integrated financial services

FIRSTRAND

audited results for the year ended 30 June 2005

FIRSTRAND

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Certain companies within the FirstRand Group are Authorised Financial Services Providers

This circular is available on our website: **www.firstrand.co.za**
E-mail questions to: **asktheCFO@firstrand.co.za**

*A booklet containing supplementary information on the Banking Group is available from our website or on request from the company secretary's office

INTRODUCTION

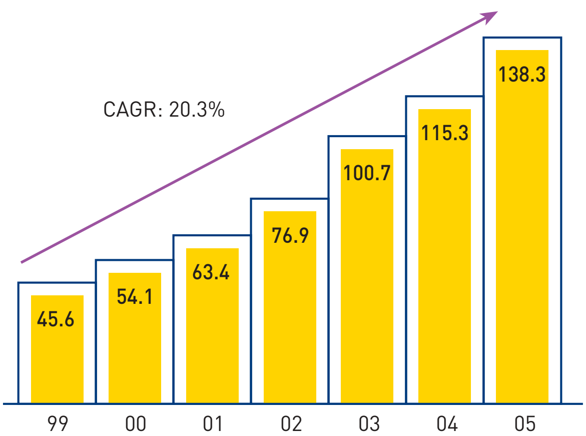
FIRSTRAND

This report covers the financial results of FirstRand Limited ("FirstRand"), its wholly-owned subsidiaries FirstRand Bank Holdings ("the Banking Group") and Momentum Group Limited, and its 64,7% subsidiary Discovery Holdings Limited. Comprehensive reports relating to these subsidiaries are included in this circular and should be read in conjunction with this report.

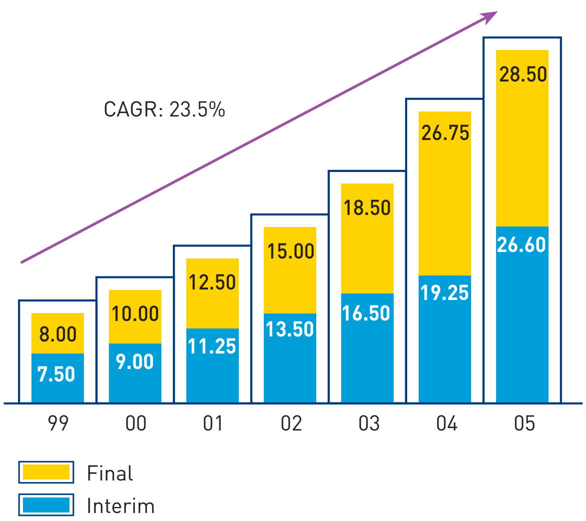
Financial Highlights

Audited – year ended 30 June 2005	% change
Headline earnings	+32
Fully diluted headline earnings per share	+32
Fully diluted headline earnings per share excluding impact of foreign currency translations	+20
Dividend per ordinary shareholder	+20
Total assets under management or administration	+16
	%
Return on equity	27

Diluted headline earnings per share (excluding impact of foreign currency translations)
(Cents per share)



Dividend per share
(Cents per share)



Statement of headline earnings and dividends for the year ended 30 June

R million	Audited 2005	2004	% change
Banking Group	**6 492**	4 796	35
Momentum Group	**1 287**	1 081	19
Discovery Group	**350**	265	32
FirstRand Limited	**(304)**	(274)	(11)
Dividend payment on non-cumulative non-redeemable preference shares	**(68)**	–	
Sub total	**7 757**	5 868	32
Consolidation of Share Trusts	**(155)**	(105)	(48)
Headline earnings	**7 602**	5 763	32
Headline earnings	**7 602**	5 763	32
Currency translation (gains)/losses on integrated foreign operations			
– Banking Group	**(264)**	370	
Headline earnings excluding impact of foreign currency translations	**7 338**	6 133	20
Return on average equity (based on headline earnings excluding impact of foreign currency translations)(%)	**26.7**	25.6	
Earnings per share (cents)			
– Basic	**154.3**	110.0	40
– Diluted	**151.2**	107.4	41
Headline earnings per share (cents)			
– Basic	**146.2**	111.0	32
– Diluted	**143.3**	108.4	32
Headline earnings excluding impact of foreign currency translations per share (cents)			
– Basic	**141.1**	118.1	19
– Diluted	**138.3**	115.3	20
Dividend per ordinary share (cents)			
– Interim	**26.60**	19.25	38
– Final	**28.50**	26.75	7
Total	**55.10**	**46.00**	20

	Audited		
R million	**2005**	2004	% change
Dividend per non-cumulative non-redeemable preference share (cents)			
"B" preference shares			
– 28 February 2005	**228**	–	
– 29 August 2005	**360**	–	
Total	**588**	–	
"B1" preference shares			
– 29 August 2005	**37**	–	
Ordinary dividends declared (R million)	**3 057**	2 516	22
Non-cumulative non-redeemable preference shares dividend declared (R million)	**182**	–	
Number of shares in issue (before elimination of treasury shares) (million)	**5 613.6**	5 476.4	
Weighted average number of shares in issue (million)	**5 199.9**	5 192.1	
Diluted weighted average number of shares in issue (million)	**5 306.4**	5 317.1	

Headline earnings reconciliation

R million	**2005**	2004	% change
Banking Group	**6 810**	4 748	43
Momentum Group	**1 358**	1 065	28
Discovery Group	**382**	274	39
Goodwill amortised – intergroup	**–**	5	(100)
	8 550	6 092	40
FirstRand Limited – holding company	**(304)**	(275)	(11)
Consolidation of Share Trusts	**(155)**	(105)	(48)
Attributable earnings	**8 091**	5 712	42
Less: Dividend paid to non-cumulative non-redeemable preference shareholders	**(68)**	–	
Attributable earnings for ordinary shareholders	**8 023**	5 712	40
Adjusted for:			
Add: Goodwill	**–**	58	
Less: Profit on sale of subsidiaries	**(346)**	–	
Add: Loss on sale of assets	**7**	92	
Less: Profit on sale of available-for-sale financial instruments	**(82)**	(99)	
Headline earnings	**7 602**	5 763	32

Group income statement for the year ended 30 June

R million	Audited 2005	2004
Banking Group		
Interest income	23 417	22 412
Interest expenditure	(13 920)	(13 505)
Net interest income before impairment of advances	9 497	8 907
Impairment of advances	(706)	(833)
Net interest income after impairment of advances	8 791	8 074
Total non-interest income	12 001	8 970
Income from operations	20 792	17 044
Operating expenditure	(12 389)	(10 503)
Net income from operations	8 403	6 541
Share of earnings of associated companies	877	585
Income from continuing operations	9 280	7 126
Profit on sale of discontinuing operations	346	–
Income before taxation	9 626	7 126
Indirect taxation	(409)	(400)
Income before direct taxation	9 217	6 726
Direct taxation	(2 115)	(1 701)
Income after taxation	7 102	5 025
Earnings attributable to outside shareholders	(292)	(277)
Earnings from banking operations	6 810	4 748

R million	Audited 2005	Audited 2004
Momentum and Discovery		
Group operating profit after tax	1 314	1 013
Revenue	11 082	11 306
Net premium income	9 591	10 026
Fees for asset management	1 491	1 280
Investment income attributable to policyholders	4 994	5 128
Policyholder benefits	(8 866)	(7 498)
Operating and administration expenses	(3 821)	(3 291)
Commissions	(1 761)	(1 452)
Deferred acquisition costs	1	–
Fair-value adjustment to policyholder liabilities arising from investment contracts	(7 917)	(3 214)
Realised and unrealised investment surpluses	14 917	3 377
Direct taxation	(1 200)	(661)
Indirect taxation	(146)	(134)
Transfer to policyholder liabilities under insurance contracts	(5 528)	(2 328)
Earnings attributable to outside shareholders	(441)	(220)
Investment income on the shareholders' portfolio	426	326
Investment income on the shareholders' portfolio	393	346
Profit on sale of available-for-sale assets	71	15
Taxation on investment income	(38)	(35)
Earnings from Momentum and Discovery	1 740	1 339
Earnings from Momentum	1 358	1 065
Earnings from Discovery	382	274
FirstRand Limited	(304)	(275)
Management expenses	(31)	(50)
Capital raising expenses	(89)	(110)
Taxation	(184)	(115)
Goodwill amortised – intergroup	–	5
Consolidation of share trusts	(155)	(105)
Earnings attributable to shareholders	8 091	5 712
Headline earnings per share (cents)	146.2	111.0
Earnings per share (cents)	154.3	110.0
Diluted earnings per share (cents)	151.2	107.4
Diluted headline earnings per share (cents)	143.3	108.4
Headline earnings per share excluding impact of foreign currency translations (cents)	141.1	118.1
Diluted headline earnings per share excluding impact of foreign currency translations (cents)	138.3	115.3
Dividend per share (cents)	55.1	46.0

Group Balance sheet as at 30 June

R million	Audited 2005	Audited 2004
Assets		
Banking Group	297 744	277 326
Cash and short-term funds	23 403	25 104
Advances	222 495	208 874
– originated	176 019	141 627
– held-to-maturity	7 449	8 971
– available-for-sale	1 648	4 499
– fair-value	37 379	53 777
Investment securities and other investments	43 047	36 131
– Financial instruments held for trading	20 728	9 660
Investment securities	22 319	26 471
– held-to-maturity	998	957
– available-for-sale	13 758	16 867
– elected fair-value	7 563	8 647
Commodities	618	702
Non-recourse investments	8 181	6 515
Momentum and Discovery	96 732	82 654
Cash and cash equivalents	13 143	15 149
Government and public authority stocks	14 735	13 123
– available-for-sale	194	627
– elected fair-value	14 541	12 496
Debentures and other loans	8 378	8 110
– available-for-sale	36	75
– elected fair-value	8 342	8 035
Equity investment	55 787	42 070
– held-to-maturity	824	749
– available-for-sale	1 367	1 665
– elected fair-value	53 596	39 656
Property investments	4 159	3 648
Policy loans	530	554
Banking Group, Momentum and Discovery	67 755	64 887
Loans and receivables	16 020	8 865
Investments in associated companies	3 768	2 815
Derivative financial instruments	39 727	45 485
– qualifying for hedging	811	4 798
– trading	38 916	40 687
Taxation	118	174
Deferred taxation	575	1 029
Assets arising from insurance contracts	2 169	1 403
Intangible assets	1 145	660
Property and equipment	4 233	4 456
Total assets	462 231	424 867

R million	Audited 2005	2004
Liabilities and shareholders' equity		
Liabilities	**430 085**	399 029
Deposits and current accounts	**237 612**	219 061
Non-recourse liabilities	**8 181**	6 515
Current liabilities	**23 128**	14 052
Provisions	**1 569**	1 345
Taxation	**193**	1 414
Derivative liabilities	**30 264**	40 783
– qualifying for hedging	**249**	4 606
– trading	**30 015**	36 177
Short trading positions	**19 919**	23 286
Deferred taxation	**3 919**	2 098
Retirement funding liabilities	**1 516**	1 402
Debentures and long-term liabilities	**6 432**	7 104
Policyholder liabilities	**97 352**	81 969
– under insurance contracts	**48 508**	42 337
– under investment contracts	**48 844**	39 632
Shareholders' funds	**29 856**	24 015
Ordinary share capital and share premium	**4 396**	6 767
Reserves	**22 468**	17 248
– Distributable reserves	**20 575**	15 208
– Non-distributable reserve	**1 893**	2 040
Non-cumulative non-redeemable preference shares	**2 992**	–
Outside shareholders' interest	**2 290**	1 823
Total liabilities and shareholders' equity	**462 231**	424 867

Restatement of prior year numbers

Comparative figures

Balance sheet item	**As restated**	**As originally stated**	**Difference**	**Reason**
Deferred tax asset	1 029	983	46	Recognition of deferred tax asset for secondary tax on companies in terms of AC 501
Deferred tax liability	2 098	2 155	(57)	Recognition of deferred tax asset for secondary tax on companies in terms of AC 501
Retained income	15 208	15 105	103	Recognition of deferred tax asset for secondary tax on companies in terms of AC 501

In terms of AC 501, the interpretation has been applied on a retrospective basis and consequently the 2004 results have been restated.

Summarised cash flow statement for the year ended 30 June

	Audited	
R million	2005	2004
Cash flows from operating activities		
Cash generated by operations	17 887	16 312
Working capital changes	1 837	(11 844)
Cash inflow from operations	19 724	4 468
Taxation paid	(3 298)	(2 482)
Dividends paid	(2 835)	(1 956)
Net cash inflow from operating activities	13 591	30
Cash flows from investment activities		
Banking Group investment activities	(10 484)	73
Momentum and Discovery investment activities	(6 733)	(6 275)
Net purchase of property and equipment	(389)	(1 265)
Investment in associates	(1 175)	(106)
Net purchase of intangible assets	(238)	(393)
Subsidiaries acquired	(278)	–
Proceeds on disposal of subsidiary	1 019	–
Net cash outflow from investment activities	(18 278)	(7 966)
Cash flows from financing activities		
Repayment of long-term borrowings	(693)	–
Proceeds from share issue	3 000	3 101
Net cash inflow from financing activities	2 307	3 101
Net decrease in cash and cash equivalents	(2 380)	(4 835)
Cash and cash equivalents at the beginning of the year	40 253	45 088
Cash and cash equivalents at the end of the year	37 873	40 253
Cash and cash equivalents sold	(1 335)	–
Cash and cash equivalents bought	8	–
Cash and cash equivalents at the end of the year	36 546	40 253

Assets under management as at 30 June

	Audited	
R million	2005	2004
Holding company	114	56
Banking Group	343 830	322 001
Momentum	113 493	98 852
Discovery	4 794	3 958
Total on balance sheet assets	462 231	424 867
Off-balance sheet assets managed or administered on behalf of clients	153 609	104 218
Total assets under management or administration	615 840	529 085

Statement of changes in equity for the year ended 30 June

R million	Audited: Non-redeemable non-cumulative preference shares: Share capital and share premium	Total preference shareholders' funds	Ordinary shares: Share capital	Share premium	Retained earnings	Non-distributable reserves	Total ordinary shareholders' funds	Total: Total shareholders' funds
Balance at 1 July 2003	–	**–**	53	7 002	11 881	1 857	**20 793**	**20 793**
Change in accounting policy	–	**–**	–	–	67		**67**	**67**
Restated balance at 1 July 2003	–	**–**	53	7 002	11 948	1 857	**20 860**	**20 860**
Movement in revaluation reserves	–	**–**	–	–	–	(201)	**(201)**	**(201)**
Currency translation differences	–	**–**	–	–	–	(254)	**(254)**	**(254)**
Movement in other reserves	–	**–**	–	–	–	70	**70**	**70**
Earnings attributable to shareholders	–	**–**	–	–	5 817*	–	**5 817**	**5 817**
Realised loss on minority share buy-back	–	**–**	–	–	(3)	–	**(3)**	**(3)**
Ordinary dividends	–	**–**	–	–	(1 956)	–	**(1 956)**	**(1 956)**
Transfer (to)/from reserves	–	**–**	–	–	(493)	493	**–**	**–**
Sub total			53	7 002	15 313	1 965	**24 333**	**24 333**
Consolidation of share trusts	–	**–**	(1)	(287)	(105)*	75	**(318)**	**(318)**
Balance at 30 June 2004			52	6 715	15 208	2 040	**24 015**	**24 015**
Balance at 1 July 2004	–	**–**	52	6 715	15 208	2 040	**24 015**	**24 015**
Issue of share capital	3 000	**3 000**	1	–	–	–	**1**	**3 001**
Reduction of share capital	–	**–**	–	(1)	–	–	**(1)**	**(1)**
Share issue expense	(8)	**(8)**	–	(5)	–	–	**(5)**	**(13)**
Currency translation differences	–	**–**	–	–	–	(354)	**(354)**	**(354)**
Movement in revaluation reserves	–	**–**	–	–	(1)	455	**454**	**454**
Movement in other reserves	–	**–**	–	–	–	(139)	**(139)**	**(139)**
Earnings attributable to shareholders	–	**–**	–	–	8 246*	–	**8 246**	**8 246**
Ordinary dividends	–	**–**	–	–	(2 767)	–	**(2 767)**	**(2 767)**
Preference dividends	–	**–**	–	–	(68)	–	**(68)**	**(68)**
Transfer (to)/from reserves	–	**–**	–	–	116	(116)	**–**	**–**
Effective change of shareholding of subsidiary	–	**–**	–	–	(4)	–	**(4)**	**(4)**
Sub total	2 992	**2 992**	53	6 709	20 730	1 886	**29 378**	**32 370**
Consolidation of share trust	–	**–**	(2)	(2 364)	(155)*	7	**(2 514)**	**(2 514)**
Balance at 30 June 2005	2 992	**2 992**	51	4 345	20 575	1 893	**26 864**	**29 856**

* *On the face of the income statement dividends received on treasury shares have been offset against earnings attributable to shareholders as follows:*

	2005	2004
Earnings attributable to shareholders per above	**8 246**	5 817
Consolidation of share trusts	**(155)**	(105)
Earnings attributable to shareholders per the income statement	**8 091**	5 712

Sources of profit for the year ended 30 June

	Audited			
R million	2005	% composition	2004	% composition
Banking Group	6 492	89	4 796	78
FNB	2 914	40	2 500	41
RMB	1 370	19	1 049	17
WesBank	1 007	14	759	12
FirstRand Africa and Emerging Markets	313	4	288	5
Group Support	925	13	267	4
Ansbacher	(37)	(1)	(67)	(1)
Momentum Group	1 287	17	1 081	18
Insurance operations	685	9	595	10
Asset management operations	247	3	175	3
Investment income on shareholders' assets	355	5	311	5
Discovery Group	350	5	265	4
FirstRand Limited	(304)	(4)	(274)	(4)
Consolidation of share trust	(155)	(2)	(105)	(2)
Headline earnings	7 670	105	5 763	94
Dividend payment on non-cumulative non-redeemable preference shares	(68)	(1)	–	–
Headline earnings for the Group	7 602	104	5 763	94
Impact of foreign currency translations	(264)	(4)	370	6
Headline earnings excluding impact of foreign currency translations	7 338	100	6 133	100

Notes:

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

Seven-year review for the year ended 30 June

R million	1999	2000	2001	2002	2003	2004	**2005**	Compound growth %
Balance Sheet								
Total assets	202 064	222 791	271 430	374 766	393 674	424 867	**462 231**	14.8
Advances	93 718	102 667	123 343	175 161	188 112	208 874	**222 495**	15.5
Deposit and current accounts	115 391	117 559	141 460	201 404	215 637	219 061	**237 612**	12.8
Total equity	11 013	14 133	16 585	19 084	20 793	24 015	**29 856**	18.1
Assets under administration	255 412	303 683	373 452	473 094	488 242	529 085	**615 840**	15.8
Income Statement								
Earnings attributable to ordinary shareholders	2 488	3 055	3 574	4 495	4 516	5 712	**8 023**	21.5
Headline earnings	2 482	2 946	3 689	4 734	4 847	5 727	**7 602**	20.5
Headline earnings excluding translation gains and losses	2 482	2 946	3 450	4 186	5 379	6 097	**7 338**	19.8
Return on average equity (%)	24.4	24.3	23.3	25.2	22.6	25.4	**26.7**	
Earnings per share (cents)								
– Basic	45.70	56.10	65.70	82.50	86.20	110.00	**154.3**	22.5
– Diluted	45.70	56.10	65.70	82.50	84.50	107.40	**151.2**	21.1
Headline earnings per share (cents)								
– Basic	45.60	54.10	67.70	86.90	92.50	111.00	**146.2**	21.4
– Diluted	45.60	54.10	67.70	86.90	90.70	108.40	**143.3**	21.0
Headline earnings excluding foreign translation losses (cents)								
– Basic	45.60	54.10	63.40	76.90	102.60	118.10	**141.1**	20.7
– Diluted	45.60	54.10	63.40	76.90	100.70	115.30	**138.3**	20.3
Dividend per ordinary share (cents)								
– Interim	7.50	9.00	11.25	13.50	16.50	19.25	**26.60**	23.5
– Final	8.00	10.00	12.50	15.00	18.50	26.75	**28.50**	23.6
– Total	15.50	19.00	23.75	28.50	35.00	46.00	**55.10**	23.6
Perpetual preference dividend per share (cents)								
– February	–	–	–	–	–	–	**228**	
– August	–	–	–	–	–	–	**360**	
Net asset value per ordinary share	2.02	2.60	3.05	3.50	3.97	4.39	**5.32**	17.5
Shares in issue (million)	5 445.3	5 445.3	5 445.3	5 445.3	5 445.3	5 476.4	**5 613.6**	
Exchange rates								
Rand/US$								
– Closing	6.03	6.77	8.07	10.31	7.56	6.18	**6.67**	
– Average	5.95	6.40	7.42	9.19	8.89	6.77	**6.19**	
Rand/£								
– Closing	9.51	10.26	11.35	15.75	12.47	11.20	**11.96**	
– Average	9.63	9.88	10.81	14.81	14.12	11.83	**11.50**	
Balance Sheet (USD)								
Total assets	33 509	32 896	33 647	36 349	52 089	68 747	**69 243**	12.9
Advances	15 541	15 159	15 289	16 989	24 890	33 798	**33 330**	13.6
Deposit and current accounts	19 136	17 358	17 535	19 534	28 532	35 447	**35 595**	10.9
Total equity	1 826	2 086	2 055	1 851	2 751	3 885	**4 473**	16.1
Assets under administration	42 357	44 841	46 293	45 886	64 602	85 605	**92 254**	
Income Statement (USD)								
Earnings attributable to ordinary shareholders	418.24	477.38	481.81	489.17	507.95	844	**1 295**	20.7
Headline earnings	417.30	460.35	497.19	515.18	545.18	851	**1 227**	19.7
Headline earnings excluding translation gains and losses	417.29	460.35	464.98	455.54	605.02	905	**1 185**	19.0
Balance Sheet (GBP)								
Total assets	21 258	21 716	23 912	23 801	31 563	37 933	**38 622**	10.5
Advances	9 859	10 007	10 866	11 124	15 082	18 650	**18 591**	11.1
Deposit and current accounts	12 139	11 459	12 462	12 791	17 289	19 560	**19 854**	8.5
Total equity	1 158	1 377	1 461	1 212	1 667	2 138	**2 495**	13.6
Assets under administration	26 871	29 602	32 900	30 046	39 146	47 235	**51 456**	
Income Statement (GBP)								
Earnings attributable to ordinary shareholders	258	309	331	303	320	483	**698**	18.0
Headline earnings	258	298	341	320	343	487	**661**	17.0
Headline earnings excluding translation gains and losses	258	298	319	283	381	518	**638**	16.3

Financial performance

The FirstRand Group of companies produced an excellent performance, continuing a seven-year history of strong growth in headline earnings, ROE and dividends. The year under review was a challenging but rewarding one with all the major business units of the Group delivering strong top-line growth. This performance was assisted by buoyant market conditions but in addition the Group's diversified income streams, relentless focus on innovation and its ability to leverage its many different businesses to create "greenfields" or new sources of growth, resulted in a 32% increase in headline earnings to R7.6 billion. After excluding the impact of foreign currency translations the growth was 20%.

These results were achieved in a favourable economic environment, which provided strong organic growth opportunities, particularly for the Banking Group. This was evident in the high levels of new business growth at Rand Merchant Bank (RMB), WesBank and First National Bank (FNB) and resulted in the Banking Group producing headline earnings growth of 35% to R6.5 billion. The sustained lower interest rate environment continued to result in a margin squeeze, the impact of which was partly offset by improved credit quality and a lower bad debt charge, as well as an absolute increase in advances and deposits.

Momentum produced excellent results by growing headline earnings by 19% to R1 287 million, with earnings attributable to ordinary shareholders increasing by 28%. These results were driven by strong new business inflows, significant growth in assets under management and a focus on expense efficiencies.

Discovery delivered a strong performance for the year under review with headline earnings increasing by 32% to R350 million. This performance reflects strong growth in all Discovery's businesses, with new business Annual Premium Income (API) increasing by 35% to R4 342 million.

The Group's performance in summary is:

R 'million	Audited 30 June 2005	30 June 2004	% growth
Headline earnings for the FirstRand Limited Group	**7 602**	5 763	32
Currency translation (gains)/losses on integrated foreign operations			
– Banking Group	**(264)**	370	
Headline earnings excluding impact of foreign currency translations	**7 338**	6 133	20

Cents	Audited 30 June 2005	30 June 2004	% growth
Earnings per share (cents)			
– Basic	**154.3**	110.0	40
– Diluted	**151.2**	107.4	41
Headline earnings per share (cents)			
– Basic	**146.2**	111.0	32
– Diluted	**143.3**	108.4	32
Headline earnings excluding impact of foreign currency translations per share (cents)			
– Basic	**141.1**	118.1	19
– Diluted	**138.3**	115.3	20

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

Contribution	30 June 2005	30 June 2004
Banking Group	**79.2%**	78.1%
Momentum	**16.4%**	17.6%
Discovery	**4.4%**	4.3%
Total	**100%**	100%

PERFORMANCE AGAINST TARGETS

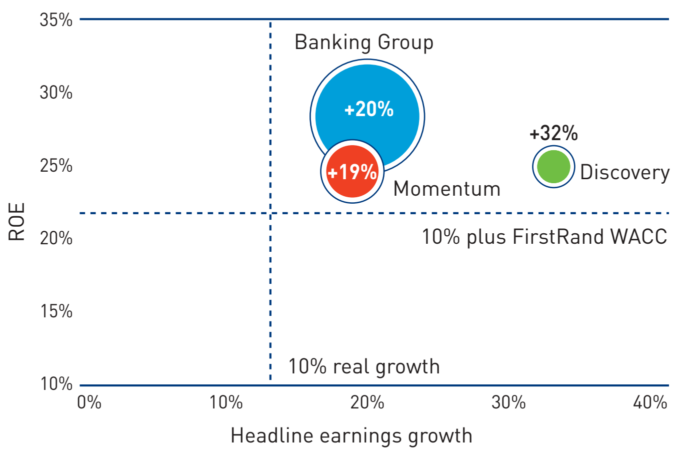
The Group determines performance using two financial targets:

Financial targets	Target	Actual
10% Real growth in headline earnings	13.5%	20%
Return on equity: 10% plus FirstRand weighted average cost of capital	22.9%	27%

These targets exclude the impact of foreign currency translations.

All three main operating subsidiaries operated in the top quadrant, delivering superior value for shareholders.

Financial targets met



OPERATING ENVIRONMENT

The year was characterised by continued growth in consumer spending, strong increases in corporate output, rising business fixed investment, net new employment creation, a buoyant property market and sharply rising share prices, against a backdrop of low inflation and interest rates. The global economy expanded at its fastest pace in over two decades. As a consequence, commodity prices and international trade volumes soared. This continued growth in the global economy was largely driven by strong consumer spending, large increases in residential building activity and a solid expansion in fixed investment generally.

Local markets adapted to the structurally lower interest rate and inflation environment with asset prices experiencing strong increases. The property, bond and share markets all experienced substantial gains. Many households therefore enjoyed both "wealth effects", which encouraged them to spend while enjoying the benefit of much lower borrowing costs.

Local equity markets were buoyant and this had a positive impact on the Group's equity related businesses. The JSE ALSI 40 index increased by 40% during the year.

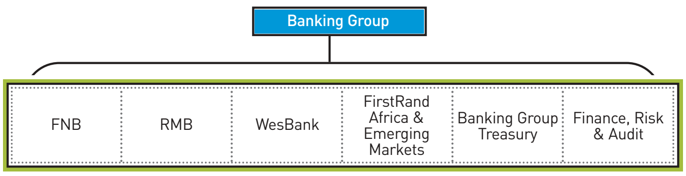
Sales of discretionary linked investment products, unit trusts and living annuities benefited from the improved equity markets. As was to be expected, the lower interest rates impacted negatively on sales of guaranteed annuities and guaranteed endowments, and the stronger Rand resulted in very low demand for offshore products.

The long-term insurance industry continued to experience strong demand for individual risk products during the period.

STRATEGIC ISSUES

Brand alignment – The Banking Group

In October 2004, the retail, wealth and corporate clusters were dismantled and the Banking Group was restructured as illustrated below:



FNB Corporate and FNB Retail were merged under one FNB management team. This decision was taken to better position FNB to:

- achieve greater collaboration and inter-dependence;
- leverage and build the FNB brand; and
- maximise revenue growth going forward.

The large corporates market segment is now managed jointly by RMB and FNB, with RMB providing value-add advisory and structuring services and FNB managing transactional banking business. This is working well as there is a more efficient working relationship between FNB and RMB, and large corporates are benefiting from the increased customer focus.

Black Economic Empowerment ("BEE") ownership transaction ("the BEE transaction")

FirstRand announced details of its BEE transaction on 24 February 2005, in terms of which an effective 10% interest in FirstRand would be acquired by four broad-based empowerment groups and black South African FirstRand staff and non-executive directors.

The BEE transaction comprised two components. Four broad-based BEE groups, Kagiso Trust, Mineworkers Investment Trust ("MIT"), WDB Trust and the FirstRand Empowerment Foundation (a newly created FirstRand BEE entity, with a mandate for broad-based transformation), will hold a 6.5% interest in FirstRand. This will be held through the FirstRand Empowerment Trust, a trust created for the purposes of this transaction. FirstRand's black South African staff and non-executive directors will have a beneficial interest of 3.5% in FirstRand. To implement the BEE transaction, approximately 7.6% of FirstRand's issued ordinary shares was procured from shareholders at a price of R12.28 per share.

The FirstRand Empowerment Trust secured third party funding to acquire its 6.5% interest in FirstRand. FirstRand funded the 3.5% staff BEE component through the available resources of its subsidiary FirstRand Bank. To provide sufficient security to the third party funders and for the transaction to be viable with limited further involvement from FirstRand, the Group issued 119 million FirstRand ordinary shares to the FirstRand Empowerment Trust at par value. This aspect of the BEE transaction led to a dilution of approximately 2.1% for FirstRand shareholders.

The total cost to shareholders of the FirstRand BEE transaction is 3.15% of the market capitalisation calculated at a share price of R12.28. The Group is committed to transformation in South Africa and specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black South Africans, with a specific focus on the lower income groups.

The Group selected its BEE partners because they share FirstRand's objectives of enhancing broad-based BEE by addressing the needs of a wide constituency. In addition, the BEE partners have excellent reputations, successful track records and long standing relations with FirstRand and with each other.

Ansbacher

In July 2004 FirstRand agreed to dispose of its interest in its subsidiary Ansbacher (UK) Group Holdings Limited ("Ansbacher") to Qatar National Bank ("QNB") at a premium to net asset value.

The proceeds of the sale consisted of two amounts. The initial consideration was based on the net asset value of Ansbacher at the completion date plus a premium of £7.5 million (R1 019 million).

A deferred consideration ("the residual premium" of £7.5 million) will be based on the performance of certain of Ansbacher's businesses during the 2005 and 2006 calendar years. Management believes the current performance of these businesses should not result in receipt of the residual premium. The transaction became effective on 1 November 2004 and the net proceeds received were £91.1 million. FirstRand earned a total compound rate of return of 11.6% (in Rand) over the period from its investment in Ansbacher in 1992 to the date of disposal. Refer to page 32 for further details regarding the profit on the sale of Ansbacher.

Sage

In May 2005 Momentum announced that it would acquire 100% of Sage Group Limited ("Sage"). Momentum currently has a small presence in the market segment that is serviced by agents and Sage provides the benefits of scale, increasing Momentum's policy book by 25%, without a commensurate increase in costs. The acquisition of Sage adds a total of 590 agents to Momentum's current agency force and significant growth opportunities are expected to be unlocked through this enhanced distribution network.

African Life and African Life Health

Momentum agreed to dispose of its 34% shareholding in African Life (Aflife) to Sanlam. This is in line with Momentum's strategy to enter the lower and middle end of the market through the established FNB branch network, rather than through a traditional insurance distribution model.

Momentum has made a separate offer, which has been accepted subject to regulatory approvals, to acquire a 100% shareholding in African Life Health (ALH), a medical schemes administrator, from Aflife. This acquisition provides Momentum with access to new market segments such as local government, the emerging market and Africa. Both of these transactions remain subject to regulatory and competition board approvals.

Sovereign Health

Effective 1 June 2005, Momentum acquired a 100% shareholding in Sovereign Health (Proprietary) Limited ("Sovereign"), a medical schemes administrator which was previously a division of Medscheme, for a total cash consideration of R195 million. Sovereign administers medical schemes with a total of 106 000 principal members. Momentum believes that this acquisition is strategically important as it provides the critical mass required to compete effectively in this market segment.

Advantage

Effective 12 January 2005, Momentum created significant critical mass in its multi-management business through the acquisition of a 50% stake in Advantage Asset Managers. The combined operations, which manage R39 billion in assets, are well positioned to compete more effectively for new mandates.

Value for money savings products

The savings industry has undergone significant changes since the early 1990's. Clients demand better value for money and more flexibility, consumer bodies demand better disclosure, regulatory pressures have increased, whilst competitive pressures as well as the structurally lower inflation environment is placing pressure on margins. Momentum has proactively responded to these challenges and will continue to support changes that improve the sustainability of the savings industry.

The values of retirement annuities, following the early cessation (or reduction) of premium payments, are currently receiving unprecedented attention from consumers and the press, especially following rulings of the Pension Fund Adjudicator against life insurers and retirement funds. Momentum is acutely aware that policy designs and charging structures of the past lend themselves to criticism. However, Momentum believes that past practices should be judged against what was accepted market practice at the time. It is important that the uncertain legal framework in which life companies currently do retirement annuity business, be clarified as soon as possible.

The commission proposals recently made by the Life Offices Association should significantly improve early termination values of savings products, and will simplify product design and fee structures. It is hoped that intermediaries and regulators will endorse these future commission proposals in the interest of a more sustainable savings industry.

Further issue of non-cumulative non-redeemable preference shares

FirstRand issued and listed on 11 August 2005, R1 530 million non-cumulative non-redeemable preference shares at an effective coupon rate of 66.7% of FNB's Prime Prevailing Lending Rate.

The proceeds will be applied to redeem the outstanding balance of an amount of R1.0 billion cumulative preference shares issued in 2003, which will result in an improvement in the quality of the capital base of FirstRand Limited. The remaining R500 million will be used to subscribe for R500 million non-cumulative non-redeemable preference shares in Momentum, which will improve the weighted average cost of capital.

OVERVIEW OF RESULTS

The Banking Group

The Banking Group produced excellent results for the year ended 30 June 2005, benefiting from strong performances from RMB, FNB and WesBank.

The Banking Group achieved growth in headline earnings of 35% before adjusting for foreign currency translation differences and 21%, after adjusting for foreign currency translation differences.

Non-interest revenue increased by a significant 34%, benefiting from strong growth in transactional income from FNB and WesBank and from all RMB business units. The bad debts charge benefited from a recovery resulting from the Relyant transaction and a continued improvement in the credit quality of the advances book. The level of non-performing loans has improved marginally, due to the current benign credit environment.

The lower interest rate environment reduced endowment income and, together with the competitive landscape, continued to place pressure on interest margins. The volume growth in the advances and the deposit books, and the Group's interest rate hedging strategies, provided some compensation for the decline in margins.

Operating expenditure increased by 18%. This must be viewed in the context of costs incurred for new business growth in FNB, RMB and WesBank and an increase in staff levels to comply with regulatory and compliance requirements as experienced by the South African Financial Services Industry. FNB HomeLoans maintained its policy of expensing new business acquisition costs in the year incurred.

During the financial year the Banking Group expanded its footprint in Africa by opening a new operation in Lesotho and investing in a private equity fund focused on financial services on the African continent.

First National Bank (FNB)

FNB produced strong results, growing profits by 18% to R4.1 billion.

FNB's consumer banking activities performed particularly well, with strong asset growth from card and mortgages. Non-interest revenue showed strong growth of 23%, largely due to growth in new clients and increased economic activity. It was pleasing to note that price increases for bank charges were kept at a modest 3.9%. Retail deposits continued to show satisfactory growth, in line with overall market growth.

Margin pressure continued in the low interest rate environment, however, this was partly offset by ongoing contributions from hedging strategies.

FNB HomeLoans performed exceptionally well in terms of advances, producing new business growth of 91%. The run-off from the acquired NBS and Saambou books continued, albeit at a slower rate, which resulted in total advances growth of 31%. HomeLoans continued to suffer margin compression due to increased competitor activities. In terms of IFRS, certain expensed origination costs will be spread over the life of the homeloan which will positively impact profitability going forward.

The FNB Card division also produced an excellent performance, with advances and deposits increasing by 32% and 11% respectively year-on-year. Cardholder turnover increased by 28% reflecting both an increase in the number of customers and increased spend per customer.

FNB's commercial segment consists of the mid-corporate, business and agricultural sub-segments. The mid corporate sub-segment performed exceptionally well increasing its profit before tax by 46%. The good advances and liability growth of 23% and 25% respectively was offset by continuing margin pressure, resulting in net interest income increasing by only 10%. Non-interest income showed excellent growth of 28% driven by increases in transactional volumes and the client base. It is anticipated that this segment will be a future growth engine for FNB.

The large corporate continued to be negatively impacted by firstly, corporates directly accessing the capital markets and secondly, by increased margin pressure, resulting in subdued growth in advances of 8%. This resulted in net interest income being marginally down. Non-interest income showed a marginal increase although this should be viewed against a high base created in the previous year by the disposal of certain retail exposures at a profit.

FNB's operating expenses increased by 15.7% over the prior year. However, if expenses relating to new business acquisition costs at HomeLoans and the Discovery Card launch are excluded, the increase would be 12%.

With regard to bad debts, FNB continued to benefit from the improved credit environment. The bad debt charge is at historical low levels of 26bps of the advances book. If the recovery of bad debts of R134 million on the disposal of Relyant to Ellerines is excluded the bad debts charge would increase to 37bps (2004: 40bps).

Rand Merchant Bank (RMB)

RMB produced another set of excellent results with profits increasing to R1 901 million, 33% ahead of the prior year comparative number.

RMB's portfolio of businesses all performed well, particularly the businesses leveraged to and operating in the improved equity markets. The trading, asset management and broking businesses benefited directly from greater trading volumes and increased values.

BEE activity, comprising advisory mandates, underwriting, senior and mezzanine debt financing and private equity, provided good deal flow to many of RMB's divisions especially Corporate Finance and Structured Finance. Private Equity benefited from the realisation of two investments, despite this the unrealised profits in the Private Equity division grew to R1.1 billion from R984 million.

The low inflation, low interest rate environment and related strong credit markets benefited RMB's debt origination, securitisation and structuring activities.

WesBank

WesBank produced an excellent performance for the year ended 30 June 2005, achieving profits of R1 404 million, an increase of 34% over the prior year.

Gross advances grew by 29% when compared to the prior year. R1.5 billion of this growth related to the acquisition of the Barloworld Equipment Finance book.

New business production totalled R39 billion, compared to R31 billion in the previous year, which represents an increase of 32%. Continued buoyancy in the retail vehicle market, coupled with the existing and forecast low interest rate environment, contributed to this high production growth.

The charge for bad debts, as a percentage of advances, was 56bps which is similar to the equivalent period in the prior year and reflects the favourable current economic conditions. Non-performing loans also remained consistent with the prior year, at 63bps of advances.

Non-interest income grew 34% year-on-year reflecting the increased new business volumes and higher penetration of WesBank's insurance products. Non-interest expenditure grew in line with the increased volumes, but the continued drive for efficiencies and scale benefits improved the cost to income ratio to 46.8% (2004 48.8%).

African subsidiaries

Despite the strength of the Rand, overall the African subsidiaries increased profit by 16.5% (17.9% in the local currencies).

FNB Namibia increased pre-tax profits by 26%, with much of this growth due to an excellent performance from the insurance operations driven by strong growth in in-force policies of 40% (embedded value +39%). The growth in policies is the result of exceptional cross selling within the Group. Strong advances growth was impacted by margin squeeze.

FNB Botswana grew profits by only 9% (22% in Pula terms). Non-interest income grew 23% mainly due to transaction volumes which in turn were driven by new customer accounts and increased turnover from card merchants. Advances grew by 21% as a result of a focus on good quality corporate lending.

FNB Swaziland continued to experience a depressed economy and margins remained under pressure.

OUTsurance

OUTsurance posted strong results for the year ended 30 June 2005. Gross premium income equalled R1.9 billion, a 30% increase compared to the previous period, which was driven by strong organic growth in both the personal and business lines. Headline earnings increased by 46% to R296 million.

Expenses as a percentage of net premium income decreased from 18% to 16%, which compares to an industry average of 26%.

OUTsurance continued to reap significant benefits from collaboration, as 29% of its premium income is generated from other businesses within the FirstRand Group.

Momentum Group

The Momentum Group produced strong results with headline earnings increasing by 19% to R1 287 million. Overall the insurance operations increased operating profit by 15%. The local insurance operations increased profits by 19%, driven by strong new business inflows, the positive impact of good market growth and a focus on expense efficiencies. The losses incurred by the international insurance operations were due to costs incurred on the disengagement from Ansbacher and the operational losses within the retail linked product division.

The embedded value increased by 22% for the year. The embedded value profit for the period represents a return of 28% on opening embedded value, reflecting strong growth in both the shareholder's portfolio and the value of in-force insurance business.

Total marketing and administration expenses were contained at an increase of 13%. The local insurance operations increased expenses by only 5%.

The investment income earned on shareholders' assets increased by 14% to R355 million. The main reason for this strong performance was the growth in equity accounted earnings of African Life from R71 million to R96 million.

The headline return on equity for the year was 25%, up from 24% for the year ended 30 June 2004.

Asset management operations

The asset management operations generated an impressive increase in net profits of 41%. The local asset management operations produced excellent results with profits increasing by 63%, due to positive inflows of funds and improved local equity markets. RMB Asset Management continued to produce a sound investment performance. Retail funds under management increased by an impressive 41%. Total funds under management increased by 20% to R179.6 billion.

Discovery

Discovery produced a strong performance reflecting a combination of good organic growth and increased efficiencies across all its businesses. This performance translated into a 32% increase in headline earnings to R350 million (2004: R265 million).

Discovery Health produced a solid but moderate performance with operating profits increasing by 8%. This follows a significant increase in acquisition costs coupled with the termination of reinsurance profits.

Discovery Life exceeded expectations, further consolidating its leadership position within the pure risk assurance market and increasing operating profits by an excellent 55% to R421 million (2004: R271 million). This exceptional performance resulted from significant new business growth.

Vitality's decrease in profit to R38 million was largely driven by marketing and set-up costs relating to the Discovery Credit Card.

Destiny Health's operating losses reduced by 18% to R87 million. The maiden profits in January and February 2005 were offset by delayed entry into new markets, and transitional costs incurred from moving the back-office operations from the USA to South Africa.

Discovery made an investment of R276 million in PruHealth to meet its current capital requirements and to fund Discovery's share of the start-up and operating costs. The losses to date equates to R148 million.

FirstRand Limited – central cost

The costs incurred by FirstRand increased to R304 million as reflected below:

R'million	30 June 2005	30 June 2004
Management expenses	(31)	(50)
Taxation	(184)	(115)
Cumulative redeemable preference shares	(89)	(110)
Total	(304)	(275)

The decrease in operating expenses relates to the interest benefit received following the reissuing of the non-cumulative, non-redeemable preference shares. Taxation expenses increased due to higher Secondary Tax on Companies ("STC") paid during the year following the reduction in the dividend cover. The reduction in the cumulative redeemable preference shares compared to the prior year is as a result of the partial redemption of the R1 405.5 million cumulative redeemable preference shares of which R1 080 million was still in issue at 30 June 2005, which was redeemed subsequent to the year end.

CAPITAL MANAGEMENT

The Group actively manages its capital base with the objective to enhance shareholder value through its capital management framework. Capital is allocated to FirstRand Group business units on an economic risk assumed basis, founded on Basel II principles.

The Banking Group invests its capital in interest bearing instruments to achieve a desired interest return and risk profile. The lower interest rate environment resulted in reduced returns, however this was partially offset by higher capital levels and benefits derived from hedging strategies. The capital adequacy ratio is at 11.8% (2004: 13.8%) which is within the target range of 11.5% to 12.0%. The Banking Group is well positioned to meet the requirements of Basel II, given the proposed implementation date of 1 January 2008.

The capital adequacy requirement (CAR) for Momentum of R2 041 million was covered 2.2 times (2004 pro-forma: 2.0 times), which remains within the range of the targeted cover of 1.8 to 2.2 times.

Excess capital

In March 2005, at the time of the Group's interim results, FirstRand stated that the Group had excess capital of approximately R4.4 billion and indicated that this excess would be deployed to:

- fund the vendor financing portion of the Group's BEE ownership transaction – R2.3 billion; and
- reduce existing gearing in FirstRand and/or return to shareholders – R2.1 billion.

The BEE transaction was effective from 16 May 2005, whereby FirstRand provided R2.3 billion vendor finance for the staff component of the transaction.

As reported above the Group issued a further R1.5 billion non-cumulative, non-redeemable preference shares on 11 August 2005.

FirstRand redeemed R1.4 billion debt in the form of cumulative preference shares. In addition, due to the significant organic growth in asset backed advances in the second half of the year a further R1.2 billion was required to fund growth. The resultant excess of R500 million will be used for organic growth and/or a share buy-in program.

Dividend policy

Ordinary shareholder dividend

The Group bases its dividend policy on sustainable earnings growth. Dividend cover is based on headline earnings excluding non-operational anomalies, such as AC 133 adjustments and currency translation gains or losses. In addition the earnings attributable (paid or accrued) to Non-Cumulative Non-Redeemable Preference Shareholders are taken into account. The table below provides an analysis of the non-operational issues which have been taken into account in 2005:

R'million	Audited 30 June 2005
Headline earnings	7 602
Current translation gains on integrated operations	(264)
Headline earnings for dividend purposes	**7 338**

The Group will retain its dividend cover of 2.5 times based on 'headline earnings for dividend purposes'. The Group believes this is a sustainable dividend cover given the internal earnings generation capacity and organic growth potential of the businesses.

The proposed final dividend amounts to 28.50 cents which together with the interim dividend of 26.60 cents per share, reflects an increase of 20% over total dividend per share for 2004.

Basis of presentation

FirstRand prepares its consolidated financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair-value basis of accounting.

These financial assets and liabilities include:

- financial assets held for trading;
- financial assets classified as available-for-sale;
- derivative assets and liabilities;
- financial assets and liabilities at elected fair-value; and
- short trading positions.

The consolidated financial statements conform to Statements and Interpretations of Generally Accepted Accounting Practice in South Africa.

The principal accounting policies are consistent in all material respects with those adopted in the previous period, except as noted below.

CHANGES IN ACCOUNTING POLICIES

The South African Institute of Chartered Accountants issued an interpretation AC 501 – Accounting for Secondary Tax on Companies ("AC 501"), effective for financial periods commencing on or after 1 January 2004. The interpretation requires an entity to recognise a deferred tax asset to the extent that it is probable that the entity will declare dividends against which unused STC credits can be utilised. FirstRand adopted AC 501 retrospectively from 1 July 2004.

	Audited	
R million	**2005**	2004
The effects of the change in accounting policy are as follows:		
Balance Sheet (opening balance)		
Increase in retained earnings and increase in deferred tax asset included in other assets	**103**	67
Income statement		
Reduction in tax and increase in earnings	**16**	36
Balance Sheet (closing balance)		
Increase in retained earnings and increase in deferred tax asset included in their assets	**119**	103
Effect on current period income		
Effect of adopting AC 501 on income before tax	**–**	–
Tax	**16**	36
Attributable to shareholders	**16**	36

In terms of AC 501, the interpretation has been applied on a retrospective basis and consequently the 2004 results have been restated.

Share-based expenses

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

The FirstRand Group conducted an exercise to establish the expenditure that would have been recognised had it applied the standard in the year ended 30 June 2005. Although the transitional provisions of the standard require that only share options granted after 7 November 2002 be expensed, the exercise included all share options granted since 1 July 1998.

Impact on diluted headline earnings per share

	30 June 2005	30 June 2004	% growth
Diluted headline earnings per share	**143.3**	108.4	32
Impact of expensing share-based payments	**(2.3)**	(0.5)	
Diluted headline earnings per share	**141.0**	107.9	31

Odd-lot offer

In an attempt to reduce the substantial and ongoing administration costs associated with having a large number of small shareholders, the directors proposed the implementation of an odd-lot offer to facilitate a reduction in the number of small shareholders. Approximately 10% of odd-lot shareholders accepted this offer resulting in a net reduction of 49 850 shares in issue.

CORPORATE GOVERNANCE

FirstRand has embraced the recommendations of King II on Corporate Governance and strives to provide reports to shareholders that are timely, accurate, consistent and informative.

THE FINANCIAL SERVICES CHARTER

FirstRand remains focused on meeting or exceeding its responsibilities under the Financial Services Charter.

PROSPECTS

In general the increased economic activity experienced in the year ended 30 June 2005 is expected to continue.

It is likely that the South African economy will remain in a structurally lower inflationary environment for some time to come. Interest rates are expected to remain at current levels for the next financial year. Whilst the lower interest rate environment will continue to place the Banking Group's margins under pressure, it is also expected to positively impact both credit demand and consumer spending, albeit at a slower rate than was experienced during this financial year.

The challenge going into 2006 will be to maintain growth and efficiencies at current levels. The Banking Group is confident that it is well positioned to continue to achieve real growth in earnings for shareholders in the 2006 financial year.

The rising level of consumerism in the insurance industry has resulted in an increased focus on product profit margins and the need to achieve scale benefits through consolidation. Momentum has taken steps to address these issues firstly by reducing the charges on its latest generation savings products, and secondly through the acquisitions of Advantage, Sovereign, ALH and Sage. These acquisitions should provide a positive basis for future earnings growth.

Momentum is currently embarking on a number of strategic initiatives to drive organic growth, including a joint venture with FNB to penetrate the middle market, and the growth of the agency force through the Sage acquisition.

Barring any unforeseen external shocks and in the context of the current strong economic growth in South Africa, FirstRand believes the existing strategies of the Group and the diversified income streams generated from the underlying business units, will ensure that the Group is well positioned to achieve its stated objective of 10% real growth.

MANAGEMENT CHANGES

Since the year end FirstRand has announced certain senior management changes.

In July the Group announced that the MD of Momentum, Hillie Meyer, is leaving at the end of September 2005. He will be replaced by EB Nieuwoudt, the CEO of the FirstRand Africa and Emerging Markets division. Meyer, who joined Momentum in 1988 and became MD of Momentum in 1997, has decided to take a year's break. He has no immediate career plans. Nieuwoudt will be replaced by Theunie Lategan, previously the CEO of FNB Corporate.

On 15 September the Group announced that Laurie Dippenaar will step down as Group CEO and move to a non-executive role. Paul Harris, currently the Banking Group CEO will become Group CEO and Sizwe Nxasana, previously the CEO of Telkom SA, will join the Group as CEO of the Banking Group. Laurie Dippenaar will remain non-executive chairman of Momentum, Discovery and OUTsurance and serve as a non-executive director on the Boards of FirstRand Bank and FirstRand Limited. Laurie Dippenaar's resignation and Paul Harris' appointment as FirstRand Limited CEO will be effective 1 January 2006. Sizwe Nxasana's appointment as CEO of FirstRand Bank will be effective on the same date. Sizwe Nxasana's appointment as CEO of the Banking Group has been approved by the South African Reserve Bank.

For further information on these changes shareholders are referred to the detailed announcement that was published on SENS on 15 September and can be viewed on the FirstRand website www.firstrand.co.za.

DIVIDEND DECLARATIONS

Ordinary Shares

The following ordinary cash dividends were declared in respect of the 2005 and 2004 financial year.

	2005 Cents per share	2004 Cents per share
Interim (declared 1 March 2005)	**26.60**	19.25
Final (declared 20 September 2005)*	**28.50**	26.75
	55.10	46.00

* *The last day to trade in FirstRand Shares on a cum-dividend basis in respect of the final dividend will be Friday 14 October 2005 and the first day to trade ex-dividend will be Monday 17 October 2005. The record date will be Friday 21 October 2005 and the payment date Monday 24 October 2005. No dematerialisation or rematerialisation of shares may be done during the period Monday 17 October 2005 and Friday 21 October 2005, both days inclusive.*

Preference Shares

Dividends on the 'A' preference shares are calculated at a rate of 65% of the prime lending rate of banks and the following dividends have been declared for payment:

R million	"A" Preference share
Period 1 July 2004 – 31 December 2004	23
Period 1 January 2005 – 30 June 2005	13

Dividends on the 'B' preference shares are calculated at a rate of 68% of the prime lending rate of banks and the following dividends have been declared for payment:

Cents	"B" Preference share	"B1" preference share
Period 11 November 2004 – 28 February 2005	228	–
Period 1 March 2005 – 29 August 2005	360	–
Period 11 August 2005 – 29 August 2005	–	37

A H Arnott
Company Secretary

19 September 2005

Directors

GT Ferreira (Chairman), LL Dippenaar (CEO), VW Bartlett, DJA Craig (British), DM Falck, PM Goss, NN Gwagwa, PK Harris, MW King, G Moloi, KC Shubane, BJ van der Ross, AP Nkuna, Dr F van Zyl Slabbert, RA Williams, YI Mahomed, SEN Sebotsa

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(In terms of JSE requirements)

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INTRODUCTION

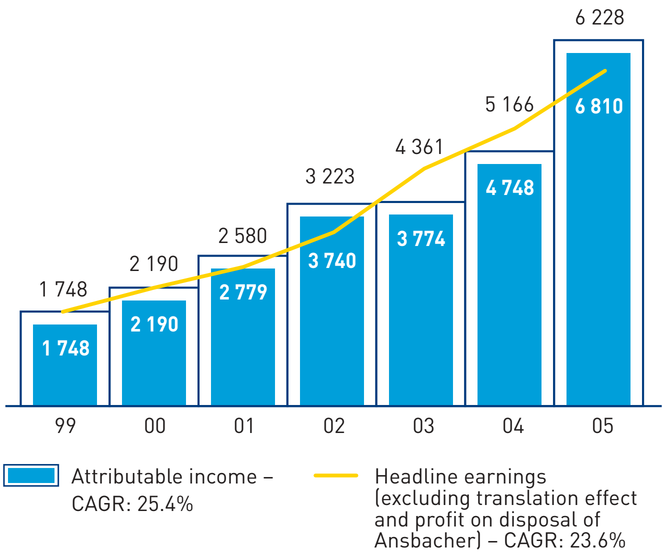
This report reflects the operating results and financial position of the banking interests of the FirstRand Limited group of companies ("the Banking Group"), and should be read in conjunction with the report on FirstRand Limited.

Financial Highlights

Audited – year ended 30 June 2005	% change
Attributable earnings	+43.4
Headline earnings	+35.4
Headline earnings excluding translation gains	+20.6
Net asset value growth	+29.0
Normalised net asset value growth	+18.2
	%
Return on average ordinary equity (excluding profit on disposal of Ansbacher, including translation gains)	28.8
Return on average ordinary equity (excluding translation gains and profit on disposal of Ansbacher)	27.6
Cost to income ratio (including translation gains)	55.4
Cost to income ratio (excluding translation gains)	56.0

A booklet containing supplementary information on the Banking Group is available on our website or on request from the company secretary's office.

Earnings performance
(R million)



Income statement for the year ended 30 June

R million	Audited 2005	2004	% change
Interest income	23 417	22 412	4.5
Interest expenditure	(13 920)	(13 505)	3.1
Net interest income before impairment of advances	9 497	8 907	6.6
Impairment of advances	(706)	(833)	(15.2)
Net interest income after impairment of advances	8 791	8 074	8.9
Total non-interest income	12 001	8 970	33.8
– non-interest income	11 737	9 340	25.7
– translation gains/(losses)	264	(370)	>100.0
Income from operations	20 792	17 044	22.0
Operating expenditure	(12 389)	(10 503)	18.0
Net income from operations	8 403	6 541	28.5
Share of earnings of associated companies	877	585	49.9
Income before profit on disposal of discontinued operations	9 280	7 126	30.2
Profit on disposal of discontinued operations	346	–	100.0
Income before taxation	9 626	7 126	35.1
Indirect taxation	(409)	(400)	2.3
Income before direct taxation	9 217	6 726	37.0
Direct taxation	(2 115)	(1 701)	24.3
Income after taxation	7 102	5 025	41.3
Earnings attributable to outside shareholders	(292)	(277)	5.4
Earnings attributable to ordinary shareholders	6 810	4 748	43.4

Balance sheet at 30 June

	Audited		
R million	2005	2004	% change
Assets			
Cash and short-term funds	23 403	25 104	(6.8)
Derivative financial instruments	27 752	34 415	(19.4)
– qualifying for hedging	811	4 798	(83.1)
– trading	26 941	29 617	(9.0)
Advances	226 552	210 414	7.7
– originated	180 076	143 167	25.8
– held-to-maturity	7 449	8 971	(17.0)
– available-for-sale	1 648	4 499	(63.4)
– fair value	37 379	53 777	(30.5)
Investment securities and other investments	43 522	36 007	20.9
Financial instruments held for trading	20 738	9 670	>100.0
Investment securities	22 784	26 337	(13.5)
– held-to-maturity	998	957	4.3
– available-for-sale	14 223	16 733	(15.0)
– elected fair value	7 563	8 647	(12.5)
Commodities	618	702	(12.0)
Non-recourse investments	8 181	6 515	25.6
Loans to Insurance Group	7 268	4 386	65.7
Accounts receivable	2 822	2 796	0.9
Investment in associated companies	2 780	2 208	25.9
Property and equipment	3 633	3 839	(5.4)
Deferred taxation assets	522	964	(45.9)
Intangible assets	466	451	3.3
Assets of insurance operations	170	85	100.0
Total assets	347 689	327 886	6.0
Liabilities and shareholders' funds			
Liabilities			
Deposits	247 084	225 886	9.4
Deposit and current accounts	238 903	219 371	8.9
Non-recourse deposits	8 181	6 515	25.6
Short trading positions	19 919	23 286	(14.5)
Derivative financial instruments	25 467	34 427	(26.0)
– qualifying for hedging	249	4 606	(94.6)
– trading	25 218	29 821	(15.4)
Loans from Insurance Group	9 424	7 253	29.9
Creditors and accruals	7 292	4 848	50.4
Provisions	1 361	1 347	1.0
Taxation	112	1 351	(91.7)
Post-retirement benefit funds liability	1 249	1 111	12.4
Deferred taxation liabilities	2 799	1 666	68.0
Long-term liabilities	3 422	3 678	(7.0)
Liabilities of insurance operations – policyholder liabilities	109	77	41.6
Total liabilities	318 238	304 930	4.4
Outside shareholders' interest	990	898	10.2
Shareholders' equity			
Ordinary shares	106	106	–
Share premium	1 632	1 632	–
Non-distributable reserves	2 064	2 376	(13.1)
Distributable reserves	20 614	16 544	24.6
Ordinary shareholders' equity	24 416	20 658	18.2
Non-redeemable preference share capital	3 000	–	100.0
Total shareholders' equity before cumulative redeemable preference shares	27 416	20 658	32.7
Cumulative redeemable preference shares	1 045	1 400	(25.4)
Total shareholders' equity	28 461	22 058	29.0
Total liabilities and shareholders' funds	347 689	327 886	6.0
Contingencies and commitments	26 465	23 443	12.9

Executive summary

OVERVIEW

The Banking Group achieved attributable earnings of R6 810 million (+43.4%), headline earnings of R6 492 million (+35.4%) and headline earnings excluding translation gains of R6 228 million (+20.6%) during the year under review.

The performance of the Banking Group must be judged in the context of the operating environment during the year, including:

- significantly lower average domestic interest rates relative to the previous period (2005: 10.96%; 2004: 12.51%), which placed pressure on margins;
- competitive margin pressure on the assets side of the banking book, especially in the mortgage and instalment finance books;
- endowment income was negatively affected by lower interest rates, although this was partially offset by interest rate hedges;
- strong growth in consumer credit demand particularly for vehicle finance and mortgage advances;
- continued disintermediation of the large corporate advances market;
- the significant appreciation in the equity markets, together with trending interest rates and foreign exchange markets, which benefited the Banking Group's trading and investment teams; and
- strong growth in the economy, resulting in increased client numbers and higher transaction volumes.

Business unit performance

FNB increased profit before tax by 18% benefiting from:

- organic growth of 26% in gross advances, with growth in excess of 30% in the home loans and card environments;
- a further improvement in credit experience;
- strong non-interest income growth, assisted by increased client numbers and higher transaction volumes; and
- recovery of bad debts of R134 million on the disposal of a shareholding in Relyant Retail ("Relyant") to the Ellerines Group ("Ellerines").

WesBank increased profit before tax by 34%, primarily as a result of:

- a 29% increase in gross advances; and
- a 34% increase in non-interest income due to the higher penetration of insurance products and strong new business volumes.

RMB increased profit before tax by 33%, benefiting from good performances from its portfolio of businesses, with exceptional performance from its equity businesses, especially the private equity division, and strong deal flow in corporate and structured finance.

FNB Africa (Namibia, Botswana, Swaziland and Lesotho) increased profit before tax by 17%, benefiting from satisfactory advances growth in the Namibian and Botswana operations.

Performance against targets

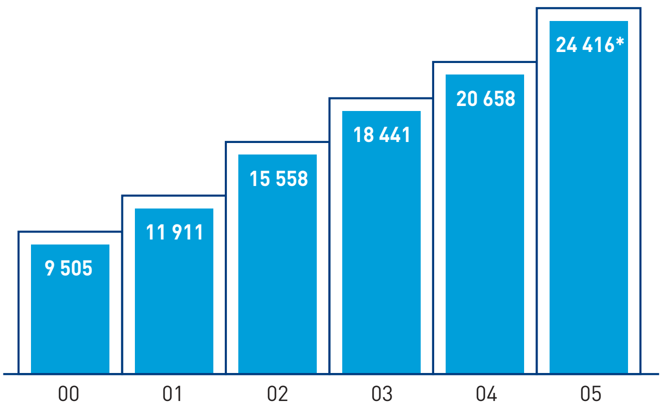
The Banking Group achieved the following results against internal performance targets for the year under review:

Performance measurement	Performance target	Actual achievement
Return on equity[1] (%)	22.7	27.6
Headline earnings growth (excluding currency translation effect)[2] (%)	13.5	20.6
Cost to income ratio[3] (%)	55.0 - 57.0	56.0
Non-performing loans percentage[4]	3.0	1.33
Impairment charge as a percentage of average gross advances[5]	0.5 - 0.8	0.32
Normalised net asset value growth[6]	13.5	18.2

Notes:

1. *Calculated as headline earnings excluding currency translation impact and profit on sale of discontinued operations as a percentage of average ordinary shareholders' equity. The Banking Group targets a return on equity figure of average weighted average cost of capital +10 percentage points.*
2. *The Banking Group targets a growth of average CPIX +10 percentage points.*
3. *The Banking Group has set a medium-term objective of maintaining a cost to income ratio (excluding the impact of currency translation gains or losses) of between 55.0% and 57.0%.*
4. *Calculated as non-performing loans as a percentage of gross advances.*
5. *Medium-term objective given current risk profile.*
6. *The Banking Group targets a growth of average CPIX +10 percentage points before dividend payments.*

Normalised net asset value
(R million)
CAGR: 20.8%



** Excluding R3 billion non-cumulative, non-redeemable preference shares and R1.05 billion cumulative redeemable preference shares.*

Reconciliation between earnings attributable to ordinary shareholders and headline earnings

R million	Audited Year ended 30 June 2005	2004	% change
Earnings attributable to ordinary shareholders	6 810	4 748	43.4
Adjusted for:			
Profit on disposal of Ansbacher	(346)	–	100.0
Loss on sale of fixed assets	7	92	(92.4)
Goodwill impairment/ amortisation	–	31	(100.0)
Loss/(Profit) on disposal of available-for-sale assets	21	(75)	>100.0
Headline earnings	6 492	4 796	35.4

Calculation of headline earnings excluding translation (gains)/losses

R million	Audited Year ended 30 June 2005	2004	% change
Headline earnings	6 492	4 796	35.4
Translation (gains)/losses	(264)	370	>100.0
Headline earnings excluding translation (gains)/losses	6 228	5 166	20.6

ECONOMIC OVERVIEW

The year was characterised by rapid growth in consumer expenditure, strong increases in corporate output, rising business fixed investment, net new employment creation, a buoyant property market, sharply rising share prices, as well as low inflation and interest rates. The global economy expanded at its fastest pace in over two decades. As a consequence, commodity prices and international trade volumes soared.

For South Africa the favourable impact of a booming world economy was blunted somewhat by the strength of the Rand up to early 2005. This had an adverse impact on the competitiveness and profitability of exporters and companies competing with imports. Many manufacturers were also hampered by the growing dominance of China in low cost global manufacturing, while mining firms could not capitalise fully on the global commodity price boom given the currency's strength. Overall though, the economy performed well, achieving GDP growth of 4.5 % over the financial year.

This rapid growth was largely driven by strong consumer spending, large increases in residential building activity and a solid expansion in fixed investment generally. The strength of the currency in the first half of the year had meant a tightening of overall monetary conditions, even in the face of already low nominal interest rates. However, the Rand's strength, coupled with better-than-expected inflation numbers, put the South African Reserve Bank in a position to cut its repo rate on two occasions, by a total of 100 basis points, following 550 basis points reductions earlier in the interest rate cutting cycle. The Rand ended the financial year at R6.67:US$1. By the end of the financial year, interest rates had been reduced to levels last seen 25 years ago; the prime rate reduced from 11.5% at 30 June 2004 to 11% in August 2004 and to 10.5% in April 2005. Markets adapted to the structurally lower interest rate and inflation environment with asset prices experiencing rapid growth. The property, bond and share markets all experienced substantial gains. Many households therefore enjoyed both "wealth effects", which encouraged them to spend, and the benefit of much lower borrowing costs. CPIX inflation reduced from 5% at 30 June 2004 to 3.5% at 30 June 2005, well within the South African Reserve Bank's target range.

Booming asset markets created an ideal environment for the rapid take-up of consumer debt. Asset-backed debt of households rose by 22% over the Banking Group's financial year. The mood of consumers was also buoyed by faster real income growth (as inflation, and in particular, the prices of imported goods fell) as well as lower direct taxes. Sales of vehicles, furniture, appliances as well as clothing grew dramatically.

FINANCIAL REVIEW

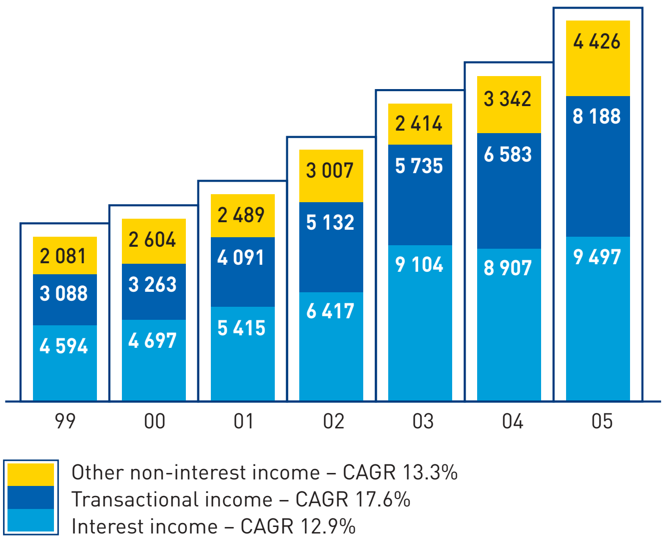
Profit before tax

The Banking Group produced excellent results with outstanding performances from FNB, WesBank, RMB and OUTsurance.

Analysis of total income

The graph below provides a breakdown of total income:

Total income
(R million)



Note:

Total = interest income after impairment of advances + non-interest income (excluding translation gains and losses) + income from associates.

Net interest income (after impairment of advances)

Interest rates declined by 1.0% during the year (after a 4% decline during the 2004 financial year). On average, rates were approximately 1.6% lower than the comparative period.

Interest margins showed an overall decline from 4.47% in the previous year to 4.35%.

This decline in margins was compensated for by the volume impact of growth of 7.7% in advances and 9.4% in deposits.

Net interest income and interest margins were positively influenced by:

- the volume effect from organic growth in both assets and liabilities;
- the increase in the average capital base following the retention of earnings in the previous year;
- the endowment hedge strategy of the Banking Group; and
- the improved mix arising from an increase in retail advances and a decrease in corporate advances.

Negative factors included:

- the negative impact of the lower interest rate environment on endowment margins;
- the general negative impact of a structurally lower interest rate environment on margins;
- the continued margin squeeze, partially as a result of competitive pressure, on the prime-linked portion of the banking book;
- the run-down of the existing fixed-rate book and lower levels of early settlement due to the large consumer debt appetite; and
- compression of short-term funding rates.

A reconciliation of the interest margin is set out below:

	Net interest income 2005 R million	Interest margin %
Interest income – June 2004	8 907	4.47
Volume effect (Growth in advances and deposits)	840	0.00
Endowment effect (Deposits)	(221)	(0.10)
Endowment effect (Capital)	(349)	(0.15)
Protection provided by hedges	464	0.21
Other (including margin pressure)	(144)	(0.08)
Interest income – June 2005	9 497	4.35

Non-interest income

Non-interest income increased to R12 001 million (2004: R8 970 million). Non-interest income excluding currency translation gains or losses increased by 25.7% to R11 737 million (2004: R9 340 million).

A further detailed analysis of non-interest income is set out on page 6 and 7 of the supplementary information document.

The various components of non-interest income are discussed in more detail below.

Transactional income – up 24.4%

Banking fee and commission income increased by 23.9%.

FNB's retail banking operations benefited from increased client numbers as well as higher transaction volumes which resulted in income growth. Average price increases were contained at below average inflation for the year.

WesBank's non-interest income growth was driven by the exceptional new business growth as well as higher penetration levels of insurance products.

FNB's corporate and commercial businesses increased fee and commissions by 18%, with the increase driven by increased transaction levels from existing clients, as well as through volume increases in electronic banking and card acquiring areas.

Knowledge-based fee income increased by 13.9%. Increased mergers and acquisitions activity together with a number of successfully completed structured finance transactions contributed to the revenue growth. Absolute year-on-year growth was negatively affected by the disposal of Ansbacher during the financial year.

FNB Africa showed an increase of 24.8%, mainly from increased transactional volumes, new account growth, the review of pricing structures and the growth of insurance income in Namibia. The continued strengthening of the Rand against the Pula negatively impacted on fee income from Botswana.

Trading income – up 15.9%

Trading, or mark-to-market income experienced satisfactory growth.

Treasury trading performed well, benefiting from proprietary trading activities in the interest rate and debt capital markets. The equity arbitrage business produced exceptional results. Trading income was largely driven by a strong performance from the equity businesses which have produced increasingly significant contributions to the overall results since the decision taken a few years ago to increase the focus on these areas of RMB. Trading activities in the interest rate and debt capital markets further boosted the trading performance.

Absolute year-on-year growth was negatively affected by the disposal of Ansbacher during the financial year.

Income from investment activities – up 77.4%

Income from investment activities includes realised gains and losses from the Banking Group's private equity businesses as well other traditional investment business.

The private equity businesses had an outstanding year benefiting from the disposal of two investments. The unrealised and unrecognised profit on the Private Equity portfolio attributable to the Banking Group amounted to R1.07 billion at 30 June 2005 (2004: R867 million), after taking into account the realisations mentioned above.

The Banking Group realised a profit of R103 million, before tax, on the sale of Relyant during the year.

Income from associate companies – up 49.9%

Share of income from associate companies increased to R877 million (2004: R585 million).

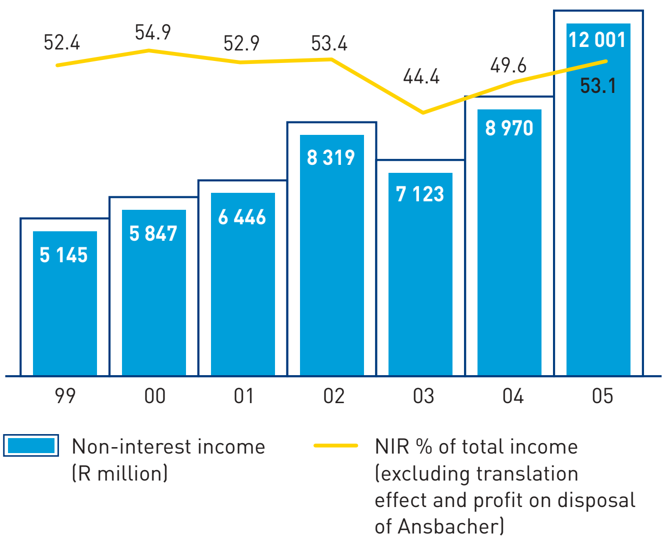
The increase is as a result of:

- outstanding results from OUTsurance, which showed good organic growth and a continued low claim ratio;
- an increase of more than 100% in income from WesBank associate companies;
- an increase of 41.4% in income from private equity associate companies; and
- equity accounted income of R133 million from Relyant (2004: R65 million from McCarthy and Relyant).

Excluding Relyant, the Banking Group's associate income increased by 27.1% to R744 million.

The graph below shows the diversity ratio of income for the Banking Group, excluding the profit on the disposal of Ansbacher (refer page 32 below):

Non-interest income



Operating expenditure – up 18.0%

The non-interest expenditure increase resulted primarily from the growth in the South African operations.

Staff costs increased by 11.3%, due to increased staff numbers, in part to support the significant new business growth experienced in WesBank, FNB and RMB, together with higher staff levels required to comply with additional regulatory and compliance requirements across the Banking Group, in line with the rest of the banking industry. Furthermore, staff costs were affected by the salary increases of 9.0% for the 2005 financial year, including a once-off bonus of 2.5% to the majority of staff members.

Other operating costs increased by 26.0% primarily due to:

- high acquisition costs of R498 million, including internal acquisition costs (2004: R300 million) relating to new business volumes, particularly in the home loans book;
- costs relating to the launch of new products;
- an increase of 47% in eBucks rewards given to clients;
- an increase in advertising and marketing spend of 40% to R618 million; and
- increased capacity costs relating to the strong new business growth in FNB, WesBank and RMB.

Direct taxation

The effective tax charge, excluding the effect of translation gains or losses and the disposal of Ansbacher, increased from 24.0% at 30 June 2004 to 24.6% at 30 June 2005, in spite of a 1% reduction in the corporate tax rate during the year.

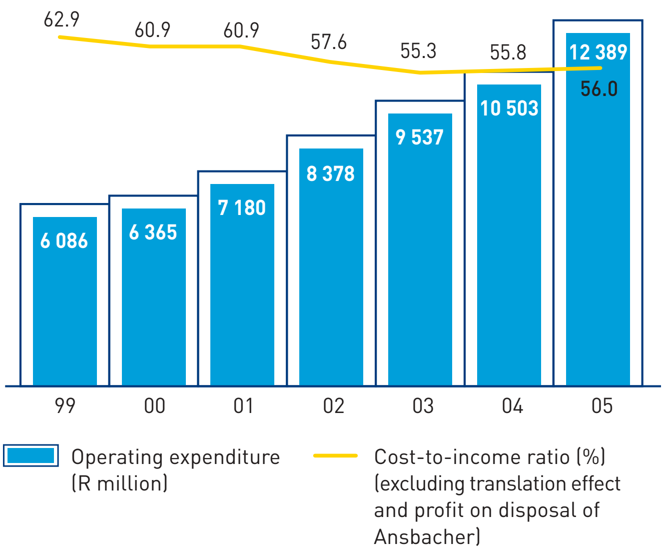
Cost to income ratio

The cost to income ratio (excluding the effect of currency translation gains or losses and the profit on disposal of Ansbacher) deteriorated marginally from 55.8% at June 2004 to 56.0%. Including translation gains and losses the ratio improved to 55.4% from 56.9% in June 2004.

The deterioration was mainly as a result of the increase in operating expenses. This was to some extent compensated for by the increase in net interest income and the strong growth in non-interest income and income from associates.

The historic trend in the cost to income ratio, excluding the effect of translation gains or losses, is shown below:

Operating efficiency



BALANCE SHEET

Advances – up 7.7%

The Banking Group distinguishes between advances generated from its primary brand franchise ("Originated advances"), and those advances which are purchased and sold as part of RMB's activities.

The Banking Group achieved exceptional growth of 25.8% in originated advances. However, reductions in both available-for-sale and fair value advances, which are of a tradable nature, limited overall growth to 7.7%.

FNB achieved year-on-year growth of 26% in gross advances.

HomeLoans grew by 31%, assisted by the continued residential property boom which resulted in increased levels of new business as well as increased re-advances through a focus on customer retention. New business payouts in home loans exceeded R30 billion during the year under review, with market share of new business increasing from 17% to 21% by year end.

FNB Card (32%) and Personal Loans (17%) benefited from the continued consumer demand for credit. Advances in FNB's wealth segment grew by 41% year-on-year as a result of further penetration in this market as well as growth in property values and increased disposable income of clients.

WesBank's advances grew by more than 29% over the previous year due to increases in new business and market share. Car sales remain at record highs, driving advances growth.

The African subsidiaries have increased advances by 13%. The growth in WesBank and the mortgage books in Namibia and SWABOU accounted for the majority of this growth. FNB Botswana grew advances by 21% in Pula terms (12% in Rand terms) on the back of good quality of corporate lending. FNB Swaziland was negatively affected by the depressed economic conditions in Swaziland.

Mid-corporate achieved advances growth of 22% benefiting from growth in overdrafts and cash management accounts.

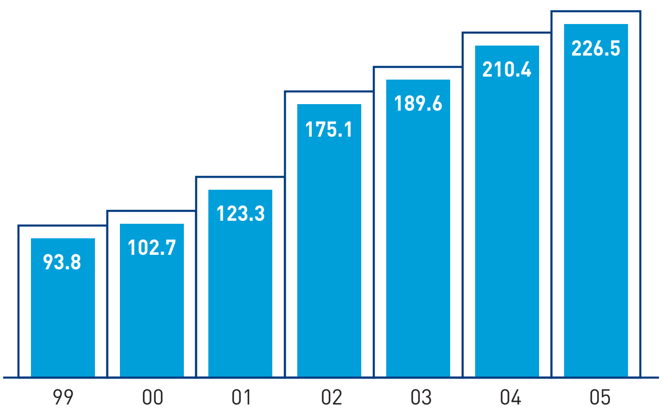
Fair value advances (including collateralised debt and emerging market advances) reduced by 34%. This is consistent with the Banking Group's decision taken in June 2003 to reduce these exposures, partially as part of a switch to more capital efficient instruments.

The Collateralised Debt Obligation portfolio reduced further by 96%, in line with the previously stated intention to actively reduce exposures to these instruments.

Large corporate advances levels remained under pressure due to the continued disintermediation in this market as well as the cash flush position of corporates, which hampered growth.

The Banking Group disposed of Ansbacher with effect from 1 November 2004. At 30 June 2004, Ansbacher had advances of R3.8 billion.

Net advances
(R billion)
CAGR: 15.8%



Deposits – up 9.4%

The growth in the deposit book was due in part to an increased focus on the management of the liability side of the book during the year under review.

Retail deposits grew by 10% driven by demand for short-term deposits, especially overnight deposits, reflecting the higher liquidity of customers and a continued client focus on shorter-dated products.

Major contributors to this growth were money market accounts (+25%), current, savings and transmission accounts (+20%) and notice deposits (+12%). The launch of the industry wide Mzansi account led to FNB's current 21% share of the total banking

Mzansi-account market. Growth was further assisted through the development of innovative deposit products such as the "Million-a-month" account. Fixed deposits and cash management accounts grew marginally.

Mid-corporate deposits volumes grew by 25%, assisted by the cash flush position of corporates.

Overall FNB Africa increased deposits by 12% mainly due to an increased focus on raising retail customer and wholesale deposits in Namibia.

The Banking Group disposed of Ansbacher with effect from 1 November 2004. At 30 June 2004, Ansbacher had deposits of R6.4 billion.

NON-PERFORMING LOANS ("NPLS") AND IMPAIRMENT OF ADVANCES

Non-performing loans

Bad debts and NPLs are at an all time low and have improved further during the year under review, benefiting from the continued low interest rate environment.

The credit quality of the Banking Group's core advances book continued to improve, despite an increase of R16.1 billion (7.7%) in net advances, as reflected in the table below:

	At 30 June		
	2005	2004	% change
NPLs as % of gross advances	**1.33**	1.59	(16.3)
Gross non-performing loans (R million)	**3 045**	3 389	(10.1)

The current improved level of non-performing advances can be ascribed to:

- the low interest rate environment;
- the improved disposable income position of customers, increasing their ability to service debt;
- continued improvement in credit assessment and collection processes; and
- the continued work-out of previously impaired corporate advances.

Credit rating of the advances book

The internal credit rating models used by the Banking Group to evaluate and monitor credit quality produce a credit rating ("FR rating") ranging from 1 to 100, with 1 being the best credit rating and 100 the worst. The FR ratings have been mapped to default probabilities as well as external rating agency national and international rating scales.

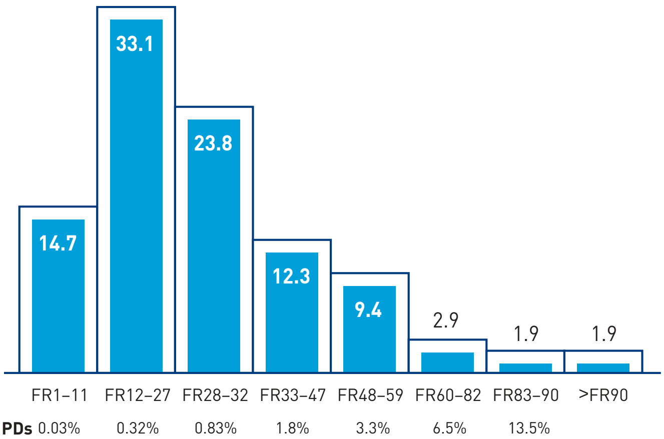
The credit quality of the book remained approximately the same during the year under review, which translated to an average internal counterparty rating (which ignores the effect of collateral) of FR 42 at 30 June 2005 (FR 42 at 30 June 2004). Mapping the advances book to relevant rating agency credit ratings, the aggregate credit quality of the advances book is equivalent to a national scale external credit rating of zaBBB (2004: zaBBB).

Wholesale credit

The following graph indicates the credit distribution based on the counterparty's probability of default ("PD") and FR rating, for the wholesale and SME credit portfolio (excluding the financial institution and sovereign exposures):

Wholesale and SME credit portfolio

Exposure distribution across rating buckets (%)



Notes:

1. *The above graph includes the exposures of RMB and FNB to large corporate counterparties, the FNB Commercial exposures to mid-corporate counterparties as well as the WesBank exposures to corporate counterparties.*
2. *The mid-point PDs noted in the graph above, can be mapped to international scale and national scale rating equivalents as follows:*

FR Rating	Mid-point PD	International scale	National scale equivalent (zaf)
FR 1 – 11	0.03%	AAA,AA,A	AAA, AA+
FR 12 – 27	0.32%	BBB	AA, AA-
FR 28 – 32	0.83%	BB+, BB	A
FR 33 – 47	1.84%	BB-	BBB
FR 48 – 59	3.38%	B+	BB
FR 60 – 82	6.52%	B	B+
FR 83 – 90	13.55%	B-	B
Above FR 90		Below B-	CCC

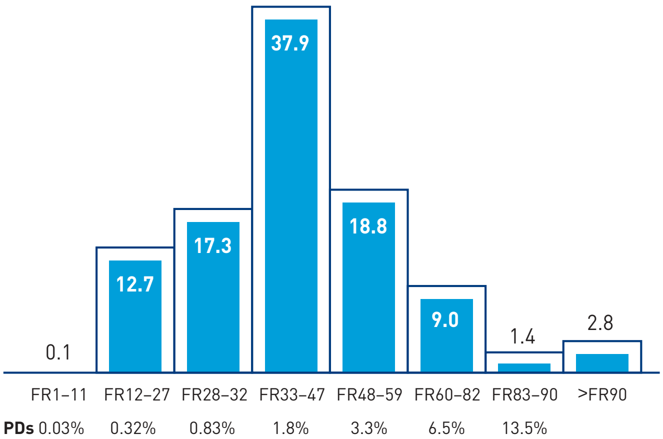
The graph above details the credit probability of default without any consideration of the collateral in place. The PD is only one dimension of credit risk, the other being the loss in the event of default. The excellent recovery processes of the bank ensure that the losses incurred upon defaults are significantly reduced below the level of the outstanding exposure. The loss given default ("LGD") estimates in the wholesale lending portfolio range between 30% and 50% for facilities with non-financial collateral and lower where financial collateral is held.

Retail credit

The following graph indicates the credit distribution based on the counterparty's PD and FR rating, for the retail portfolio:

Retail portfolio

Exposure distribution across rating buckets (%)



Notes:

The above graph includes the exposures of FNB to retail customers, e.g. home loans, credit card and overdrafts, FNB Commercial exposures to business and agriculture counterparties as well as WesBank retail exposures.

The loss given default (LGD) for the retail exposures depends on the product and collateral type.

The LGD would typically vary between 20% and 40% for secured lending (e.g. home loans) and between 50% and 70% for unsecured lending (e.g. credit cards).

Impairment charge on advances

Specific and portfolio impairments reflected in the balance sheet represent a conservative 1.1 % of gross advances (2004: 1.4%).

	Year ended 30 June 2005	2004	% change
Impairment charge (R million)	706	833	(15.2)
Impairment charge as a % of average gross advances	0.32	0.41	(21.9)

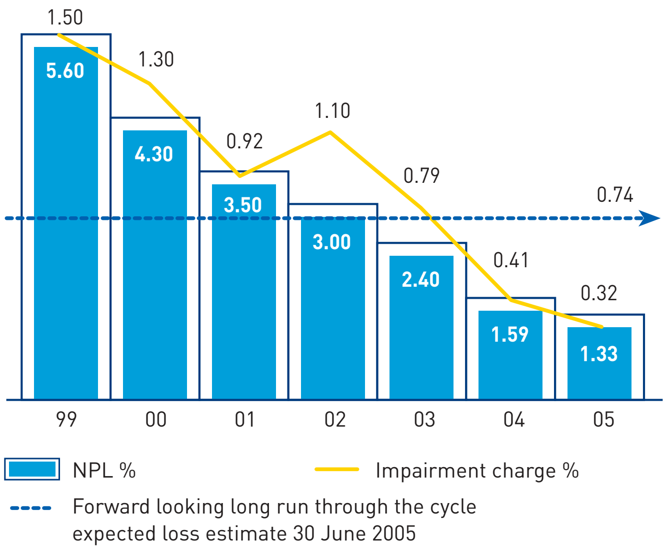
During the year under review, the Banking Group recovered R134 million bad debts previously written off against Relyant.

The impairment charge has declined in line with the improving credit quality of the advances book, primarily due to a further reduction in the specific impairment charge.

The graph below indicates the history of the Banking Group's actual losses reflected by the impairment charge percentage and non-performing loans against forward looking expected loss estimate at 30 June 2005.

NPLs and impairment charge percentages

(%)



Note:

Non-performing loans are classified as such based on the definition of default used by the Banking Group. The non-performing loans percentage includes the total value of non-performing loans classified into this category in the current year, as well as those of previous years that are still being collected / worked out. The impairment charge percentage is the bad debt charge to the income statement as a percentage of total advances in the current year based on the application of the bank's internal provisioning policies. The expected loss estimates are based on credit distribution and loss given default estimations as at 30 June 2005.

It is clear from the graph that the current impairment charge percentage of 0.32% is below the forward looking long run average expected loss of 0.74%, due to the current favourable market conditions. Factors which may lead the actual credit impairments to revert to the long run average expectation include unanticipated sudden economic shocks such as a sharp increase in interest rates or other adverse business environment changes.

It should furthermore be noted that the long run average expected loss estimates presented above were based on data which included data from the high interest rate environment experienced in 1998/99 and 2001/2. Should the current interest rate environment constitute a more permanent structural interest rate shift the long run average expected loss estimates through the cycle will need to be revised to a lower level.

RETURN ON CAPITAL, CAPITAL ADEQUACY AND MOVEMENT IN EQUITY

Return on equity

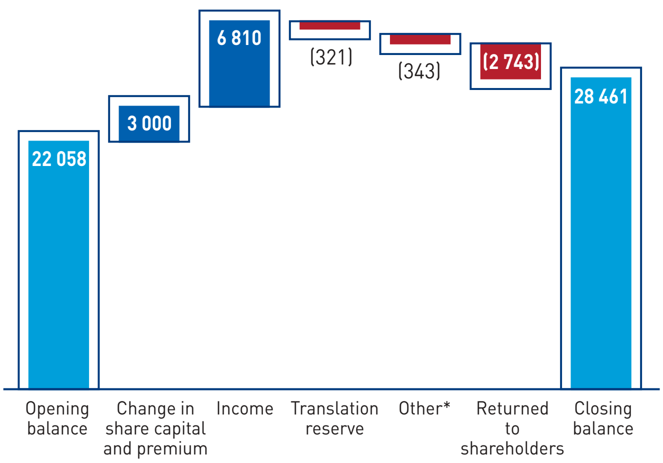
The Banking Group achieved a return on average ordinary shareholders' equity ("ROE"), excluding the impact of currency translation gains and the profit on disposal of Ansbacher of 27.6% (2004: 26.4%) during the year under review.

Analysis of ordinary shareholders' equity and reserves

Total shareholders' equity and reserves per the Banking Group balance sheet totalled R28 461 million at 30 June 2005 (2004: R22 658 million), after the issue of R3 billion non-redeemable non-cumulative preference shares during November 2004. The average ordinary shareholders' equity and reserves for the year amounted to R22 537 million (2004: R19 550 million).

The following graph indicates the movement in shareholders' funds for the year:

Total shareholders' funds
(R million)



* *Includes redemption of R355 million cumulative redeemable preference shares.*

Analysis of economic profit

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

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

Economic profit = headline earnings* – (cost of equity x average shareholders' equity and reserves).

Net economic profit

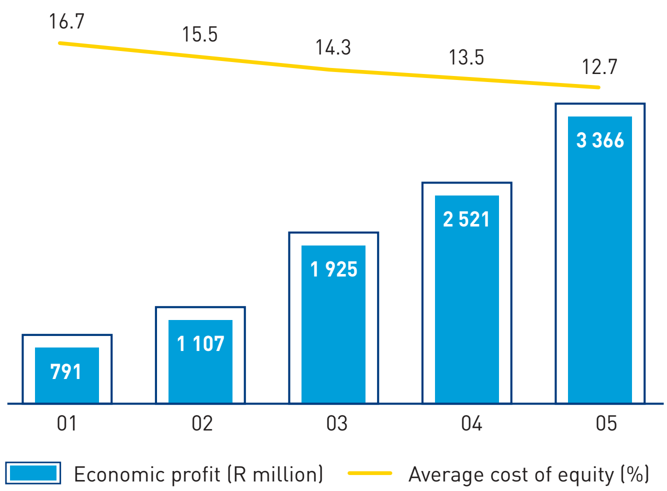
R million	2005	2004
For the year ended 30 June		
Headline earnings*	6 228	5 166
Charge for capital	(2 862)	(2 645)
Net economic profit	3 366	2 521
Return on equity (%)*	27.6%	26.4%

* *Based on headline earnings excluding translation gains or losses.*

Additional information such as the segmental analysis of ROE is contained in the supplementary information document on page 24.

The graph below indicates the growth in economic profit and internally estimated average cost of equity for the Banking Group:

Growth in economic profit (EP) and cost of equity



It is apparent from the graph that the Banking Group has increased its economic profit contribution with a compound annual growth rate of more than 40% per year over 5 years.

Capital adequacy

The registered banks in the Banking Group must comply with the South African Reserve Bank's regulations and those of their home regulators, which in general have been based on the international Basel I principles. The capital base provides the foundation for lending, off-balance sheet transactions and other activities.

The comprehensive measurement methodology for the capital adequacy and the required buffers ("internal capital adequacy assessment process") have been discussed in the "Level of capital" section of the supplementary information document.

The capital adequacy position of the Banking Group is set out below:

FirstRand Banking Group

	2005	2004
Tier 1 %	8.8	10.1
Total capital adequacy %	11.8	13.8
Risk weighted assets (R'000)	191 566	160 404

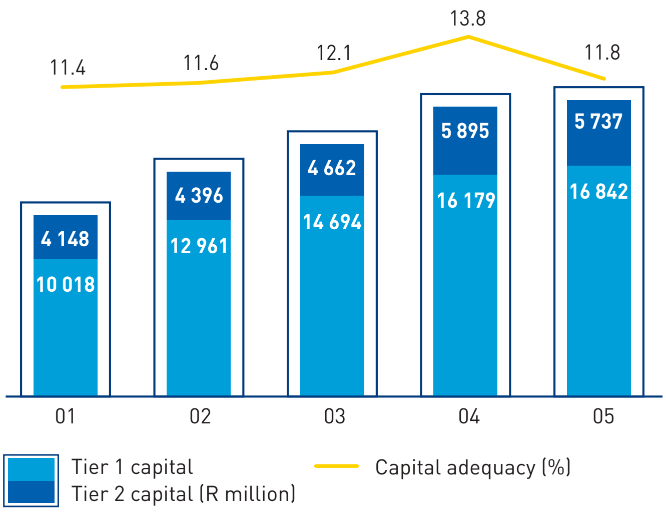
Ansbacher's capital and risk weighted assets were included in 2004 and not in 2005. The capital adequacy ratio excluding Ansbacher's capital and risk weighted assets amounted to 13.5%.

FirstRand Bank Limited

	2005	2004
Tier 1 %	7.9	9.7
Total capital adequacy %	11.1	13.5
Risk weighted assets (R'000)	164 309	135 477

The graph below provides a five-year overview of the regulatory capital position of the banking operations in the Banking Group:

Banking Group regulatory capital position



Due to the buoyant market conditions, high growth rate in risk weighted assets and revised dividend cover ratio adopted in 2004, the capital adequacy has decreased and is now broadly in line with the capital adequacy target range set by the Banking Group.

As was reported in the interim financial statements, FirstRand Limited issued R3 billion non-cumulative non-redeemable preference shares during November 2004 in order to facilitate its BEE transaction. The proceeds of this issue were invested in FirstRand Bank Limited on 31 December 2004. For capital adequacy purposes, the application of these funds in the BEE transaction has impaired capital upon the final conclusion of the transaction in the first half of 2005.

Further information on the capital adequacy position of the Banking Group and FirstRand Bank Limited has been included in the supplementary information document on page 28.

DISPOSAL OF ANSBACHER

FirstRand announced on 1 July 2004 that it had reached agreement with Qatar National Bank ("QNB"), a bank listed on the Qatari Stock Exchange, to dispose of all of the issued share capital in Ansbacher to QNB ("the disposal"). Final approval for the disposal was received from the various regulatory authorities on 31 October 2004. The disposal became effective on 1 November 2004.

The net profit before tax from the disposal, after taking into account costs directly related to that disposal, amounts to R346 million. This amount has been disclosed as "Profit on sale of discontinued operations" in the income statement of the Banking Group.

A reconciliation of the profit on disposal is shown below:

	R million
Proceeds on disposal	1 019
Net asset value of Ansbacher at date of sale	(961)
Disposal expenses[1]	(125)
	(67)
Release from currency translation reserve[2]	413
Net profit from disposal	346

Notes:

1. *Subsequent to the publication of the interim results for the 6 months ended 31 December 2004 in March 2005, further costs relating to the disposal of R40 million were incurred.*
2. *On the disposal of a foreign subsidiary classified as an "independent operation" in terms of the requirements of AC 112 of SA GAAP, the accumulated foreign currency translation reserve is released to income.*

As part of the sales agreement, the Banking Group has indemnified the purchasers against claims arising against Ansbacher, which originated in the period prior to the sale. All liabilities expected to materialise have been fully provided for.

DISPOSAL OF RELYANT

The Banking Group disposed of its shareholding in Relyant, which it had acquired in a debt for equity swap in the 2003 financial year, to Ellerines during the financial year.

The Banking Group has retained an equity position of approximately 9% in Ellerines, which investment is classified as a "Designated fair value" asset.

This transaction is the last of the Banking Group's exit from its exposures to the previously troubled retail sector, which also resulted in the disposal of McCarthy and Profurn shares acquired under similar circumstances in previous financial years.

Income on the disposal of Relyant has been included in the following lines in the income statement:

R million	2005
Bad debt recovery	134
Income from associated companies (before tax)	133
Profit on disposal	103
Profit before taxation	370

CONTINGENT LIABILITIES

There are a number of claims or potential claims made or pending against the Banking Group, the outcome of which cannot be quantified. The potential financial impact of these claims is not expected to be material for the Banking Group either on an individual or a combined basis. Provision is made for all liabilities as defined in AC 130 – Provisions, contingent liabilities and contingent assets, which are assessed as probable at the reporting date.

ACCOUNTING POLICIES

The Banking Group prepares its consolidated financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting. These financial assets and liabilities include:

- financial assets held for trading;
- financial assets classified as available-for-sale;
- derivative assets and liabilities;
- financial assets and liabilities at elected fair value; and
- trading positions.

The consolidated financial statements conform to Statements and Interpretations of Generally Accepted Accounting Practice in South Africa.

The principal accounting policies are consistent in all material respects with those adopted in the previous period, except as noted below.

The South African Institute of Chartered Accountants issued an interpretation AC 501 – Accounting for Secondary Tax on Companies ("AC 501"), effective for financial periods commencing on or after 1 January 2004. The interpretation requires an entity to recognise a deferred tax asset to the extent that it is probable that the entity will declare dividends against which unused STC credits can be utilised.

The Banking Group adopted AC 501 with effect from 1 July 2004.

Impact of the changes in accounting policy on opening equity

The table below sets out the effect of the changes in accounting policy on opening retained income at 1 July 2003:

R million	
Opening balance at 1 July 2003	14 063
Creation of deferred tax asset for unused STC credits	67
Restated opening balance at 1 July 2003	14 130

Impact of changes in accounting policy on the period under review and the comparative period

The table below sets out the effect of the changes in accounting policy on the attributable income for the period under review and for the comparative period:

	Audited Year ended 30 June	
R million	**2005**	2004
Earnings attributable to ordinary shareholders	**6 826**	4 712
Adjustment to earnings attributable to ordinary shareholders	**(16)**	36
Restated: Earnings attributable to ordinary shareholders	**6 810**	4 748

BASEL II IMPLEMENTATION

The South African Reserve Bank has indicated its intention to implement Basel II in South Africa on 1 January 2008. The Banking Group is well positioned to be Basel II compliant with effect from this date.

Further detailed information on the Banking Group's Basel II implementation process is set out on page 25 of the supplementary information document.

PROSPECTS

The South African economy expanded and achieved continued growth during the 2005 financial year buoyed by increased consumer spending. The economy is expected to continue this growth pattern during the next financial year, against the background of low and stable interest rates. Barring any unforeseen circumstances, inflation is expected to remain within the South African Reserve Bank's target range.

On the negative side, the exceptional level of consumer spending is expected to slow with consumer demand for credit following a similar trend. The expected interest rate environment is likely to place margins under continued pressure. Bad debt levels are at historical lows, which the Banking Group believes is not sustainable over the next 12 months.

During the financial year the Banking Group expanded its operations in Africa by opening a new operation in Lesotho and investing in a private equity fund focused on financial services on the African continent. The Banking Group is continuously evaluating further opportunities within Africa for expansion.

With the possible slowdown in domestic spending and lending, the challenge going into 2006 will be to maintain growth and efficiency at current levels. This said, the Banking Group is confident that it is well positioned to continue to achieve targeted real growth in earnings for shareholders in the 2006 financial year.

On behalf of the directors

GT Ferreira
Chairman

PK Harris
Chief Executive Officer

FirstRand Bank Holdings Limited
(Registration No 1971/009695/06)

Registered office
1st Floor
4 Merchant Place
1 Fredman Drive
Sandton

INTRODUCTION

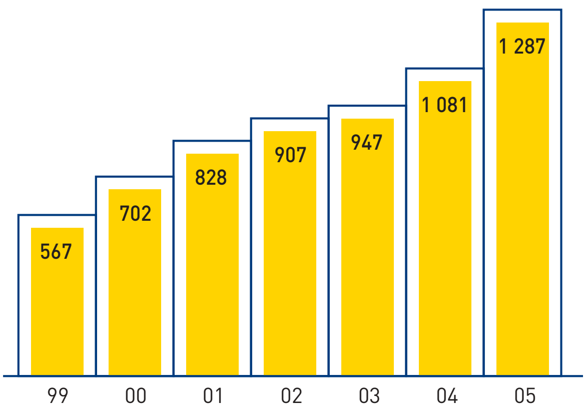
momentum

This report reflects the operating results and financial position of the insurance interests of the FirstRand Limited group of companies ("Momentum Group"), and should be read in conjunction with the report on FirstRand Limited.

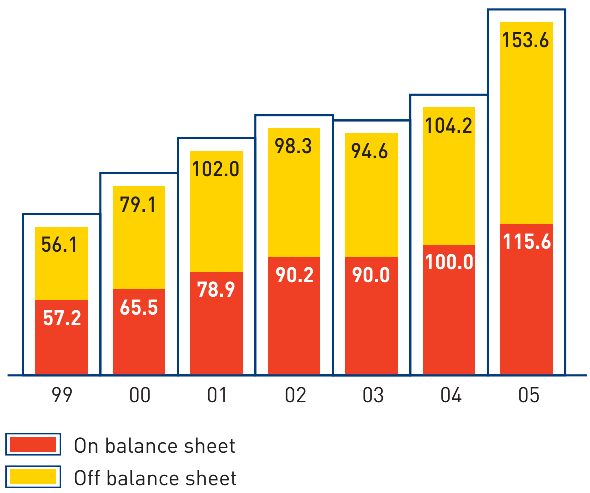
Financial Highlights

Group headline earnings	+19% to R1 287 million
Return on equity	25%
Return on embedded value	28%
Value of new business	+28% to R368 million
Assets under management or administration	+32% to R269.2 billion

Headline earnings
(R million)
CAGR: 15%



Assets under management or administration
(R billion)
CAGR: 16%



Income statement for the year ended 30 June

R million	Audited Group 2005	Group 2004	% change
Income from operations	**1 578**	1 258	25%
Share of income of associated companies	**118**	77	53%
Income before direct taxation	**1 696**	1 335	27%
Direct taxation[1]	**(323)**	(261)	(24%)
Income after taxation	**1 373**	1 074	28%
Earnings attributable to outside shareholders	**(15)**	(9)	(67%)
Earnings attributable to ordinary shareholders	**1 358**	1 065	28%
Headline earnings reconciliation			
Earnings attributable to ordinary shareholders	**1 358**	1 065	28%
Add: Goodwill amortised	**–**	31	(100%)
Less: Profit on sale of available-for-sale assets	**(71)**	(15)	>(100%)
Group headline earnings	**1 287**	1 081	19%
Group operating profit	**932**	770	21%
Investment income on shareholders' assets	**355**	311	14%
Group headline earnings	**1 287**	1 081	19%

1. Direct taxation excludes all policyholder taxation and includes only direct taxation on shareholders.

Balance sheet at 30 June

R million	Audited Group 2005	Audited Group 2004
Assets		
Cash and cash equivalents	13 014	14 495
Government and public authority stocks	14 592	12 941
– available-for-sale	91	497
– at elected fair value	14 501	12 444
Debentures and other loans	8 906	8 481
– available-for-sale	565	523
– at elected fair value	8 341	7 958
Policy loans	530	554
Equity investments	54 785	41 599
– held to maturity	824	749
– available-for-sale	703	1 313
– at elected fair value	53 258	39 537
Derivative assets – held for trading	11 975	11 070
Investments in associated companies	978	605
Investment properties	4 159	3 648
Investment assets	108 939	93 393
Loans and receivables	5 491	5 682
Taxation	118	174
Deferred taxation	40	55
Intangible assets	619	230
Property and equipment	404	416
Total assets	115 611	99 950
Liabilities and shareholders' funds		
Liabilities		
Current liabilities	4 177	3 962
Provisions	178	159
Taxation	50	–
Derivative liabilities – held for trading	4 797	6 356
Deferred taxation	797	304
Retirement benefit liabilities	267	291
Long-term liabilities	2 744	2 498
Policyholder liabilities	96 718	81 580
– Policyholder liabilities under insurance contracts	48 368	42 207
– Policyholder liabilities under investment contracts	48 350	39 373
Total liabilities	109 728	95 150
Outside shareholders' interest	145	21
Shareholders' funds		
Share capital and share premium	1 041	1 041
Reserves	4 697	3 738
Total shareholders' funds	5 738	4 779
Total liabilities and shareholders' funds	115 611	99 950

Commentary on results

OVERVIEW FOR THE YEAR

The Momentum Group experienced yet another year of consistent earnings growth, characterised by increased acquisition activity as Momentum seeks to capitalise on consolidation opportunities in its chosen markets, and strong organic growth in all areas of the business. Top line growth in new product sales benefited from the enlarged Momentum agency force, the launch of innovative new products, and Momentum's ability to successfully maintain market share in the fiercely competitive independent broker market. The asset management operations experienced significant earnings growth as equity markets surged, and new inflows remain strongly positive.

The following strategic acquisitions were concluded during the year:

- **Formation of Advantage Asset Managers** – Effective 12 January 2005, Momentum participated in the formation of Advantage Asset Managers (Advantage), a multimanager representing the merged interests of Momentum MultiManagers and mCubed Asset Management. Momentum owns a 50% stake in Advantage. The merged entity manages a total of R39 billion in assets;
- **Acquisition of Sovereign Health** – Effective 1 June 2005, Momentum acquired a 100% shareholding in Sovereign Health (Pty) Limited (Sovereign), a medical schemes administrator which was previously a division of Medscheme, for a total cash consideration of R195 million. Sovereign administers medical schemes with a total of 106 000 principal members.

Subsequent to the year end, the following transactions were announced:

- **Acquisition of Sage Holdings** – Momentum's acquisition of 100% of the issued shares of Sage Group Limited (Sage) was approved by the Sage shareholders on 2 August 2005. The acquisition was sanctioned by the High Court of South Africa on 16 August 2005, and approved by the Competition Authorities on 24 August 2005. The consideration payable in terms of the scheme is R634 million, or 175 cents per Sage share, comprising an initial payment of 142 cents per share and a subsequent potential maximum payment of 33 cents per share relating to an escrow account. As security for certain contingent taxation related liabilities, an amount of R120 million of the cash consideration is being held in an escrow account managed by Hofmeyr Herbstein & Gihwala Inc. The Sage acquisition increases Momentum's asset base by 8%, and adds a total of 590 agents to Momentum's current agency force;
- **Disposal of African Life and acquisition of African Life Health** – Momentum recently announced that it has agreed to dispose of its 34%-shareholding in African Life (Aflife) to Sanlam. This is in line with Momentum's strategy to enter the lower and middle end of the market through the established FNB branch network, rather than through a traditional insurance distribution model. Momentum's separate offer to acquire a 100% shareholding in African Life Health (ALH), a medical schemes administrator, was accepted by Aflife. If Aflife's shareholders approve the Sanlam acquisition unchanged, the total consideration Momentum will receive, net of the acquisition price of ALH, is R696 million. Both of these transactions remain subject to regulatory approval; and
- **Capital raising** – Momentum has, subsequent to the year end, issued R500 million in perpetual preference shares to its holding company, FirstRand. This issue of shares, which was approved by the Financial Services Board (FSB), will enable Momentum to lower its weighted average cost of capital, and will ensure that Momentum is able to continue the policy of backing its statutory capital requirement with cash or near cash instruments, after allowing for the cash outflows arising from the above acquisitions.

BASIS OF PRESENTATION

The consolidated figures in this report comprise the operations of Momentum Group Limited (Momentum) and its divisions, associates and subsidiary companies, including Momentum International, RMB Asset Management (RMBAM), RMB Properties, Sovereign Health, 87% of Ashburton, 70% of Lekana Employee Benefits Solutions, 50% of Advantage Asset Managers, 40% of Futuregrowth and 34% of Aflife, collectively referred to as the Momentum Group (the Group).

OPERATING ENVIRONMENT

The strong first-half performance from equity markets continued during the second six months of the financial year, bringing the increase in the JSE ALSI 40 Index to 40% for the year to June 2005. Despite an increasing oil price, and a slightly weaker Rand during the period under review, the South African CPIX inflation rate remained below 4% year-on-year, resulting in a stable interest rate environment. This lower inflationary environment does however result in pressure on fee structures and profit margins.

The life insurance industry statistics released by the Life Offices Association (LOA) indicate that annualised individual recurring new business premiums increased by 4% from calendar 2003 to 2004, whilst single premium business increased by 15% during the same period. Sales of individual recurring premium risk-only products appear to remain strong in the industry.

Discretionary retail investment product providers, comprising mainly Collective Investment Schemes (CIS's) and Linked Investment Service Providers (LISP's), have also benefited from increased lump sum inflows. The Association of Collective Investments reported that inflows into local CIS's for the year to June 2005 increased by 46% compared with the year to June 2004.

GROUP OPERATING RESULTS

Group headline earnings increased by 19% to R1 287 million for the year ended 30 June 2005, with earnings attributable to ordinary shareholders increasing by 28% to R1 358 million.

These results were driven mainly by the excellent performance from the local insurance and asset management operations. Group operating profit, which increased by 21%, benefited from strong new business growth and significant growth in asset values resulting in increased fee income. Overall new business inflows increased by 49%, and net inflows of new assets totalled R3.6 billion. Total assets under management or administration increased by 32% to R269.2 billion due to the growth in equity markets, strong net inflows in collective investment funds (unit trusts) and the positive impact of the formation of Advantage.

The headline return on equity (ROE) for the year amounted to 24.5%, compared with 24.3% in the previous year. This ROE is in excess of the internal FirstRand target, representing the weighted average cost of capital plus 10%, which currently equals 22.9%. The return on embedded value totalled 27.9%.

The following table shows the main components of the increase in group headline earnings for the year:

Earnings source

R million	2005	2004	% change
Insurance operations	685	595	15%
– Local	744	623	19%
– International	(59)	(28)	>(100%)
Asset management operations	247	175	41%
– Local	178	109	63%
– International	69	66	5%
Group operating profit	932	770	21%
Investment income on shareholders' assets	355	311	14%
Group headline earnings	1 287	1 081	19%

Insurance operations

The operating profit generated by local insurance operations increased by an excellent 19% due to pleasing new business growth, the positive impact of good market growth and effective cost control. Including the international operations, the overall insurance operations increased operating profit by 15% to R685 million.

The following table summarises the total retail new business produced during the year:

Retail new business

R million	2005	2004	% change
New annualised recurring premiums	946	784	21%
Total lump sum inflows	8 895	7 060	26%
Single premium endowments	1 580	1 344	18%
Lump sum annuities	1 694	1 846	(8%)
– Guaranteed annuities	673	1 110	(39%)
– Living annuities	1 021	736	39%
Linked product inflows – local	3 127	1 895	65%
Linked product inflows – offshore[1]	2 494	1 975	26%
Total retail new business	9 841	7 844	25%

1. Linked investment products sold by Momentum International in the UK.

New individual life recurring premium business increased by an excellent 21%. This growth was driven by a number of factors, including:

- the continued strength in sales of our Myriad risk product, which now make up 34% of all individual life recurring premium sales;
- the launch of the new range of our Investo product, which features lower policy charges and the unique Save Thru Spend benefit, which enhances clients' savings as they channel household spend to a closed community of business partners;
- the growth in our bancassurance initiative, FNB Life, which now makes up 9% of all new individual life recurring premium sales;
- the expansion of our agency force from 180 to 317 agents; and
- an increase in the sales of Momentum products by FNB Financial Consultants.

Despite the focus on growing new business from alternative distribution channels, such as the agency force and bancassurance, Momentum has maintained a 20% share of the highly competitive broker market.

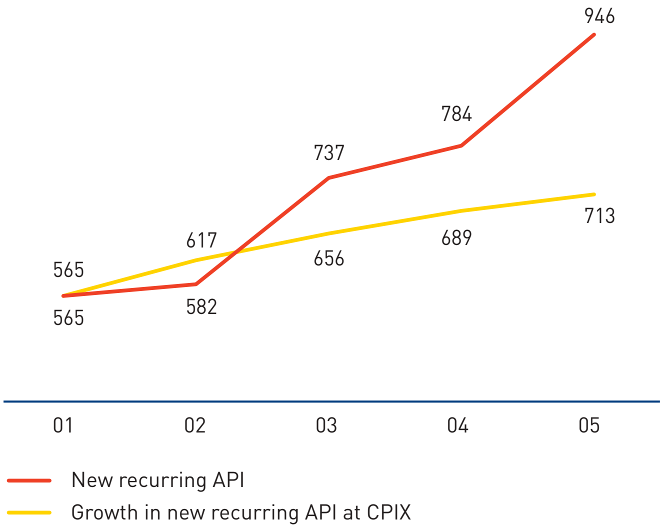
The following graphs provide a breakdown of the individual life new recurring business production by distribution channel:

Distribution split – new annualised recurring premiums
for the year ended 30 June 2005

Distribution split – new annualised recurring premiums
for the year ended 30 June 2004

The following graph reflects the strong growth in new annualised individual life recurring premium business in recent years, compared with the growth in CPIX over the same period:

New annualised individual life recurring premium growth
(R million)



Sales of single premium endowments reflected a pleasing improvement, although clients still seem to prefer investing in discretionary investments without a contractual term, which has benefited our sales of linked products. The structural change in lump sum annuity inflows away from traditional guaranteed annuities to living annuities continued, with clients preferring the flexibility of equity-based living annuities to the low guaranteed interest rates currently achievable on guaranteed annuities.

Momentum's health initiative received a significant boost from the acquisition of a 100% stake in Sovereign, and the recently announced offer for a 100% stake in ALH. These two medical scheme administrators, which together administer in excess of 240,000 principal members, provide Momentum with the critical mass to compete effectively in this market. The open schemes administered by these companies will enjoy access to Momentum's well-established broker and agency distribution channels. Momentum's lifestyle program, Momentum Multiply, has been made available to all medical scheme members administered by Sovereign, and it is the intention to do the same with ALH. The proposed acquisition of ALH provides Momentum with access to new market segments such as local government, the emerging market and the rest of Africa.

Momentum acquired a 50% stake in Advantage. It paid for this investment by transferring its own multimanager business into Advantage, and settling the balance of the acquisition price in cash. The combined operation currently manages R39 billion in assets, which provides Momentum with the critical mass in the multimanager market required to compete more effectively for new mandates.

The acquisition of Sage provides Momentum with two strategically important benefits, the first being access to the well established Sage agency force, which has a strategic fit with Momentum's own plans to expand its agency production, and the scale benefits of increasing our own policy book by 25% without a commensurate increase in ongoing expenditure. The integration process has now commenced, and a targeted completion date of 31 March 2006 has been set.

As mentioned in the interim results announcement, the losses incurred by Momentum International were due to two reasons. Firstly, the disengagement from Ansbacher, following the sale of that business by FirstRand, resulted in significant costs being incurred in establishing standalone licenses with the UK Financial Services Authority. Secondly, operational losses were incurred in the retail linked product division as the business lacked the critical mass in terms of assets to sustain the infrastructure costs. We are pleased to report that the relocation of the back office function to South Africa was concluded during the last six months, and this has resulted in this business forecasting to achieve break-even in the coming year. However, the resultant restructuring and relocation costs incurred in the latter half of this financial year brought about additional once-off losses.

ASSET MANAGEMENT OPERATIONS

The asset management operations comprise the retail and institutional asset management operations of RMBAM, RMB Properties, 87% of Ashburton and 40% of Futuregrowth.

The asset management operations generated an increase in net profit after tax of 41% to R247 million. The local asset management operations, represented mainly by RMBAM, generated an excellent 63% increase in headline earnings. This was due to a combination of the positive impact of strong market growth on fee income, positive net inflows of funds in both the third party institutional and collective investment businesses, and the elimination of non-recurring losses which hampered earnings growth in the previous two years.

The total funds managed by the asset management operations are summarised in the following table:

Asset management operations – funds under management or administration

R billion	**2005**	2004	% change
Group assets managed on balance sheet	**51.7**	57.2	(10%)
Off balance sheet assets – retail	**22.5**	16.0	41%
Off balance sheet assets – institutional	**105.4**	77.0	37%
Total assets under management	**179.6**	150.2	20%

The Group assets managed on balance sheet reduced due to the transfer of the administration of the Momentum annuity portfolio (amounting to R9.5 billion) from RMBAM to RMB from 1 February 2005. RMB has managed this portfolio since the RMB/Momentum merger in 1992, and this step merely represents a consolidation of the investment administration function with the management of the portfolio.

INVESTMENT INCOME ON SHAREHOLDERS' ASSETS

The investment income earned on shareholders' assets increased by 14% to R355 million. This increase resulted mainly from the increase in equity accounted earnings from Aflife, which showed strong growth during the period under review. The negative impact of lower prevailing interest rates on the cash and near cash instruments backing the statutory minimum capital did however offset some of this growth.

The directors' valuation of shareholders' net assets at 30 June 2005, as well as the investment income earned on the shareholders' portfolio investments, are set out in the following table:

Shareholders' net assets

R million	Directors' valuation 2005	2004	Investment income earned after tax 2005	2004
Strategic subsidiary investments[1]	**2 290**	1 609	**–**	–
– Asset management operations	**1 901**	1 479	**–**	–
– Advantage/(Momentum MultiManagers)	**112**	35	**–**	–
– Lekana Employee Benefit Solutions (70%)	**85**	95	**–**	–
– Sovereign Health	**192**	–	**–**	–
Shareholders' portfolio investments[1]	**5 349**	4 587	**355**	311
– African Life (34%)	**845**	518	**96**	71
– Fixed interest instruments	**79**	49	**57**	52
– Preference shares	**516**	516	**35**	40
– Equities	**1 144**	1 086	**20**	6
– Properties	**–**	–	**–**	8
– Share trust and subsidiary loans	**724**	510	**39**	42
– Cash and other	**2 041**	1 908	**108**	92
Total shareholders' net assets	**7 639**	6 196	**355**	311

1. *Strategic subsidiary investments are reflected at directors' valuation. The income from strategic subsidiary investments is included in group operating profit, whilst the income on the shareholders' portfolio investments is reflected separately in earnings.*

Momentum's capital management policy is to invest the capital backing the capital adequacy requirement (CAR) in cash or near cash instruments, and to invest the remaining capital in equities.

CAPITAL ADEQUACY

The excess of assets over liabilities of Momentum, calculated on the statutory valuation basis, was R4 510 million (2004 pro-forma: R3 980 million). The CAR of R2 041 million (2004 pro-forma: R1 979 million) was covered 2.2 times (2004 pro-forma: 2.0 times) by the excess of assets over liabilities, which remains within the range of the targeted cover of 1.8 to 2.2 times.

MARKETING AND ADMINISTRATION EXPENSES

Total marketing and administration expenses for the Group amounted to R1 675 million, an increase of 13% over the 2004 expenses. The following table provides a breakdown of the expenses per business unit:

Marketing and administration expenses

R million	2005	2004	% change
Insurance operations	**1 242**	1 152	8%
– Local	**1 086**	1 038	5%
– International	**156**	114	37%
Asset management operations	**335**	310	8%
– Local	**247**	225	10%
– International	**88**	85	4%
Existing operations	**1 577**	1 462	8%
New acquisitions[1]	**98**	20	>100%
Total marketing and administration expenses	**1 675**	1 482	13%

1. *The comparative figure represents the expenses of Momentum MultiManagers, prior to the formation of Advantage.*

Excluding the impact of the expenses incurred by the newly acquired Advantage and Sovereign, the local insurance operations increased expenses by only 5%. The combination of this low increase in expenses and the significant increase in new business, has resulted in improved expense efficiencies. The offshore insurance operations incurred additional costs with the disengagement from Ansbacher and relocation to Momentum's head office in South Africa.

RESULTS OF THE EMBEDDED VALUE CALCULATION

The embedded value of Momentum increased to R11.8 billion at 30 June 2005. This growth resulted mainly from the positive impact of increasing equity markets on the directors' valuation of the asset management operations, and a 28% increase in the value of new business.

The analysis of the main components of the embedded value is reflected in the following table:

Embedded value

R million	2005	2004	% change
Directors' valuation of shareholders' net assets	**7 639**	6 196	23%
Net value of in-force insurance business	**4 180**	3 470	20%
Value of in-force insurance business	**4 909**	4 096	20%
Opportunity cost of capital adequacy requirements	**(729)**	(626)	(16%)
Embedded value	**11 819**	9 666	22%

The value of new business is a measure of the value added to the overall embedded value as a result of writing new business. The value of new business is set out in the following table:

Value of new business

R million	2005	2004	% change
Value of new business	**421**	326	29%
Less: Opportunity cost of capital	**(53)**	(38)	(39%)
Value of new business	**368**	288	28%

The 28% increase in the value of new business is mainly due to the increase in new business volumes, especially the more profitable individual life risk product, Myriad. The new business margin, being the value of new business expressed as a percentage of new business premiums, totalled 18.7% for the year, compared with a margin of 17.3% for 2004. Again the increased proportion of more profitable individual life risk products resulted in an increased margin. The reduction in charges on the new Investo range of savings products launched in February 2005 has not yet impacted on the overall new business margin, however this is expected to reduce the margins on this business in future.

The following table provides an analysis of the growth in embedded value for the year into its main components:

Analysis of movement in embedded value

R million	2005
Embedded value at 1 July 2004	**9 666**
Embedded value profit	**2 695**
Factors related to operations:	1 215
Value of new business	368
Expected return on new business	20
Expected return on existing business	553
Operating experience variations	202
Operating assumption changes	72
Factors related to market conditions:	1 480
Investment return on shareholders' net assets	1 272
Investment variations	295
Economic assumption changes	31
Changes in opportunity cost of capital	(118)
Less: Dividends paid	(542)
Embedded value at 30 June 2005	**11 819**

Details regarding the components of the experience assumption changes, the operating experience variations and the investment variations can be found in the comprehensive embedded value report which is available on FirstRand's website at www.firstrand.co.za.

The table below provides an alternative breakdown of the embedded value profit for the year ended 30 June 2005:

Embedded value profit

R million	2005
Changes in net asset value	1 985
Earnings attributable to ordinary shareholders	1 358
Capital gains on shareholders' portfolio	601
Change in valuation basis[1]	26
Changes in net value of in-force insurance business	710
Embedded value profit	**2 695**

1. *The change in valuation basis comprise the following:*

	R million
Economic, demographic and expense assumptions	*126*
Provision for improvement in retirement annuity values	*(100)*
Total change in valuation basis	*26*

The following table shows the main economic assumptions used in calculating the embedded value at 30 June 2005:

Economic assumptions

	%
Risk discount rate	11.0
Investment return (before tax)	9.5
Expense inflation rate	6.0

The investment return assumption of 9.5% per annum was determined with reference to the market interest rates on South African government stocks at 30 June 2005, taking into account the expected outstanding term of the in-force policy book. An annualised long-term asset distribution was used to calculate a weighted expected investment return, using the same methodology as at 30 June 2004.

Allowance was made for future tax based on the four-fund tax dispensation. Allowance was made for the effect of Capital Gains Tax (CGT) at face value in the liability to policyholders under investment and insurance contracts. No allowance was made for CGT on strategic shareholders' assets as these are not held with the intention of ultimate disposal. Allowance was made for Secondary Tax on Companies on future dividends ultimately payable to shareholders.

GROUP ASSETS UNDER MANAGEMENT OR ADMINISTRATION

The Momentum Group managed or administered total assets of R269.2 billion at 30 June 2005 compared with R204.2 billion at 30 June 2004, an increase of 32%. This increase is mainly due to the strong performance from investment markets, specifically during the first half of the financial year, as well as the formation of Advantage. The following table provides an analysis of the assets managed or administered by group companies. It includes the assets managed by the group's asset management operations as discussed earlier in this report, as well as the assets managed by Advantage and the assets administered by the group's linked product packager.

Assets under management or administration

R billion	2005	2004	% change
On balance sheet assets	115.6	100.0	16%
Segregated third party funds[1]	121.1	80.7	50%
Collective investment funds managed	22.5	16.0	41%
Assets under management	259.2	196.7	32%
Linked product assets under administration[2]	10.0	7.5	33%
Total assets under management or administration	269.2	204.2	32%

1. *Includes the assets managed by the newly-formed Advantage.*
2. *Excludes business written by Momentum's Linked Product Packager on the life company's balance sheet, as these assets are reflected under on-balance sheet assets above. Total linked product assets under administration amounted to R21.1 billion (2004: R15.5 billion).*

New business inflows

New business inflows for the year totalled R42.7 billion, an increase of 49% compared with the corresponding figure in the prior year. New recurring premium business increased by 16%, mainly due to an increase of 21% in individual life products. Lump sum inflows benefited from excellent investment-only employee benefits inflows, and increased collective investment and linked product sales, in line with industry trends. New segregated third party inflows were higher due to a number of new mandates secured by RMBAM. A breakdown of the new business inflows is provided in the table below:

New business

R million	2005	2004	% change
Annualised recurring premiums[1]	1 157	998	16%
Individual life	946	784	21%
Employee benefits	211	214	(1%)
Lump sum inflows	25 945	17 741	46%
Single premium endowments	1 580	1 344	18%
Lump sum annuities	1 694	1 846	(8%)
Institutional policies	474	587	(19%)
Employee benefits	5 023	2 997	68%
Linked products – Local[2]	3 127	1 895	65%
Linked products – International	2 494	1 975	26%
Collective investments – Local	9 742	5 644	73%
Collective investments – International	1 811	1 453	25%
Segregated third party inflows	15 587	9 995	56%
Total new business inflows	42 689	28 734	49%
Annualised new business inflows[3]	5 310	3 772	41%

1. *Excludes automatic premium increases.*
2. *Includes inflows relating to products on the life insurance balance sheet totalling R1 334 million (2004: R954 million).*
3. *Represents annualised recurring premiums plus 10% of all lump sum inflows.*

All internal transfers of funds have been excluded from the above.

Total funds received from clients

Total funds received from clients, being the sum of the inflows from new and existing business, amounted to R47.2 billion, an increase of 42%. The following table provides a summary of these inflows:

Funds received from clients

R million	2005	2004	% change
Recurring premium income	5 558	5 162	8%
Individual life	3 949	3 592	10%
Employee benefits	1 597	1 555	3%
Institutional policies	12	15	(20%)
Lump sum inflows	25 945	17 741	46%
Single premium endowments[1]	1 580	1 344	18%
Lump sum annuities	1 694	1 846	(8%)
Institutional policies	474	587	(19%)
Employee benefits	5 023	2 997	68%
Linked products – Local	3 127	1 895	65%
Linked products – International	2 494	1 975	26%
Collective investments – Local	9 742	5 644	73%
Collective investments – International	1 811	1 453	25%
Segregated third party inflows	15 723	10 268	53%
Total funds received from clients	47 226	33 171	42%

1. *Single premiums exclude funds retained through the extension of the original policy term, amounting to R2 550 million (2004: R1 243 million).*

All internal transfers of funds have been excluded from the above.

Payments to clients

Payments to clients increased by 35% to R43.7 billion. The main reasons for the increase were the maturity of a few institutional policies, the impact of the strong equity markets on the payout values of matured and surrendered policies, the increased level of collective investment repurchases in line with industry trends, and the withdrawal of international linked product assets by Ansbacher following the disposal by FirstRand of this business. The total outflows to clients are shown in the following table:

Payments to clients

R million	2005	2004	% change
Individual life	5 262	4 157	27%
Annuities	1 903	1 872	2%
Institutional policies	3 784	1 147	>100%
Employee benefits	5 211	4 733	10%
Linked products – Local[1]	1 682	1 178	43%
Linked products – International	1 729	234	>100%
Collective investments – Local	6 735	3 841	75%
Collective investments – International	1 586	1 472	8%
Segregated third party funds	15 772	13 810	14%
Total payments to clients	43 664	32 444	35%

1. *Includes outflows relating to products on the life insurance balance sheet amounting to R545 million (2004: R629 million).*

Net flow of funds

The net flow of funds from clients increased significantly to R3.6 billion for the year. The net inflows into linked products and collective investment funds are particularly pleasing, as was the turnaround in employee benefits cash flows. The net outflow of funds in the institutional area was, as mentioned above, due to a few institutional maturities.

The following table sets out the components of this net inflow of funds, representing the total inflows set out above less the payments to clients:

Net flow of funds

R million	2005	2004
Individual life	267	779
Annuities	(209)	(26)
Institutional policies	(3 298)	(545)
Employee benefits	1 409	(181)
Linked products – Local[1]	1 445	717
Linked products – International	765	1 741
Collective investments – Local	3 007	1 803
Collective investments – International	225	(19)
Segregated third party funds	(49)	(3 542)
Total net flow of funds	3 562	727

1. *Includes net flow of funds relating to products on the life insurance balance sheet amounting to R789 million (2004: R325 million).*

VALUE FOR MONEY OF SAVINGS PRODUCTS

The savings industry has undergone significant changes since the early 1990's. Clients demand better value for money and more flexibility, consumer bodies demand better disclosure, regulatory pressures have increased, whilst competitive pressures as well as the structurally lower inflation environment are putting pressure on margins. Momentum has proactively responded to these challenges and will continue to support changes that improve the sustainability of the savings industry.

An important milestone in our proactive stance was the launch of our Investo series of investment products in 2000, and more specifically our latest product update, Investo IV, introduced in February 2005. This product range sets new standards in transparency and fee levels, and was well received by clients, financial advisors and the financial press. We will continue to pro-actively meet client requirements, and further improvements are planned for our Investo V launch later this year. We furthermore plan to encourage existing retirement annuity investors to convert to our latest product ranges on favourable terms. We have reserved R100 million to facilitate this conversion process (refer to the breakdown of the basis changes in the results of the embedded value calculation section of this report).

The values of retirement annuities following the early cessation (or reduction) of premium payments are currently receiving unprecedented attention from consumers and the press, especially following rulings of the Pension Fund Adjudicator against life insurers and retirement funds. Momentum is acutely aware that policy designs and charging structures of the past lend themselves to criticism. However, we believe that past practices should be judged against what was accepted market practice at the time. It is important that the uncertain legal framework in which life companies currently do retirement annuity business, be clarified as soon as possible.

The commission proposals recently made by the LOA should significantly improve early termination values of savings products, and will simplify product design and fee structures. It is hoped that intermediaries and our regulators will endorse these future commission proposals in the interest of a more sustainable savings industry.

ACCOUNTING POLICIES

The accounting policies applied are in accordance with Statements of Generally Accepted Accounting Practice in South Africa. These accounting policies are consistent with those of the year ended 30 June 2004.

The Momentum Group has assessed its compliance with International Financial Reporting Standards (IFRS) along with the larger FirstRand Group project, and we have finalised our elections in terms of IFRS1 – First time adoption of IFRS. The most significant impact on the Group will be the increased disclosure requirements of IFRS4 – Insurance Contracts, as well as the changes to IAS18 – Income recognition, which will impact on the income recognition relating to investment contracts. The principles regarding the classification of policy contracts between insurance and investment contracts in these results have been applied consistently with those applied during the year ended 30 June 2004.

PROSPECTS

It is likely that the South African economy will remain in a structurally lower inflationary environment for some time to come. This fact, coupled with the rising level of consumerism, has resulted in an increased focus on product profit margins and the need to achieve scale benefits through consolidation. Momentum has taken steps to address these issues firstly by reducing the charges on its latest generation savings products, and secondly through the acquisitions of Advantage, Sovereign, ALH and Sage. These acquisitions should provide a positive basis for future earnings growth.

The Group is currently embarking on a number of strategic initiatives to drive organic growth, including a joint venture with FNB to penetrate the middle market, and the growth of the agency force through the Sage acquisition.

LL Dippenaar
Chairman

HP Meyer
Managing Director

19 September 2005

WORD OF THANKS TO HILLIE MEYER FROM THE CHAIRMAN

During the year, Hillie Meyer tendered his resignation as MD of Momentum as he wishes to spend more time on his outside interests for the next year. He also felt that in his 8 years as MD he had achieved as much as he wanted to for Momentum, and it was time for a change at the top.

This group has always believed that change is very constructive for a company in that it creates opportunities for new energy and fresh strategic insight. However, I am also sorry to lose an executive of the calibre and experience of Hillie.

He has proved to be a remarkable leader of people, to possess great strategic insight, a fierce sense of loyalty and deep-seated integrity. All these things made him a formidable MD at Momentum, and his track record speaks for itself.

Finally, I would like to welcome EB Nieuwoudt, previously head of FNB's Africa and Emerging Markets division, who will be taking over from Hillie Meyer as MD of Momentum effective from 1 October 2005. I am confident that under EB's leadership Momentum will continue to build on the sustainable earnings base established during Hillie's tenure.

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INTRODUCTION

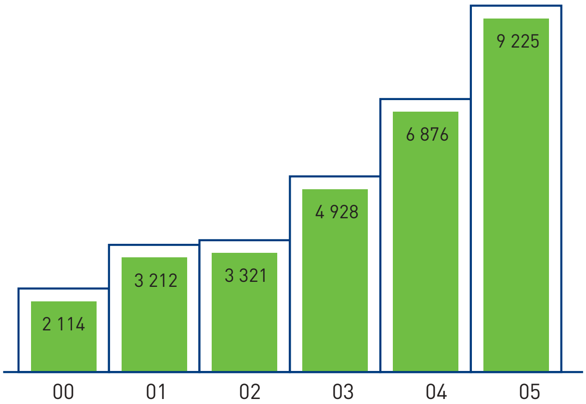
This report reflects the operating results and financial position of Discovery which holds the health and certain related insurance interests of the FirstRand Limited group of companies. Discovery is 62.3% held by FirstRand (2004: 63.3%) and is listed on the JSE Limited. This report should be read in conjunction with the report on FirstRand Limited and is a summary of Discovery's announcement to shareholders published on 13 September 2005.

Financial Highlights

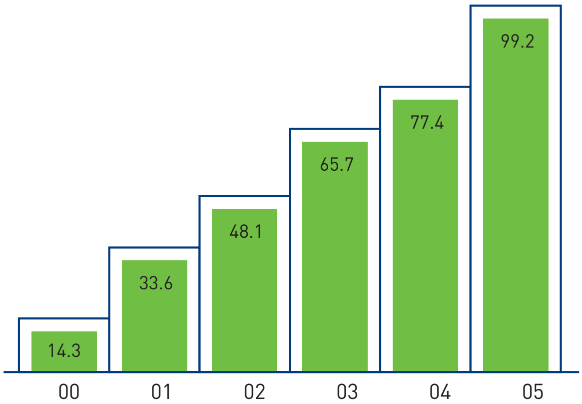
Diluted HEPS	**+28%**
New business annualised premium income	**+35% to R4.3 billion**
Diluted embedded value per share	**+32% to R17.03**
Discovery Life profit	**+55% to R421 million**
Operating profit of SA businesses exceeds	**R1 billion**

The comprehensive announcement to shareholders is available on our website at www.discovery.co.za/investor

Embedded value
(R million)



Diluted headline earnings per share before abnormal items
(Cents)



Income statement for the year ended 30 June

R million	Audited Group 2005	Group 2004	% change
Gross income of Group	4 029	3 698	
Outward reinsurance premiums	(378)	(293)	
Net income	3 651	3 405	
Policyholder benefits	(841)	(1 078)	
Recoveries from reinsurers	262	237	
Net policyholder benefits	(579)	(841)	
Commissions	(715)	(576)	
Operating and administration expenses	(1 734)	(1 495)	
Vitality benefits	(412)	(314)	
Deferred acquisition costs	1	–	
Transfer from assets/liabilities arising from insurance contracts	574	529	
Profit from operations	786	708	11
Local operations	1 021	842	
Foreign operations	(235)	(134)	
Investment income	124	130	
Realised and unrealised investment gains and losses	157	68	
Fair value adjustment to liabilities arising from investment contracts	(122)	(77)	
Financing costs	(54)	(47)	
Foreign exchange loss	(8)	(62)	
Profit before taxation	883	720	23
Taxation	(307)	(299)	
Profit after taxation	576	421	37
Minority share of loss	9	(3)	
Net profit attributable to ordinary shareholders	585	418	40
Basic earnings per share (cents)			
– undiluted	112.6	83.0	36
– diluted	108.0	79.7	36
Headline earnings per share (cents)			
– undiluted	103.3	80.5	28
– diluted	99.2	77.4	28
Weighted number of shares in issue (000's)	519 188	504 051	
Diluted weighted number of shares (000's)	553 227	536 025	
Headline earnings			
Net profit attributable to ordinary shareholders	585	418	
Adjusted for realised profit on available-for-sale financial instruments net of CGT	(49)	(13)	
	536	405	32

Balance sheet at 30 June

R million	Audited Group 2005	 Group 2004
Assets		
Cash and cash equivalents	1 075	998
Government and public authority stocks		
– available-for-sale	146	130
– at fair value through profit and loss	40	52
Equity investments		
– available-for-sale	922	602
– at fair value through profit and loss	337	251
Investment in associate	4	2
Investment assets	2 524	2 035
Loans and receivables	557	430
Deferred taxation	13	10
Assets arising from insurance contracts	1 881	1 318
Intangible assets	45	38
Equipment	196	201
Total assets	5 216	4 032
Liabilities and shareholders' funds		
Liabilities		
Current liabilities	896	578
Provisions	30	22
Taxation	17	43
Deferred taxation	323	128
Liabilities arising from insurance contracts	–	6
Liabilities arising from reinsurance contracts	31	36
Financial liabilities	577	716
– Investment contracts at fair value through profit and loss	483	400
– Borrowings at amortised cost	94	316
Total liabilities	1 874	1 529
Outside shareholders' interest	67	67
Shareholders' funds		
Share capital and share premium	1 336	1 276
Reserves	1 939	1 160
Total shareholders' funds	3 275	2 436
Total liabilities and shareholders' funds	5 216	4 032
Net asset value per share (cents)	620.0	474.6
Net number of shares in issue (000's)	528 240	513 287

Segmental information for the year ended 30 June

R million	Health: South Africa	Health: United States of America	Health: United Kingdom	Life	Vitality	Holdings	Total
30 June 2005							
New business annualised premium income	2 776	809	35	629	93	–	4 342
Gross inflows under management	14 571	914	11	1 278	521	–	17 295
Income statement							
Gross income of Group	1 688	537	5	1 278	521	–	4 029
Outward reinsurance premiums	(3)	(53)	–	(322)	–	–	(378)
Net policyholder benefits	(4)	(349)	(3)	(223)	–	–	(579)
Commissions	–	(42)	(1)	(617)	(55)	–	(715)
Operating and administration expenses	(1 118)	(180)	(150)	(269)	(428)	(1)	(2 146)
Deferred acquisition costs	–	–	1	–	–	–	1
Transfer from assets/liabilities arising from insurance contracts	–	–	–	442	–	–	442
	563	(87)	(148)	289	38	(1)	654
Return on assets arising from insurance contracts	–	–	–	132	–	–	132
Profit from operations	563	(87)	(148)	421	38	(1)	786
Investment income and realised profits							159
Financing costs							(54)
Foreign exchange loss							(8)
Profit before taxation							883
Cash flow statement							
Cash generated by operations	691	(42)	(150)	25	52	(1)	575
Cash flow from financing activities	–	(194)	–	–	–	60	(134)
30 June 2004							
New business annualised premium income	2 122	494	–	535	62	–	3 213
Gross inflows under management	12 550	534	–	858	403	–	14 345
Income statement							
Gross income of Group	2 057	380	–	858	403	–	3 698
Outward reinsurance premiums	(45)	(90)	–	(158)	–	–	(293)
Net policyholder benefits	(476)	(168)	–	(197)	–	–	(841)
Commissions	–	(39)	–	(510)	(27)	–	(576)
Operating and administration expenses	(1 014)	(189)	(28)	(251)	(326)	(1)	(1 809)
Transfer from assets/liabilities arising from insurance contracts	–	–	–	431	–	–	431
	522	(106)	(28)	173	50	(1)	610
Return on assets arising from insurance contracts	–	–	–	98	–	–	98
Profit from operations	522	(106)	(28)	271	50	(1)	708
Investment income and realised profits							121
Financing costs							(47)
Foreign exchange loss							(62)
Profit before taxation							720
Cash flow statement							
Cash generated by operations	655	(103)	(28)	(248)	62	(1)	337
Cash flow from financing activities	–	(12)	–	–	–	(27)	(39)

Review of Group results

The year under review has been the most active year in Discovery's history and overall a successful one. Discovery's innovative approach and the strong leadership positions it commands in the markets in which it operates, enables it to focus relentlessly on innovation resulting in organic growth. The year under review has been the most complex in the Group's history with a significant dual focus on new initiatives across multiple industries and geographies, as well as its existing businesses. New initiatives that commenced during the year include the launch of PruHealth in the UK, the launch of the DiscoveryCard, the commencement of a joint venture between Discovery Life and the Prudential plc in the UK, the entry of Discovery Life into the investment and retirement funding market, Destiny's entry into the Washington DC market, the transitioning of Destiny's back-office to South Africa, and the execution of a Black Economic Empowerment deal.

The results have been pleasing, with growth and progress in existing businesses and the creation of new businesses that offer excellent prospects for future growth.

Gross inflows under management, excluding reinsurance premiums received from Discovery Health Medical Scheme ("DHMS"), increased 26% for the year ended 30 June 2005. Gross inflows under management includes flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners. The increase is pleasingly driven by growth in all business areas, with new business annualised premium income ("API") increasing by a strong 35% to R4 342 million (2004: R3 213 million).

Gross inflows under management

R million	**June 2005**	June 2004	% change
Discovery Health	**14 571**	12 550	16
Discovery Life	**1 278**	858	49
Discovery Vitality	**521**	403	29
Destiny Health	**914**	534	71
PruHealth	**11**	–	–
Gross inflows under management	**17 295**	14 345	21
Less: collected on behalf of third parties	**(13 266)**	(10 647)	
Gross income of Group	**4 029**	3 698	
Less: DHMS reinsurance premiums	**–**	(596)	
	4 029	3 102	30

Discovery achieved an increase of 32% in headline earnings, to R536 million (2004: R405 million) despite considerable start-up costs associated with the roll-out of PruHealth, its UK venture. For the first time in Discovery's history, operating profit of the local businesses exceeded R1 billion. Unrealised gains of R211 million on available-for-sale investments for the year have been taken directly to equity and are not included in earnings or headline earnings.

The following table shows the main components of the increase in Group profit from operations for the year:

Earnings source

R million	**June 2005**	June 2004	% change
Discovery Health	**563**	522	8
Discovery Life	**421**	271	55
Discovery Vitality	**38**	50	(24)
Destiny Health	**(87)**	(106)	18
PruHealth	**(148)**	(28)	
Discovery Holdings	**(1)**	(1)	
Group operating profit	**786**	708	11

Embedded value increased by 34% to R9.22 billion (2004: R6.88 billion), driven by strong new business and enhanced efficiencies.

DISCOVERY HEALTH

Discovery Health had a strong year in terms of new business growth, infrastructural development and positioning, yet its profitability grew modestly. Discovery Health's fundamental role is to keep access to quality health care affordable – its competitive position is determined by this. Toward this end, the combination of scale, sophistication and infrastructure provides it with significant advantage in terms of distribution, negotiating strength with hospitals and doctors and the ability to contribute and adapt to the continually-evolving regulatory environment. Discovery Health and DHMS have created a commanding leadership position, with the size of DHMS now 86% of the combined size of its next nine competitors. The combined effect of this scale, together with the sound working of its products, has enabled it to offer premium products and services at a discount to the market. This manifested in strong growth, with 170 000 members joining Discovery Health over the period, amounting to an increase in new business of 31% to R2.78 billion (2004: R2.12 billion).

Operating profit grew by 8% to R563 million (2004: R522 million), reflecting the combined effect of investment in the infrastructure required for the rapid, broad-based new business growth, as well as the lack of any reinsurance profits which were present in the previous period. Given the broad-based nature of the new business flow and the need for operational excellence, a significant focus was placed on Discovery Health's service capabilities over the period, resulting in the best service levels in its history, despite the increase in volumes.

Its relative size, product range and operational sophistication, and a market share of 26%, position Discovery Health uniquely for strong growth going forward. In addition, from a policy perspective Discovery Health is playing a leadership role in helping to build a robust private health care system that is affordable and covers more people.

DISCOVERY LIFE

Discovery Life's performance exceeded expectation. Operating profit grew by 55% to R421 million (2004: R271 million). Annualised recurring new business premiums increased 18% to R629 million (2004: R535 million). Embedded value of in-force increased by 65% to R1 832 million (2004: R1 107 million).

Discovery Life has positioned itself particularly well in an industry that requires scale and strength, but that, through the effects of consumerism, faces a liability in its legacy of old products covering large blocks of policyholders. Discovery Life benefits from the scale, brand and distribution of the broader Discovery, but can compete in the traditional protection and investment markets based on its new-generation products and principles.

In the year under review, Discovery Life continued to capitalise on its leadership position in the pure protection market, transacting significant volumes of new business. In addition to the quantum of business, its quality is significantly ahead of expectation. Average premiums per policy continue to be significantly larger than the industry average, and mortality and morbidity experience is materially better than expected. The combination of these factors has driven the increase in profitability and embedded value.

Over the last two years, Discovery Life has been developing products and infrastructure to enter the long-term investment market. The basis of this strategy is Discovery's view that existing products offer policyholders poor value for money, and expose them to long-term risks that they are not in a position to carry, with the effect that policyholder expectations are frequently not met. The manifestation of this strategy was the launch in June of the Discovery Life retirement Optimiser – a sophisticated suite of retirement products focused on ensuring the certainty and efficiency of retirement funding. The recent spate of Pension Fund Adjudicator rulings against existing products reinforces Discovery Life's strategy and has further created a market that is particularly receptive to change.

During the period, Discovery Life continued development of its joint initiative with the Prudential plc wherein its pure protection products will enter the UK insurance market in 2006.

VITALITY AND THE DISCOVERYCARD

Vitality's performance over the period was pleasing. While operating profit dropped by 24% to R38 million (2004: R50 million), the new business annualised premium income increased by 50% to R93 million. The effect that Vitality has on all of Discovery's businesses dwarfs its profitability and therefore focus continues to be applied towards furthering the value proposition of Vitality through continual improvement in its tools, infrastructure and the partners that back it. During the year significant analysis was undertaken illustrating the impressive impact Vitality has on reducing morbidity, mortality, and the consumption of health care, while increasing the persistency of all of Discovery's business.

The reduction in Vitality's profitability reflects two factors, both of which are associated with growth going forward:

- the significant increase in new business, combined with the up-front nature of Vitality commission, created an element of new business strain; and
- Vitality incurred set-up costs with the launch of the DiscoveryCard.

The DiscoveryCard, Discovery's new-generation credit card, was launched during the year. Despite initial teething problems in the delivery mechanism, the roll-out has been particularly successful with in excess of 250 000 cards now in issue. The Card's role is a clear one: providing Discovery members with a tangible and immediate reason to better manage their health. From a strategic perspective, the Card will form a capability that will be used by the other Discovery businesses. For example, during September 2005, the Health Plan *Account* was launched giving Discovery Health members a "super bank account" for out-of-pocket medical expenses. The Health Plan *Account* earns super interest based on Vitality status and integrates into the health care system.

DESTINY HEALTH

The performance of Destiny Health ("Destiny") was disappointing. While new business increased 64% to R809 million (2004: R494 million), Destiny generated an operating loss of R87 million for the year, an amount in excess of that expected. Destiny's interim performance exceeded expectation, generating a maiden profit in January – in line with its stated objective. However, two factors led Destiny to generate losses for the second half of the year:

- During the period, the full back-office functionality of Destiny was successfully migrated back to Discovery in South Africa, giving Destiny increased sophistication, robustness and a platform that is significantly more efficient than can be achieved in the US. However, Destiny did not adequately address the duplication of costs incurred during the transition period, leading to management expenses that were artificially high. This has now been addressed.
- Destiny geared up for expansion into new markets with its joint venture partner, the Guardian Life Insurance Company of America. However, the expansion is occurring later than expected leading to costs incurred without the concomitant revenue. In addition, because of an unusually dominant Blue Cross plan in Illinois, loss ratios in the Illinois market are significantly higher than in the other markets that Destiny is currently in, and those it is planning to enter. This has exacerbated the financial impact of a slower than expected expansion rate. This is being addressed with Destiny expanding into four markets in Texas – Dallas, Houston, San Antonio and Austin – during October 2005.

Destiny is uniquely positioned to capitalise on the rapidly emerging US consumer-driven health insurance market, however, it simply moved too slowly during the second half of the year to do so. This is being addressed as a matter of urgency. It is anticipated that a significantly more aggressive expansion strategy will be pursued in the short-term. This is currently under discussion with its partners.

PRUHEALTH

During the period, PruHealth, Discovery's 50% joint venture with the Prudential plc, was launched into the UK private medical insurance market.

The progress of PruHealth has been in line with expectation. Discovery incurred start-up and operating costs of R148 million, in line with that set out in the business plan. The annualised recurring new business production amounted to R35 million comprising 10 000 new lives. More importantly, at this embryonic stage, PruHealth has positioned itself particularly well, combining the flexibility and innovativeness of a start-up with the scale and credibility offered by the Prudential:

- The receptivity of the environment to the concept of consumer-engaged health care has been remarkably well received, and is entirely consistent with the environment's trends and government health policy. This has enabled PruHealth to take an intellectual leadership position, despite its size.
- The product range developed balances the Discovery model, incorporating a sophisticated and compelling Vitality structure, with price points that are particularly competitive.
- The prices achieved with hospital groups and Vitality partners ensure a sustainable competitive position, and exclusivity with the key Vitality partners creates important protection against competitor replication.
- The infrastructure built utilises the back-office capability of Discovery, resulting in a robust and sophisticated platform in an environment far less expensive than that of its competitors.

The challenge going forward is to capitalise on the opportunity presented. The short-term focus is to build and leverage the intermediary and direct-to-consumer distribution channels. In particular, significant momentum is building within the broker channels, indicating a tangible positive outlook for the business.

BLACK ECONOMIC EMPOWERMENT

During the year, significant effort was applied to transformation, the Financial Services Charter and the introduction of a BEE partner. Discovery has made significant progress in all of the key areas of the Charter and in particular with Employment Equity.

In terms of ownership, Discovery has settled on a three-tier structure that reflects its aspirations and the requirements of the environment in which it operates. The structure comprises:

- WDB Investment Holdings, as the lead corporate partner with broad-based shareholders bringing to Discovery insight into issues germane to the social issues that Discovery impacts upon across its businesses.
- The Discovery Foundation which will focus on creating a step change in key human resources within the health care system. Initial focus will be on the financing, development and retention of black medical specialists.
- The empowerment of Discovery's most valuable asset – its people. Every member of Discovery's staff will be issued shares vesting over a stated period. The allocation will be weighted heavily, with previously disadvantaged people receiving in excess of 90% of the shares issued.

The combination of this transaction with the existing empowerment shareholding held through FirstRand, will bring black ownership of Discovery above 25%.

TAXATION

All South African entities are in a tax-paying position. Destiny operations have significant tax losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

An asset has been accounted for on 50% of the PruHealth losses for which Group tax relief is available to Prudential plc in the UK. No deferred tax asset has been accounted for on the balance of the PruHealth losses.

INVESTMENTS

Investments have increased due to additional investments and the continued strong performance of the equity markets. This has resulted in an increase in investment income and realised profits attributable to shareholders.

BALANCE SHEET

The increase in the assets arising from insurance contracts of R563 million is as a result of the significant increase in profitable new business written by Discovery Life.

Current liabilities have increased as a result of the inclusion of deferred income in respect of cash received in terms of a quota share agreement entered into by Discovery Life with effect from 1 July 2004.

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base. This is disclosed as a regulatory change in the embedded value statement.

The borrowings at amortised cost have decreased as a result of the redemption by Destiny of its rand-denominated borrowings using US$61 million (R350 million) invested by Discovery Holdings into Destiny.

A total of GBP 23.35 million (R276.1 million) has been invested by Discovery in PruHealth to meet its capital requirements as well as to fund Discovery's share of the operating loss for the year of R148 million.

The minority interest of R67 million in the balance sheet comprises the Series A preference shares of Destiny Health.

The first and second tranche of Discovery Life preference shares were redeemed on 31 August 2004 and 30 June 2005 respectively resulting in the issue of 8 541 060 Discovery Holdings shares. Discovery Holdings issued a further 8 000 000 shares to the Share Incentive Trust in September 2004.

ACCOUNTING POLICIES

The financial information has been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate accounting policies which are consistent with the previous year. In terms of the JSE Limited Listings

Requirements, the Group is required to produce IFRS compliant financial interim results for the six months ending 31 December 2005 and compliant financial statements for the year ending 30 June 2006 together with restated comparatives. Management is currently assessing the impact of adopting IFRS on the Group's financial statements.

DIVIDEND POLICY AND CAPITAL

The directors have recommended that no dividend be paid. The directors are of the view that the Discovery Group is adequately capitalised at this time. The captial adequacy requirements of Discovery Life, on the financial basis, totalling R1 507 million (2004: R883 million) were covered 1.75 times at 30 June 2005 (2004: 2.2 times). On the statutory basis the capital adequacy requirements were R77 million (2004: R64 million) and were covered 12.9 times (2004: 10.2 times).

COMPARATIVE FIGURES

Comparative figures have been restated where necessary to afford a more meaningful comparison with the current year's figures in the following instance:

- In line with industry practice, automatic premium increases have been excluded from the new business API for the Group Life business. This has effectively reduced new business API for the Life business segment in the segmental information for the year ended 30 June 2004, from R554 million to R535 million.

AUDIT

The auditors, PricewaterhouseCoopers Inc., have issued their opinion on the Group financial statements for the year ended 30 June 2005. A copy of the auditors' unqualified report is available for inspection at the Company's registered office.

PROSPECTS

All of Discovery's businesses are well positioned in the markets in which they operate. Given the year's focus on new initiatives, Discovery is confident of strong growth going forward.

EMBEDDED VALUE STATEMENT

Group embedded value

at 30 June

R million	Group 2005	Group 2004	% change
Shareholders' funds[1]	**3 275**	2 436	34
Value of in-force business before cost of capital	**6 483**	4 803	35
Cost of capital	**(533)**	(363)	47
Discovery Holdings embedded value	**9 225**	**6 876**	**34**
Number of shares (millions)	**528.2**	513.3	
Embedded value per share	**R17.46**	R13.40	30
Diluted number of shares (millions)	**553.2**	546.4	
Diluted embedded value per share[2]	**R17.03**	R12.89	32

1. *Shareholders' funds include R1 881 million (June 2004: R1 318 million) in respect of assets under insurance contracts.*
2. *The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the Discovery Holdings share incentive trust, and by increasing the number of shares by both the number of outstanding shares relating to the redemption value of the Discovery Life preference shares, as well as by the number of shares issued to the share incentive trust which have not been delivered to participants.*

Value of in-force business

at 30 June 2005

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	3 844	–	3 844
Life[1]	2 349	(517)	1 832
Destiny Health[2]	290	(16)	274
Total	6 483	(533)	5 950

1. *The Life cost of capital is based on the capital adequacy requirement of R1 507 million (2004: R883 million) under the Financial Soundness Valuation basis.*
2. *Figures for Destiny Health reflect Discovery's 97.67% shareholding in Destiny Health at 30 June 2005.*

at 30 June 2004

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	3 194	–	3 194
Life	1 447	(340)	1 107
Destiny Health	162	(23)	139
Total	4 803	(363)	4 440

Embedded value earnings

for the year ended 30 June

R million	Group 2005	Group 2004
Embedded value at end of period	**9 225**	6 876
Embedded value at beginning of period	**6 876**	4 928
Increase in embedded value	**2 349**	1 948
Net issue of capital	**(60)**	(847)
Dividends paid to Destiny Health preference shareholders	**1**	1
Transfer to hedging reserve	**(9)**	(8)
Embedded value earnings	**2 281**	1 094
Return on embedded value	**33.2%**	22.2%

Components of embedded value earnings

for the year ended 30 June

R million	Group 2005	Group 2004	% change
Total profit from new business (at point of sale)	**783**	637	23
Profit from existing business			
– Expected return	**602**	534	
– Change in methodology and assumptions[1]	**307**	(361)	
– Experience variances	**363**	230	
Acquisition costs	**–**	(5)	
PruHealth start-up costs	**(120)**	(28)	
Adjustment for minority interest in Destiny Health	**4**	(4)	
Adjustment for Guardian profit share in Destiny Health[2]	**(28)**	(8)	
Foreign exchange rate movements	**43**	(67)	
Interest on loan capital	**(50)**	(41)	
Return on shareholders' funds[3]	**377**	207	
Embedded value earnings	**2 281**	1 094	

1. *The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in the following table (for previous periods refer to previous embedded value statements).*
2. *In terms of the agreement between Destiny Health and the Guardian Life Insurance Company of America, Guardian will share in 50% of the profits from Destiny Health's non-alliance business once the business written by Guardian reaches the contractual new member threshold. This is modelled to occur in June 2006. Based on Guardian's progress at 30 June 2005 towards achieving this target, the value attributed to Destiny Health's non-alliance business from 30 June 2006 has been reduced by 26.3% (June 2004: 6.8%) in the embedded value calculation.*
3. *Return on shareholders' funds is the investment return on shareholders' funds after tax and management charges. Shareholders' funds include the assets under insurance contracts.*

Methodology and assumption changes

for the year ended 30 June 2005

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes	–	(27)	(15)	(42)
Destiny Health quota share	–	12	–	12
Lapses[1]	14	(9)	(51)	(46)
Economic assumptions[2]	(12)	–	69	57
Expenses[3]	260	66	6	332
Mortality and morbidity	–	(55)	7	(48)
Benefit enhancements[4]	(64)	–	(5)	(69)
Regulatory change[5]	–	–	100	100
Tax[6]	(13)	–	28	15
Other	–	8	(12)	(4)
Total	185	(5)	127	307

1. *The Life lapse assumption change includes an assumption change in respect of Health Plan Protector policies.*
2. *The Life economic assumptions change includes a higher cancellation rate on contribution increases which has been changed to be consistent with the current lower inflationary environment. The impact of a higher cancellation rate on contribution increases was a negative R60 million. The impact of the 1.5% reduction in the economic assumptions is positive R123 million.*
3. *The Health and Vitality renewal expense assumption change is based on the results of the most recent expense analysis (30 June 2005). For Health and Vitality, the actual experience reflects efficiencies achieved in managing the Health business. The Destiny Health renewal expense assumption is not based on recent expense experience, but has been adjusted to allow for growth in membership over the next 12 months.*
4. *The Health and Vitality assumption change includes an allowance for the expected cost of benefit enhancements on Vitality.*
5. *This represents the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the review of Group results.*
6. *The tax assumption change reflects a lower South African corporate tax rate. On Health and Vitality, this is offset by a higher average VAT rate modelled.*

Experience variances

for the year ended 30 June 2005

R million	Health and Vitality	Destiny Health	Life	Total
Renewal expenses	37	(13)	5	29
Non-recurring expenses[1]	(9)	(9)	–	(18)
Inflation[2]	(79)	–	(5)	(84)
Extended modelling term[3]	154	14	3	171
Lapses[4]	200	0	(8)	192
Policy alterations	8	3	71	82
Mortality and morbidity[5]	–	(41)	68	27
Life quota share[6]	–	–	(24)	(24)
Reinsurance	–	–	(3)	(3)
Tax	(5)	–	(5)	(10)
Other	8	6	(13)	1
Total	314	(40)	89	363

1. *The non-recurring expenses for Health and Vitality include moving and other costs related to the occupation of a new building, as well as costs related to the discontinuation of the Corporate Funder benefit.*

   For Destiny Health, non-recurring expenses are in respect of restructuring costs as well as costs relating to the recruitment of an executive director.
2. *The negative variance for Health and Vitality is due to a lower 2005 increase (i.e. 4.2%) in the Health administration and managed care fees compared with that assumed in June 2004 (i.e. 5.5%).*
3. *The projection term for Health, Vitality, Destiny Health and Group Life at 30 June 2005 has not been changed from that used at 30 June 2004. Thus, an experience variance arises because the total term of the in-force business is effectively increased by one year.*
4. *Included in the Health and Vitality lapse experience variance is an amount of R345 million in respect of members joining existing employer groups during the period, offset by an amount of R187 million in respect of members leaving existing employer groups. A positive variance of R42 million is due to lower than expected lapses.*
5. *The Life mortality and morbidity variance is net of reinsurance.*
6. *The impact of implementing the new quota share agreement was negative R24 million. This however excludes investment return of R10 million earned on the assets received.*

Embedded value of new business

for the year ended 30 June

R million	2005	2004	% change
Health and Vitality			
Gross profit from new business at point of sale	**229**	155	
Cost of capital	**–**	–	
Net profit from new business at point of sale	**229**	155	48
New business annualised premium income[1]	**1 734**	1 259	38
Life			
Gross profit from new business at point of sale	**676**	583	
Cost of capital	**(157)**	(131)	
Net profit from new business at point of sale[2]	**519**	452	15
New business annualised premium income[3]	**470**	406	16
Annualised profit margin[4]	**13.5%**	13.3%	
Destiny Health			
Gross profit from new business at point of sale	**36**	36	
Cost of capital[5]	**(1)**	(6)	
Net profit from new business at point of sale[6]	**35**	30	17
Net profit from new business at valuation date[7]	**114**	78	46
New business annualised premium income[1]	**603**	378	60
New business annualised premium income (US$ million)	**97**	56	73

1. *Health and Destiny Health new business annualised premium income is the gross contribution. For embedded value purposes, Health and Destiny Health new business is defined as individuals and members of new employer groups, and includes additions to first year business.*

   The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2005.

   The total Health and Vitality new business annualised premium income written over the period was R2 869 million (June 2004: R2 184 million). For Destiny Health, the total new business annualised premium income written over the period was R809 million (June 2004: R494 million).
2. *The Life value of new business includes R44 million in respect of the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.*
3. *Life new business annualised premium income of R470 million shown above is net of automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R81 million and servicing increases of R78 million, was R629 million.*
4. *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums. The majority of policies sold under Life have accelerated premiums, i.e. premiums that increase over the term of the policies, hence expressing the value of new business as a percentage of the current new business premium, 111% (June 2004: 111%) would overstate the annualised profit margin.*
5. *As most of the new business is written on the Guardian and Tufts insurance licences, Destiny Health is not required to hold statutory capital for this business. An explicit charge for the use of their capital is payable to Guardian and Tufts, and this cost is included in the gross profit from new business.*
6. *The Destiny Health value of new business allows for the actual new business expenses incurred over the twelve month period. Actual new business expenses include infrastructure development costs related to developing new business capacity. No allowance has been made for acquisition cost efficiencies which are expected to occur in the future.*
7. *The value of new business at the valuation date excludes all acquisition costs.*

Embedded value assumptions

at 30 June

%	2005	2004
Risk discount rate		
– Health and Vitality	**11.00**	12.50
– Life	**11.00**	12.50
– Destiny Health	**10.00**	10.00
Medical inflation		
South Africa	**7.00**	8.50
United States	**Current levels reducing to 12.50% over the projection period**	Current levels reducing to 12.50% over the projection period
Expense inflation		
South Africa	**4.00**	5.50
United States	**3.00**	5.00
Pre-tax investment return		
South Africa – Cash	**6.50**	8.00
– Bonds	**8.00**	9.50
– Equity	**10.00**	11.50
United States – Bonds	**3.00**	2.00
Income tax rate		
– South Africa	**29.00**	30.00
– United States Federal Tax Rate[1]	**34.00**	34.00

1. *Various additional State taxes also apply.*

Life mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information. Renewal expense assumptions were based on the results of the latest expense and budget information.

The Health lapse assumptions were based on the results of recent experience investigations. Renewal expense assumptions were based on the results of the latest expense investigation.

The Destiny Health morbidity and lapse assumptions were based on the results of recent experience investigations as well as future expectations regarding premium increases. The renewal expense assumption was based on the results of the latest expense investigation and allows for growth in membership over the next 12 months.

The investment return assumption was determined with reference to the cash flow-weighted average risk-free yield curve. Other economic assumptions were set relative to this yield.

It was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 70% equities and 30% fixed interest securities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.

Sensitivity to the embedded value assumptions

In order to illustrate the effect of using different assumptions, the sensitivity of the embedded value at 30 June 2005 to changes in the key assumptions is shown below. For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Embedded value sensitivities

		Health and Vitality		Destiny Health		Life			
R million	Shareholders' funds	Value of in-force	Cost of capital	Value of in-force	Cost of capital	Value of in-force	Cost of capital	**Embedded value**	% change
Base	3 275	3 844	–	290	(16)	2 349	(517)	**9 225**	
Impact of:									
Risk discount rate + 1%	3 275	3 708	–	276	(18)	2 169	(625)	**8 785**	(5)
Risk discount rate – 1%	3 275	3 990	–	306	(14)	2 563	(389)	**9 731**	5
Lapses + 10%	3 275	3 766	–	273	(16)	2 158	(482)	**8 974**	(3)
Investment Return – 1%[1]	3 275	3 844	–	288	(19)	2 275	(650)	**9 013**	(2)
Renewal expenses + 10%	3 275	3 370	–	238	(16)	2 312	(517)	**8 662**	(6)
Mortality and Morbidity + 10%	3 275	3 844	–	241	(16)	1 922	(515)	**8 751**	(5)
Health, Vitality and Destiny Health:									
Term + 1 year	3 275	4 030	–	320	(17)	2 349	(517)	**9 440**	2

1. For Life, both investment return and inflation assumptions were reduced by 1%.

The following table shows the effect of using different assumptions on the value of new business.

Value of new business sensitivities

	Health and Vitality		Destiny Health		Life			
R million	Value of in-force	Cost of capital	Value of in-force	Cost of capital	Value of in-force	Cost of capital	**Value of new business**	% change
Base	229	–	36	(1)	676	(157)	**783**	
Impact of:								
Risk discount rate +1%	214	–	31	(2)	621	(190)	**674**	(14)
Risk discount rate –1%	246	–	42	(1)	743	(118)	**912**	16
Lapses +10%	221	–	30	(1)	611	(147)	**714**	(9)
Investment Return –1%[1]	229	–	36	(2)	664	(198)	**729**	(7)
Renewal expenses +10%	168	–	9	(1)	664	(157)	**683**	(13)
Mortality and Morbidity +10%	229	–	11	(1)	556	(157)	**638**	(19)
Health, Vitality and Destiny Health:								
Term + 1 year	248	–	45	(2)	676	(157)	**810**	3
Acquisition expenses +10%	210	–	29	(1)	659	(157)	**740**	(5)

1. For Life, both investment return and inflation assumptions were reduced by 1%.

The current policy of Discovery is not to declare dividends and therefore no allowance has been made in the embedded value calculation for secondary tax on companies (STC). The effect of allowing for STC of 12.5%, and assuming a 20% dividend payout ratio, is to reduce the embedded value at 30 June 2005 by 1.3% from R9 225 million to R9 103 million.

The embedded value of Discovery at 30 June 2005 is calculated as the sum of the following components:

- the excess assets over liabilities at the valuation date; and
- the value of in-force business at the valuation date (less an allowance for the cost of capital).

The value of in-force business is calculated as the value of projected future after-tax profits of the business in force at the valuation date, discounted at the risk discount rate.

For Life, the after-tax profits and cost of capital is based on the Financial Soundness Valuation basis. The value to shareholders of the deferment of tax has been included in the value of in-force business for Life.

For PruHealth, no value has been placed on the current in-force business.

The value of new business is determined at the point of sale as the projected future after-tax profits of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the cost of capital.

PricewaterhouseCoopers Inc. has reviewed the calculation of the value of in-force business, the value of new business, including the methodology and assumptions underlying these calculations. PricewaterhouseCoopers Inc. has reported that the accompanying embedded value and disclosure complies in all material respects with the actuarial principles as set out in Professional Guidance Note 107 of the Actuarial Society of South Africa. A letter from PricewaterhouseCoopers Inc., summarising the results of their review, is included in the annual report.

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