28%

Since the year end, a further enhancement to our performance measures, net income after cost of capital ("NIACC"), was introduced across the Group. Maximising NIACC to generate economic value has become a key focus for each business unit and drives strategic and economic allocation of capital to generate sustainable profits.

Risk management strategy

Risk management provides the business units with risk frameworks to ensure sustainable performance by maintaining ROE within a band of acceptable return volatility and avoiding undesired outcomes. The risk framework incorporates the quantification of risk appetite, qualitative assessment, regular monitoring and corrective action.

Balance sheet management strategy

The Group CFO has responsibility for the strategic positioning of the balance sheet, including both the assets and liabilities originated by the individual business units. At the core of our balance sheet management approach is a belief that the balance sheet and its income statement streams can be both protected and enhanced throughout the cycle through the active management of:

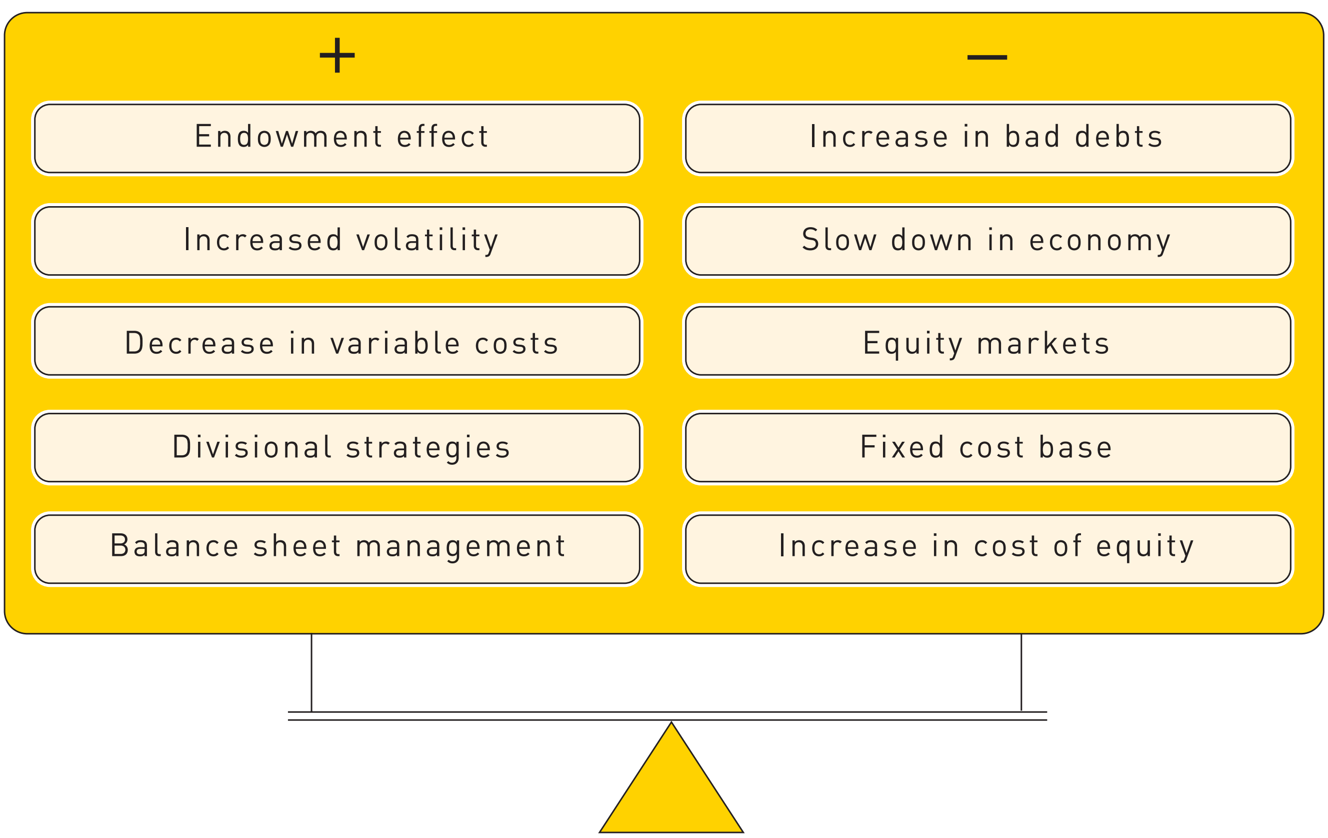
- interest rate risk;
- credit portfolio risk;
- capital risks; and
- strategic funding risks.

We take a holistic view of the balance sheet. This allows for pro-active management of the natural position of the balance sheet and the related risks that impact upon it. This also allows us to protect and enhance returns by "increasing alpha", reducing volatility and best positioning the balance sheet through the cycle.

(Alpha in this context implies the extra returns that can be separated from the market returns achieved, by actively trading the natural position of the balance sheet such that our returns are not as negatively impacted as the general market.)

To achieve this objective we have implemented an integrated balance sheet management approach. This approach requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the "levers" that can be used to mitigate those risks. Ultimately, we seek to optimise the natural position of the balance sheet and look for natural hedges in the current structure.

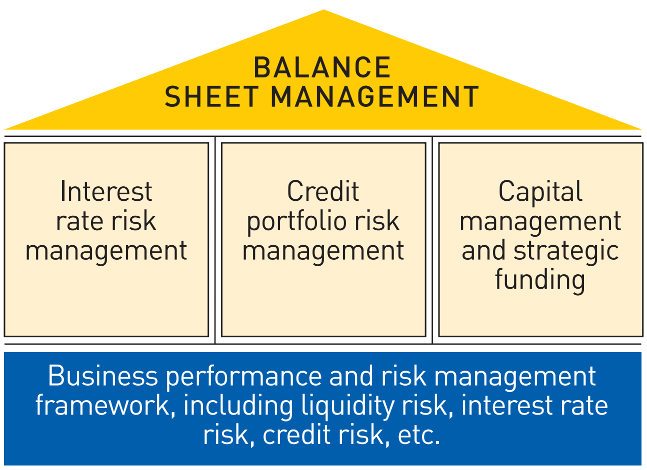
The illustrative diagram below reflects some of the positive and negative factors that can impact our balance sheet and its income streams in an increasing interest rate environment. Through actively managing the balance sheet through the cycle we try to mitigate the negative and enhance the positive impact of these factors.



Our integrated balance sheet management approach is aligned to the objectives of performance management in that it facilitates optimisation of the spread between ROE and COE.

The integrated balance sheet management structure is depicted below and consists of three key pillars, namely:

- interest rate risk management;
- credit portfolio risk management; and
- capital management and strategic funding.



Below we explain in more detail the high level objectives and activities of these three pillars. These are currently fully implemented in the Banking Group and we are in the process of introducing some of these objectives and activities in the Momentum Group.

Interest rate risk management

Interest rate risk management ("IRRM") has responsibility for identifying and quantifying interest rate risk in the Bank's assets and liabilities, excluding trading assets and liabilities.

The net interest rate risk profile of the Bank is managed by changing the profile of liquid assets or through derivative instruments, based on our interest rate outlook with reference to other risk factors impacting the balance sheet, notably credit risk.

Our risk positioning is an important source of net interest income and its primary objective is to protect the Bank against adverse movements in interest rates (ie a drop in interest rates). A secondary objective is to enhance or optimise the net interest income of the Bank by capitalising on temporary mispricing in the market.

Risk positioning has been very successful to date. For example, through certain hedging strategies implemented, we effectively protected earnings against the 6.5% drop in rates between 2003 and 2005. Going forward our balance sheet has been positioned to benefit fully from the positive endowment effect in the increasing rate environment.

Credit portfolio risk management

Credit risk management ("CRM") is responsible for the oversight of the Bank's credit portfolio risk. It is concerned with the review of credit risk quantification models and scorecards used by business units and provides independent oversight on aspects such as credit rating models and implementation of the credit risk management framework.

CRM plays a portfolio management role for the underlying business units. This role focuses on:

- determining the risk appetite;
- reviewing origination strategies through different economic cycles;
- monitoring arrears and non-performing loans;
- assessing the adequacy of credit provisions; and
- determining credit loss protection strategies, if necessary.

CRM also ensures that business units price appropriately for the credit risk taken and that the returns are managed within an acceptable level of volatility. CRM will work with IRRM to seek added protection for the income streams in the case of a negative interest rate cycle.

As credit risk forms the largest component of economic risk capital, CRM also allocates economic capital and monitors returns. The allocation of economic capital is aligned with Basel II principles and the implementation of Basel II across the Group is the responsibility of CRM.

Capital management

The objective of capital management is to maintain the optimal level of capital in the most cost efficient way, given our risk profile and targeted credit counterparty rating. The optimal capital level is achieved through balancing the needs of regulators, rating agencies, depositors and shareholders.

We aim to fulfil the requirements of shareholders and maintain an efficient capital structure with limited excesses, but which supports our short-term growth requirements. We do not hold surplus capital for acquisitions and the need for raising additional capital is assessed on a transaction by transaction basis.

Our policy is to capitalise the Group at the higher level of economic or regulatory capital. At the same time, we seek to provide a capital buffer to give confidence to debt holders, depositors, regulators and rating agencies. We strive to achieve the highest possible credit rating in South Africa, but are currently constrained by the sovereign credit rating. A strong credit rating places us in a strong position to attract debt funding at a lower cost.

The table below indicates our actual and target capital ratios.

R million	Target %	Actual %
Banking Group		
Target capital adequacy	12 – 13	12.8
Tier I	8.8 – 10	9.0
– Core Tier I	7 – 8	7.8
– Non-cumulative non-redeemable preference shares	1.8 – 2	1.2
Tier II	2.2 – 3	3.8
– Other qualifying instruments and tertiary capital	1.1 – 1.5	0.9
– Subordinated debt (maximum)	1.1 – 1.5	2.9
Momentum Group	1.8 – 2.2	3.1

IRRM invests the capital in risk-free assets and the profile of these assets depends on our interest rate view. The benefits of this approach mean that business units are protected from the volatility of the interest rate cycle and therefore can focus on operational and strategic priorities to maximise the return on the risk assumed through their own strategies.

Our capital investment strategy and economic capital allocation approach allows the business units to price correctly for the risk they assume. Our approach also provides the business units with a stable cost of equity.

The introduction of Basel II in 2008 is expected to bring closer alignment between regulatory and economic capital requirements and to increase the cyclicality in the amount of capital required. We aim to use the Basel II advanced internal ratings based approach for credit risk in the local banking operations and the standardised approach for our offshore banking subsidiaries. For operational risk, we will first adopt the standardised approach, but will move to the advanced measurement methodology in the medium term.

Strategic funding

The objective of strategic funding is to secure funding at an optimal cost from diversified and sustainable funding sources.

It is critical that we achieve maximum market share in retail, commercial and corporate deposits, which represent the most cost effective source of funding. Extra market share in these deposits will create a competitive advantage for us as it provides a natural liquidity buffer, and our liability strategy is focused on achieving this objective.

In order to be in a position to take full advantage of changes in financial markets, we have embarked on a strategy to liquefy the balance sheet, which will enable us to optimally fund growth across a broad range of sources and through economic cycles. Given the market conditions and this strategy, our objective is to make use of either our deposit franchise or the capital markets to fund the asset growth.

To ensure maximum efficiency and flexibility in accessing funding opportunities, we have established a range of debt programmes.

The ability to differentiate through new and innovative funding mechanisms is one of our strengths and we constantly review new proposals regarding funding strategies based on forecast balance sheet structures. This allows us to anticipate and plan for future funding and structural liquidity requirements.

We place great value on the establishment of strong relationships with all our debt investors and we have an active marketing approach underpinning our funding strategy with a strong focus on existing and new relationships. The relationships with the rating agencies, namely Moody's, Fitch, Standard and Poor's, and the maintenance of our credit rating, are central to the funding strategy.

Capital and funding actions

As part of our strategy to improve capital efficiency and provide funding for anticipated growth, we undertook the following actions:

- In November 2005, FirstRand Limited raised R1.5 billion through the issue of non-cumulative non-redeemable preference shares to further enhance the level and structure of its capital base. R500 million was deployed to Momentum for its acquisition strategy and R1 billion was utilised to refinance the vendor component of the BEE transaction, which was previously funded by the Banking Group. This eliminated the capital impairment in FirstRand Bank.
- During the year, Momentum issued a further R1 billion subordinated debt to further improve efficiency of its capital structure.

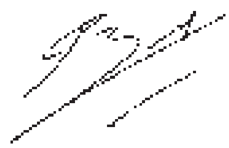
- In October 2005, FirstRand Bank issued R1 billion subordinated bonds. In June 2006, there was a further issue of R3 billion. We considered the market conditions to be favourable and therefore took maximum opportunity to raise debt capital and this resulted in an excess of debt capital of R1.5 billion. The strategy is to utilise this excess for future funding and capital requirements.
- Momentum has an excess of 0.9 times over its target range of between 1.8 and 2.2 times Capital Adequacy Requirement ("CAR") cover. As a result a special dividend of R500 million has been declared to FirstRand on 30 June 2006, which the Group utilised to reduce debt at the centre. Our strategy is to utilise Momentum's remaining excess capital for further organic growth requirements.

FirstRand Bank securitised R2 billion of motor loans originated by WesBank during the year. We obtained approval from SARB to securitise up to R15 billion of asset-backed securities, primarily home loans and vehicle finance loans originated by FNB HomeLoans and WesBank, respectively.

Securitisations enhance a bank's liquidity position, diversify its source of funding across the maturity spectrum and optimise the composition of its balance sheet. It improves the liquidity risk position of the Bank through matched funding as the cash flow profile of the securitisation bonds generally match the cash flow profile of the assets securitised.

Conclusion

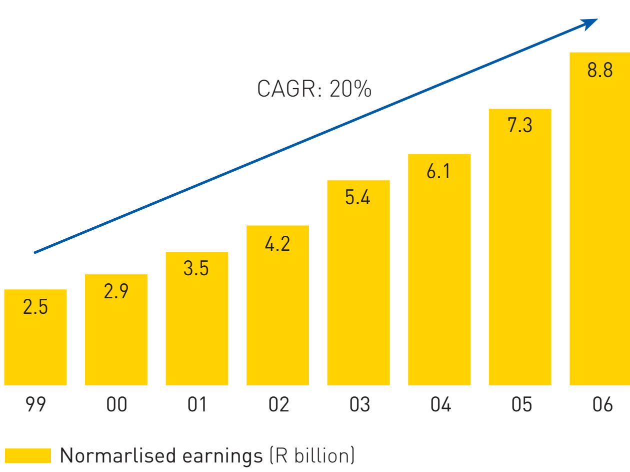
Since the creation of FirstRand in 1998, the diversified earnings base of the Group has delivered strong growth in earnings, assets and dividends. The two graphs below reflect our track record of successfully achieving our objectives of growing earnings at a compound annual growth rate of 20%, in improving and maintaining ROE, in reducing cost of equity and growing net asset value.

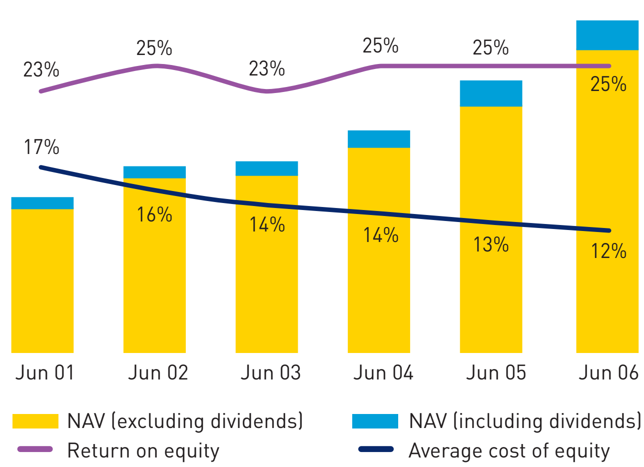


Johan Burger
Chief Financial Officer
FirstRand Limited

Sandton
19 September 2006

Delivering shareholder value





R million	1999	2000	2001	2002	2003	2004	2005	**2006**	Compound growth %
Balance sheet									
Total assets	202 064	222 791	271 431	374 766	393 674	424 821	462 739	**579 787**	15
Advances	93 718	102 667	123 343	175 161	188 112	208 874	221 851	**291 076**	15
Deposit and current accounts	115 392	117 559	141 461	201 404	215 637	219 061	245 793	**317 840**	13
Total equity	11 014	14 134	16 585	20 306	20 793	23 912	29 910	**36 530**	19
Treasury shares	1 272	1 272	1 272	1 272	1 272	1 590	3 786	**5 792**	24
Dividend	844	1 035	1 157	1 415	1 715	1 956	2 767	**3 320**	22
Total equity after dividend	13 130	16 440	19 014	22 993	23 780	27 458	36 463	**45 642**	19
Assets under administration	255 412	303 683	373 452	473 094	488 242	529 039	616 348	**771 884**	17
Income statement									
Earnings attributable to ordinary shareholders	2 489	3 056	3 575	4 495	4 516	5 676	7 137	**8 825**	20
Headline earnings	2 483	2 947	3 689	4 734	4 847	5 727	6 723	**8 115**	18
Normalised earnings	2 483	2 947	3 450	4 186	5 379	6 097	7 276	**8 818**	20
Return on average equity (%)	24.4%	24.3%	23.3%	25.2%	22.6%	25.4%	25.2%	**25.1%**	
Earnings per share (cents)									
– Basic	45.70	56.10	65.70	82.50	86.20	109.30	137.25	**171.60**	21
– Diluted	45.70	56.10	65.70	82.50	84.50	106.80	134.50	**165.96**	20
Headline earnings per share (cents)									
– Basic	45.60	54.10	67.70	86.90	92.50	110.30	129.29	**157.79**	19
– Diluted	45.60	54.10	67.70	86.90	90.70	107.70	126.70	**152.60**	19
Normalised earnings									
– Basic	45.60	54.10	63.40	76.90	102.60	117.40	132.44	**156.92**	19
– Diluted	45.60	54.10	63.40	76.90	100.70	115.30	131.43	**156.73**	19
Dividend per share (cents)									
– Interim	7.50	9.00	11.25	13.50	16.50	19.25	26.60	**32.00**	23
– Final	8.00	10.00	12.50	15.00	18.50	26.75	28.50	**33.99**	23
	15.50	19.00	23.75	28.50	35.00	46.00	55.10	**65.99**	23
	2.94	2.85	2.67	2.70	2.88	2.49	2.50	**2.50**	(2)
Perpetual preference Dividend per share (cents)									
– February	–	–	–	–	–	–	228	**356**	
– August	–	–	–	–	–	–	360	**363**	
Net asset value per ordinary share	2.02	2.60	3.05	3.50	3.97	4.61	5.77	**6.71**	19
Shares in issue	5 445.3	5 445.3	5 445.3	5 445.3	5 445.3	5 476.4	5 613.6	**5 634.1**	
Exchange rates									
Rand/US$									
– Closing	6.03	6.77	8.07	10.31	7.56	6.18	6.68	**7.13**	
– Average	5.95	6.40	7.42	9.19	8.89	6.77	6.19	**6.44**	
Rand/£									
– Closing	9.51	10.26	11.35	15.75	12.47	11.20	11.97	**13.15**	
– Average	9.63	9.88	10.81	14.81	14.12	11.83	11.50	**11.48**	
Balance sheet (USD)									
Total assets	33 510	32 896	33 647	36 350	52 090	68 741	74 703	**90 029**	15
Advances	15 542	15 159	15 290	16 989	24 890	33 798	35 815	**45 198**	16
Deposit and current accounts	19 136	17 358	17 536	19 535	28 532	35 447	39 680	**49 354**	14
Total equity	1 827	2 087	2 056	1 851	2 751	3 869	4 829	**5 672**	18
Assets under administration	42 357	44 841	46 294	45 887	64 603	85 605	99 501	**119 858**	16
Income statement (USD)									
Earnings attributable to ordinary shareholders	418	477	482	489	508	838	1 152	**1 370**	18
Headline earnings	417	460	497	515	545	846	1 085	**1 260**	17
Headline earnings excluding translation gains and losses	417	460	465	456	605	900	1 175	**1 369**	18
Normalised earnings									
Balance sheet (GDP)									
Total assets	21 259	21 717	23 912	23 802	31 564	37 932	40 234	**50 504**	13
Advances	9 860	10 008	10 866	11 125	15 082	18 650	19 290	**25 355**	14
Deposit and current accounts	12 140	11 459	12 462	12 791	17 289	19 560	21 371	**27 686**	12
Total equity	1 159	1 378	1 461	1 212	1 667	2 135	2 601	**3 182**	16
Assets under administration	26 871	29 602	32 900	30 046	39 146	47 238	53 590	**67 237**	14
Income statement (GDP)									
Earnings attributable to ordinary shareholders	258	309	331	303	320	480	621	**769**	17
Headline earnings	258	298	341	320	343	484	585	**707**	15
Headline earnings excluding translation gains and losses	258	298	319	283	381	516	633	**768**	17

SOURCES OF PROFIT
for the year ended 30 June

R million	2006	% composition	2005	% composition	% change
Banking Group	**7 049**	85	5 656	83	25
FNB	**3 473**	41	2 934	43	18
RMB	**1 782**	21	1 306	19	36
WesBank	**1 059**	13	788	12	34
FNB Africa	**377**	5	314	5	20
Support	**358**	4	314	5	14
Momentum Group	**1 534**	18	1 270	19	21
Insurance operations	**943**	11	672	10	40
Asset management operations	**341**	4	243	4	40
Investment income on shareholders' assets	**280**	3	355	5	(21)
Agreement with National Treasury	**(30)**	–	–	–	(>100)
Discovery Group	**350**	4	324	5	8
FirstRand Limited	**(164)**	(2)	(304)	(5)	(46)
Consolidation of share trusts	**(380)**	(5)	(155)	(2)	–
Headline earnings	**8 389**	100	6 791	100	24
Dividend payment to non-cumulative non-redeemable preference shareholders	**(274)**		(68)		>100
Headline earnings for the group	**8 115**		6 723		21

Notes

1. Taxation relating to the Banking Group has been allocated across the Bank's operating divisions on a pro rata basis.

Sustainable business practices and the concept of good corporate citizenship are embodied in the FirstRand Business Philosophy.

This Philosophy, which forms an important part of the induction programme for staff, emphasises the Group's owner-manager culture, its desire for mutually rewarding long term relationships with all its stakeholders and the quest for long-term sustainable earnings growth. The Philosophy provides a framework for our decentralised operations. For FirstRand as a holding company, it is our business units – most easily recognised by their brands – that have direct relationships with their staff and their customers, and whose operations impact on broader society and the natural environment.

Managing these impacts is integral to our business and key to sustainable performance, and we address this through a focus on non-financial risks and opportunities. Our comprehensive Risk Management Framework is in a constant process of refinement and during this year we have increased our focus on Sustainability. The key non-financial risks for each brand are identified in their operational reports. Challenges facing the industry and our Group are referred to in the reports from the Chairman and the CEO.

An important element of sustainable business practices in South Africa today is the need for transformation. In our sector this need is articulated in the Financial Sector Charter. The challenges and opportunities associated with this have been referred to in the CEO's report.

At the end of December 2005, the FirstRand Group scorecard, which was submitted to the Financial Sector Charter Council, showed that we were making good progress on all fronts. The scorecard reflects the targets at 31 December 2005 and compares these with FirstRand's actual performance:

Charter component	Max points	Dec 2005 target	FRL actual points
HR development	20	11.00	12.62
Employment equity	15	8.25	8.49
Skills development/learnerships	5	2.75	4.13
Procurement and enterprise development	15	8.25	11.94
Access to financial services	18	9.90	9.11
Empowerment financing	22	12.10	16.00
Ownership and control	22	12.10	18.80
Corporate social investment	3	1.65	3.00
	100	55.00	71.47

During the year under review, we have continued to move ahead with our initiatives around sustainability. In some areas there has been a marked improvement (with our supplier management, for example), in others we see steady progress (with our people, customers and community) and in others, we continue to debate and learn about challenges and opportunities (the physical environment, and regulatory changes).

Our customer surveys have continued to show improvements in the way our products and services are rated in terms of satisfaction and customer loyalty. National industry surveys rated us consistently in the upper quartile.

Our engagements with staff have identified opportunities to further improve the quality of their lives. Employment equity plans are bearing fruit overall while the specific challenge remains at senior levels. Our skills development initiatives are consistently reviewed, based on research results. Our HIV/AIDS programmes cover a full range of services from the provision of preventative information to counselling and treatment.

Procurement is increasingly centralised and regular engagement with our suppliers has allowed us to better understand their needs in terms of service levels, payments and process flows and to assist them with the transformation required in terms of the Financial Sector Charter. It has also allowed us to support start-ups and SMEs through offering assistance and opportunities. Policies and procedures are in place to preclude bribery and corruption relating to procurement.

We have co-operated with the regulators as we seek to improve the quality of legislation applicable to our industry, including the BEE Codes of Good Conduct, new credit legislation and the Competition Commission enquiry.

Our spend on corporate social investment increased by a further 20% during the year. Since its inception in 2000, the FirstRand Foundation has made grants in excess of R350 million to community and development initiatives in South Africa. This year, we introduced a specific monitoring and evaluation capacity to improve our ability to understand the impact of our funding and get more feedback from our partner organisations.

We have contributed to a number of nation building initiatives including Heartlines, the Homecoming Revolution and South Africa – The Good News. Our businesses contribute to infrastructure and low-cost housing development, in particular through ongoing engagement with the Government. It continues to be our policy not to make donations to political parties.

In the new year we will complete two major new office buildings. Both of these premises will employ the latest environmentally friendly technology. Through our Environmental Compliance area we are undertaking awareness raising training in the Banking Group, and hope to see the impact of this over the coming year, in terms of further new initiatives.

We have had successful meetings with shareholders and analysts both locally and overseas and during the year we won the Deloittes Good Governance Award in addition to coming first in respect of Board Effectiveness, Remuneration Practices and Sustainable Development.

During the year under review, the Group became a signatory to the United Nations' Global Compact.

As was the case last year, our sustainability reporting is done by brand. This is because each brand operates in a particular market where its stakeholders have different needs. These comprehensive reports are available on our website – www.firstrandsusrep.co.za. We have also created a short executive summary document, which we hope will provide an overview of our performance at the Group level. This can also be downloaded from the website.

As always we welcome any feedback.

Our spend on corporate social investment increased by a further 20% during the year. Since its inception in 2000, the FirstRand Foundation has made grants in excess of R350 million to various worthy causes in South Africa. Our research shows that we are making a meaningful difference to the lives of thousands of South Africans.

The schedule below shows the key indicators we have used for our reporting, their source and where to find the relevant data.

Topics and indicators	JSE SRI criteria	King II	GRI #	FSC	FirstRand strategy	Where to find it	Page
Strategy							
Group strategy	x		1		x	Annual Report	9, 15
Structure including significant changes	x		2.3	x		Annual Report	25, 285
Sustainability reporting approach							
Philosophy	x		2.11 – 2.13; 2.17	x		Annual Report	22
Key non-financial risks and opportunities					x	Annual Report	35, 38, 41, 45, 55, 62
Corporate governance							
Corporate governance overview	x	x	3.1 – 3.8; 3.19; SO3;			Annual Report	69
Board composition		x	LA11			Annual Report	64
Regulatory environment	x	x	3.14			Annual Report	84
Compliance	x	x		x		Annual Report	84
Risk management	x	x	3.17; SO1			Annual Report	15, 84
Non-financial risk management	x	x	3.17	x		Annual Report	22, 84
Stakeholders							
Stakeholder list	x		2.9			Annual Report Website	22
Stakeholder engagement	x		3.9-3.12			Website	
Regulatory environment	x		3.15			Website Annual Report	4, 84
Our people							
Scope	x				x	Website	
Major Issues identified	x			x	x	Website	
Policies	x		HR1; HR2; HR5 – 7	x		Website	
Workforce breakdown	x		LA1; LA2; LA11	x		Website Annual Report	76
Transformation	x		LA10	x		Website	
Staff satisfaction	x					Website	
Staff consultation	x		LA3; LA4			Website	
Health and safety including HIV/AIDS	x		LA5;LA6; LA7; LA8			Website	
Training	x		LA9	x		Website	
Remuneration	x		EC5			Website Annual Report	63, 74
Supply chain							
Scope including total expenditure	x		EC3		x	Website	
Strategy	x			x	x	Website	
Policies	x		3.16; HR3	x		Website	
Supplier satisfaction			3.9-3.12			Website	
Transformation	x			x		Website	
Environment							
Scope					x	Website	
Policies	x		3.14			Website	
Direct energy usage; initiatives	x		EN3			Website	
Reduce, recycle, reuse; initiatives	x		EN5;EN 11			Website	
Transport; initiatives	x		EN8			Website	
Community							
Scope					x	Website	
Major issues	x					Website	
Policies	x		3.14			Website	
Total contribution	x		EC10	x		Website	
Community satisfaction	x		3.9-3.12			Website	
Impact assessment	x				x	Website	
Customers							
Scope			EC2		x	Website	
Major issues	x		3.17; EN14; SO1	x		Website	
Policies	x		PR2; PR3; 3.14			Website	
Current performance	x			x		Website	
Distribution	x			x		Website	
Transformation	x			x		Website	
Customer satisfaction						Website	
Health and safety			PR1			Website	
Economic impact							
Statement of economic Value-added	x		EC5 – EC8; EC10			Annual Report	63
Financial performance	x		EC1		x	Annual Report	1, 15

FIRSTRAND

- FirstRand Bank Holdings Ltd
  - FirstRand Bank
    - Rand Merchant Bank
    - First National Bank
    - WesBank
    - FNB African subsidiaries
    - OUTsurance
    - First Link
    - E Bucks
- Momentum Group Ltd
  - Momentum
    - RMB Asset Management
    - RMB Properties
    - Advantage Asset Managers
    - Ashburton
- Discovery Holdings Ltd
  - Discovery Health
    - Discovery Life
    - Vitality
    - Destiny
    - PruHealth

For group ownership structure see page 285.


SIZWE NXASANA / CEO FirstRand Banking Group

The Banking Group

produced excellent results for the year benefiting from strong performances from RMB, FNB and WesBank.

FIRSTRAND
Banking Group

Sizwe Nxasana / 48 /
MCom, CA(SA)
CEO: FirstRand Banking Group

Johan Burger / 47 /
BCom (Hons), CA(SA)
CFO: FirstRand Banking Group

Paul Harris / 56 /
MCom
CEO: FirstRand Limited

Michael Jordaan / 38 /
MCom (Economics)
PhD (Banking Supervision)
CEO: First National Bank

Theunie Lategan / 49 /
DCom; CA(SA)
Advanced Diploma Banking
CEO: FirstRand Africa and Emerging Markets

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CEO: FNB Branch Banking

Yatin Narsai / 40 /
BSc Hons
CEO: FNB Smart Solutions and Public Sector Banking and CIO

Michael Pfaff / 44 /
BCom, CA(SA), MBA
CEO: Rand Merchant Bank

Zelda Roscherr / 39 /
BSc (Maths), BCom Hons
Group Treasurer

Ronnie Watson / 59 /
AMP (Harvard)
CEO: WesBank

MICHAEL JORDAAN / CEO, First National Bank

Results and commentary are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**5 060**	4 147	22
Advances (R million)	**140 111**	107 201	31
Total deposits (R million)	**142 038**	118 517	20
Cost to income ratio (%)	**64.2**	66.7	(4)
Non-performing loans (%)	**1.8**	1.7	6

R million	**2006**	2005	% change
Consumer segment	**1 639**	1 545	6
– *Personal Banking*	**942**	788	20
– *HomeLoans*	**268**	454	(4)
– *Card Issuing*	**429**	303	42
Wealth	**121**	97	25
Commercial	**1 916**	1 563	23
Corporate	**642**	512	25
FNB Other	**742**	430	73
Total FNB	**5 060**	4 147	22

Environment

FNB operated in a positive socio-economic environment during the year under review, characterised by continued low inflation and stable low interest rates. Overall, a buoyant South African economy, strong consumer demand for credit, a significant increase in customer numbers, market share gains and strong volume growth, all contributed to an excellent set of financial results, despite the low interest rate environment which continued to place pressure on margins.

Changes in legislation

The National Credit Act ("NCA") was enacted during May 2006 with the provisions relating to fees and pricing being effective 1 June 2007. The impact to revenue has not been fully determined, given that the regulations governing the detail of the Act were only finalised during June 2006. FNB estimates that the total implementation costs of the NCA will range between R140 million to R230 million.

FNB believes its fee structures are highly competitive and every effort is made to make fees easier to understand, to educate customers and provide solutions for customers.

FNB believes that the NCA will provide significant opportunities for the established players to enter new markets.

One of the key challenges facing the industry is the Competition Commission enquiry. On 4 August 2006, the Competition Commission announced an enquiry into competition which will focus on the following:

- the level and structure of fees charged by banks, as well as other providers of payment services;
- the feasibility of improving access by non-banks and would-be banks to the national payment system infrastructure so that they can compete more effectively; and
- any other aspects relating to the payment system which could be seen as anti-competitive.

FNB is aware of the importance of fees paid by customers and strives to ensure that customers receive value for money. FNB believes its fee structures are highly competitive and every effort is made to make fees easier to understand, to educate customers and provide solutions for customers (such as the customer pricing hotline).

Performance commentary

FNB has produced another set of excellent results with profit before taxation increasing 22% from R4 147 million to R5 060 million.

Interest income grew 19%. This increase is attributable to the continued strong balance sheet growth in both advances and deposits, offset to some extent by a reduced endowment effect.

Bad debts have increased to 0.5% (2005: 0.3%) of advances. This increase was expected given the abnormally low arrears and NPLs in recent years.

Non-interest income increased 21% as a result of a significant increase in customer numbers and higher transactional volumes, particularly in the Mass, Card, Consumer and Commercial segments.

Operating expenses increased 16%. This was mainly driven by significant variable costs such as new business acquisition expenses and investment in infrastructure and processes. Excluding these costs, there was an increase of 9% in the base costs.

Deposits increased R24 billion or 20%, with the Commercial, Corporate and Consumer segments being the major contributors.

Advances increased R33 billion or 31%, with HomeLoans (R23 billion), Card Issuing, Wealth and Commercial being the major contributors. Corporate advances continued to decline as a result of low credit demand and increased pricing competition.

As previously reported, FNB's segment view is not a "pure" indication of FNB's penetration into each segment as certain revenue from customers within a defined segment could be recognised in a different segment depending on the product segment categorisation as well as internal service level and revenue arrangements. It is also likely that segmentation of clients will be revised on a continuous basis as the model refines.

Segment performance commentary

Consumer segment

Cheque products including overdrafts
Investments
Personal Loans (including Student Loans)
First Link Insurance Brokers
eBucks
HomeLoans
Card Issuing

This segment focuses on customers with incomes ranging from R60 000 to R750 000 per annum. It provides banking and insurance solutions covering the full customer lifecycle from youth to senior and includes HomeLoans and Card Issuing.

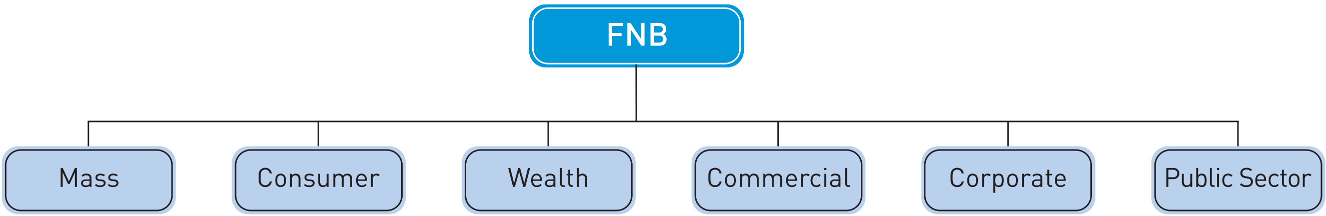
This segment continued to perform well with profit before taxation increasing 6% from R1 545 million to R1 639 million. On an IFRS compliant basis the profit before taxation increased 14% largely due to the impact of the capitalisation of the HomeLoans acquisition costs to the value of the loan and amortisation over the life of the loan through interest income. The business benefited from the continued strong growth in customer numbers and transaction volumes.

Low interest rates dominated the operating environment resulting in continued pressure on margins. The bad debt charge increased off prior year lows given the movement of NPLs returning to normalised levels within the risk appetite of the bank.

Interest income grew 20% during the year as a result of strong growth in both advances and deposits.

Advances grew 39% to R93 billion as a result of focused sales activities and the continued strong demand for consumer credit. This demand is, however, expected to slow. The bad debt charge increased from 0.3% to 0.5% of advances in line with the growth in non-performing loans ("NPLs") which ended the year at 1.4% (2005 – 1.2%) of advances.

Deposits grew 15%, attributable to increased market share of transactional banking as well as savings and investment products. Investments showed strong growth in customers and number of accounts, driven by innovative products, marketing and new distribution channels. This compensated for increased competitive pressure on margins and the low consumer savings rate.



FNB's segment structure

The success of the Million-a-Month Account ("MAMA"), launched during January 2005, continued during the year, increasing the customer base to over 400 000 accounts and contributing to the deposit growth.

Non-interest income grew 25%, driven by 9.5% growth in active accounts and 8.7% increase in transactions per customer.

Operating expenses increased 22%, reflecting the costs associated with the strong growth in transactions and sales revenues. A significant factor contributing to this growth is HomeLoans acquisition costs which are expensed as incurred. A base cost increase of 18% would result if these costs were excluded, (under IFRS these costs are now capitalised to the value of the loan and are amortised through interest income). Investments for growth such as the Discovery Card, MAMA account and additional relationship managers, were a component of the operating expenses increase. Excluding these, the costs growth would further decrease to 16%.

Personal Loans (including Student Loans) had an excellent year with advances growing 34% to R1.6 billion largely driven by increased sales volumes.

First Link performed well and continues to add a range of value added services to FNB's customers, particularly in the Premier and Wealth segments. Revenue and operating profit growth of 20% and 18%, respectively were excellent in a competitive environment characterised by soft conditions in the commercial market segment and largely commoditised product offerings in Personal Lines.

The eBucks rewards programme continues to perform well as a strategy to retain customers and incentivise profitable behaviour. Since inception, more than R680 million worth of eBucks have been awarded to members. On average, more than 70% of eBucks allocations are spent on a monthly basis. eBucks rewards both personal and business customers.

InContact, FNB's SMS and e-mail messaging service, has become a standard feature of FNB's transactional products, providing transaction and security notifications to account holders. During the year, 3.4 million subscribers benefited from this innovative value-add service.

Telephone banking increased active customers by 21% to 192 000 with transactions increasing by 18%.

FNB HomeLoans

The property market continued to show impressive loan growth of 31.5% over the year. FNB HomeLoans benefited from this growth and retained a new business market share of 20.7% (2005: 20.8%). The increase in advances of 40% to R81 billion resulted from a 58% (R37 billion) increase in new business written.

The One Account continues to perform extremely well, has over 10 000 customers and increased its loan book to R4.9 billion from R1.3 billion in the previous year.

Profit before taxation decreased 41% (1% decrease on an IFRS compliant basis) and although there was a significant increase in advances, interest income grew by only 20%. This was due to margin pressures, as a result of the lower interest rate environment, competitive market pricing and an increase in bad debt provisions due to increased arrears in the second half of the year. Non-interest income increased 19%, driven by increased volumes.

The results on a pre-IFRS basis were further negatively impacted by the significant (46%) increase in new business acquisition costs from R327 million to R478 million, as well as increased staff costs relating to an enhanced sales force and processing capability. Together, these were the major contributors to operating costs increasing 36%. (On an IFRS compliant basis with the capitalisation of the acquisition costs, the cost increase reduces to 22%.)

During the year, FNB resolved the Saambou interest calculation dispute and recalculated the incorrect Saambou interest calculations on the acquired home loan and housing finance books. The amount of R154 million, which is being refunded to customers, is largely covered by warranties and provisions.

Collaboration with other FirstRand Banking Group businesses continued to be strong. The Commercial/ WesBank collaboration delivered advances payout growth of 86%, while RMB Structured Finance payout in the Commercial segment increased 91%.

Card Issuing

Card Issuing produced another excellent performance, increasing its profit before taxation by 42% and growing advances 36% to R9 billion. This growth resulted from increased customer numbers, success in selling balance transfers and continued customer spending, with cardholder turnover increasing 33%. The 28% growth in FNB Card's customer numbers was achieved by an increased sales focus and success in cross-selling to existing FNB customers and the successful launch of the Discovery Card. Operating expenses increased 22%, due in the main to Discovery Card.

Wealth segment

- RMB Private Bank
- FNB Private Clients
- FNB Trust Services
- Senior Suites

The Wealth segment's profit before taxation grew 25% to R121 million, driven in the main by a particularly strong performance by RMB Private Bank, which grew profit before taxation by 76% to R139 million.

Assets under management grew 57% to R18 billion, due to growth in the equity market, investment selection and net new business inflows. Growth in advances of 29% to R16 billion and growth in deposits of 32% contributed to this performance. As a result, interest income increased 35% and non-interest income grew 21%.

The 25% increase in operating costs for the segment is largely related to the start-up and rapid growth of FNB Private Clients, which required an investment of R49 million.

FNB Private Clients grew advances to over R800 million and has a healthy pipeline awaiting payouts. Assets under management totalled R1.2 billion. This represents a substantial investment by the Wealth segment for the future, as the growth potential is significant.

FNB Trust Services also had good profit growth of 15%. This was a result of good new estate inflows, continued strong equity markets and a focus on cost containment.

Commercial segment

- Commercial Property Finance
- Debtor Finance, FNB Leveraged Finance
- BEE Funding, Franchises and Start-ups

FNB Commercial Banking is the provider of financial solutions, including working capital solutions, investment products, transactional banking and term loans to the Mid Corporate, Business and Agricultural sub-segments.

The 28% growth in FNB Card's customer numbers was achieved by an increased sales focus and success in cross-selling to existing FNB customers and the successful launch of the Discovery Card.

The Commercial segment had an excellent year with profit before taxation increasing by 23%.

Deposits grew 20%, largely due to strong consumer demand and retail sales resulting in increased cash balances of commercial entities. South African business tends to be conservative and as such retain cash buffers given previous historic economic volatility.

Advances grew 25%, driven in the main by FNB Leveraged Finance (growth in excess of 200%), Commercial Property Finance (up 72%), both business units growing from a low base. Agriculture Term Loans grew 40% as a result of the targeted acquisition of Land Bank customers, and Debtor Finance grew 36% driven by a renewed marketing focus and penetration into the Business segment.

Interest income increased 12% as a result of the growth in advances, improved advances margins due to a change in product mix in favour of higher margin products, and strong deposit growth. The growth was impacted by lower deposit margins given the increased competition in the market for deposits. Further, this growth was substantially reduced by the run-off of the endowment hedge.

Commercial experienced continued good credit quality with non-performing loans as a % of gross advances improving from 2.9% (June 2005) to 2.4% in June 2006. The bad debt charge as a % of gross advances also improved from 0.4% in June 2005 to 0.2% at year end.

Commercial experienced strong transactional volumes in 2006 resulting in non-interest income increasing 19%, with a 31% increase in Electronic delivery channels and Speedpoint. Excellent new active account growth of 18% in the Business segment, combined with increased activity, resulted in transactional revenue growth of 19%.

International banking's non-interest income showed a growth of only 4%, largely due to suppressed margins as a result of the reduced Rand volatility, for the major part of the year.

Operating expenses increased 13%, largely due to the upfront cost associated with new growth initiatives, including the enhanced Franchise capability and the new Commercial start-up initiative (offering transactional banking and financing solutions to early stage businesses), together with increased costs, associated with balance sheet and transactional volume increases. Commercial has focused on streamlining its key processes beginning with the credit environment, where a scaleable scoring model has been rolled out across the Business and Agriculture segments which has contributed to certain cost savings.

Collaboration with other FirstRand Banking Group businesses continued to be strong. The Commercial/WesBank collaboration delivered advances payout growth of 86%, while RMB Structured Finance payout in the Commercial segment increased 91%.

The Commercial segment market share increased from 21% to 25% (Tracker Survey – Nov 05).

Corporate segment

- Corporate Transactional Banking
- Associated Working Capital Solutions
- SpeedPoint (Card Acquiring)
- Bulk Cash
- Electronic Banking

This segment is the provider of transactional banking and other services to large corporates, financial institutions and state-owned enterprises in terms of Schedule 2 of the PFMA Act.

Profit before taxation increased 25%. Growth in non-interest income of 11% was driven by increased utilisation of electronic channels, with the main contributors being Electronic Banking and Speedpoint. This was due in part to new client acquisition and a favourable economic environment in the retail market, resulting in strong organic growth.

Deposit volumes increased 29% reflecting the overall condition of the South African large corporate environment and the cash surpluses that exist. However, actual deposit margins dropped by 5 bps from the comparative period and remain under pressure. Given these market conditions, advances reduced 11% with continued low credit demand and increased pricing competition being a major factor.

The current year's bad debt charge was R13 million, against a net recovery of R11 million in the prior year. The current year charge, however, has been reduced by R50 million as a result of a provision reversal, relating to a corporate exposure which was repaid during the year.

International Banking remains a significant contributor to the segment's profitability. Notwithstanding the reduced volatility of the Rand in the first six months and margin pressures, the overall volumes in the international and cross-border businesses for large corporates increased, resulting in a 16% growth in profits.

Operating expenses increased only 2%, with existing infrastructure growing marginally in the environments of Speedpoint and Electronic Banking to accommodate volume growth.

Electronic Banking achieved significant growth in customer numbers, volumes and values during the period. Transactions to the value of R549 billion were processed for the period (2005: R355 billion), an increase of 55%.

FNB Other

Included in FNB Other is Mass, Public Sector Banking, Branch Banking and Support.

Mass (Smart Solutions)

Smart and Mzansi accounts
Microloans (SmartSpend)
ATMs (including Retail and Mini-ATMs)
Cellphone Banking and Pre-paid products
Housing Finance (SmartBond and Smart Housing Plan)
FNB Life

This segment focuses on individuals earning less than R60 000 per annum and is principally serviced by the FNB Smart branded products and services. In addition, this segment focuses on innovation, particularly where technology can provide convenience and cost efficiency to the customer, as this segment requires cheaper delivery channels to operate profitably. The segment performed exceptionally well during the period under review with profits increasing significantly during the year.

The main driver of this segment's performance was the strong growth in non-interest income, which increased 26%. This was primarily driven by 18% growth in transacting accounts and 19% growth in ATM transactions (FNB and Saswitch), as well as debit card transactions and SmartSpend loans payout growth in excess of 100%, and more than doubling prepaid airtime turnover.

The ongoing roll-out of the mini-ATMs (now 100% on GPRS) and process efficiency, contributed to a stable market share of Saswitch transactions of 28% while the number of Saswitch devices remained at 22%. The number of ATMs increased 13% to 4 185.

FNB is pursuing a strategy of increased customer product penetration, with a focus on lending and assurance in this segment, where profitability is strongly correlated to process efficiency and customer "share of wallet". The segment achieved advances growth of 82% in this period. The advances growth relates to the SmartSpend, Smart Housing Plan and SmartBond products, where sales have increased by more than 100% (R996 million). In addition, assurance sales of Law-on-Call and Personal Accident increased in excess of 100%, while Funeral Cover sales grew 26%.

By June 2006, Cellphone Banking had over 215 000 registered customers and the cellphone channel and prepaid airtime sales business unit was generating profits on a monthly basis. This initiative remains in a start up phase and required a significant investment in the period under review, with the majority of benefits only expected to materialise in the medium-term. The use of this channel provides convenience and cost efficiencies and in tandem with InContact is expected to contribute to good market share growth.

Operating costs include the cost relating to the Cellphone Banking business which only commenced operations in the second half of the previous financial year and also the variable costs relating to the increased customers and transactional volumes.

FNB Life achieved significant growth due to its strategy of adding value and enhancing insurance features to existing products. At June 2006, there were 2.0 million in-force policies, a growth of 40% compared to June 2005.

Public Sector Banking

This segment is the provider of financial services to the three spheres of Government; namely, national, provincial and local. Customers also include universities and schools.

FNB's increased focus on this segment resulted in a number of tenders being won despite increased competitor activity in this market segment. Government's under-spending has resulted in this sector having a reduced appetite for credit and increase in cash holdings. This segment's main focus is therefore on transactional banking.

Branch Banking

Branch Banking continues to reposition its network to reflect demographic shifts and new retail and commercial development in previously disadvantaged areas. As a result, 26 new branches were opened, 13 closed and 15 relocated. At the end of the year, of the total 680 representation points, which include the sales centres, mobile banks, community banks and branches, 24% (June 2005: 19%) are in previously disadvantaged areas (as defined in the Financial Sector Charter).

Branch Banking continued with its infrastructure improvement programme converting 112 branches to its new retail design which gives easy navigation to customers.

FNB has developed the following in its strategy to service previously unbanked communities:

- Community banks provide full banking services to customers in remote and other previously unbanked areas, with 27 of these units currently deployed;
- FNB improved its distribution capability by introducing the "Bank on Wheels", which provides FNB with the ability to deliver banking services to remote communities as well as to employees of corporates at their place of employment. 10 of these units have been deployed.
- FNB also launched the FNB Sales Centres to expand its network during the year. These units focus on sales and convenience given their locations and longer operating hours. These Sales Centres

Community banks provide full banking services to customers in remote and other previously unbanked areas, with 27 of these units currently deployed.

have proved to be cost efficient in providing more banking solutions to customers and/or in acquiring new customers.

Branch Banking commenced with a major project introducing a new front line system in all branches. Elements of this new system will be implemented in the next 18 months. The system is, however, expected to be fully deployed in 24 months.

During the year, Branch Banking experienced strong growth in sales which has contributed to the increase in FNB's market share.

The establishment of commission based sales teams that operate in the Bancassurance arena encountered initial implementation problems which was to be expected given the start up nature of this unit. This unit is now poised to add value with regard to customer acquisitions and assist with market share growth.

Infrastructure table

	2006	2005	% change
Representation points (branch, agencies, etc)	**680**	667	2.0
ATMs	**4 185**	3 718	12.6

Non-financial opportunities and risks

It is vital that non-financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
While regulation is important, the ever-increasing and complex regulatory environment is resulting in greater allocation of corporate resources	FNB ensures that legislators are informed about the risks, challenges, and consequences of implementation by engaging with the relevant authorities either via the Banking Association or directly to corporate resources, other stakeholders (eg representation to the Department of Trade and Industry ("DTI") or Parliamentary Working Committees) as appropriate. For example, there is close co-operation with the new National Credit Regulator through industry association meetings, to jointly identify solutions relating to the implementation of the NCA.
Ongoing uncertainty in broader transformation environment regarding alignment of the Financial Sector Charter (FSC) and the DTI BEE Codes persists	Engagement with the Financial Sector Charter Council, DTI and all FSC (and other) stakeholders is ongoing to ensure transformation efforts are not hampered. Work to align FSC elements and Codes is ongoing in parallel.
The Competition Commission enquiry into the national payments system and bank charges could present an incorrect perception of industry collusion in price-setting	Please refer to the section dealing with the response to the Competition Commission enquiry on page 30 of this Operational Review.

WesBank

A division of FirstRand Bank Ltd.

RONNIE WATSON / CEO, WesBank

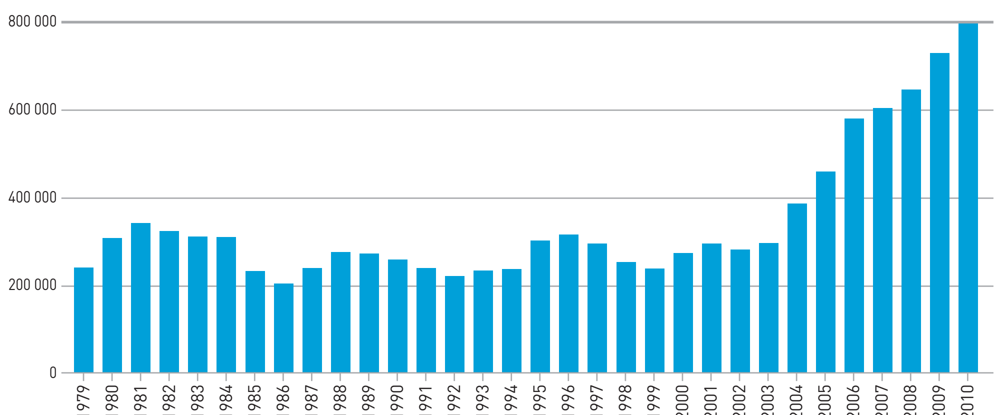
Results and commentary are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**1 755**	1 404	25
Advances (R million)	**80 156**	63 318	27
Cost to income ratio (%)	**43.0**	46.8	(8)
Non-performing loans (%)	**1.2**	0.9	33

Environment

The retail motor industry showed high levels of activity, continuing several consecutive years of strong volume growth. This growth is expected to continue into the future, although not at the same rates evidenced over the past couple of years, and is likely to emanate more from the Commercial, Corporate and Government sectors, than from the consumer market. Vehicle pricing has remained fairly static throughout the financial year. The growth of new vehicle sales is depicted in the graph below, showing the extremely strong increase in volumes driven mainly by the positive economic environment and the emergence of new markets.

Motor industry
(New vehicle sales)



Source: WesBank own estimates

WesBank established relationships with several new partners in both the retail motor industry, as well as in the corporate market. This further strengthens the delivery of point of sale service to customers.

Gross domestic fixed investment and infrastructure development is providing stimulus for higher capital investment levels in the corporate market. The market remains highly competitive with pricing pressures playing a major role. Consumer indebtedness continues to increase, which has impacted on the historically low arrear levels experienced recently.

Main focus areas in 2005/2006

- International expansion remained a major focus area, with consolidation of the Motor One Finance operation in Australia, as well as the acquisition of Carlyle Finance, a retail finance operation in the UK.
- WesBank established relationships with several new partners in both the retail motor industry, as well as in the corporate market. This further strengthens the delivery of point of sale service to customers.
- Process efficiency remained a focus point in the current year. The systems and operational platform to handle the significantly increased volumes have been completed, producing the opportunity to drive major cost efficiencies into the business.
- There has been a major focus on the Financial Sector Charter and significant progress was made on both the Employment Equity and Procurement components. BEE procurement now exceeds 50%, and continues to increase. In addition, the National Credit Act was promulgated during the course of the year, and the business is well prepared for this legislation.
- WesBank commenced its securitisation programme with a R2 billion issuance during March. This programme is to be accelerated over the course of the new financial year.

Performance

WesBank had a very good year with earnings increasing 25%. This performance extends a sustained period of exceptional profit growth, with annual compound growth over the last three years of 36.5%. Growth was driven by increased market share and high new business volumes. Total new business written was R50.8 billion, an increase of 28.4%. Included in this is R700 million written in the Motor One Finance business in Australia.

On a divisional basis the Motor, Corporate, Fleet and Personal Loans divisions increased new business by 22.2%, 46.8%, 19.7% and 48.5%, respectively. The Motor division comprises 70% of total new business and its growth reflects the continued buoyancy in the motor industry. Increasing capital investment demands, as well as growth in collaborative efforts with FNB, resulted in high growth in the Corporate division. Personal Loan growth reflected the higher debt appetite in the middle-income market.

Growth was driven by increased market share and high new business volumes. Total new business written was R50.8 billion, an increase of 28.4%.

Advances increased R15.1 billion (23.9%), excluding the impact of securitisations, the growth was 22.0%. The high growth is due to new business written.

Bad debts were 0.8% of gross advances and non-performing loans 1.2% of gross advances. These figures are up from 0.5% and 0.9%, respectively in the prior year. The combination of the rise in consumer indebtedness, as well as the reduction in realisation values on vehicles as security, has caused increases in arrear and bad debt levels, but remains within WesBank's long-term target range. Provision levels have also increased in line with the IFRS provisioning requirements.

Interest margins declined from 3.61% to 3.46% due to further compression of short-term funding rates, as well as competitive pressures on customer rates.

Non-interest income increased 26.2%, driven largely by the high new business volumes and increased penetration of insurance products. WesBank Auto, the operation providing a fleet card offering, showed further growth in customer base and corresponding revenue streams.

Costs increased 18.4%, against new business growth of 28.4%. The cost to income and cost to asset ratios both improved, from 46.8% to 43.0% and from 2.39% to 2.28%, respectively. The cost increases resulted from an investment in capacity to deal with the high volumes currently experienced and expected into the future. The platform has now been built and this level of annual cost increases is not forecast to persist into the new financial year.

Areas of focus for 2007

- Growth through increased partnerships, improved market share and continued enhancement of dealer offerings;
- development of both the UK and Australian retail finance offerings;
- infrastructure development and capital expenditure running towards 2010 is expected to provide growth in the corporate market;
- major efficiency and productivity improvements;
- launch of a comprehensive fleet management offering;
- consolidation of external collection activities; and
- growth of insurance revenues and launch of additional insurance products.

Non-financial opportunities and risks

It is vital that non-financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
Meeting Charter targets specifically for EE at middle management levels	Programmes focusing on recruiting suitable candidates into the front line, and other areas, of the business.
Impact of shift in legislative environment for credit (National Credit Act, etc)	Co-operating with auto sector and financial sector to engage on key issues relating to access to credit.
Customer impact of poor road and vehicle safety	Proactive stance and close collaboration with SANTACO on taxi recapitalisation; contribution towards a taxi driving academy.
Long-term environmental impact of emissions from cars	Promoting an environmentally friendly car of the year with the motor industry.

The primary drivers of this performance were the equity businesses, which excelled in buoyant equity markets.

MIKE PFAFF / CEO, Rand Merchant Bank

Results and commentary are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	2 608	1 890	38
Total assets (R million)	162 355	101 346	60
Cost to income ratio (%)	37.7	38.1	(1)

Environment

The economic environment both locally and internationally was extremely favourable for investment banking activities, with the equity markets in particular offering significant opportunities. BEE, low interest rates and booming commodity prices combined with robust economic growth counteracted the contraction of credit spreads experienced both locally and offshore. On the negative side, the significant opportunities in infrastructure finance expected from Public/Private Partnerships did not materialise in 2006. From a proprietary trading perspective, the year was characterised by a benign foreign exchange and interest rate environment which limited proprietary trading opportunities, although the final quarter saw an increase in volatility.

Divisional analysis of net profit

R million	2006	2005	% change
Private Equity	826	556	49
Equity Trading	387	230	68
Corporate Finance	206	141	46
Structured Finance	552	403	37
Project, Trade and Commodity Finance	106	121	(12)
Treasury Trading	243	227	7
SPJ International	97	117	(17)
Offshore Division	216	107	>100
Other	(25)	(12)	>100
Total	2 608	1 890	38

Performance

RMB delivered an exceptional performance in 2006, producing year-on-year growth of 38%. The primary drivers of this performance were the equity businesses, which excelled in buoyant equity markets. High levels of business confidence and continued BEE activity were also conducive to good originated debt and advisory performances. The proprietary trading businesses enjoyed varied success in challenging market conditions which prevailed for most of the year. However, the weakening Rand and steepening interest rate curves aided a strong close to the year for the forex and interest rate trading books. RMB's decision to invest in client relationships, and collaboration between the business units to produce innovative solutions to a broader array of clients, had a tangible impact on the bottomline.

Although the anticipated infrastructure development projects locally and regionally have not yet materialised, Project Trade and Commodity Finance's focus on Africa contributed substantially to a solid performance. The V Mobile transaction in Nigeria, for which RMB was joint lead arranger, was voted Africa Emerging Telecom Deal of the Year by Euromoney. The hard and soft commodities trading environment proved challenging in the period.

Private Equity produced outstanding results. The robust economy and a market conducive to realisations combined to drive strong growth in equity accounted earnings and profits on realisations. However, despite the realisations, a number of new investments contributed to an increase in the carrying value of the portfolio.

The robust market conditions and strong earnings projections also boosted unrealised profits in the remainder of the portfolio to R1.1 billion (2005: R1.07 billion).

Equity Trading recorded an excellent performance in 2006, posting year-on-year growth of 68%. All components of the business – trading, structuring and broking – contributed to this result. In addition, the division has successfully established a diversified offshore trading portfolio.

Corporate Finance delivered exceptional results for 2006. The mergers and acquisitions team consolidated its leading market leading position with a number of notable deals. For the second year running, RMB was the top corporate finance house according to both the Dealmakers and PricewaterhouseCoopers league tables. The Equity Capital business delivered excellent returns and the Preference Share business led the market with continued innovation.

The debt businesses made a strong comeback in 2006, in particular Structured Finance posted good earnings growth and cemented RMB's reputation as South Africa's leading debt house. This result was boosted by a very strong contribution from the recently established Property Finance division and healthy growth in fee income, achieved on the back of strong deal flow and innovative structuring solutions.

Although the anticipated infrastructure development projects locally and regionally have not yet materialised, Project Trade and Commodity Finance's focus on Africa contributed substantially to a solid performance. The V Mobile transaction in Nigeria, for which RMB was joint lead arranger, was voted Africa Emerging Telecom Deal of the Year by Euromoney. The hard and soft commodities trading environment proved challenging in the period.

Treasury Trading posted modest growth in earnings in markets that lacked volatility and direction but finished the year strongly aided by the steepening ZAR yield curve and increased volatility in the Rand.

Treasury was successful in increasing its market share in 2006. The related growth in client flows, together with more volatile markets, should provide a platform for strong growth in the coming year.

SPJ International's performance was below that of the comparable period having run down the remainder of the high yield corporate positions and reduced its exposures to emerging markets in the current environment of extremely tight credit spreads.

The Offshore Resources division comprising of a joint venture in an energy business and a resources focused, lending and investing business, delivered a record performance, doubling the prior year's contribution.

Strategic initiatives

- *Operational transformation*

  Good progress has been made on initiatives to transform the operational environment within RMB. The programme involves a number of initiatives dealing with shorter term requirements, eg. Basel II, and longer term strategic streams designed to transform the trading systems, operations, financial reporting and market and credit risk areas.

  This programme is essential for RMB to:

  – effectively respond to the challenges of an increasingly intensive regulatory environment;
  – provide a sound base for future growth;

The debt businesses made a strong comeback in 2006, in particular Structured Finance posted good earnings growth and cemented RMB's reputation as South Africa's leading debt house.

- minimise operational and reputational risk; and
- ensure business units are still able to quickly respond to market opportunities.

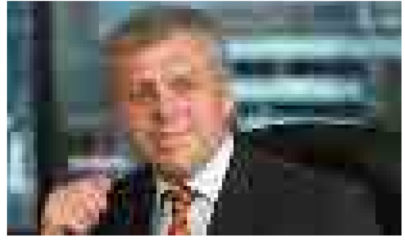
- *Morgan Stanley JV*

  The joint venture between RMB and Morgan Stanley became operational on 1 July 2006, and provides both firms' clients with distribution capacity in the primary and secondary equity markets. The joint venture also ensures the distribution of quality equity research, drawing on both the technology and regional expertise of each of the partners.

Non-financial opportunities and risks

RMB's success has largely been built on its intellectual capital base, its culture which propels individuals to go beyond their best, and its reputation. All three of these are interdependent. Thus management expends significant effort on preserving the reputation, nurturing the culture as well as attracting and retaining great people. Particular emphasis is placed on positioning RMB as the employer of choice across all segments of the population to effectively deal with challenges and opportunities surrounding employment equity.

Treasury was successful in increasing its market share in 2006. The related growth in client flows, together with more volatile markets, should provide a platform for strong growth in the coming year.



THEUNIE LATEGAN / CEO, FirstRand Africa and Emerging Markets

FirstRand Africa and Emerging Markets ("FRAEM") comprises the FNB Africa subsidiaries (FNB Botswana, FNB Lesotho, FNB Namibia and FNB Swaziland) as well as a division acting as the strategic enabler, facilitator and co-ordinator for international expansion undertaken by the FirstRand brands.

Consolidated results of FNB Africa subsidiaries are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**768**	653	18
Attributable earnings (R million)	**378**	313	21
Advances (R million)	**12 237**	10 671	15
Total deposits (R million)	**16 302**	9 920	64
Cost to income ratio (%)	**45.3**	47.5	(5)
Non-performing loans as a % of gross advances	**2.9**	2.7	7

Geographic contribution – Income after tax

FNB Botswana (Pula million)	**238**	194	23
FNB Botswana (R million)	**278**	257	8
FNB Namibia (R million)	**262**	216	21
FNB Swaziland (R million)	**31**	15	>100
FNB Lesotho (R million)	**(2)**	(7)	71
Total (R million)	**569**	481	18

FNB AFRICA SUBSIDIARIES – OPERATING REVIEW

Environment

The interest rate environment of Namibia, Swaziland and Lesotho closely mirrored South Africa, whilst Botswana experienced different dynamics with high inflation and high interest rates on the back of the Pula which depreciated over the year against the Rand by 12%.

These economies have all been relatively stagnant.

Performance

Despite the stagnant economies, the income after tax of the subsidiaries grew 18.3% for the financial year. New CEOs were appointed in Botswana, Namibia and Swaziland resulting in a renewed focus on growing sales and cost control initiatives. Operating expenses increased by only 6% and with revenue enhancements the cost to income ratio improved from 47.5% to 45.3%.

Total consolidated assets grew 45% and deposits increased 64% year-on-year. This growth has been dominated by the 143% growth in deposits at FNB Botswana following the revision in requirements by the Bank of Botswana only permitting commercial banks as bidders for Bank of Botswana Certificates ("BoBCs"). Asset managers, corporates and parastatals have, as a result, switched surplus funds previously placed in BoBCs to alternative deposit instruments through commercial banks.

Although non-performing loans increased to 2.9%, the levels remain well under control.

FNB Botswana

The business continued to perform well with income after tax increasing 22.7% to P238.4 million, but only 8.2% in Rand terms due to the Pula depreciation.

FirstRand seeks to identify attractive markets where niche value propositions can be established on a sustainable basis.

Non-interest income grew 22.4%. The main drivers behind this increase were the increased product offerings and resultant increase in transactional volumes, as well as growth in forex income.

Despite inflation running at 12%, operating expenses were well contained to a 10% increase and this, together with the solid non-interest revenue increase, resulted in the cost to income ratio reducing further from 38% to an excellent 35%.

Although advances grew by only 9.7%, the property portfolio performed exceptionally well growing 42%. For the reasons stated above, deposits grew 143% and assets grew 116% to P7.2 billion.

FNB Namibia

FNB Namibia is a diversified financial services group offering a wide range of banking services, unit trusts, life and short-term insurance. Brands include FNB, WesBank and RMB Asset Management, all of which provide diversified revenue sources.

Despite the moderate growth in the economy, income after tax grew 21.3% to N$262 million.

Non-interest income grew 19.2% due to the focus on sales and effective cross-selling across all businesses in the group, substantially increasing the number of accounts and transactional volumes.

Operating expenses were well controlled, increasing 10.4% with the cost to income ratio reduced to 47%.

Total assets grew 15.8% to N$9.5 billion and advances grew 17.3% to N$8 billion, predominantly driven by HomeLoans and WesBank.

In a market with tight liquidity, the strategy of diversifying the deposit base has benefited the Bank with deposits growing 16.4%, with a substantially reduced reliance on inter-group funding.

FNB Swaziland

There has been a significant turnaround in the Swaziland business compared to 2005. Whilst the economic environment remains stagnant, the restructuring efforts of local management, together with FirstRand Group support, are yielding results. Income after tax grew 106.6% to E31 million.

Non-interest income grew 33% and operating expenses were well maintained, increasing by only 7.1%. The cost to income ratio reduced to 59% after exceeding 80% in the previous year.

Total assets grew 20% to over E1 billion, advances grew 11% and deposits 22.9%. Deposit raising was, however, predominantly at the wholesale level, which had a small effect on margins.

FNB Lesotho

Despite the difficult operating environment, FNB Lesotho performed well above expectations and achieved a maiden monthly profit in December 2005, thirteen months after start-up. Further investment is planned in the year ahead which will impact costs and profitability.

The main drivers of the performance were the growth in the liability base and transactional revenues allied to the growing account base. Credit growth was in line with expectations, although off a low base, and this growth is attributed primarily to the WesBank operation.

International initiatives

Diversifying into international markets is a primary strategic objective for FirstRand. The primary responsibility to drive international expansion lies with the business units. In order to create synergies and to avoid duplication, FirstRand, through its FRAEM division, co-ordinates all international initiatives and acts as a catalyst and an enabler.

FirstRand seeks to identify attractive markets where niche value propositions can be established on a sustainable basis.

During the year, a representative office was opened in Dubai, which will facilitate trade, forex, asset management and project finance business. The opening of a representative office in Shanghai, China, with a similar aim, awaits regulatory approval.

In order to position FirstRand as a strong regional player in Southern Africa, various opportunities in SADC countries, including Angola, Mozambique and Zambia, are being pursued. Nigeria has also been identified as a potential country for expansion. In addition, Brazil and India have been identified as emerging markets offering opportunities for expansion.

Celpay, a company offering mobile transactional payment capabilities, was acquired as an alternative banking strategy in Africa. The company faces a number of challenges in Zambia and the Democratic Republic of the Congo in generating the required volumes to reach profitability. The strategic importance of this business, in the context of FirstRand's expansion strategy, as well as its financial viability, is being monitored closely.

WILLEM ROOS / **HOWARD ARON** / Joint CEOs, OUTsurance

	2006	2005	% change
Gross premiums (R million)	**2 341**	1 901	23
Operating profit (R million)	**451**	373	21
Headline earnings (R million)	**384**	298	29
Expense/cost to income ratio (%)	**16.4**	16.2	1
Claims and OUTbonus ratio (%)	**58.3**	57.6	1
Banking Group attributable income before tax (R million)	**251**	204	23

FirstRand Bank holds 45% of OUTsurance, South Africa's leading direct short-term insurance company.

Environment

During 2006, the underwriting margins of the short-term insurance industry reduced from the highs experienced during 2004 and 2005 to more normal levels. Against this background, OUTsurance registered a good performance for the past financial year.

Main focus areas in 2006

OUTsurance's main focus continues to be its core personal-lines business and by continually improving systems and processes, consistently delivers on its promise of awesome service and value for money to clients. Essential OUTsurance, a new product aimed at the uninsured older vehicle market, was launched successfully during May 2005 and registered good sales volumes during the financial year.

Business OUTsurance achieved its maiden operating profit during 2006. New business flows increased 34% when compared to the prior financial year.

Part of the OUTsurance vision is to contribute to making South Africa a safer place. OUTsurance has sponsored 120 new traffic police vehicles, and is working closely with the authorities and Arrive Alive to reduce the high rate of road accidents in the country. OUTsurance also sponsors 22 pointsmen in the Johannesburg area, in conjunction with the Johannesburg Metro Police Department, in order to assist with traffic flows at busy intersections.

In line with FirstRand's longer term objectives, OUTsurance conducted detailed research in various international markets with a view to establishing a business off-shore.

Performance

The increase in operating profit of 21% was largely driven by growth in premium income. The latter resulted principally from growth in client numbers, as premium adjustments were contained in line with inflation.

Management and marketing expenses, as a percentage of net premium revenue, increased slightly from 16.2% to 16.4%. The main reasons for the higher costs include an increase in the development of sales channels for Business OUTsurance, as well as increased compliance costs.

The claims ratio of 58.3% (including OUTbonus costs) was 0.7 percentage points higher than the previous year. The slight increase was mainly due to weather related claims. During 2006, more normal wet weather conditions prevailed compared to the unusually clement conditions in the prior period.

During the same period, the short-term insurance industry as a whole registered significantly higher claims ratios, and the underwriting cycle turned downwards. Against this background, OUTsurance maintained its profit margin, confirming the competitiveness of its low-cost direct business model and scientific rating approach.

OUTsurance maintained its profit margin, confirming the competitiveness of its low-cost direct business model and scientific rating approach.

Headline earnings for the year increased 29.4%. The higher increase compared to operating profits is due to careful cash and investment management, resulting in increased investment income.

Areas of focus for 2007

- Continued focus on maintaining strong organic growth in Personal OUTsurance and growing the Essential OUTsurance customer base;
- Further increasing new business flows in Business OUTsurance;
- Investigating the possibility of selling other financial services products under the OUTsurance brand; and
- Laying the foundations for expansion of OUTsurance's activities abroad.

Part of the OUTsurance vision is to contribute to making South Africa a safer place. OUTsurance has sponsored 120 new traffic police vehicles, and is working closely with the authorities and Arrive Alive to reduce the high rate of road accidents in the country. OUTsurance also sponsors 22 pointsmen in the Johannesburg area, in conjunction with the Johannesburg Metro Police Department, in order to assist with traffic flows at busy intersections.

Non-financial opportunities and risks

It is vital that non-financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
Reputation for good customer service and value for money	OUTsurance is committed to providing clients with awesome service through the call centre operation, whether in relation to sales, client care and claims. Management is available to monitor all aspects of service delivery. The company aims to ensure that clients are consistently offered innovative and value-for-money products that suit their individual needs.
Reputation for claims payments	OUTsurance ensures that all claims are swiftly handled and valid claims are paid promptly. Any claim disputes are monitored closely via internal escalation processes as well as with the offices of the relevant Ombuds.
Regulatory issues including FAIS and FSC	OUTsurance understands the changing face of the business landscape and society and as such, changes in the regulatory environment are embraced and compliance with the requirements of appropriate legislation, which includes FAIS ("Financial Advisory and Intermediary Services Act"), Employment Equity and Skills Development is ensured.

EB NIEUWOUDT / CEO Momentum

Momentum's focus on product innovation, and the diversification of its growing distribution model resulted in strong new business inflows.

momentum

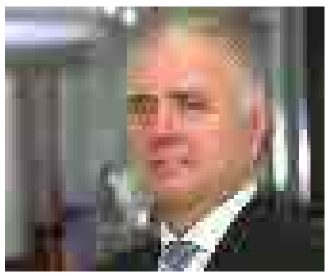
EB Nieuwoudt / 44 /
MCom
CEO: Momentum

Danie Botes / 42 /
BCompt (Hons)
CEO: Middle Market Initiative

Johan Burger / 47 /
BCom (Hons), CA(SA)
CFO: FirstRand

Derek Carstens / 56 /
BEcon (Hons), MA (Cantab)
Director of Brands: FirstRand

Nigel Dunkley / 40 /
CA(SA), Adv Tax Cert, AMP (Oxford)
CEO: Corporate Advisory Services



Paul Harris / 56 /
MCom
CEO: FirstRand

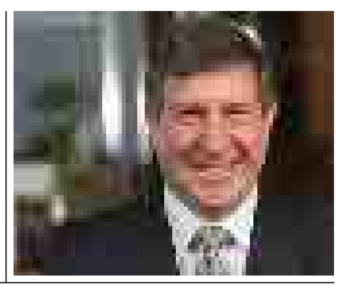
Nicolaas Kruger / 38 /
BCom, FFA, FASSA
CEO: Momentum Group Business

Johann le Roux / 39 /
BSc (Hons), MBA, FFA
CEO: Momentum Risk and Savings

Phillip Mjoli / 44 /
MBA, MDP, BCompt (Hons), BCom
CEO: Momentum Service

Asokan Naidu / 45 /
CA(SA), MBA
CFO: Momentum Group

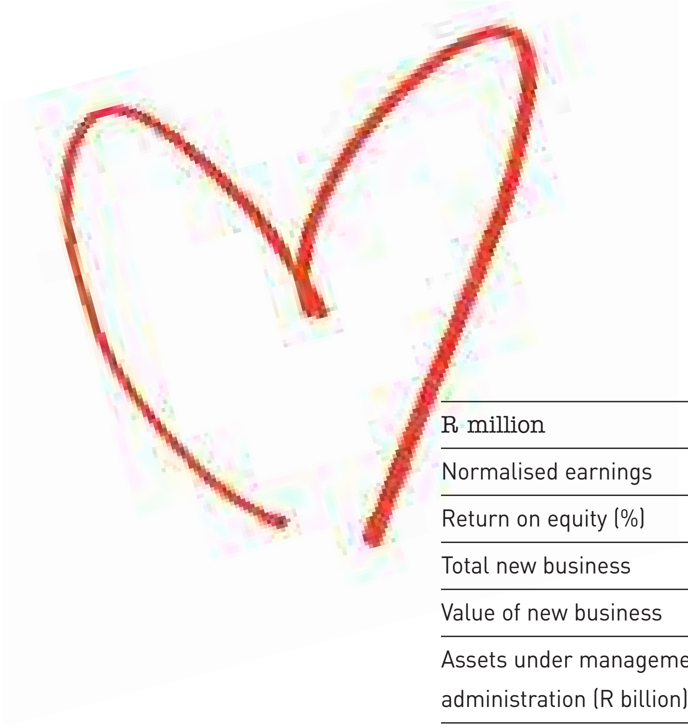
Kobus Sieberhagen / 47 /
BA Admission, Psychology (Honours), MA: Clinical Psychology, DPhil
CEO: Momentum Distribution Services



Frans Truter / 51 /
BCom (Hons), CA(SA), AMP (Oxford)
Director: Strategic Investments

Riaan van Dyk / 40 /
BSc, FFA, ASA
CEO: Momentum Investments

Ferdi van Heerden / 43 /
BSc (Hons), AMP
CEO: Momentum Existing Business



R million	**2006**	2005	% change
Normalised earnings	**1 564**	1 270	23
Return on equity (%)	**24.1**	24.5	
Total new business	**59 403**	42 689	39
Value of new business	**434**	368	18
Assets under management or administration (R billion)	**354**	269	31

Business

Momentum is an intermediary-focused company that differentiates itself from its competitors through responsible product innovation and service excellence. It achieves this by providing excellent and uncompromising service levels to its customers and intermediaries, as well as through product innovation.

Environment

Local equity markets continued to show strong gains, with the FTSE-JSE Top 40 Index increasing by 52% during the financial year, impacting positively on earnings for the year. Upward inflationary pressure resulted in two recent 50-basis point increases in the Reserve Bank's repo rate, the latter taking place subsequent to the financial year end.

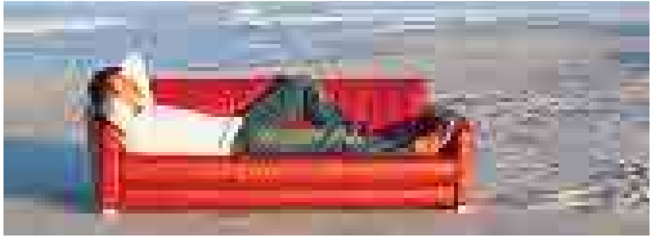
The Life Offices' Association statistics regarding new business growth in the life insurance industry indicate that new recurring premium and single premium business increased by 10% and 13% respectively over the year to December 2005. Sales of new recurring retirement annuity ("RA") products, however, declined by 15% over the same period.

The financial services market is characterised by an increased focus on consumerism and products that are transparent and offer value for money. The Group is committed to proactively addressing consumer needs, which is why Momentum recently formed a sub-committee of the board specifically tasked with ensuring that the Group exhibits fairness in all its dealings with clients. This committee has non-executive board representation, as well as independent representation from outside the Group.

The benefits of the acquisition of Sage arise firstly from the positive scale impact on the administration cost per policy, and secondly from providing an agency force that is accustomed to writing business in Momentum's target market.

Main focus areas in 2005/2006

- The integration of Sage Group Limited ("Sage") into the Momentum Group has progressed well, with the conversion of 260 000 Sage policies to the Momentum IT platform being completed within a 100-day time frame. The integration of the Sage agency force into the Momentum distribution environment has also been completed, with the combined agency force increasing its contribution to new recurring premium production during the year.
- Momentum acquired the business of African Life Health ("ALH") from African Life during the 2006 financial year. The total number of principal members administered by ALH and Sovereign combined now exceeds 232 000 in South Africa. The acquisition of ALH provides access to local government and lower income schemes, which complement Sovereign's strong presence in the restricted schemes market. This acquisition also provides a firm base from which to expand the medical schemes administration business into the rest of Africa.
- Momentum acquired mCubed's remaining interest in Advantage Asset Managers ("Advantage") during the year under review. Effective 15 December 2005, WDB Holdings and Advantage's Black Staff Share Trust acquired stakes of 11.5% and 3.5%, respectively in Advantage. Momentum currently holds 85% of the issued share capital of Advantage.
- The entry into new markets in partnership with the wider FirstRand Group is progressing well. The FNB Life mass market credit life products are gaining good penetration into the Bank's client base, whilst FNB and Momentum also successfully launched a middle market product range comprising education savings and risk products under the FNB brand, using both the insurance and banking licenses. Sales of Momentum products through the FNB Financial Consultants distribution channel also increased significantly.
- Momentum Short-term Insurance ("MSTI") was successfully launched in October 2005. Its initial focus was on the independent brokers with whom Momentum already has strong relationships, as well as on Momentum's agency force. Sales volumes to date are better than expected.




Group operating results

Normalised earnings (before the once-off impact of the agreement with National Treasury), before the impact of IFRS increased by 22% to R1 567 million for the year ended 30 June 2006. Post-IFRS group headline earnings, after the impact of the agreement with National Treasury increased by 21% to R1 534 million. Earnings attributable to ordinary shareholders increased by 42% to R1 909 million.

These results were characterised by:

- strong retail new business growth, especially in individual life and discretionary lump sum investments, and in collaboration with FNB. Profit margins on new products have, however, been reduced, which, coupled with the negative impact of increased new business strain, has dampened new business profit growth;
- the positive impact of strong equity market returns;
- increased operating profits as a result of recent acquisitions. These acquisitions were funded by cash, resulting in lower investment income on shareholder assets;
- the turnaround in the loss-making international operations; and
- a significant increase in asset management earnings due to increased equity market growth and retail product inflows.

Total assets under management or administration increased by 31% to R353.7 billion mainly due to buoyant equity markets, and the acquisition of Sage.

The headline return on equity ("ROE") amounted to 24.1% (before the impact of the agreement with National Treasury and pre-IFRS), compared with 24.5% in the prior year. This ROE is in excess of Momentum's internal target, being the weighted average cost of capital plus 10%. The return on embedded value for the year was 31%.

The table opposite shows the main components of the increase in Group headline earnings, with the impact of IFRS and the agreement with National Treasury, referred to above, shown separately:

Earnings source

R million	2006	2005	% change
Insurance operations	940	685	37
– Local	883	726	22
– FNB collaboration	58	18	>100
– International	(1)	(59)	98
Asset management operations	347	247	40
– Local	243	178	37
– International	104	69	51
Group operating profit	1 287	932	38
Investment income on shareholders' assets	280	355	(21)
Normalised earnings (pre-IFRS) (unaudited)	1 567	1 287	22
Impact of IFRS[1]	(3)	(17)	82
Normalised earnings (unaudited)	1 564	1 270	23
Agreement with National Treasury	(30)	–	–
Group headline earnings	1 534	1 270	21

1. The impact of IFRS is mainly the change in profit recognition on investment contracts, and the adjustment of listed property subsidiary and associate investments to net asset value.

Local insurance operations

The operating profit generated by local insurance operations increased by 22% to R883 million. The strong growth in investment markets and the inclusion of earnings from new acquisitions impacted positively on the results for the year, whilst the increased new business levels, reduction in fee margins and the investment in the agency force resulted in an increased new business strain, which dampened profit growth.

It is pleasing to note that the value of new business, which represents the present value of expected future profits from new business, increased by 18% to R434 million, driven mainly by the increased new business volumes. The margin on new business, however, declined from 2.6% to 2.2%, mainly due to reduced fee charges, a change in business mix and the higher interest rates.

The benefits of the acquisition of Sage arise firstly from the positive scale impact on the administration cost per policy, and secondly from providing an agency force that is accustomed to

The acquisition of ALH provides access to local government and lower income schemes which complement Sovereign's strong presence in the restricted schemes market. This acquisition also provides a firm base from which to expand the medical schemes administration business into the rest of Africa.

writing business in Momentum's target market. A total of R64 million for Sage is included in operating profit from 1 September 2005, whilst an amount of R21 million is included in investment income on shareholders' assets, representing the income yield on the Sage shareholder assets from 1 September 2005. It should be noted that, in terms of IFRS 3, Momentum has identified intangible assets totalling R1 157 million (gross of deferred taxation) in the Sage balance sheet at the effective date, represented mainly by the value of in-force business. In terms of IFRS 3, these intangible assets must be amortised against group earnings over their useful lives. Although this will impact on future earnings, there will be no impact on the embedded value.

The Momentum Health open scheme, which is administered by Sovereign Health (Sovereign), currently has 62 300 principal members, compared with 48 500 at 30 June 2005, an increase of 28%. During the year, Momentum acquired the business of ALH from African Life. The total number of principal members administered by ALH and Sovereign combined now exceeds 232 000 in South Africa. The acquisition of ALH provides access to local government and lower income schemes which complement Sovereign's strong presence in the restricted schemes market. This acquisition also provides a firm base from which to expand the medical schemes administration business into the rest of Africa, with three additional countries (Tanzania, Ghana and Mauritius) currently being added to the five countries (Kenya, Botswana, Lesotho, Mozambique and Zambia) where ALH already operates.

Momentum Collective Benefits, the provider of group risk products to the pension fund market, benefited from an 18% increase in new business premium income. Although group life margins have reduced as a result of increased competition, group disability margins improved due to the termination of certain schemes with poor claims experience.

Momentum Short-term Insurance ("MSTI") was successfully launched in October 2005. Its initial focus was on the independent brokers with whom Momentum already has strong relationships, as well as on Momentum's agency force. Sales volumes to date are better than expected and the future prospects of this venture are positive. Momentum's attributable operating loss for the year amounted to R8 million. Further start-up losses have been included in the business plan for the coming year.

Momentum acquired the remaining stake of mCubed in Advantage, which brings Momentum's total stake to 85%. At 30 June 2006, Advantage's total assets under management amounted to R52 billion (2005: R39 billion).

FNB collaboration

The disposal of Momentum's stake in African Life is in line with the preferred strategy of targeting the mass and middle income market using the FNB brand and distribution channels, rather than through a traditional life insurance distribution model. This strategy has delivered strong growth in sales through FNB, specifically in the mass market through FNB Life. The middle market initiative, Aspire, launched a number of new products during the year, using both the banking and insurance licences, and production continues to increase steadily. These collaboration efforts increased their contribution to earnings after tax from R18 million to R58 million, driven mainly by the increased new business volumes.

International

The back-office function of Momentum's offshore retail-linked product provider was relocated from the UK to South Africa in order to leverage the existing local infrastructure. This resulted in a turnaround in the earnings from offshore operations, from a loss of R59 million incurred during the prior year to a R1 million loss during the current year.

Asset management operations

The asset management operations comprise the institutional asset management and unit trust operations of RMB Asset Management (RMBAM), RMB Properties (RMBP) and 87% of Ashburton. The group's 40% shareholding in Futuregrowth was sold to Wiphold, the majority shareholder, during the current year.

The asset management operations generated an increase in headline earnings of 40% to R347 million. The local asset management operations, represented mainly by RMBAM, generated an excellent 37% increase in headline earnings. Strong market growth in the institutional business, offset marginally by a net outflow of funds, has resulted in increased asset values and consequently higher fees, whilst unit trust net inflows also had a positive impact on income levels.

The focus in the institutional business has been on marketing the capabilities of RMBAM's Customised Solutions team, as well as the on-balance sheet product range. The focus on the on-balance sheet business has resulted in over R650 million flowing into these products during the year. The withdrawal of the African Life assets following Momentum's disposal of its stake has impacted negatively on off-balance sheet funds under management.

Investment income on shareholders' assets

The investment income earned on shareholders' assets decreased by 21% to R280 million. The acquisitions of Sage, Sovereign (acquired 1 June 2005), Advantage and ALH, together with the repayment of loans relating to the funding of international operations, resulted in a reduction in investment income. The net cost of the preference share and bond issues, as well as the start-up loss on MSTI also contributed to reduced investment income for shareholders.

An analysis of the investment income earned on the shareholders' portfolio investments is set out in the following table:

Investment income on shareholders' portfolio investments

R million	2006	2005
– African Life (34%)	47	96
– Fixed interest instruments	76	57
– Preference shares	43	35
– Equities	30	20
– Properties	2	–
– Share trust and subsidiary loans	34	39
– Cash and near cash	63	108
– Debt	(15)	–
Total investment income on shareholders' portfolio investments	280	355
– Momentum	259	355
– Sage	21	–

Momentum Short-term Insurance ("MSTI") was successfully launched in October 2005. Its initial focus was on the independent brokers with whom Momentum already has strong relationships, as well as on Momentum's agency force.

Agreement with National Treasury

The total impact on Momentum and Sage of the agreement with National Treasury that was reached on 12 December 2005, amounts to R196 million after tax. The impact on Momentum is R108 million, with the balance representing Sage.

As a provision of R78 million after tax already existed at 30 June 2005, the full balance of the Momentum charge of R30 million after tax has been taken against current year earnings. The impact on Sage has been accounted for in pre-acquisition earnings.

Momentum will continue to actively manage the level and composition of its capital base to maximise the value created for its shareholder.

Momentum is well advanced in adapting its systems ahead of the implementation date of the agreement reached with National Treasury regarding minimum standards on early termination values.

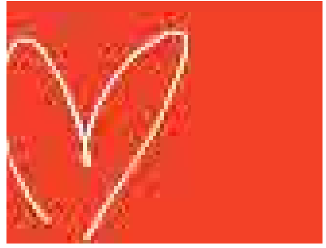
Capital management

The excess of assets over liabilities of Momentum Group Limited, calculated on the statutory valuation method, amounted to R6 041 million (June 2005: R4 510 million). The capital adequacy requirement ("CAR") of R1 978 million was covered 3.1 times (June 2005: 2.2 times) by the excess of assets over liabilities. This is in excess of the targeted capitalisation level of between 1.8 and 2.2 times CAR. Momentum will continue to actively manage the level and composition of its capital base to maximise the value created for its shareholders. A special dividend of R500 million has been declared to FirstRand on 30 June 2006, and a final dividend of R1 billion will be declared to FirstRand to bring the CAR cover closer to the targeted range.

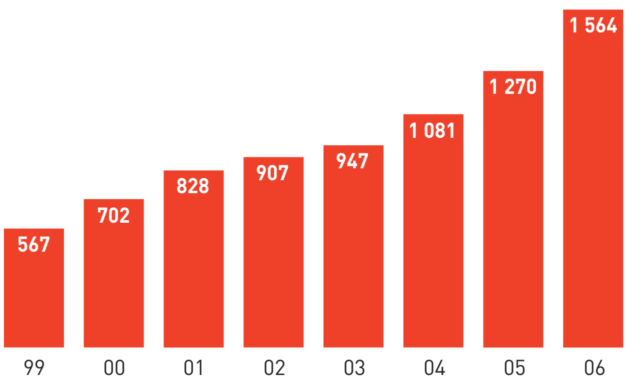
Momentum issued R500 million in preference shares, and R1 billion in unsecured subordinated debt during the year, resulting in a significant reduction in the weighted average cost of capital from 12.4% to 10.8%. The FSB has approved the inclusion of this R1.5 billion in capital for statutory purposes, which has also contributed to the increased CAR cover.

Main focus areas for 2007

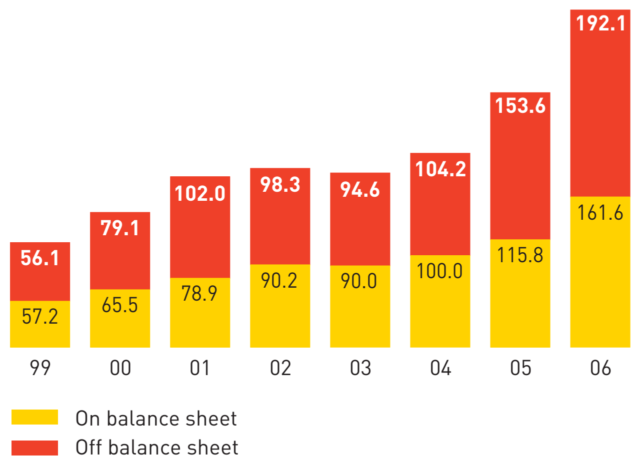
- Focus on growing the newly formed short-term insurance, as well as the middle and mass market collaboration initiatives with FNB.
- The extraction of efficiency benefits from the new acquisitions.
- Continued focus on providing good value for money to customers through product innovation, awesome service and sound financial advice.
- As expected, the new tied agency force is not yet operating at optimum capacity. It does, however, provide a platform for growth in future new business in an area of the market where Momentum has not traditionally been well represented. The focus will therefore be on increasing the productivity of the agency force.
- The acquisition of ALH provides a firm base from which to expand the medical schemes administration business into the rest of Africa, with three additional countries (Tanzania, Ghana and Mauritius) currently being added to the five countries (Kenya, Botswana, Lesotho, Mozambique and Zambia) where ALH already operates.



Normalised earnings
(R million)



Assets under management or administration
(R billion)



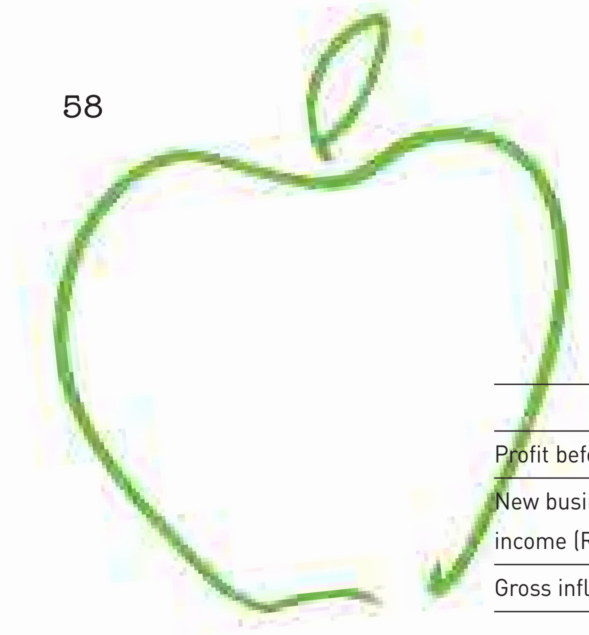
Non-financial opportunities and risks

It is vital that non-financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

IDENTIFIED RISK	MANAGEMENT ACTION
FAIS, National Credit Act, Consumer Protection Bill and other legislation	Momentum continues to address compliance with applicable legislation and industry codes. A dedicated FAIS compliance unit is operational and involved in all aspects of FAIS compliance. We have applied for registration as a Credit Provider in terms of the National Credit Act. Further analysis of the Consumer Protection Bill will be conducted.
The impact of new commission regulation, such as paying of annual commission on recurring investment products, rather than up-front commission	Management is investigating various alternatives. New products, such as the Investo range, already include the option of as-and-when commission, and the take-up to date has been encouraging. Momentum is actively involved with the National Treasury proposals via its LOA membership. Furthermore, Momentum provides health and short-term product ranges which increase the as-and-when commission stream of brokers and agents, thereby reducing the potential impact of the proposed changes.
Achieving Employment Equity ("EE") targets as set out in the Financial Sector Charter ("FSC")	Momentum is currently focusing on the retention and career development of all key black staff, especially those in the senior and middle management levels of the FSC. Each business unit has submitted comprehensive EE plans that will ensure that the FSC targets are met. The plans will be monitored and reported to management on a monthly basis to ensure the correct level of focus and attention is afforded to this matter.

ADRIAN GORE / CEO Discovery

Discovery's focus on meeting consumers' needs through innovation results in organic growth.



	2006	2005	% change
Profit before tax and BEE (R million)	1 237	853	45
New business annualised premium income (R million)	4 479	4 342	3
Gross inflows under management (R million)	20 427	17 295	18

Environment

The year under review has been a successful one for Discovery, with important developments in each of its businesses, strong earnings growth and the declaration of a maiden dividend. The Group's core purpose of "making people healthier and enhancing and protecting their lives" imposes an ethos wherein always meeting clients' needs first and foremost leads to superior growth and profitability. The year under review illustrates the continued efficacy of this approach. As in previous years, all of Discovery's businesses focused intensely on significant developments and innovations designed to meet specific client needs in rapidly changing markets – resulting in strong organic growth.

Discovery has consistently followed a philosophy of pursuing organic growth, funded from internal resources without recourse to debt. Discovery is now in a position of having built both scale and platforms for future growth, but is now concurrently strongly cash-generative. Discovery Life's significant growth since its commencement in 2001 required substantial investment of the Group's cash resources. The company is now turning cash flow positive and so, while Discovery will continue to aggressively pursue a wide range of new initiatives, the Group is expected to be cash-generative going forward. The level of the maiden dividend has been set taking into account Discovery's future capital and growth needs.

As in previous years, all of Discovery's businesses focused intensely on significant developments and innovations designed to meet specific client needs in rapidly changing markets – resulting in strong organic growth.

The Group's core purpose of "making people healthier and enhancing and protecting their lives" imposes an ethos wherein always meeting clients' needs first and foremost leads to superior growth and profitability.

Performance

Headline earnings before BEE expenses increased 36% to R692 million. Annualised recurring new business production exceeded expectation, increasing 3% to R4.5 billion (2005: R4.3 billion). Embedded value increased 15% driven by strong new business and enhanced efficiencies.

Discovery Life

Discovery Life's performance exceeded expectation. The core driver of Discovery Life's performance is the leadership position that it has achieved in the protection market. Discovery's ethos of focusing on clients' needs first has translated into a strategy that leads to both growth and profitability. The key success factors in this market are price competitiveness and product innovation, which lead to growth, superior mortality and morbidity experience and higher levels of persistency. During the year, the launch of the Discovery Life Card Integrator, which integrates the DiscoveryCard with the Discovery LIFE PLAN in order to achieve lower premiums, was a further step in using Discovery's unique product platform to generate value for clients, while creating a strong product differentiation. A substantial portion of Discovery Life's profitability was generated from mortality and morbidity profits, illustrating the success of the strategies followed.

The significant embedded value of the new business transacted, combined with the positive experience variances of the in-force embedded value, reflects the quality and scale of the company's protection business.

During the year, Discovery Life entered the retirement funding market with the launch of the Discovery Retirement Optimiser. While still early in its evolution, the company estimates that its market share of new business amounted to approximately 17% of the independent broker recurring premium retirement annuity market, in just its first year of entry. Given this, Discovery Life is evaluating a broader long-term savings offering.

Discovery Life's joint protection initiative with the Prudential plc was launched into the UK assurance market during July 2006. The strategy followed was a controlled roll-out to select broker houses to ensure that both Discovery Life and Prudential could gain a deep and rapid insight into the dynamics of the market to ensure success, given the fundamental differences to existing products that the joint protection product represents. Early signs are positive and Discovery Life remains cautiously optimistic for the prospects of this initiative. The financial structure of the joint venture requires limited capital for infrastructural development from Discovery, but exposes Discovery to the upside of the embedded value created.

Discovery Health

Discovery Health's performance was pleasing. Operating profit increased 20% to R655 million (2005: R548 million) and the number of lives covered on the Discovery Health Medical Scheme and other medical schemes under management increased 8% to 1.94 million from 1.78 million.

Discovery Health's purpose is clear: to create affordable access to quality healthcare on a sustainable basis for its clients. It is uniquely positioned to do so due its size and unique assets. The size of the DMHS is now 3.8 times greater than that of its nearest competitor, and just this year's growth is larger than the fourth largest medical scheme in the market.

During the year under review, considerable progress was made in discussions with hospital and other provider groups toward the managing of healthcare costs, which continue to increase at stubbornly high medical inflation rates, despite a lower price inflation environment. The company is close to launching a series of provider initiatives aimed at providing quality care at affordable and sustainable rates, while ensuring members' service experience is positive and effortless. It is anticipated that these developments will benefit members directly and will further serve to entrench Discovery Health's competitive position, enabling future growth.

The company continued its growth in the lower income market through its KeyCare product range and to this end formed a proprietary network of 2 055 doctors and 64 hospitals specifically to care for KeyCare members.

Considerable investment in operations and technology was made in the previous year, and this yielded substantial results during the year under review. Discovery Health's business is of a highly transactional nature, with large volumes of administrative transactions taking place every day. In this context, the implementation of a small number of well-executed initiatives can have a significant impact. Service levels reached highest levels yet, and importantly, substantial efficiencies emerged, with staff headcount per thousand lives covered reducing by 13.2% over the year. The combination of organic growth and expense efficiencies drove the increase in operating profit.

Destiny Health

Destiny Health's performance was disappointing for the financial year, although its performance for the last six months was in line with expectations set at the interim results stage. Operating losses increased 68% to R151 million (2005: R90 million) and recurring premium new business reduced 2% to R796 million (2005: R809 million).

Discovery Health's purpose is clear: to create affordable access to quality healthcare on a sustainable basis for its clients. It is uniquely positioned to do so due its size and unique assets.

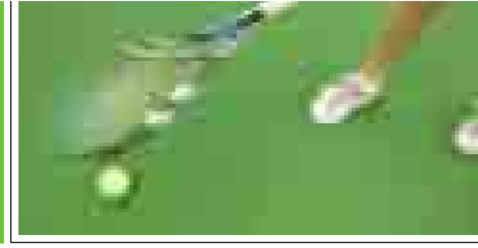
The poor performance reflects a significant shift in the competitive dynamics of the markets in which Destiny operates. While the concept of Consumer-driven Healthcare continues to grow significantly in the US health insurance markets – presenting a substantial and unique opportunity for Discovery given the Group's experience and capabilities – it became clear during the first six months of the year that Destiny was poorly positioned to make positive progress. A positive underwriting cycle and significantly deeper discounts available to the major competitors, created an environment in which Destiny is simply not price competitive – particularly in Illinois, Destiny's major market – resulting in slow growth and worse-than-expected loss ratios.

In addition, Destiny's pace of expansion into other markets where it could compete was inadequate and contingent upon partner influences. Since the half year, substantial steps have been taken to address the situation:

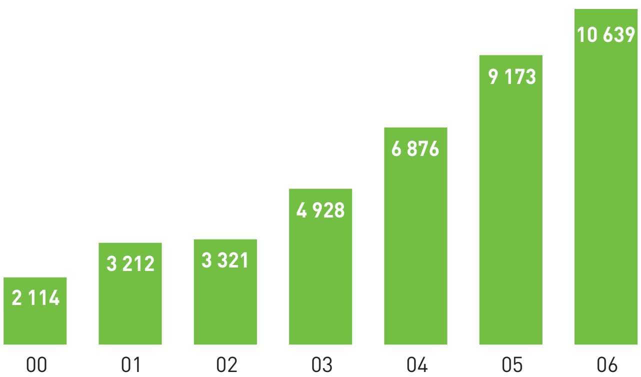
- The appointment of a new CEO
- A focus on appropriately increasing premium rates to address the elevated loss ratio and return it to the correct level
- A mutual agreement with Tufts Health Plan to terminate the joint venture to allow for correct focus on growth opportunities
- A significant scaling down of the operations to reflect the realities of the business
- The recruitment of senior resources
- A focus on obtaining competitive network discounts
- The expansion into more promising markets, such as Texas

The resulting operating losses reflect the tail-end of the issues, and the steps taken have had a significant impact. It is anticipated that the emerging losses will be minimised and reduced rapidly.

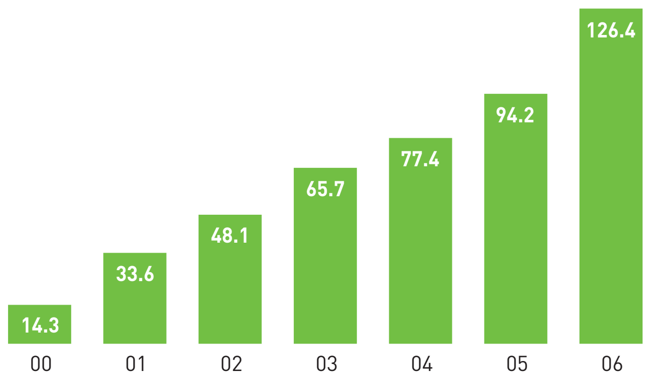
However, Discovery has made the decision that the business model and strategy is not sustainable and must change. Discovery, Destiny Health and the Guardian Life Assurance Company of New York (Destiny Health's exclusive distribution partner in the US) are in the process of revisiting the partnership arrangement. Potential changes may include a construct wherein Destiny will provide the intellectual capital and an operational platform for the Guardian in return for a fixed fee per member in some states in the US, while Destiny Health will market its own products in other US states. However, it must be stressed that any growth outside of this will be opportunistic, confined to those markets where competitive pricing can be obtained and will be pursued with great care to limit any downside.



Embedded value
(R million)



Diluted headline earnings per share before BEE expenses and abnormal items
(Cents)



Vitality and the DiscoveryCard

Vitality performed well over the period. Operating profit increased 11% to R41 million (2005: R37 million), Vitality membership increased 7% to 522 516 members (2005: 486 416 members), and the number of primary DiscoveryCard-holders increased 120% to 307 688 (2005: 139 563).

Vitality's function is foundational across Discovery, and focus continues to be applied to ensuring that its structure achieves the correct levels of engagement and behavioural change. Its performance in this regard and in creating a competitive advantage for all of Discovery's businesses has been remarkable. To ensure continual improvement, many of the benefit structures were reworked during the year, most notably the introduction of kulula.com as an air travel partner in addition to British Airways. This strengthens the incentives for members to engage in healthy behaviours, thereby boosting their Vitality statuses. The number of Vitality flights booked on kulula.com per day exceeds 1 000 – which is greater than the historic total monthly usage of the British Airways flight benefit. Over 200 000 Vitality members are now actively training at the gyms in the Vitality network.

The growth of the DiscoveryCard has been pleasing. Its central purpose is to offer a platform for both Discovery Health and Discovery Life to enhance their value propositions for their clients. This has been a particularly successful strategy and the launch of the Discovery Life Card Integrator during the year is a clear and powerful illustration of this. In addition to this, the DiscoveryCard represents a powerful entry into the credit card marketplace and the growth of the advances portfolio to in excess of R1.1 billion is testimony to its success. Discovery remains confident and optimistic that its value proposition places it in a uniquely competitive position. Discovery expects continued evolution and growth from and through the DiscoveryCard.

PruHealth

The performance of PruHealth, Discovery's 50% joint venture with the Prudential plc, was particularly pleasing. Members covered increased 696% to 58 912 (2005: 7 400), while new business increased by 705% to R282 million (2005: R35 million).

During the year under review, the company has made a significant impact on the UK private medical insurance ("PMI") market. It has taken a product leadership position and its operational execution has been robust and thorough. The central Vitality philosophy of incentivising better health has been exceptionally well received in the marketplace and is wholly consistent with government policy and practice. The impressive levels of new business production over the year reflect a successful strategy in every respect.

PruHealth distributes its products through both broker ("IFA") and direct-to-consumer ("D2C") distribution channels. The IFA channel has been remarkably receptive from the outset and over the year exceeded set targets, with continued growth in both depth and breadth. A pleasing development during the year has been the increasing success of the D2C channel and, in particular, the online channel. Importantly, the D2C channel attracts individual business, which is significantly more profitable. This bodes well for future growth and profitability.

From an actuarial perspective, a central strategy designed to ensure price competitiveness is the use of the Vitality structure

The DiscoveryCard represents a powerful entry into the credit card marketplace and the growth of the advances portfolio to in excess of R1.1 billion is testimony to its success.

to induce greater persistency, thereby leading to superior durational morbidity experience. Early indications are positive, with 100% of small and medium size companies ("SMEs") renewing their coverage.

Going forward, PruHealth is well positioned for continued growth. It is pursuing a number of key strategies, including the broadening of its distribution channels to the generalist IFAs and an acceleration of its D2C execution.

Non-financial opportunities and risks

Discovery recognises the importance of understanding and managing the non-financial risks that could potentially have an impact on its business and by extension, stakeholders. Discovery proactively works to identify these risks and puts processes in place to ensure effective management. There is regular communication with stakeholders about key aspects of the business and actions taken to address any issues of concern are detailed in the table below.

ISSUE	MANAGEMENT ACTION
Reputation for Good Customer Service and Value-for-Money	**Service** Discovery focuses on service across all its businesses. Some of the key focus areas are: • Exceeding call centre best practice • Multi-skilled consultants • Fast payment of claims • Simplicity and familiarity The website is Discovery's online service platform for all stakeholders, offering extensive service functionality. **Value-for-money** Both initial affordability and ongoing sustainability of premiums are important. Discovery Health has given members consistently stable increases over the past decade. Discovery Life's integrated products cover the entire risk-spectrum, allowing its policyholders to consolidate their risk cover and take advantage of significant savings.
Impact of different targets relating to Financial Sector and Health Sector Charters	Discovery is on target to meet all the targets set by the Financial Sector Charter.
Complex and high profile regulatory environment	Discovery has found in all instances that proactive and ongoing engagement with the regulatory bodies responsible for the industries to be the most effective means of ensuring that the company stays abreast of proposed regulatory changes and make appropriate inputs to represent the interests of the stakeholders.
HIV/AIDS impact on customer base	The impact of HIV/AIDS is both measurable and manageable in relation to the client base. Discovery Health announced a comprehensive new HIV-management programme on 19 September 2006, which provides corporates with the tools to actively measure and manage the impact of HIV/AIDS within their business. Discovery Health HIV Care forms part of Discovery Vitality Wellpoint, a new corporate wellness programme for employers. Wellpoint's HIV programme includes surveys, HIV Education, an awareness, voluntary counselling and testing programme, medical advice and counselling, and policy development. The HIV disease management programme also gives access to ARVs, doctor consultations and pathology, as well as support for employees with HIV.

VALUE ADDED STATEMENT

for the year ending 30 June 2006

	2006 R million	2006 %	2005 R million	2005 %
Value added				
Net interest income earned by FirstRand Banking Group	9 304	11.2	8 791	16.0
Net premium income and fees earned by Momentum	40 621	49.0	19 606	35.6
Net income earned by Discovery	2 676	3.2	2 369	4.3
Net loss by FirstRand Limited	(127)	(0.1)	(290)	(0.5)
Value added by Group	52 474	63.3	30 476	55.4
Non-operating income	38 056	45.9	32 904	59.8
Non-operating expenditure	(7 631)	(9.2)	(8 375)	(15.2)
Valued added by Group	82 899	100	55 005	100
To employees				
Salaries, wages and other benefits	10 230	12.3	7 882	14.3
To providers of capital				
Dividends to shareholders	4 988	6.0	2 835	5.2
To Government	4 306	5.2	2 387	4.3
Normal taxation	3 068	3.7	1 191	2.2
Value-added tax	578	0.7	502	0.9
Regional services levy	70	0.1	120	0.2
Capital gains tax	410	0.5	293	0.5
Other	180	0.2	281	0.5
To policyholders				
Policyholder claims and benefits	57 348	69.2	34 362	62.5
Insurance contracts	5 811	7.0	8 662	15.8
Investment contracts	23 488	28.4	10 413	18.9
Adjustment to liabilities under investment and insurance contracts	28 049	33.8	15 287	27.8
To expansion and growth	6 027	7.3	7 539	13.7
Retained income	4 220	5.1	5 179	9.4
Depreciation	892	1.1	721	1.3
Deferred taxation	915	1.1	1 639	3.0
	82 899	100	55 005	100


1. GT Ferreira


2. PK Harris


3. VW Bartlett


4. DJA Craig


5. LL Dippenaar

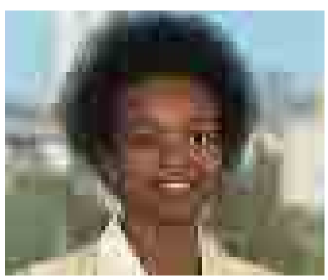

6. DM Falck


7. PM Goss


8. NN Gwagwa


9. MW King


10. YI Mahomed


11. G Moloi


12. AP Nkuna

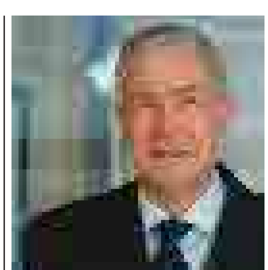

13. SE Nxasana


14. SEN Sebotsa


15. KC Shubane


16. BJ van der Ross


17. F van Zyl Slabbert


18. RA Williams

1. Gerrit Thomas Ferreira / 58 / **Non-executive chairman** / BCom, Hons B (B&A), MBA / Appointed May 1998

GT Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg in 1972 and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was managing director of RMB from 1985 to 1988 after which he was elected as executive chairman. When RMB Holdings was founded in 1987, he was appointed chairman, a position which he still holds. Following the formation of FirstRand in 1998, he was appointed non-executive chairman. He is a member of the Council of the University of Stellenbosch.

FirstRand – memberships / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – FirstRand Bank Holdings – Chairman / Glenrand MIB / Momentum Group / RMB Holdings – Chairman

2. Paul Kenneth Harris / 56 / **Chief executive officer** / MCom / Appointed May 1998

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation. He was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992, he took over as chief executive officer. Subsequent to the formation of FirstRand, he was appointed chief executive officer of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed chief executive officer of FirstRand.

FirstRand – memberships / Executive Committee – chairman

Directorships / FirstRand Bank Holdings / Momentum Group Remgro Limited / RMB Holdings

3. Vivian Wade Bartlett / 63 / **Non-executive** / AMP (Harvard), FIBSA / Appointed May 1998

Viv Bartlett started his career with Barclays Bank DCO South Africa, which subsequently became First National Bank of Southern Africa in 1987. After some four years of overseas secondments, he returned to South Africa in 1972 where he served as general manager and managing director in various group companies until being appointed as group managing director and chief executive officer of First National Bank of Southern Africa in 1996. In 1998, he was appointed deputy chief executive officer of FirstRand Bank, a position he held until his retirement in 2004.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – CEMEA Regional Visa International – Chairman / FirstRand Bank Holdings / Makalani Holdings Limited – Chairman / FirstRand STI Holdings / Visa International

4. David John Alastair Craig / 58 / **Independent non-executive** / British / Appointed May 1998

David Craig is Managing Director and Chief Investment Officer of Sand Aire Limited, a large multi-family investment management office located in London.

He held the position of director – International Capital Markets Division at Hambros Bank until 1979 when he left to help set up JP Morgan Securities. In 1983, holding the position of chief executive designate, he left in order to set up IFM Trading, the first major hedge fund group in London, where he was CEO until the time of its sale in 1994. He served as Chairman of Northbridge Management from 1995 until its merger with Sand Aire in 2006.

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – Northbridge Management – Chairman / Sand Aire Limited – MD and CIO / Various international private companies

5. Lauritz Lanser Dippenaar / 57 / **Non-executive director** / MCom, CA(SA) Appointed May 1998

Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director of RMB in 1988 which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers ("Momentum"). He served as executive chairman of that company from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive of FirstRand and held this position until the end of 2005 when he assumed a non-executive role.

FirstRand – memberships / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – Discovery Holdings – Chairman / FirstRand Bank Holdings / Momentum Group – Chairman / FirstRand STI Holdings – Chairman / RMB Asset Management / RMB Holdings

6. Denis Martin Falck / 60 / **Non-executive** / CA(SA) / Appointed February 2001

Denis Falck left the auditing profession in 1971 to join the Rembrandt Group. He was appointed group financial director in 1990 and currently holds the same portfolio on the board of Remgro.

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – FirstRand Bank Holdings / Remgro / RMB Holdings / Trans Hex Group.

7. Patrick Maguire Goss / 58 / **Independent non-executive** / BEcon (Hons), BAccSc (Hons), CA(SA) / Appointed May 1998

Pat Goss, after graduating from the University of Stellenbosch, served as President of the Association of Economics and Commerce Students ("AIESEC"), representing South Africa at The Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation where he worked for a number of years. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other conservation related activities.

FirstRand – memberships / Directors' Affairs and Governance Committee – Chairman / Remuneration committee – Chairman

Directorships – AVI Limited / FirstRand Bank Holdings / Lewa Wildlife Conservancy (Kenya) / RMB Holdings

8. Nolulamo (Lulu) Gwagwa / 47 / **Independent non-executive** / BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London) / Appointed February 2004

Lulu Gwagwa worked as a town planner in the private, public and NGO sectors between 1981 and 1986, whereafter she proceeded to further her studies. In 1992, she joined the University of Natal as a senior lecturer in the Department of Town and Regional Planning. In 1995, she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003, she was the chief executive officer of the Independent Development Trust. She is currently the chief operating officer of Lereko Investments.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – ACSA / Development Bank of South Africa / Sun International

9. Michael Wallis King / 69 / **Independent non-executive** / CA (SA), FCA / Appointed May 1998

Mike King was educated at St John's College and the University of Witwatersrand. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances, and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of South Africa, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

FirstRand – memberships / Audit Committee – Chairman / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – FirstRand Bank Holdings / African Rainbow Minerals / Sturrock and Robson Holdings / Teal Exploration & Mining Inc / The Tongaat-Hulett Group

10. Yunus Ismail Mahomed / 55 / **Independent non-executive** / BProc, MBA / Appointed May 2005

Yunus Mahomed graduated from the University of South Africa, and is an admitted attorney and conveyancer. He worked for Shun Chetty & Company until 1979 and thereafter practised as Yunus Mahomed & Associates. He is one of the founding Trustees of Kagiso Trust and is currently its Chairman.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – Kagiso Media Limited / Various private companies

11. Gugu Moloi / 38 / **Independent non-executive** / BA (Law), MA (Town and Regional Planning), Diploma (General Management) / Appointed February 2004

Gugu Moloi was CEO of Umgeni Water from 2002 until 2006. Prior to that she was CEO of the Government's Municipal Infrastructure Investment Unit. She has considerable expertise in the field of development at both national and local level. She currently runs her own company Iman Africa and is chairperson of Soul City Investment Company.

FirstRand – membership / Directors' Affairs and Governance Committee

Directorships – Iman Africa / Soul City Investment Company

12. Aser Paul Nkuna / 54 / **Independent non-executive** / AMP (Wits Business School) / Appointed May 2005

Paul Nkuna started his career as a teacher and joined the mining industry in 1977. Since 1984, has been involved with the trade union movement. He was the National Treasurer of the National Union of Mineworkers for ten years and was vice-president for the Federation of Mineworkers on the African continent. He was active in the transitional local government negotiations and served as chairman of the management committee in Brakpan. He was involved in the formation of the Gauteng Local Government Association ("GALA") and the South African Local Government Association ("SALGA") and served as an executive member of both. He joined the Mineworkers' Investment Company as executive chairman in 1997 and is currently chief executive officer.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – BP South Africa – Alternate director / Council for Geoscience / Masana Petroleum Solution Mathomo / Chairman / Metrofile (Pty) Ltd / Primedia Broadcasting – Chairman / SA Airways / Tracker Investment Holdings

13. Sizwe Errol Nxasana / 48 / **Non-executive director** / BCom, BAccSc (Hons), CA(SA) / Appointed January 2006

Sizwe Nxasana started his career at Unilever. In 1989, he established Sizwe & Co, the first black-owned audit practice in KwaZulu-Natal. In 1996, he became the founding partner of Nkonki Sizwe Ntsaluba, the first black-owned national firm of accountants and was national managing partner until 1998 when he joined Telkom SA as chief executive officer. He held this position until August 2005.

His experience in the financial services industry includes being a non-executive director of NBS Boland Bank from 1995 to 1998, a non-executive director of the Development Bank of South Africa from 1995 to 1998 and chairman of Mesele-Hoskens Insurance Group from 1994 to 1996. He joined the board of FirstRand Bank Holdings in 2003 and was appointed chief executive officer with effect from January 2006. In February 2006, he was appointed a non-executive director of FirstRand.

FirstRand – memberships / Executive Committee / FirstRand Foundation – Chairman

Directorships – FirstRand Bank Holdings – CEO / Zenex Trust

14. Sonja Emilia Ncumisa Sebotsa / 34 / **Independent non-executive** / LLB (Hons) LSE, MA (McGill), SFA / Appointed May 2005

Sonja Sebotsa's areas of study were in Law, Business and Economics. She started her career in investment banking at Deutsche Morgan Grenfell, Johannesburg in 1997 working on M&A transactions, privatisations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices. Leaving Deutsche Bank as a vice president in late 2002 she took up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of the WDB's sole shareholder, the WDB Trust.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – Adcorp Holdings / Makalani Holdings / Paracon Holdings / Willis South Africa

15. Khehla Cleopas Shubane / 50 / **Independent non-executive** / BA (Hons), MBA / Appointed May 1998

Khehla Shubane graduated at the University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his release he was employed at Liberty Life for a short time. He served various political organisations until joining the Centre for Policy Studies in 1988. He is an author and has co-authored several political publications, and is a member of the board of the Centre for Policy Studies.

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – Aviation Insurance Company / Benfield / Businessmap Foundation / FCB South Africa / Nurcha / RMB Holdings

16. Benedict James van der Ross / 59 / **Independent non-executive** / Dip Law (UCT) / Appointed May 1998

Ben van der Ross is a director of companies. He has a diploma in Law from the University of Cape Town and was admitted to the Cape Side Bar as an attorney and conveyancer. Thereafter he practiced for his own account for 16 years. He became an executive director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was deputy chief executive officer from 1995 to 1998. He acted as chief executive officer of the South African Rail Commuter Corporation from 2001 to 2003 and as chief executive officer of Business South Africa from 2003 to 2004. He was appointed to the board of The Southern Life Association in 1986.

FirstRand – memberships / Audit Committee / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee – Chairman / Remuneration Committee

Directorships – FirstRand Bank Holdings / Lewis Stores / Makalani Holdings / Momentum Group / Nasionale Pers / Pick 'n Pay Stores / RMB Asset Management – Chairman / Strategic Real Estate Management – Chairman

17. Frederik van Zyl Slabbert / 66 / **Independent non-executive** / BS, BA Hons (cum laude), MA (cum laude), DPhil / Appointed November 2001

Frederik van Zyl Slabbert is a graduate of Stellenbosch University from which he received a Doctorate in Philosophy in 1967. He lectured at various South African universities until 1974 when he was elected to the South African Parliament as a member of the Progressive Party for the Rondebosch Constituency. At the time of his retirement from politics in 1986, he was the leader of the Progressive Federal Party, which was the official opposition in Parliament. He is currently a political analyst. He holds Honorary Doctorates from the Simon Fraser University in Canada, the University of Natal and the University of the Free State. He is the author of a number of books dealing with demographics and change in South Africa and also a member of the board of the Open Society of South Africa N.Y.

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – Adcorp – Chairman / CTP Caxton – Chairman

18. Robert Albert Williams / 65 / **Independent non-executive** / BA, LLB / Appointed May 1998

Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the managing director in 1979. In 1983, he was appointed chief executive officer of Tiger Brands and in 1985 he was appointed chairman of CG Smith Foods and Tiger Brands. Following the unbundling of CG Smith, he remained chairman of Tiger Brands until 2005. He is currently chairman of Illovo Sugar Limited.

FirstRand – memberships / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – FirstRand Bank Holdings / Illovo Sugar – Chairman / Nampak / Oceana Group / Pescanova

Paul Harris / 56 /
MCom
CEO: FirstRand

Johan Burger / 47 /
BCom (Hons), CA(SA)
CFO: FirstRand

Derek Carstens / 56 /
BEcon (Hons), MA (Cantab)
Director of Brands

Peter Cooper / 50 /
BCom (Hons), CA(SA),
H Dip Tax
COO: RMB Holdings Limited

Adrian Gore / 42 /
BSc (Hons), FFA, ASA, MAAA,
FASSA
CEO: Discovery Holdings Limited

Michael Jordaan / 38 /
MCom (Economics)
PhD (Banking Supervision)
CEO: First National Bank

Theunie Lategan / 49 /
DCom; CA(SA)
Advanced Diploma Banking
CEO: FirstRand Africa and
Emerging Markets

Zweli Manyathi / 44 /
BCom (Hons) Professional
Development Programme (NY)
Sen Exec Prog (HBS and WBS)
CEO: FNB Branch Banking

Sam Moss / 46 /
BA (Hons) UK; MA
(Exeter University), Director of
Investor Relations, FirstRand

Yatin Narsai / 40 /
BSc Hons
CEO: FNB Smart Solutions
and CIO

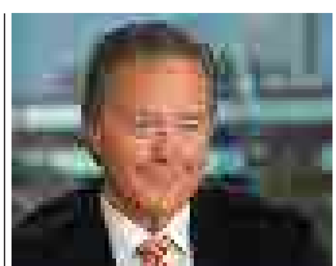
EB Nieuwoudt / 44 /
MCom
CEO: Momentum Group

Sizwe Nxasana / 48 /
BCom, BCompt (Hons), CA(SA)
CEO: FirstRand Banking Group

Michael Pfaff / 44 /
BCom, CA(SA), MBA (Duke
University)
CEO: Rand Merchant Bank

Willem Roos / 34 /
BCom (Hons), FIA
CEO: OUTsurance

Zelda Roscherr / 39 /
BSc (Maths), BCom (Hons)
Group Treasurer



Ronnie Watson / 59 /
AMP (Harvard)
CEO: WesBank

Governance ethos

Good corporate governance is an integral part of FirstRand's Business Philosophy. The values espoused in this Philosophy govern the way in which the Group interfaces with all its stakeholders. Included in these values are the importance of being a good corporate citizen, integrity and the desire to be a world-class company.

The directors of FirstRand and its subsidiaries endorse the Code of Corporate Practices and Conduct (the "King Code 2002") contained within the King Report on Corporate Governance for South Africa 2002 (the "King Report 2002"). They are satisfied that the Group has in all material respects complied with the provisions and the spirit of the King Code 2002.

Corporate Governance is, where appropriate, standardised across the Group to ensure that the high standards that FirstRand has set itself are implemented and monitored in a consistent manner in all its operations. Where the Group conducts business internationally, appropriate best practice is adopted and monitored accordingly.

FirstRand believes that the implementation of Group strategies is best managed at subsidiary level. While the non-executive directors acknowledge the need for their independence, they recognise the importance of good communication and close co-operation between executive management and non-executive directors. To this end, the annual FirstRand strategy conference is attended by all the FirstRand directors and senior management across the Group. The FirstRand directors include individuals who are also directors of the subsidiary companies.

FirstRand actively distributes information to shareholders through the Stock Exchange News Service ("SENS"), the print media and its website (www.firstrand.co.za). Following the publication of its financial results it engages with investors and analysts both locally and internationally to present the results and answer questions in respect of them. The presentations of both the interim and final results are accessible via satellite television.

Shareholders are encouraged to attend the annual general meeting. Voting by ballot is the norm. Electronic voting is not available to shareholders.

Across the Group, strategies are developed in each of the business units for effective engagement and communication with their specific stakeholders. These include segment based customer groups, employees, suppliers, regulatory and industry bodies and the communities in which they operate.

The board of directors and its committees

Composition

FirstRand has a unitary board. Its chairman is non-executive, but is not independent in terms of the King Report 2002 definition. The board members believe that given his specialist knowledge, it is appropriate for Mr Ferreira to continue to lead FirstRand, notwithstanding the fact that he does not fulfil the strict criteria of "independence" as set out in King Report 2002. It is also the view of the directors that a strong independent core of non-executive directors already exists on the FirstRand board and those of its major subsidiaries and that this provides the necessary objectivity essential for the effective functioning of boards of directors. The roles of the chairman and chief executive officer are separate. This ensures a balance of authority and precludes any one director from exercising unfettered powers of decision making.

At 30 June 2006, the board of FirstRand comprised 18 directors. One of the directors is executive, a further five are defined as non-executive and the balance are regarded as independent non-executive directors. The board includes three women. Eight of the directors are classified as black in terms of the Financial Sector Charter. Three of the directors represent FirstRand's three broad-based Black Economic Empowerment partners. These directors were nominated by the Trusts they represent, but their appointment was subject to the approval of the rest of the board and the shareholders in general meeting. For this reason they are classified as independent non-executive directors in this report. The profiles of the directors appear on pages 64 to 67 of this report.

The boards of the Group's major subsidiaries are similarly constituted with an appropriate mix of skills, experience and diversity.

Appointment of directors

There is a clear policy in place detailing procedures for appointments to the board and such appointments are formal and a matter for the board as a whole, assisted by the Directors' Affairs and Governance Committee. When appointing directors, the board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics.

A brief CV of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the annual report. A staggered rotation of directors ensures continuity of experience and knowledge. One third of the non-executive directors retire each year and are subject to the provisions of the Companies Act, Act 61 of 1973, as amended, relating to their removal. The re-appointment of non-executive directors is not automatic and is subject to performance and eligibility for re-appointment. The retirement age is set at age 70 across the Group in respect of South African operations. The terms of employment of the executive directors are such that they can be terminated at one month's notice.

New directors are encouraged to participate in induction programmes and ongoing training to familiarise them with FirstRand's operations, the business environment, their fiduciary duties and responsibilities and the board's expectations.

Board proceedings

The board meets quarterly. A further meeting is devoted solely to a review of the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

The board met five times during the year and attendance was as follows:

	Sept 2005	Nov 2005	**Feb 2006**	**May 2006**	**June 2006**
GT Ferreira (Chairman)	√	√	√	√	√
VW Bartlett	A	√	A	√	√
DJA Craig	√	√	√	√	A
LL Dippenaar	√	√	√	√	√
DM Falck	√	√	√	√	A
PM Goss	√	√	√	√	A
N N Gwagwa	√	√	√	√	√
PK Harris	√	√	√	√	√
MW King	√	√	√	√	√
YI Mahomed	√	√	√	√	√
G Moloi	√	√	√	√	√
AP Nkuna	√	√	√	√	√
SE Nxasana – Appointed January 2006	A	A	√	√	√
SEN Sebotsa	√	√	√	√	√
KC Shubane	√	√	√	A	√
BJ van der Ross	√	√	√	√	√
F van Zyl Slabbert	√	√	√	√	√
RA Williams	√	√	√	√	√

A = apologies

From 4 June 2006 until 18 August 2006, Mr PM Goss was out of the country and was granted leave of absence. No fees accrued to Mr Goss during this period.

Directors have full and unrestricted access to management and all Group information and properties. They are entitled to seek independent professional advice at the Group's expense in support of their duties. Directors may meet separately with management without the attendance of executive directors.

Role and function of the board

The directors have a duty and responsibility to ensure that the principles outlined in the King Code 2002 are observed. In exercising its duties, the board balances its conformance with governance constraints and its performance in an entrepreneurial way. The directors have a fiduciary duty to act in good faith, with due diligence and care and in the best interests of the company and all stakeholders. They are the guardians of the values and ethics of the company and its subsidiaries. All directors subscribe to the code of ethics which forms part of the board Charter.

The fundamental responsibility of the board is to improve the economic prosperity of the Group over which it has full and effective control. In terms of its Charter, the board is responsible for appointing the chief executive, approving corporate strategy, major plans of action and policies and procedures and the monitoring of operational performance. This includes identifying risks which impact on the Group's sustainability and monitoring risk management and internal controls, corporate governance, business plans, key performance indicators, including non-financial indicators and annual budgets. It monitors major capital expenditures, acquisitions and disposals and any other matters that are defined as material. The board is also responsible for managing relationships with all stakeholders.

In exercising control of the Group, the directors are empowered to delegate. This they do through the boards of the major subsidiaries, an executive committee and various board committees. A number of FirstRand directors are also directors of the major subsidiaries. The board committees are structured to ensure that they include representatives from similar subsidiary board committees. This ensures that there is a common understanding across the Group of the challenges that it faces, how these are managed and the decisions that are being taken. Reports from the subsidiaries and board committees are reviewed at quarterly board meetings.

Subsidiary boards and board committees

FirstRand has three wholly-owned subsidiaries. These are FirstRand Bank Holdings Limited, Momentum Group Limited and FirstRand Investment Holdings Limited. These subsidiary boards are subject to the oversight of the relative regulatory authorities which include the South African Reserve Bank and the Financial Services Board.

FirstRand holds 57% of Discovery Holdings, which is separately listed on the JSE Limited. While Discovery reports directly to its shareholders and the Stock Exchange, its corporate governance procedures are the same as those practised by FirstRand.

Board Committees assist the directors in their duties and responsibilities. In addition to the Executive Committee (EXCO), FirstRand Board Committees have been appointed to deal with Remuneration, Audit, Risk and Compliance, Directors' Affairs and Governance and the monitoring of the implementation of the Financial Sector Charter and Transformation. These committees have formal charters and report to the quarterly board meetings. With the exception of EXCO they are chaired by independent non-executive directors and have a majority of independent non-executive directors. Independent professional advice may be obtained at the Group's expense in support of their duties.

All committees have satisfied their responsibilities during the year in compliance with their terms of reference.

Executive Committee

Role

EXCO is empowered and responsible for implementing the strategies approved by the FirstRand board and for managing the affairs of the Group. The EXCO Charter encompasses strategy development, values, branding, reputation and collaboration between business units. Meetings are held monthly.

Composition

EXCO is chaired by the chief executive of FirstRand. Membership of EXCO includes the CEO's of the major subsidiaries and operating divisions, the group chief financial officer and certain members of senior management. The members of the FirstRand EXCO are listed on page 68.

Remuneration Committee

Role

The primary objective of the Remuneration Committee is to develop the reward strategy for the Group. It is responsible for:

- evaluating the performance of executive directors;
- recommending remuneration packages for executive directors and senior management, including, but not limited to, basic salary, benefits in kind, performance based incentives, pension and other benefits;
- recommending policy relating to the Group's bonus and share incentive schemes;
- recommending the basis for non-executive directors' fees; and
- reviewing annual salary increases.

FirstRand espouses a remuneration philosophy that promotes commitment to the meeting of organisational goals and recognises individual contribution to the achievement of those goals. Further details relating to FirstRand's remuneration practices can be found on pages 74 and 75 of this report.

No executive director is involved in the setting of his own remuneration.

Composition

Membership and attendance at the meetings held during the year was as follows:

	Jul 2005	**Feb 2006**
PM Goss (Chairman)	√	√
LL Dippenaar (*)		√
GT Ferreira	√	√
MW King	√	√
BJ van der Ross	√	√
RA Williams	√	√

(*) Appointed with effect from 1 January 2006.

Membership includes representatives of the Remuneration Committees of the Group's principal subsidiaries. The chief executive of FirstRand attends in an ex officio capacity.

The chairperson attends the annual general meeting.

Details of each director's remuneration for the year under review can be found on page 280 of this report. The remuneration of the non-executive directors is reviewed annually and proposals relating to increases in fees are submitted to the annual general meeting of shareholders for approval.

Audit, Risk and Compliance Committee

Role

The FirstRand Audit, Risk and Compliance Committee reviews the findings and reports of the subsidiary company Audit, Risk and Compliance Committees and addresses matters of a Group or head office nature. All the committees have adopted charters approved by their respective boards dealing with membership, structure, authority and duties.

The responsibility of the FirstRand Committee is to:

- ensure the integrity, reliability and accuracy of accounting and financial reporting systems;
- ensure that appropriate systems are in place to identify and monitor risk, controls and compliance with the law and codes of conduct;
- evaluate the adequacy and effectiveness of internal audit, risk and compliance.
- maintain transparent and appropriate relationships with the respective firms of external auditors;
- review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors; and
- set principles recommending the use of the accounting firm of external auditors for non-audit services.

The management of non-financial risk is seen as the responsibility of the board of FirstRand and those of its subsidiaries. Issues relating to sustainable business practices and the Group's status as a good corporate citizen are reported and discussed at these meetings.

The committee has complied with its terms of reference.

Composition

The board deems it appropriate that the chief executive should attend all committee meetings. The FirstRand chief financial officer is also the chairman of the Discovery Audit Committee. He attends FirstRand Audit, Risk and Compliance Committee meetings in an ex officio capacity. The external auditors are present at all Audit Committee meetings and meet independently with the non-executives as and when required.

Membership and attendance at the two meetings held during the year was as follows:

	Sept 2005	**Feb 2006**
MW King – Chairman and Chairman of the Banking Group Audit Committee	√	√
BJ van der Ross – Chairman of the Insurance Group Audit Committee	√	√

The FirstRand chief executive was present at both meetings.

The chairman attends the annual general meeting.

Directors' Affairs and Governance Committee

Role

In terms of its Charter, the prime objective of this committee is to assist the board in discharging its responsibilities relative to corporate governance structures, matters relating to performance and remuneration of directors, the appointment of new directors, the effectiveness of the board and succession planning at executive level.

Composition

This committee comprises all the non-executive directors and is chaired by an independent non-executive director.

This committee met twice during the year. Membership and attendance was as follows:

	Sept 2005	**May 2006**
PM Goss (Chairman)	√	√
VW Bartlett	A	√
DJA Craig	√	√
LL Dippenaar (Appointed 1 January 2006)		√
DM Falck	√	√
GT Ferreira	√	√
N Gwagwa	√	√
MW King	√	√
YI Mahomed	√	√
G Moloi	√	√
AP Nkuna	√	√
SEN Sebotsa	√	√
KC Shubane	√	A
BJ van der Ross	√	√
F van Zyl Slabbert	√	√
RA Williams	√	√

The chairman attends the annual general meeting.

Financial Sector Charter and Transformation Monitoring Committee

This committee was established to monitor the implementation of the Group's strategy to embrace the Financial Sector Charter. The committee also oversees transformation related activities.

Role

The charter of the committee lists its principal responsibilities as being:

- to receive reports from the FirstRand Transformation Unit. This unit collates the data and information necessary to complete the "scorecard" against which the Group is measured;
- to offer advice and encouragement to executive management on how best to achieve the Charter's goals; and
- to review practices facilitating transformation.

Composition

This committee is chaired by an independent non-executive director of FirstRand, who is also a director of FirstRand Bank Holdings Limited and Momentum Group Limited. The committee comprises directors and executive representatives from FirstRand Bank Holdings Limited, Momentum Group Limited and Discovery Holdings Limited.

The responsibility for the implementation of strategies to achieve the objectives of the Financial Sector Charter rests with executive management.

Membership and attendance, including attendance of alternates, at the meetings held during the year was as follows:

	Sept	Nov	Jan	May
B van der Ross – Chairman	√	√	√	√
VW Bartlett – FirstRand	A	A	√	A
NN Gwagwa – FirstRand	A	√	√	√
YI Mahomed – FirstRand		√	√	√
AP Nkuna – FirstRand		√	√	√
SEN Sebotsa – FirstRand		√	√	√
Z Manyathi – FirstRand Bank	√	√	√	√
R Watson – FirstRand Bank	√	√	√	√
NB Langa-Royds – Momentum	√	√	√	A
EB Nieuwoudt – Momentum	A	√	√	√
K Mayet – Discovery (*)		√	A	
J Dlamini – Discovery(*)	√	√	A	A

(*) Resigned 31 December 2006

Messrs Mahomed and Nkuna and Ms Sebotsa were formally appointed to the committee with effect from November 2005.

Progress with regard to the Financial Sector Charter scorecard is reported on page 22.

Performance evaluation

During the course of the year, the board and all its committees conducted evaluations to measure their effectiveness. No material concerns were expressed in these evaluations and the committees in their opinion have satisfied their responsibilities during the year as set out in their respective charters.

Management succession planning

FirstRand benefits from an extensive pool of people with diverse experience and competencies at senior management level. A formal succession planning exercise has been undertaken across the entire Group. The board is confident that it should be possible to identify suitable short-term and long-term replacements from within the Group should the need arise.

Trading in company shares

The company has closed periods prohibiting trade in FirstRand shares by directors and senior executives and by participants in the various share option schemes. The closed periods commence on 1 January and 1 July and are in force until the announcement of the interim and year end results and during any period where the company is trading under cautionary or where they have knowledge of price sensitive information. Similar prohibitions exist in respect of trading in RMB Holdings shares.

All directors' dealings require the prior approval of the chairman and the secretary retains a record of all such share dealings and approvals.

Sustainability reporting

FirstRand believes that the management of issues relating to sustainability are integral to the way in which the Group is managed. The Group's approach to sustainability is outlined on pages 22 to 24 and the material risks and opportunities associated with sustainability challenges have been dealt with in the Review of Operations. Detailed information relating to stakeholder concerns is available on the sustainability website (www.firstrandsusrep.co.za).

Corporate social investment

Group companies contribute 1% of after-tax profits to the FirstRand Foundation, the vehicle used by the Group to oversee its Corporate Social Investment activities.

The work of the Foundation is subject to the oversight of a board of trustees comprising a cross-section of members of management and independent trustees representing broader society.

The day-to-day running of the Foundation is outsourced to Tshikululu Social Investments, a not-for-profit corporate social consultancy. Together with the trustees, they oversee compliance with relevant legislation, the implementation and monitoring of risk management protocols related to the approval and payment of grants and measuring the impact of the Foundation's work.

During the year under review, the Group contributed to a wide range of causes including education, health and HIV/AIDS initiatives, job creation and skills training, community care and the environment. The geographical spread of funding across the country has remained fairly constant. In addition, FirstRand Group employees contributed their time and skills in support of the FirstRand Volunteers initiative. Since its inception in 1999, the Foundation has contributed more than R350 million for the upliftment of South African communities.

Details of the activities of the Foundation, the projects supported and how the public might interface with the Foundation are available on the Foundation's website – www.firstrandfoundation.org.za.

Company secretary

AH Arnott was appointed company secretary on 25 November 2002. He is suitably qualified and empowered and has access to the Group's secretarial resources. The company secretary provides support and guidance to the board in matters relating to governance and ethical practices across the Group. He assists the board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interest of FirstRand. He facilitates, where necessary, induction and training for directors and assists the Chief Executive in determining the annual meeting timetable.

Auditor independence

The Group financial statements have been audited by the independent auditors, PricewaterhouseCoopers Inc. FirstRand believes that they have observed the highest level of business and professional ethics. It has no reason to believe that they have not at all times acted with unimpaired independence.

Details of non-audit services provided by the external auditors are disclosed in the financial statements, together with fees paid in respect thereof.

Remuneration Committee

The FirstRand Group companies operate in a number of sectors within the broader financial services industry. Each of these sectors has its own distinct employment practices and unique human resource pressures. To recognise and address such divergent needs, FirstRand follows a practice of devolving the design and implementation of appropriate "industry specific" remuneration strategies through various board remuneration committees:

- the Momentum Group (insurance and asset management);
- First National Bank (retail and corporate banking);
- Rand Merchant Bank (merchant and investment banking); and
- the Discovery Holdings Group (health insurance).

The FirstRand Remuneration Committee oversees the activities of the subsidiary remuneration committees and co-ordinates Group remuneration strategy thereby ensuring its appropriateness across all divisions.

Remuneration strategy

Within the divisional framework, referred to above, remuneration structures comprise:

- basic salary plus benefits; and, where appropriate;
- annual performance related rewards; as well as
- share incentive schemes.

The performance of the executive team and senior management is measured against pre-determined goals, both financial and non-financial.

Where employees belong to recognised trade unions, appropriate bargaining platforms exist to satisfy all parties.

The policy on remuneration of executive directors is consistent with that of senior staff. Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. Non-executive directors do not qualify for participation in share incentive schemes.

From time to time processes are reviewed by independent consultants to ensure that they remain appropriate and in line with best practice.

Basic salary and benefits

Salaries are reviewed annually, in the context of individual and business unit performance, inflation and specific industry practices and trends. Reference is made to independent salary surveys on a regular basis.

All full-time employees are members of defined benefit or defined contribution pension and/or provident fund schemes operated under the control of the relevant governing legislation. New employees joining the Group become members of a defined contribution pension and/or provident fund scheme. All schemes are regularly valued by independent actuaries, and are in a financially sound position. Should the actuaries advise any deficits, such deficits are funded, either immediately or through increased contributions to ensure the ongoing soundness of the fund concerned. Retirement funding contributions are charged against expenditure when incurred. The assets of retirement funds are managed separately from the Group's assets. Trustees, who include staff and pensioner representatives, oversee the management of the funds and ensure compliance with the relevant legislation.

All full-time employees are required to belong to a medical aid scheme. On retirement facilities exist for ex-employees to join medical aid schemes in their individual capacities. Where, as the result of past practice, the Group is required to contribute towards post-retirement medical aid costs, the present value of such contributions is calculated and provided for. Current employment practice is for the Group not to contribute to post-retirement medical aid costs.

Performance related payments

Where appropriate, annual performance related payments are made to employees. The level of such payments is dependent upon a number of key measures including the performance of the individual and benchmarks relating to targets such as return on equity and growth in earnings for the business unit concerned. The payment of bonuses is always subject to the discretion of management and bonuses are not formula driven. In certain business units bonus payments take place in tranches during the twelve months following the financial year to which they relate. Notwithstanding such deferral, the bonuses are provided for in full in the current year's expenditure. Should an employee resign or be dismissed from the Group's employ, unpaid bonus tranches are forfeited.

Share incentives

Share incentive schemes operated by the Group are a powerful tool in aligning the interests of staff with those of FirstRand shareholders. All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 561 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

The share incentive schemes operated by the Group fall into two main categories, namely:

- A series of conventional share option schemes (collectively "the FirstRand Share Option Schemes"); and
- The FirstRand Outperformance Share Scheme, in terms of which participants are rewarded only if the performance of the FirstRand shares exceed that of the FINI 15 over a 60-month period.

For options issues subsequent to 30 June 2006, the operation of the FirstRand Share Option Schemes will be refined to take cognisance of further developments in corporate governance

All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 561 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

and the impact of changes flowing from the implementation of International Financial Reporting Standards. In the main, such changes will involve the structuring of future option issues as share appreciation rights and the implementation of vesting hurdles.

The Out-performance Scheme was introduced in 2000 and will expire during the 2007 financial year. At that stage its introduction was aimed at encouraging long-term sustainable performance relative to a FirstRand's peer group.

Allocations are reviewed annually and the time horizon of the schemes being used for new issues is five years.

Participation in FirstRand BEE transaction

As part of FirstRand's BEE transaction approved at the general meeting of shareholders held on 21 April 2005:

- Certain black non-executive directors serving on the boards of FirstRand, FirstRand Bank Holdings and Momentum Group participate in the FirstRand Black Non-executive Directors' Trust. The extent of their participation is disclosed separately on page 281.
- FirstRand's black South African employees participate in the FirstRand Black Employee Share Trust. This share trust holds 87.3 million shares in FirstRand representing 1.55% of the company's issued share capital.

South African workforce	AIC Male	AIC Female	White Male	White Female	Total Male	Total Female	Grand total
1 Top management	19	10	111	22	130	32	162
2 Senior management	190	98	636	320	826	418	1 244
3 Professionally qualified and experienced specialists and mid-management	1 034	1 162	2 349	1 865	3 383	3 027	6 410
4 Skilled technical and academically qualified workers, junior management, supervisors	2 544	4 732	1 820	4 465	4 364	9 197	13 561
5 Semi-skilled and discretionary decision making	4 405	8 322	1 022	3 666	5 427	11 988	17 415
6 Unskilled and defined decision making	548	278	5	1	553	279	832
Total	8 740	14 602	5 943	10 339	14 683	24 941	39 624
Foreign nationals					57	57	114
Grand total					14 740	24 998	39 738

AIC = African, Indian and Coloured

South African workforce	By race **2006**	**%**	2005	%		By gender **2006**	**%**	2005	%
AIC	**23 342**	**58.7**	20 190	55.8	Male	**14 740**	**37.1**	13 394	37.0
White	**16 282**	**41.0**	15 966	44.2	Female	**24 998**	**62.9**	22 762	63.0
Foreign nationals	**114**	**0.3**							
Total	**39 738**	**100.0**	36 156	100.0	Total	**39 738**	**100.0**	36 156	100.0

Change in South African workforce

	2006	2005
Staff complement at 1 July	**36 156**	32 732
New appointments/acquisitions	**8 143**	6 909
Resignations	**(3 094)**	(2 453)
Retrenchments	**(165)**	(94)
Dismissals	**(390)**	(229)
Deaths or disability	**(132)**	(78)
Other*	**780**	(631)
Staff complement at 30 June	**39 738**	36 156

Total workforce

	2006 Number	**%**	2005 Number	%
South Africa	**39 738**	**92.9**	36 156	91.8
Rest of Africa	**2 447**	**5.7**	2 451	6.2
Other countries	**573**	**1.4**	778	2.0
Total workforce	**42 758**	**100.0**	39 385	100.0

* *Includes contractors.*