integrated financial services

FIRSTRAND LIMITED / Annual report 2004

FIRSTRAND

Contents

Nature of business

Listed on the JSE and the Namibian Stock Exchange, FirstRand Limited is an integrated financial services group structured with critical mass to take advantage of the blurring of boundaries in the financial services industry and the convergence of products and services. The Group provides a comprehensive range of products and services to the South African market and niche products in certain international markets.

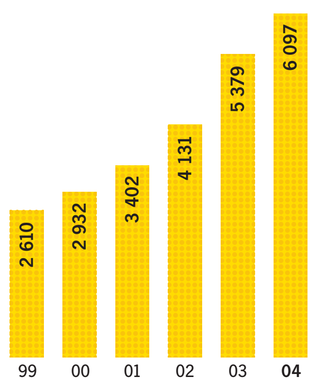
Since the creation of FirstRand in 1998 the diversified earnings base of the Group has delivered strong growth in earnings, assets and dividends. The Group's track record has been achieved through a combination of organic growth, acquisitions, innovation and creating extra sources of revenue through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

The Group is differentiated by its de-centralised structure and owner-manager culture. It has a portfolio branding strategy which it believes is appropriate to its segment focus and there are a number of successful and specialised brands within the Group such as Rand Merchant Bank (RMB), First National Bank (FNB), WesBank, Momentum and Discovery.

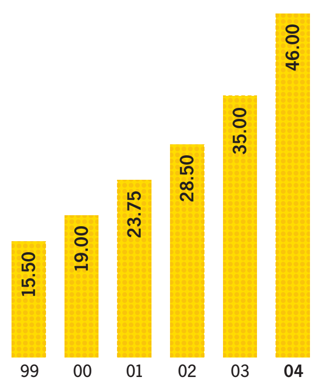
2004 was another year of **strong growth** in headline earnings

Since the creation of FirstRand in 1998 the diversified earnings base of the Group has delivered strong growth in earnings, assets and dividends

FirstRand Group



Headline earnings excluding currency translation losses/gains (R million)
Compound annual growth: 18.5%



Dividends per share (cents)
Compound annual growth: 24.3%

	% change
Headline earnings per share	+19.2
Headline earnings	+18.2
Dividends per share	+31.4
Total assets under management or administration	+8.4

RUDOLF GOUWS / Chief economist, Rand Merchant Bank

GROUP ECONOMIC REVIEW

Despite the rising Rand, the South African economy recovered during the Group's financial year from the weakness which had been induced by the global economic slowdown

Over the past year the world economy continued to recover from the downswing of 2001, pulling commodity prices up in its wake. Globally, interest rates fell further and the dollar weakened before stabilising at lower levels in the first half of 2004. The combination of rising commodity prices, a still large interest rate differential and the weakening dollar contributed to a further strengthening of the Rand. Despite the rising Rand, the South African economy recovered during the Group's financial year from the weakness which had been induced by the global economic slowdown and interest rate hikes of 2002. Consumer spending rose strongly, while real fixed investment expanded at a rate of 12% in the first half of 2004.

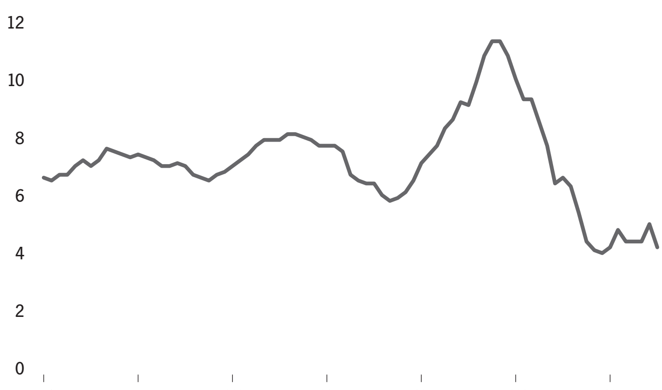
While the Rand's rise continued to impact negatively on the exports of the manufacturing and mining sectors, this was not sufficient to hold back overall economic activity against a background of vigorous domestic spending and improving global demand. In fact, GDP growth accelerated to an annualised rate of more than 3% in the first half of this year – up from 1% in the second half of 2003. The increase in economic activity is borne out by a sharp improvement in business confidence. In the second quarter the RMB/BER Business Confidence Index, which had fallen back markedly from mid-2002 to mid-2003, recovered to a level not seen in fifteen years.

The acceleration in business activity and fixed investment did not show up in rapidly rising bank lending, as most South African corporates had become fairly cash flush in the preceding years. More recently, many firms also opted to capitalise on current market conditions by raising debt and capital in alternative ways – for instance, corporate bonds and commercial paper. However, the demand for credit by consumers expanded strongly, as spending on durable goods, and house building activity and property prices surged.

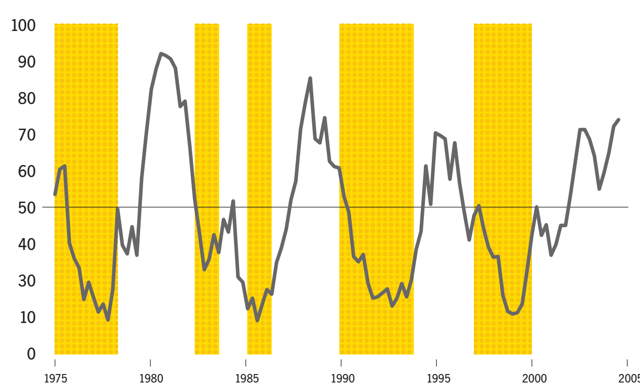
This was not surprising, considering the sharp reduction in borrowing costs. Between June and December 2003, the Reserve Bank cut its repo rate by 550 basis points to 8%. However, perhaps fearing knock-on effects to inflation of sharply rising oil prices and seeing evidence of strengthening domestic demand as well as wage pressures, the Reserve Bank kept the repo rate unchanged in the second half of the financial year. The disinflationary impact of the rising Rand has been such that the inflation rate rose only modestly in the second half of the financial year, having fallen into the target range early in the first half. Against this background, the Reserve Bank cut the repo rate by a further 50 basis points after FirstRand's financial year end.

Substantial short-term capital inflows made it possible for the Reserve Bank to finally close out its oversold forward foreign exchange book early in 2004. This, together with a still relatively large interest rate differential and generally improving sentiment towards South Africa, contributed to the Rand continuing the strengthening which had commenced at the end of 2001. This did create problems for South Africa's export sector and for companies competing against imports, but not to the extent that it had a material bearing on the quality of banks' lending books. In fact, the percentage of non-performing loans of South African banks continued to fall, reaching historically low levels in the course of the year.

Barring a major weakening of the global economy, and a significant further rise in international oil prices, the South African economy seems set to continue expanding in the coming year. Moreover, a stable to slightly weaker Rand exchange rate means that CPIX inflation should remain below 6%, strengthening the prospect of fairly stable interest rates over the next twelve months.



CPIX (y/y%)



RMB/BER business confidence index

Economic downswings

First National Bank

A division of FirstRand Bank Limited

CEES BRUGGEMANS / Chief economist, First National Bank

A peaceful general election and the winning of the 2010 World Cup soccer bid did wonders for nearly all South African consumers

During the 2004 financial year, the relative performance of key sectors in the South African economy continued to be impacted upon by monetary developments, as export performances struggled with a strong and increasingly overvalued Rand, while domestic activity was strongly supported by multiple interest rate cuts.

Early on in the 2004 financial year, the Rand had already regained much of the value that it had lost in the previous two years. From a level of 7.50:$ the Rand proceeded to strengthen even further in uneven fashion, reaching nearly 6.00:$ within six months. During the second six month period of the financial year the Rand continued to move in a 6.00 – 7.00:$ range.

Though global growth improved rapidly during this period, South African exporters were, on balance, hamstrung by the firm Rand, with export volumes steadily declining, especially in manufacturing, but mining also suffered by way of restrained profitability. This placed a dampener on GDP growth during the period.

On the domestic front, however, policy was relaxed quite extensively as inflation eased rapidly and as the firming Rand restrained GDP growth. Cumulatively the prime interest rate fell by 550 basis points in five months to a level of 11.5% where it remained for the remainder of the financial year.

Growth in domestic expenditure accelerated noticeably during this period to 4.5%. Led by household consumption spending, but also higher government spending and robust fixed investment, especially in the private sector, strong surges in durable and semi-durable consumer spending developed. Retail and motor trade conditions became very lively, eventually also favouring large parts of manufacturing industries selling into the domestic market. Activity levels in the building and construction industry approached boomtime conditions, with the motor trade ending the financial year with monthly sales levels at twenty year highs.

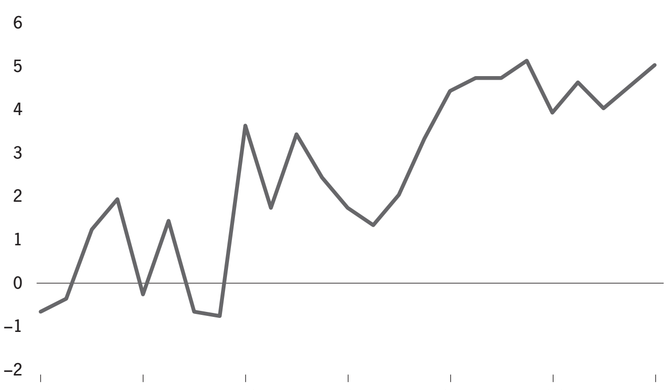
This gathering domestic strength was reflected in steadily higher confidence readings in the economy. The FNB/BER consumer confidence index mirrored this steady march to progressively higher levels, especially among the higher income groups. A peaceful general election and the winning of the 2010 World Cup soccer bid did wonders for nearly all South African consumers, pushing confidence levels sharply higher in every category. In an underlying sense, however, it was the better performing economy, the strong housing market, the low interest rates and the greatly increased transfer payments favouring lower income groups that pushed consumer confidence to its highest level in over two decades.

Despite such rising confidence levels and strong spending growth, employment levels by and large stagnated during the period. Increasing strain experienced by exporters and import-competing businesses during 2004 led to more labour shedding especially in the goods producing sectors, but this may have been partly neutralised by activity gains in the services sector of the economy.

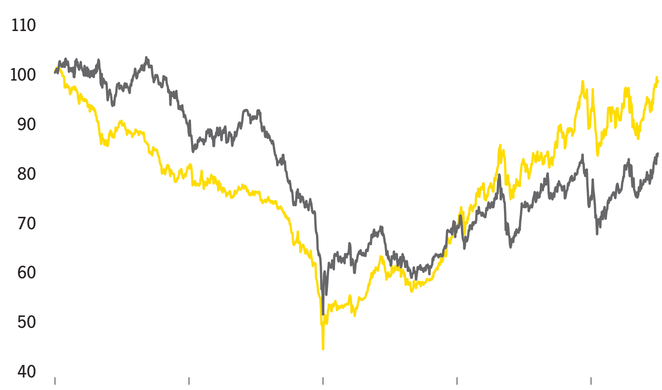
The 2005 financial year should see continued domestic growth. However, unchanging interest rate levels and a still firm Rand may see growth in spending and production fading as the year progresses and the impact of the 2004 interest rate cuts becomes less pronounced.

New car sales and the strong momentum in house price increases is expected to gradually wind down from the exceptionally strong growth seen in 2004. Still, durable and semi-durable consumption spending is not expected to entirely fall off, and should continue to be supported by good income gains in the economy.

Though the special factors boosting consumer confidence in 2004 will fade in importance over time, the underlying strength in consumer sentiment is expected to remain robust. This augurs well for the economy’s performance in financial year 2005.

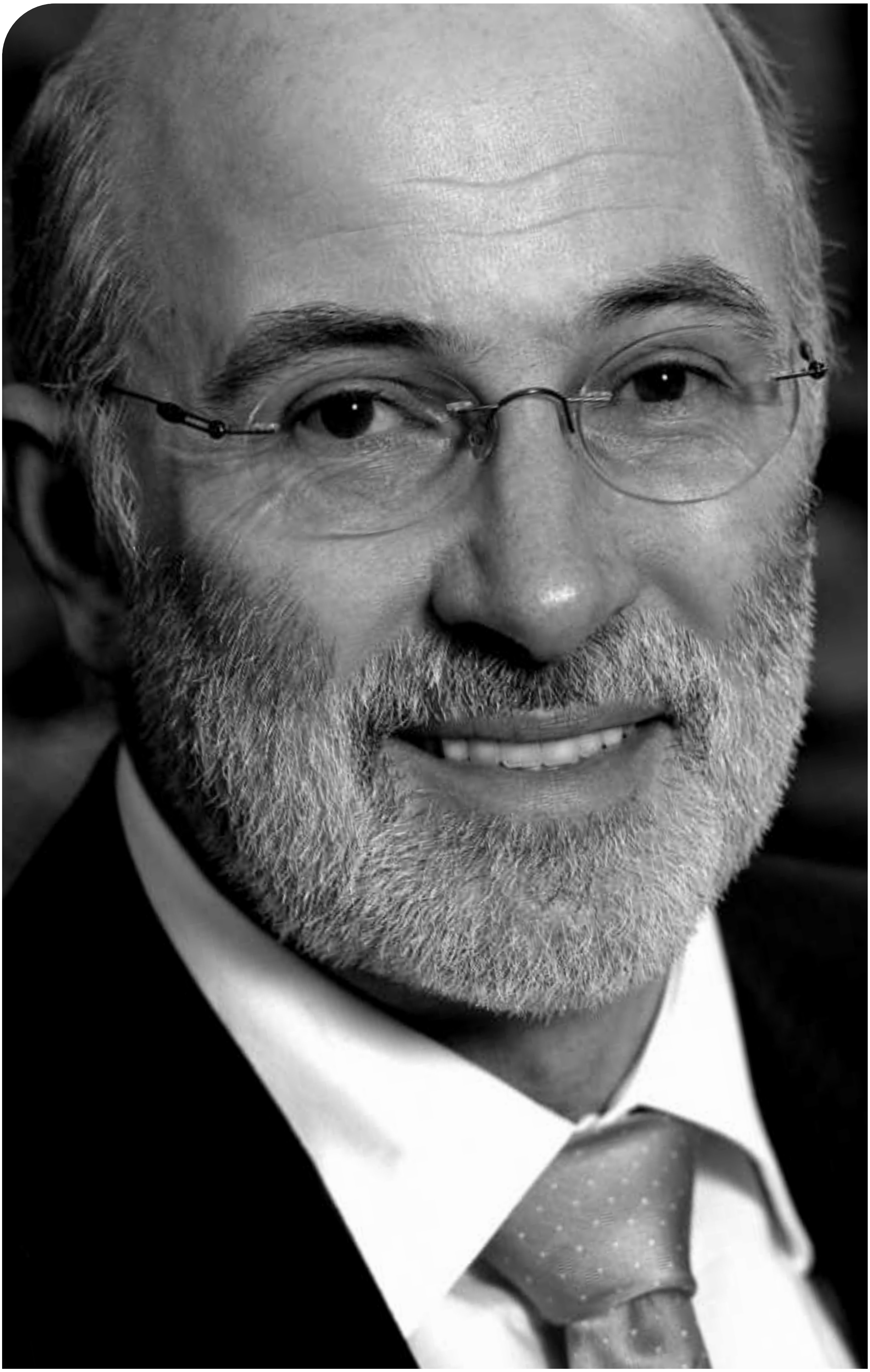


Real growth in domestic expenditure (y/y%)



Exchange rates

Rand/US$ Rand/Euro



The Group's results reflect how well FirstRand is **positioned to take advantage** of the current economic environment

CHAIRMAN'S REPORT

GT FERREIRA / Chairman

This year's performance

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

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

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

The Group's overall headline earnings (excluding translation losses) grew 13% to R6.1 billion with headline earnings per share increasing 19%. We have declared a final dividend of 26.75 cents with the total dividend for the year increasing by 31% from 35 cents to 46 cents. We have taken the decision to reduce the dividend cover to 2.5 times, which the Group believes is a sustainable dividend cover given the internal earnings generation capacity and capital requirements of the businesses.

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

Strategic issues

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

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

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

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

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

The Financial Services Charter

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

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

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

The Group is very well positioned in terms of empowerment financing. Rand Merchant Bank (RMB), the Group's investment bank, is a leader in BEE funding and was voted by the Business Map Foundation, for the second year running, the top commercial (ie, non-government) financier of BEE deals.

RMB also has a leadership position in transformational infrastructure finance. In fact BEE transactions have had a positive impact across many of our investment banking operations, particularly structured finance, private equity and corporate finance.

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

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

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

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

Prospects

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

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

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

One of the key criteria used in choosing our **BEE partners** has been the **broad base** of their constituencies

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

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

Board restructure

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

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

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

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

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

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

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

GT Ferreira
Chairman

Sandton
13 September 2004

2004 was the year when the FirstRand integrated structure really started to **make its mark** on the business

CEOs' REPORT

[left] PAUL HARRIS / CEO, FirstRand Banking Group
[right] LAURIE DIPPENAAR / CEO, FirstRand Limited

In this report last year we spent some time explaining what we believe is FirstRand's unique value proposition in an attempt to address perceptions within the investment community that the Group is complex. We do not intend to cover the same ground again this year – except to show concrete examples of how this strategy and structure is beginning to deliver real value for shareholders.

To re-cap...

Much of the perceived complexity rests in the "integrated" model that we have adopted for the Group, based on the belief that this structure allows us to operate more effectively in the financial services arena particularly as the boundaries between products and services have become blurred. We believe this structure has unlocked meaningful growth opportunities.

To add to this complexity we structured our businesses into "clusters" across industries, which represented particular key segments of the market, namely retail, corporate, wealth and health. The clusters were simply a management construction to ensure the most effective segment focus.

Lastly, the way we "chunked" the business units into small profit centres, operating within the strategic alignment created by the clusters but run by autonomous, empowered management teams, means that we see ourselves as lots of little growth stories, not one big theme for growth.

We have made a slight adjustment

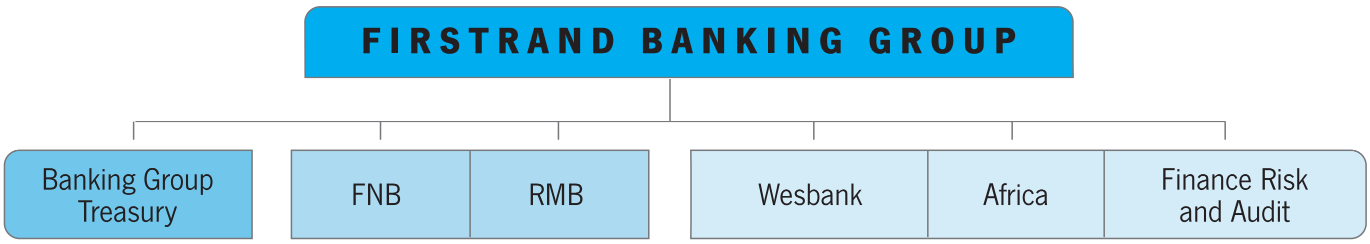
Post the year end we made an adjustment to our structure which resulted in the dismantling of the clusters. We took the decision to merge FNB Corporate and FNB Retail under one FNB management team as we believe that one of the major areas of future growth will be the business and medium corporate markets, which were previously separately housed in FNB Retail (business segment) and FNB Corporate (medium corporates).

By combining medium corporates with business we can achieve an even more powerful focus on this segment and deliver an integrated and coordinated offering to this customer base.

The management of large corporate relationships, previously serviced by FNB Corporate, will move to Rand Merchant Bank ("RMB"), with the transactional business of the large corporates outsourced to FNB. We can leverage the RMB brand into the top end of the corporate segment, creating some very exciting opportunities for providing value-add advisory and structuring skills to the large corporate customer base.

We have also moved RMB Private Bank (previously part of the wealth cluster) under the "one" FNB as it focuses on the top end of the retail sector and much of what the private bank does, cheque books, debit cards etc. is serviced by FNB. There are also some synergies with the medium corporate segment.

Following the restructure, the main banking operations consisting of FNB, RMB, WesBank, Africa, Banking Group Treasury and Finance Risk and Audit, will report directly into FirstRand Bank.



The resultant effects on the management and operating structures are shown in the chart above.

The five underlying business units are each run by a CEO, who sits on the newly formed FirstRand Bank executive committee, chaired by Paul Harris, the CEO of FirstRand Bank. The existing CEOs of the divisions are Ronnie Watson – WesBank, Mike Pfaff – RMB and Johan Burger (CFO) – Finance Risk and Audit. Two new appointments are Michael Jordaan who will become the CEO of FNB and Zelda Roscher will become the CEO of Banking Group Treasury.

We believe that this slight adjustment to the structure reinforces and strengthens the Group's segment focus, and it will allow the Group to maximise growth opportunities in the mid-corporate and business segments. In addition, any dilution of the FNB brand that may have occurred by having two separate entities operating in different markets, is eliminated.

Turning now to the year under review

It is our view that 2004 was the year when the FirstRand integrated structure really started to make its mark on the business and it positioned the Group strongly in all its markets.

Why? Because underlying this structure is a very simple, consistent growth strategy, with four pillars:

1. Organic growth – driving new business volumes and generally functioning as efficiently as possible.
2. Acquisitions – finding load to put on the existing infrastructure.
3. Innovation – coming first to market or "changing the game" with new products and delivery channels. The owner-manager, entrepreneurial culture that is now fully entrenched in all the businesses creates a strong focus on innovation
4. Greenfields – introducing extra sources of revenue through the creation and development of completely new businesses.

The relative contribution of these growth pillars varies from year to year, for example the impact of acquisitions this year was modest, whilst organic growth and innovation featured very strongly. Ever-increasing collaboration, both within the segments and across them, also unlocked pockets of natural growth.

Our results in a nutshell

The big driver of this year's results was organic growth, which was a function of both external factors, in particular the low interest rates, and internal factors such as innovation, accelerating collaboration and an improved sales culture. This is reflected in the growth in new business volumes and transactional income and significantly improved bad debts.

The table below shows the excellent new business growth generated in retail, corporate and investment banking as well as certain components of our insurance business.

WesBank new business	26%
FNB HomeLoans new business	67%
FNB Card advances	21%
RMB Private Bank advances	44%
Medium corporate advances	31%
Knowledge based fees	42%
Myriad risk products new business	51%
Discovery Life new business	31%

Looking at these new business figures one would have intuitively expected even higher profit growth, however the reality is that low interest rates are a double-edged sword in that they boost credit demand but we earn less on our capital, which hurts the bank's margins. Fortunately the Group had a hedging strategy in place which protected our margins and saved us R556 million.

Collaboration is delivering

As already mentioned, collaboration was a big driver of organic growth. We have always emphasised that collaboration at FirstRand has a much broader meaning than simply cross-selling. The integrated structure of the Group allows us to leverage off all the building blocks of the businesses, such as IT systems, client bases, skills etc. An example of where we leveraged two sets of intellectual skills is the Group's affordable housing initiative, a joint effort by RMB and FNB. This is a first in the country and is already delivering profits.

We believe that **innovation** is a real differentiator for FirstRand and it is key to winning new business in a low interest rate, low inflation market

Client base leverage was also successful. FNB Corporate sourced new business of R400 million and R2 billion for RMB Private Bank and WesBank respectively and OUTsurance sourced R280 million of gross premium income from HomeLoans.

In fact FNB's bancassurance income grew very strongly this year with profits up 48% to R563 million. To place this into context, it is larger than the profit we made from HomeLoans and represents 13% of FNB's pre-tax profits. Bancassurance is becoming meaningful for the Group.

Another initiative we are very excited about is the collaboration between Discovery and FNB Card. Discovery is launching its own branded credit card, using FNB card's administrative infrastructure. This will be a very significant offering as we are projecting that in two years Discovery will issue 325 000 cards. Given that the card is both a credit card, with some excellent benefits with major retailers such as Woolworths, and a Discovery Medical Scheme membership card, we believe that a large number of these cards will be taken up and activated.

Greenfields continued to grow

One of our core competencies over many years has been the establishment of businesses started from grassroots. The two most significant businesses in the Group that were started in the last twelve years, OUTsurance and Discovery, both delivered excellent results with Discovery growing operating profits by 102% to R708 million and OUTsurance growing profit before tax by 89.4% to R161 million. Meaningful shareholder value has been created through these ventures.

Innovation is a key differentiator

We believe that innovation is a real differentiator for FirstRand and it is key to winning new business in a low interest rate, low inflation market.

The Group's leadership in innovation is a direct result of its entrepreneurial culture. In the review of operations later on in this report, there are many examples of innovation across the entire Group, for example:

- RMB, which delivered an outstanding performance this year, continued to innovate, particularly in the area of structuring black empowerment deals, where they have developed a strong leadership position.
- We are also pleased to see that the pace of innovation at FNB Retail started to accelerate, for example it launched a highly innovative product in the One Account, which is the first "single credit facility" account to be offered to the middle market and is likely to change the face of that market.

The year to come

The view of our in-house economists is that there is a high probability that the low inflation environment will continue into the coming year. Given the impact of sustained low interest and inflation rates on our business, we have devoted some time to reflecting on the future scenarios.

We believe that such an environment is generally beneficial for banking, impacting favourably on credit demand and asset prices. However there are challenges too. In a high inflation environment, it is generally easier for an organisation to pass on cost increases, including inefficiencies, to customers. In a low inflation environment this is not the case (this applies to most businesses, not just those in financial services). There is also the risk that the inflation expectations of wage and salary earners can lag reality as it takes time for wage and salary earners to gain confidence that low inflation is enduring and therefore moderate their expectations regarding pay increases. The Group therefore needs to guard against getting into a "pincer" squeeze where costs are inflating faster than revenues.

Recognising this, we are busy with an extensive cost benchmarking exercise at FNB Retail with the assistance of McKinseys and significant cost savings have already been identified. We are also embarking on a Group-wide productivity drive which aims to achieve steady and consistent productivity improvements over the next three years.

Momentum has the dual problem of a low inflation environment and a tough insurance market to contend with, and it recognises that it must manage its administration expenses down aggressively. It is aiming to reduce its management expenses by 15% in real terms over the next three years.

The international strategy after Ansbacher

As already mentioned by the chairman, the Group has reached an agreement to dispose of Ansbacher, which will result in the release of approximately R1.2 billion of capital.

We will only move into an international market if we believe we have a **sustainable competitive advantage**

As I outlined in my report last year, the Group is driving its international expansion at business unit level. We currently favour starting niche operations rather doing large acquisitions. Discovery's expansion into the US has taught us that JVs can solve the challenges of brand, distribution, capital and local knowledge. We will only move into an international market if we believe we have a sustainable competitive advantage and if the initiative has a sound strategic fit with the overall business – we will not be chasing hard currency for the sake of it!

And Africa

We see Africa as an important market and we have had a good track record in our current African operations. We have three very solid retail banking operations in Botswana, Namibia and Swaziland. These are now receiving more attention from us as we believe there is some low hanging fruit to be harvested by migrating some FNB Retail "best practices". Our corporate and merchant banks continue to do well in Africa.

We appointed a new head of Africa during the year and the region has been receiving a great deal of focus. We believe that the nature of banking profits in Africa will change. Historically money was made taking deposits and lending to government at large spreads, however we think that is now largely over as donor-imposed fiscal and monetary discipline has led to structurally lower interest rates, thus eroding margins.

Cash is the key to Africa as "financial deepening" will drive profitability in the future and we believe this is where the opportunity lies. Low gearing and deposit penetration will increase as economies mature. However, many countries do not have the necessary "soft infrastructure" critical to retail banking such as a proper legal framework, credit bureaus, ID systems etc. In many countries these are not in place.

Against this background our entry strategy will be opportunistic, and it will depend on market maturity whether we enter via a wholesale or retail route. We believe it is important to have a portfolio of investments to ensure proper diversification, and we need to "think out the box" and be unconventional if it is appropriate.

In conclusion

We believe that FirstRand is very well placed to benefit from a continuing benign retail banking environment. Our unique federal structure, our entrepreneurial culture, strong brands and highly motivated and empowered people will ensure that we continue to seek out every possible growth opportunity in pursuit of our stated objective of achieving a minimum of 10% per annum real growth.

LL Dippenaar

Laurie Dippenaar
Chief Executive
FirstRand Limited

Paul Harris
Chief Executive
FirstRand Bank Limited

Sandton
13 September 2004

FIRSTRAND

The listed holding company

100% FirstRand Bank Holding Limited

Banking

- **100%** » FirstRand Bank
  - RMB Private Bank*
  - FNB Corporate*
  - Rand Merchant Bank*
  - FNB Retail*
  - WesBank*
  - FNB HomeLoans*
- **60%** » FNB Namibia
- **100%** » FNB Swaziland
- **70%** » FNB Botswana
- **85%** » RMB Private Equity
  - **49%** » Ethos
  - **76.1%** » RMB Corvest
  - **100%** » RMB Private Equity
- **46.5%** » OUTsurance**
- **100%** » First Link
- **100%** » eBucks.com
- **100%** » FirstRand International

100% Momentum Group Limited

Insurance & Asset management

- **100%** » Momentum Group
  - FNB Life*
  - Momentum Life*
- **72.5%** » Momentum MultiManagers
- **100%** » FirstRand Asset Management
  - **100%** » RMB Asset Management
  - **100%** » RMB Properties
  - **40%** » Futuregrowth
  - **87%** » Ashburton
  - **100%** » RMB Unit Trusts

65.6%** Discovery Holdings Limited

Health & Insurance

- **100%** » Discovery Health
- **100%** » Discovery Life
- **100%** » Vitality
- **98.1%** » Destiny

* Divisions
** Effective shareholding

Banking group results benefited from

excellent organic growth

assisted by increased collaboration and an improved economic environment

CFOs' REPORT | JOHAN BURGER / Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

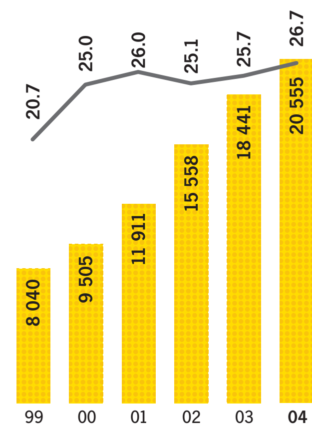
FirstRand is subject to regulation by the South African Reserve Bank and the Financial Services Board. To better comply with the legal requirements of each of these separate regulatory authorities, the Group's legal structure closely follows the mandate of each of the separate authorities. Consequently,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

A comprehensive Group structure is reflected on page 13.

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

Risk management is dealt with in the following manner:

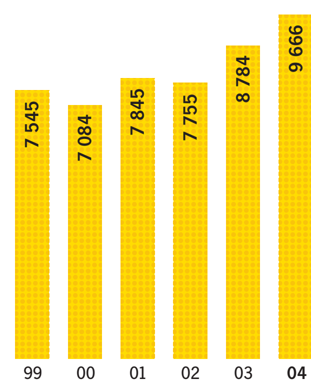
The central finance and risk function provides the framework within which each of these business units must operate, and is designed to maximise each unit's freedom of action while maintaining risk within the board's established tolerance levels. The framework has been implemented across the Group and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



Banking Group NAV

NAV (R million)

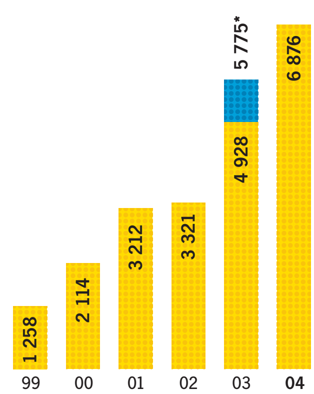
Return on average equity (%)



Momentum Group embedded value (R million)

Annual compound growth: 5%

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



Discovery Group embedded value

Annual compound growth: 40.5%

Embedded value (R million)

Capital raised

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

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

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

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

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

Material accounting issues

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

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

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

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

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

Impact of these changes in accounting policy on opening retained income

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

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

Impact of changes in accounting policy on current period income

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

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

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

Actual shares at 30 June

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

Share-based expenses

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

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

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

Share incentive scheme

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

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

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

Overview of results

Banking Group

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

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

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

Drivers of growth

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Momentum Group

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

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

Drivers of growth

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

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

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

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

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

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

Discovery

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

Drivers of growth

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

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

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

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

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

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

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

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

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

Strategic issues

During the year the following strategic issues were addressed:

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

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

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

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

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

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

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

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

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

Decisions in this regard will be communicated to shareholders.

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

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

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

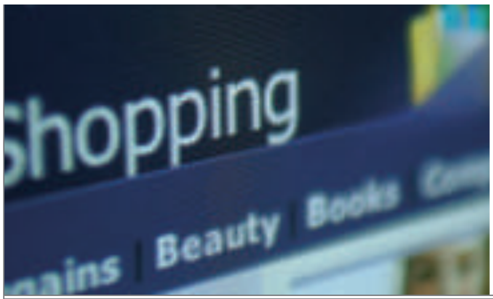
Johan Burger
Chief Financial Officer
FirstRand Limited

Sandton
13 September 2004

Sources of profit / for the year ended 30 June

R million	2004 FirstRand Banking Group	2004 Momentum	2004 Discovery	2004 FirstRand Limited	2004 Total	2003 FirstRand Banking Group	2003 Momentum	2003 Discovery	2003 FirstRand Limited	2003 Total
Retail	**2 873**	**–**	**–**	**–**	**2 873**	2 266	–	–	–	2 266
FNB Retail	**1 261**	**–**	**–**	**–**	**1 261**	904	–	–	–	904
FNB HomeLoans	**394**	**–**	**–**	**–**	**394**	413	–	–	–	413
WesBank	**759**	**–**	**–**	**–**	**759**	506	–	–	–	506
FNB Africa	**291**	**–**	**–**	**–**	**291**	329	–	–	–	329
OUTsurance and First Link	**168**	**–**	**–**	**–**	**168**	114	–	–	–	114
Corporate	**1 780**	**153**	**–**	**-**	**1 933**	1 381	126	–	–	1 507
Rand Merchant Bank	**1 014**	**–**	**–**	**–**	**1 014**	799	–	–	–	799
FNB Corporate	**766**	**–**	**–**	**–**	**766**	582	–	–	–	582
RMB Asset Management	**–**	**115**	**–**	**–**	**115**	–	97	–	–	97
RMB Properties	**–**	**38**	**–**	**–**	**38**	–	29	–	–	29
Wealth	**(5)**	**630**	**–**	**–**	**625**	(39)	605	–	–	566
Momentum	**–**	**630**	**–**	**–**	**630**	–	605	–	–	605
RMB Private Bank	**41**	**–**	**–**	**–**	**41**	30	–	–	–	30
Ansbacher UK	**(67)**	**–**	**–**	**–**	**(67)**	(89)	–	–	–	(89)
FNB Trust Services	**21**	**–**	**–**	**–**	**21**	20	–	–	–	20
Discovery Holdings	**–**	**–**	**265**	**–**	**265**	–	-	178	–	178
Capital	**112**	**298**	**–**	**(274)**	**136**	221	216	–	(39)	398
Capital centre – Banking Group	**112**	**–**	**–**	**–**	**112**	221	–	–	–	221
Investment income on shareholders' portfolio – Momentum	**–**	**311**	**–**	**–**	**311**	–	261	–	–	261
Interest on loan to acquire Ashburton	**–**	**(13)**	**–**	**–**	**(13)**	–	(45)	–	–	(45)
FirstRand Limited	**–**	**–**	**–**	**(274)**	**(274)**	–	–	–	(39)	(39)
Consolidation of share trusts	**–**	**–**	**–**	**(105)**	**(105)**	–	–	–	(68)	(68)
Headline earnings	**4 760**	**1 081**	**265**	**(379)**	**5 727**	3 829	947	178	(107)	4 847

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



OPERATIONAL REVIEW

Retail businesses

WENDY LUCAS-BULL / CEO, Retail Cluster

The Retail businesses of the Banking Group are managed through the Retail Cluster with Wendy Lucas-Bull as CEO.

The main businesses are:

FNB Retail / FNB HomeLoans / WesBank / FNB Africa / OUTsurance / First Link

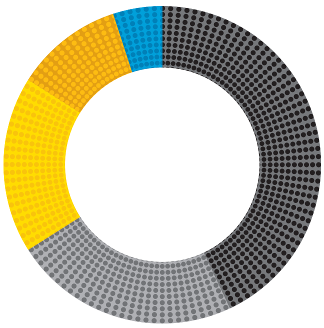
Contributions based on profit before tax of the different businesses:

2004

FNB Retail	46%
WesBank	27%
FNB HomeLoans	14%
FNB Africa	7%
OUTsurance and First Link	6%

2003

FNB Retail	43%
WesBank	23%
FNB HomeLoans	18%
FNB Africa	11%
OUTsurance and First Link	5%



First National Bank
A division of FirstRand Bank Limited


FNB Retail

[left] MICHAEL JORDAAN / CEO, Customer Solutions
[right] PEET VAN DER WALT / CEO, Delivery

	2004	2003	% change
Profit before tax (R million)	**1 823**	1 319	38.2
Profit after tax (R million)	**1 261**	904	39.5
Advances (R million)	**14 204**	12 801	11.0
Total deposits (R million)	**62 006**	56 223	10.3
Cost to income ratio (%)	**69.8**	68.4	2.0
Non-performing loans (%)	**5.9**	7.8	(24.4)

Business / The retail businesses of First National Bank ("FNB Retail") provide financial services to the consumer, small business and rural corporate market segments under the FNB brand. FNB Retail produces and manages most of the Group's core banking products and solutions, and incorporates the FNB distribution channels, namely the branch network, ATMs, call centres, cellphone and internet channels. FNB Retail also houses various centralised back-office services, including some centralised information technology functions. In February 2004 eBucks.com was split into two separate businesses: the eBucks Rewards programme and eDelivery.

Environment and performance / FNB Retail had an excellent year under challenging market conditions which were characterised by low interest rates, low inflation and a strong property market.

The low interest rate environment resulted in a squeeze in margins on advances and deposits by 1.2% and 0.9% respectively. This impact was, in the main, countered by the hedge put into place during the previous year.

The strong organic growth on both sides of the balance sheet and record low bad debt charges ensured good growth of 28% in net interest income.

Retail deposits grew by 10% and resulted in market share growth of 0.2% to 20%. Growth in this market was driven by demand for short-term deposits and higher liquidity positions of customers. The growth in market share was achieved despite the run-off in the acquired Saambou deposit book.

Advances grew by 11% due to greater customer demand for credit with credit card advances increasing by 20.6%.

The continuous improvements in credit processes coupled with the low interest rates led to further improvement in credit quality. Non-performing loans ("NPLs") are at an historic low at 5.9% of gross advances and the bad debt charge reduced by R314 million (60%). Higher customer disposable income due to the lower interest rate environment, combined with improved collections had a positive effect on bad debt levels.

The increase of 19% in non-interest income was in part due to increased transaction volumes of 8.2%, despite below inflation price increases. The balance of the increase was derived from new services and appropriate pricing of customer initiated activities that consume resources.

The successful integration of the Metro and Rural branch networks into one business unit as well as the integration and centralisation of credit into provincial hubs was achieved during the year.

FNB Insurance, a dedicated unit focused on the insurance needs of individuals, achieved significant growth due to its strategy of adding value and enhancing insurance features to existing products. At June 2004, 1 265 342 lives were insured, 92% more than at June 2003.

The business took a decision to invest in various projects aimed at delivering sustainable returns in future years in an environment of lower interest rates and lower inflation, despite the negative impact on the cost to income ratio in the year under review. These initiatives are expected to result in improved service levels to customers.

The instalment loan business made a turnaround from a loss of R88 million for the year to June 2003 to a profit of R76 million. This was due to better collections, improved customer service and a refined value proposition for the market. In addition, the low interest rate environment had a positive impact on the net result due to improvement in the bad debt charge and significantly lower impairments.

Internet banking achieved significant growth in customer numbers, volumes and values over the period under review. 265 649 customers were registered at 30 June 2004 and transactions to the value of R78.9 billion were processed during the year (2003: R46.8 billion). Online sales offered a number of Group products to customers and this resulted in a 560% increase in sales revenue off a small customer base.

The number of eRewards members increased from 582 564 at 30 June 2003 to 716 189 at 30 June 2004, an increase of 23%. Total customer spend in the period was R56 million, up from R30 million in 2003, an increase of 87%.

The eBucks card was launched on 22 June 2004. The benefit of the card will only reflect in the new financial year.

Value in Loyalty Programmes, an independent study conducted by WorldWideWorx, voted the eBucks Rewards programme the best Financial Services rewards programme in South Africa.

First National Bank was voted best in customer service for the third time in a row according to the South African Satisfaction index 2004.

Innovation / FNB's focus on innovation is a key differentiator both in terms of product and delivery of products to the customer. Examples of FNB's innovation include:

- the One Account, a single banking solution for all needs, was launched in March 2004;
- the 32 day Interest Plus account with affordable entry levels. The product promotes a savings culture in the mass market;
- the prime-linked investment accounts, the prime floor and the prime bonus accounts. These products have been well received given the uncertain interest rate environment;
- FNB was the first bank to offer real-time opening of investment accounts on the internet;
- "InContact" users have exceeded the 920 000 mark at June 2004 with customers receiving sms and e-mail alerts on all transactions. Subsequent to year end the one million mark was passed;
- the pilot project for the scheme for financial relief for refugees which was pioneered a year ago has been successful;
- Lotto ticket sales through the eBucks website were launched in December 2003 and over R2 million has already been spent on tickets through this channel. eBucks is the first and currently only legal online offering of Lotto tickets;
- the launch of a new payment method was proven with the launch of prepaid items at ATMs. It is now possible to purchase bus tickets for Translux, Luxliner and Intercape and to effect payment via the ATM. Airtime from Vodacom, MTN, Cell C and Telkom can be purchased via ATMs;
- the IEC voter registration campaign was extremely successful and allowed South African voters throughout the country to confirm their voter details. Almost 300 000 voter confirmation transactions were processed during this period. FNB was the only bank to offer this service free of charge to all FNB and non-FNB customers;
- over 1 000 mini ATMs have been installed in predominately rural areas. The introduction of mini ATMs addresses the lack of infrastructure in rural areas and boosts local economies by ensuring circulation of cash in communities;
- the Digitag, a first in technology security, was launched in February 2004. This device generates a new password/pin each time the internet is accessed, providing the user with an additional level of security while transacting over the internet. To date, 13 000 Digitags are in circulation;
- new internet banking functionality implemented during the year has resulted in online foreign exchange purchases via the FNB internet banking channel;
- 321Contact is a service that is used to purchase cellular airtime, using a cell phone handset which is available for both MTN and Vodacom subscribers who have an FNB account. An added benefit is the viewing of the available airtime balance;
- 100 000 new accounts were opened in the Eastern Cape as a result of the collaboration with the Department of Social Services; and
- the Portable/Mobile bank is one of the most exciting innovations to come from FNB in this financial year. Designed to provide services to rural areas or townships, this structure offers all the services typically found in a bank, including an ATM, and provides a unique opportunity to test the viability of new locations in areas where FNB has previously not been represented. Six portable branches are currently in operation in Mokgwase, Ikwezi, Kosi Bay, Tembisa, Cala and Lady Frere. Thirty-two portable branches are planned for the next financial year.

COLLABORATION

FNB Life	Sales of FNB credit life policies to credit card, overdraft and student loans customers has significantly contributed to increasing premium income by 50% year-on-year and a 92% increase in lives insured.
WesBank	Creation of a loans centre of excellence in WesBank specialising in instalment-based loans led to a return to profit, quicker delivery and improved customer service in FNB Loans.
RMB Private Bank and FNB Africa	Sharing of knowledge and resources such as internet banking and back office operations have resulted in cost savings and efficiencies.

Priorities/way forward / Given the expected sustained low interest rate environment, FNB will continue to focus on developing innovative and differentiated products and services that meet the needs of customers in all its segments. Areas of particular focus include:

- continuous improvement in efficiencies and productivity to align the business to international best practices;
- continued investment in technology;
- customer service and relationship building;
- the launch of the National Bank Account and Money Transfer product focused specifically on the previously unbanked market; and
- consumer education targeted at the mass market with an emphasis on fraud and banking products.

FNB HomeLoans

ED GRONDEL / CEO, FNB HomeLoans

	2004	2003	% change
Profit before tax (R million)	**548**	554	(1.1)
Profit after tax (R million)	**394**	413	(4.6)
Advances (R million)	**44 975**	40 407	11.3
Cost to income ratio (%)	**60.4**	51.5	17.3
Non-performing loans (%)	**1.2**	2.9	(58.6)

Business / FNB HomeLoans provides funding to customers for mortgages secured by residential properties. Sources of business are the FNB branch network, estate agents, mortgage originators and direct channels.

Environment and performance / The residential property market performed strongly during the year, fuelled by the 5.5% cut in interest rates and the lower inflation environment, resulting in increased debt affordability.

The year-on-year nominal value of residential properties financed increased by 30%, while the new business market for 2004 averaged R7.4 billion per month, 58% higher than 2003.

FNB HomeLoans ended the financial year with six successive months of new business records and new business market share of 17.6%, the highest achieved to date. New business written increased by 67% year-on-year.

Advances grew by 11.3%, compared to the prior year organic growth of 2.4%. The loan book showed good growth over the second half of the financial year – annualised loan book growth over this period amounted to 16%. This is mainly attributable to the re-advances growth of 25% year-on-year, successful focus on retention, as well as the excellent new business growth. In addition, the run-off on the acquired NBS and Saambou books slowed during the year.

Profit was impacted by squeezed margins as a result of the lower interest rate environment and higher acquisition costs from increased new business volumes. Direct acquisition costs, which made up 28% of the total operating expenditure for the year, increased by 82% year-on-year. Total acquisition costs including processing costs amounted to 40% of the total operating expenditure. Fortunately the bad debt charge partially offset the lower margins and increased new business costs, with NPLs reducing from 2.9% in 2003 to a record low of 1.2% of gross advances this year.

Non-interest income increased by 29.4% year-on-year as a result of increased volumes and cross sell of other Group products.

Innovation / The division has been responsible for a number of innovations in the market over the last five years. Among these is individual pricing of customers as well as pioneering electronic origination for mortgage originators and estate agents, which resulted in processing cost savings of 10% per application. Mortgage origination was embraced from launch date in 1999 and mortgage originators now account for 45% of new business volumes.

The launch of the FNB One Account, the only truly single account facility available in the market, in March 2004 proved to be a resounding success with a high media profile and the unit exceeding expectations.

The Commercial Property Finance business unit was launched in October 2003 with a target market of small commercial loans with a value of up to R5 million. The focus will be on building a good quality book while adequately pricing for risk.

COLLABORATION

Significant collaboration with other Group businesses is evident in the daily operations of FNB HomeLoans.

OUTsurance	During the year, OUTsurance personal lines sales to the FNB HomeLoans customer base increased by 195%. The home owners' comprehensive (HOC) penetration of the book is close to 100%, excluding sectional titles business.
eBucks Rewards	At 30 June 2004, more than 12 000 estate agents had registered for the eBucks Intermediary programme – a 38% year-on-year growth.
Rand Merchant Bank	The Affordable Housing unit, a joint venture between FNB and Rand Merchant Bank, created a model for housing finance at the lower end of the target market. R8.4 billion of funding into this market has been committed through the auspices of the Financial Services Charter over the next five years. The unit had a good year with profit of R25 million. Loans with a value of R1.5 billion are serviced by the unit. Loan funding of R500 million has been approved for future housing projects.
Branch Banking	28% of FNB HomeLoans' total new business for 2004 was generated by FNB branches across the country, up from 17% in 2003.
FNB Life	The selling of FNB credit life policies to the HomeLoans customer base has taken off exceptionally well during the year, with new business penetration exceeding the 30% mark at June 2004.

Priorities/way forward / Organic growth and building embedded value will be achieved through:

- leveraging off product innovation, especially the FNB One Account, Commercial Property Finance and Affordable Housing Finance;
- greater efficiencies and improved customer service through continued automation of processes and systems;
- maximising distribution channels, particularly Branch banking;
- growth of non-interest revenue;
- maximising further Group collaboration opportunities;
- continued focus on customer retention; and
- increase in new business market above current levels.


WesBank

RONNIE WATSON / CEO, WesBank

	2004	2003	% change
Profit before tax (R million)	**1 049**	689	52.2
Profit after tax (R million)	**759**	506	50.0
Advances (R million)	**49 034**	40 141	22.2
Cost to income ratio (%)	**48.8**	52.6	(7.2)
Non-performing loans (%)	**0.8**	0.9	(11.1)

Business / WesBank provides full-service instalment credit finance to both the retail and corporate market. It is a market leader in both asset-based finance and fleet-management solutions.

Environment and performance / The operating environment was one of reducing interest rates, a buoyant vehicle market, rate competition and low inflation. Vehicle inflation is at record lows.

WesBank had an outstanding year with profit before tax for the year of R1.049 billion, an increase of 52.2%. Advances showed growth of R8.9 billion, an increase of 22.2%.

Success in collections and a continued drop in arrears due to the benign economic conditions were factors in bad debts of 0.6% of gross advances and non-performing loans reducing to 0.8% of gross advances.

Non-interest revenue increased by 39.3%. Increased levels of new business contributed significantly to this performance, as well as greater penetration of various insurance products. WesBank Auto also showed positive growth in its customer base, which contributed to fee income.

New business written for the year was R30.1 billion, an increase of 25.8%, with WesBank breaking the R3 billion barrier for new business in the month of March.

The key driver of growth in the Motor division was new business volumes. The increase in consumer disposable income and market sentiment has resulted in significant increases in new car sales with WesBank and its associates increasing market share. The combination of these factors enabled the Motor division to increase its new business written by 35.5%.

The period under review also saw an increase in the number of InspectaCar outlets as well as a new finance partnership with Honda. WesBank's strategy of partnering with motor manufacturers and distributors is a significant factor in the growth of this division and the dominant position that it holds in the financing of motor vehicles.

WesBank's Business division's new business grew by 4.3% and growth in advances was 15.1%. The strength of the Rand was a negative factor influencing the value of equipment financed as well as creating some areas of concern in Aviation finance. During April 2004 WesBank concluded a contract for the purchase of the Barloworld Equipment Finance business for a consideration of approximately R1.5 billion. The deal has subsequently gained the required regulatory approval and will be effective from 1 September 2004. This business primarily finances Caterpillar equipment.

A majority shareholding was acquired in WorldMark Australia, a company involved in the provision of aftermarket services to motor dealers. This investment made a positive contribution to the bottom line during the period under review. It is anticipated that a retail finance offering leveraging off the WorldMark dealer relationships will commence in September 2004.

WesBank continues to grow its other service offerings, particularly in the area of collections, to various areas within the FirstRand Group, as well as other external customers in South Africa and abroad.

Over the past year WesBank assumed management responsibility for FNB Retail's unsecured loan products as well as growing its own loan portfolio. The emphasis has been in bedding down these portfolios and this division is now geared to embark on a growth strategy. A major focus will be the SME market through the provision of innovative loans and support infrastructure.

Innovation / The launch of a number of new initiatives occurred during the year. In the forefront of these was a new Sharia approved finance product for Muslim customers as well as the much-hailed Job Creation Finance product aimed at stimulating new employment opportunities for our customers.

A joint venture with SANTACO, the governing body for the taxi industry, was established to facilitate standardised access to finance for accredited taxi operators.

COLLABORATION

FNB Corporate	Total advances now exceed R3 billion. New business production in the current year was R2.04 billion and the advances growth in the book in the current year was 33.9%.
OUTsurance	Total premium income of R164 million from WesBank-sourced business.
FNB Retail	The administration and marketing for FNB Loans is managed by WesBank.

Priorities / way forward / A priority area will be the roll out of the Australian business and the establishment of new international businesses.

Opportunities in asset finance in Africa and Europe are being actively pursued.

Several new partnership agreements are planned for the new year for both the Motor and Business divisions.

The used car market is a further area of focus as a number of opportunities exist to increase market penetration in this sector.



First National Bank

JOHN MACASKILL / CEO, FNB Africa

FNB Africa

	2004	2003	% change
Profit before tax (R million)	**571**	606	(5.8)
Profit after tax (R million)	**424**	461	(8.0)
Attributable earnings (R million)	**291**	329	(11.6)
Advances (R million)	**9 462**	7 302	29.6
Total deposits (R million)	**8 857**	7 076	25.2
Cost to income ratio (%)	**49.2**	43.0	14.4
Non-performing loans (%)	**4.0**	2.9	37.9

Business / FNB Africa **provides a full range of banking services** including retail, corporate, instalment finance (WesBank), home loans and commercial property finance, card issuing and acquiring, treasury and international services and insurance in Namibia, Botswana and Swaziland.

Environment and performance / Stagnant market conditions across all the FNB Africa subsidiaries affected overall growth resulting in a subdued performance in the current year, which is in contrast to the compound growth of 32% in profit before taxation over the previous four years.

Attributable earnings declined by 11.6% primarily due to the strengthening of the Rand against the Pula in 2004 and the dilution in the shareholding of the Banking Group in FNB Namibia from 78% to 60% during the 2004 financial year.

The cost to income ratio was negatively affected mainly by the SWABOU merger costs, but efficiencies flowing from the Namibian Group are expected to positively impact results going forward.

Non-performing loans increased due to the inclusion of the City Savings and Investment Bank (CSIB) portion of the SWABOU book, which was fully provided for at acquisition and therefore not included in the current year's impairment charge.

FNB Namibia / The stagnant local economy in Namibia negatively affected FNB Namibia's margins and income. Margins reduced on average by 1.6%.

The migration of 40 000 customer accounts relating to the SWABOU merger was successfully completed during October 2003. As a result, market share of deposits and advances increased to 30% and 35%, respectively. HomeLoans' share of the market increased to 46%.

The specific impairment charge for advances has been maintained at very low levels of 0.2% of gross advances, reflecting the continued healthy profile of FNB Namibia's lending portfolio. This is mainly the result of tight control, better recoveries and the lower interest rate environment.

FNB Namibia is well positioned as a broadly-based financial services group in Namibia.

FNB Botswana / FNB Botswana experienced lower growth and increased competition. The significant strengthening of the Rand against the Pula negatively affected profits in Rand terms.

Advances and profits grew marginally in Pula terms.

Margins were less impacted by the local conditions than the other African operations, with the cost to income ratio contained at 41% (2003: 39%).

During December 2003, **FNB Botswana issued P100 million subordinated, unsecured, callable bonds by private placement.** The bonds are redeemable on 1 December 2016, with an option of early redemption. The bonds qualify as Tier II capital for purposes of capital adequacy. This is a driver in the increase in the return on equity from 45.9% to 55.5%.

FNB Swaziland / The depressed state of the Swaziland economy had an effect on FNB Swaziland's profitability and margin. Profit before tax declined by 6%.

Non-performing loans were similar to the previous year at 1.5% of gross advances.

The Umlondvoloti (prime linked) savings product introduced during the year has been well-received in the country.

COLLABORATION

FNB Retail	Strategies will be aligned with FNB Retail to ensure "best practice" across the African subsidiaries.

Priorities/way forward / Approval from authorities in South Africa and Lesotho was received in May 2004 for the opening of a branch in Lesotho. The branch is expected to be operational by October 2004.

The Lesotho operation will be utilising FNB South Africa's Hogan technology, which serves all the African operations. This allows immediate availability of the latest developments from the South African market. In addition, internet banking, in-Contact, conventional ATMs and mini ATMs will be made available during the course of the new financial year.

Short-term insurance

Attributable profit before tax – R million	**2004**	2003	% change
OUTsurance (46%)	**161**	85	89.4
First Link	**60**	62	(3.2)
	221	147	50.3
Profit after tax – R million	**168**	114	47.4


OUTsurance

[left] **WILLEM ROOS / Joint CEO, OUTsurance**
[right] **HOWARD ARON / Joint CEO, OUTsurance**

	2004	2003	% change
Gross premiums (R million)	**1 460**	1 008	44.8
Profit after tax (R million)	**220**	106	107.5
Expense/cost to income ratio (%)	**18.0**	20.0	(10.0)
Banking Group attributable profit before tax (R million)	**161**	85	89.4

Business / Direct short-term insurance provider for both personal and commercial lines.

Operating environment / The short-term insurance market is currently experiencing record underwriting results. It is expected that the underwriting cycle will reverse over the coming years as competition intensifies.

Claims overall have been lower than expected. The good weather experienced in the country reduced claims in that no major natural catastrophes occurred. The strength of the Rand reduced replacement costs, particularly of electronic goods. Levels of crime appear to have stabilised and even showed a slight decrease.

The increase in profits is due to both volume growth and improved margins. Volumes were driven by strong organic growth in OUTsurance's main personal lines market. Margins improved due to the claims ratio (including OUTbonus costs) reducing to 58.5%, a 3.3% improvement over the prior period. Expenses as a percentage of net premium income also improved from 20% to 18%.

Business OUTsurance was launched to small commercial customers during October 2003. Although initially slow, sales volumes increased dramatically towards the financial year end. To date more than 3 000 small businesses have been covered by OUTsurance. Loss experience on this portfolio has been in line with expectations. It is expected that Business OUTsurance will be a significant contributor of new business written in future years.

The investment in technology and intellectual capital over the past six years enables OUTsurance to offer world class products and superior service. The OUTbonus concept was a first in South Africa when launched in 1998. It changed the market with the majority of competitors now offering similar products to customers.

In the annual CCNG Call Centre awards, OUTsurance was voted the best call centre in the short-term insurance sector. OUTsurance also won the client service category for short-term insurers and achieved a second place overall (the highest of any of the financial institutions in the country).

COLLABORATION

Over one third of premium income is sourced from Group companies:

WesBank	OUTsurance provides a cell captive facility for some of WesBank's short-term insurance interests. This accounts for 10% of premium income.
FNB HomeLoans and RMB Private Bank	OUTsurance provides homeowners' cover to clients of FNB HomeLoans and RMB Private Bank. This accounts for 21% of premium income.
FNB Retail	OUTsurance markets its personal lines products to various client bases within FNB Retail. This accounts for 3% of premium income.

Prospects / OUTsurance aims to continue gaining market share in the personal lines market.

Development of products to gain ground in the large uninsured market is a focus area.

Business OUTsurance is well placed to take advantage of a fast growing section of the market. Various areas within FirstRand have also been identified for cross-selling opportunities for the Business OUTsurance product.

First Link

KEITH YOUNG / CEO, First Link

	2004	2003	% change
Profit before tax excluding effect of sale of associate sold in prior year (R million)	**60**	46	30.4
Profit before tax (R million)	**60**	62	(3.2)
Operating profit (R million)	**38**	28	35.7
Operating profit ratio (%)	**26.0**	24.0	8.3

Business / First Link offers short-term insurance broking solutions for personal lines, commercial and the agricultural sector.

Environment and performance / Although the operating environment for short-term insurance brokers has become more challenging with increased regulations and new players entering the market, First Link performed well and its results were not affected by the aggressive marketing campaigns of direct insurers. The ability to provide a value proposition for customers based on advice, choice, competitive premiums and customised solutions backed by superior customer service underpins this success. The increased level of regulation in the industry is welcomed as it will result in increased levels of accountability and professionalism.

Operating profit grew by 35.7% to R37.9 million. This result represents a significant achievement for First Link as the company exceeded its challenging 2001 vision to "Treble in Three" years its operating profit (operating profit for the year ended 30 June 2001: R9.6 million). The operating profit ratio achieved of 26% is 2% better than the prior year and represents a world class achievement when compared to the operating profit ratios of the largest short-term insurance brokers in the world such as Marsh at 24%[1] and AON at 15.7%.[2]

Profit before tax grew by 30.4% if the effect of the once-off sale of a 34% shareholding in Agri Risk Specialists Limited in the prior year is excluded.

Three acquisitions were successfully finalised and bedded down during the year. These acquisitions will add R110 million in annualised premium flow and are expected to contribute R16 million in annualised operating revenue going forward.

New business targets were exceeded for both the personal lines and commercial segments. Gross new premium income for the year exceeded R200 million.

Commercial revenue grew at an unprecedented 47.8% (June 2003 actual – 23.1%), while the operating profit of this segment grew by 64.7%.

Personal lines revenue growth was also exceptional for this segment at 18.9% (June 2003 actual – 7.9%).

The growth of First Link's Commercial and Personal Lines brokerage (excluding fees) of 33% and 15% respectively, is significantly better than the combined average of the major insurers, who for the six months ended June 2004, achieved premium growth of 11% and 9% for the respective segments. This demonstrates First Link's strong gain in market share for the year.

[1] *Website report "Operating Performance by Business Segment" 2003 Risk and Insurance Services.*
[2] *Website report "Aon Reports Fourth Quarter and Twelve Months 2003 Results" Risk and Insurance Services.*

Innovation / First Link has as a core value the determination to "do things differently". An established practice to actively encourage and reward the generation of new ideas and best practice has resulted in a strong focus on innovation and collaboration with other business units in the Group.

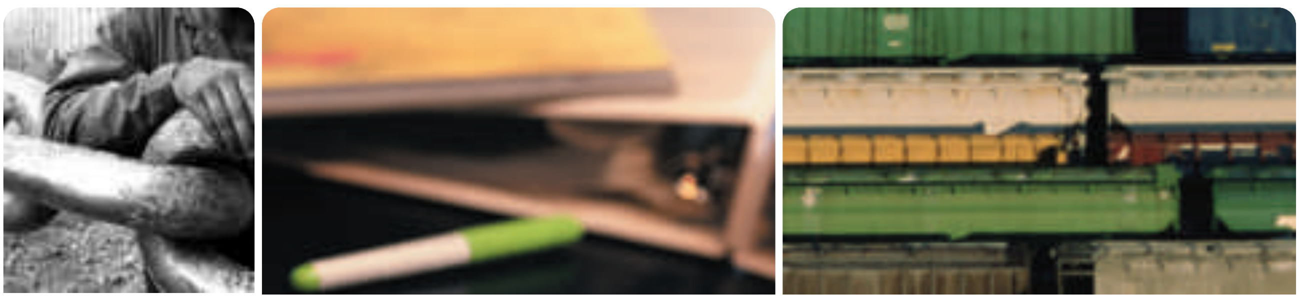
COLLABORATION

Momentum Link	This is a joint initiative with Momentum Distribution Services. First Link provides a sales and administration infrastructure for short-term insurance for all Momentum brokers thereby significantly increasing the sales force and maximising group synergies. Currently in a pilot phase with 40 Momentum brokers.
FNB Branch Banking	First Link staff members were placed in five FNB sales and servicing hubs operational in Gauteng. This allowed customers a full range of financial products and services. There are plans to expand to Durban and Cape Town.
RMB Private Bank	Two satellite offices were established at RMB Private Bank premises with 4 800 policies written to date. This is a platform of choice among RMB Private Bank Relationship Managers with a 75% penetration ratio. Actual revenue for period ended 30 June 2004 was R2.3 million.

Priorities and focus areas / New regulations and increased compliance concerns continue to promote consolidation in the short-term insurance market. To capitalise on this opportunity, First Link remains committed to its acquisition drive. BEE initiatives are also being actively pursued.

Innovative business models and systems are being explored to generate new revenue streams and further improve profitability.

Aggressive new business targets have again been set. These will be supported by upgraded system technology to provide a paperless business environment. New business will not be written at the expense of the quality of the book and significant emphasis remains on maintaining First Link's better than market attrition and loss ratios.



Public Sector Banking

MODISE MOATLHODI / CEO, Public Sector Banking

Since inception Public Sector Banking ("PSB") has succeeded in positioning FirstRand as strategic partners of choice with healthy deal-flow across business units.

Positioned as a **strategic marketing gateway**, the unit provides an integrated and seamless offer to national government, provincial and local government, state owned enterprises and quasi government agencies.

Activities include:

- relationship building;
- strategic marketing;
- public sector segment analysis including gathering public sector data, information, and competitor analysis;
- opportunity identification and business initiation; and
- coordination of FirstRand strategy for the public sector.

During the period under review PSB made good progress and the Banking Group's market share of government business has nearly doubled since 2002.

PSB assisted FNB Corporate and FNB Retail in significantly increasing the number of municipal transactional bank accounts (98 in 2003 to 121 in 2004) and securing the National Parliament transactional banking account. In addition it assisted FNB Corporate to win the cash business of the Johannesburg Fresh Produce Market which will contribute significant volumes to the Johannesburg bulk cash centre.

Going forward, the Banking Group's public sector pipeline is healthy with a number of tenders outstanding in both national and provincial government departments. PSB expects to accelerate the levels of public sector wins across the Banking Group in the coming year.



Corporate businesses

EB NIEUWOUDT / CEO, Corporate Cluster

The Corporate businesses provide a comprehensive range of financial services to medium and large corporate markets, financial institutions, government and other parastatals.

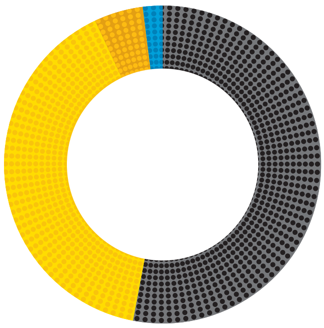
The main businesses are:

Rand Merchant Bank / FNB Corporate / RMB Asset Management / RMB Properties

Contributions based on profit before tax of the different businesses:

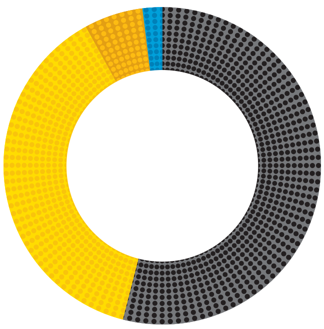
2004

Rand Merchant Bank	53%
FNB Corporate	40%
RMB Asset Management	5%
RMB Properties	2%



2003

Rand Merchant Bank	54%
FNB Corporate	38%
RMB Asset Management	6%
RMB Properties	2%



RAND MERCHANT BANK

A division of FirstRand Bank Limited

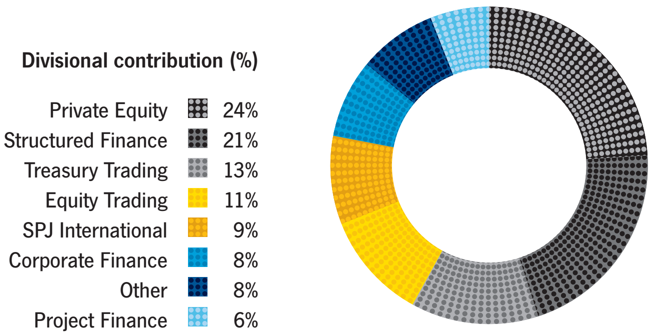
Rand Merchant Bank

MIKE PFAFF / CEO,
Rand Merchant Bank

	2004	2003	% change
Profit before tax (R million)	**1 395**	1 074	29.9
Profit after tax (R million)	**1 014**	799	26.9
Total assets (R million)	**109 047**	109 480	(0.4)
Cost to income ratio (%)	**25.1**	27.2	(7.7)

Business / Rand Merchant Bank ("RMB") offers specialist services and takes principal positions in the fields of corporate finance, structured finance, project finance, private equity, commodities, equities, interest rates and foreign currencies.

Environment and performance / 2004 was a year in which the business fired on all cylinders, giving rise to a 29.9% increase in profit before tax.



Private Equity was the most significant contributor to RMB's earnings. Strong financial performance in the current year was backed up by new asset growth of 40% and growth in the unrealised value of the portfolio from R699 million to R984 million.

Structured Finance has repositioned itself over the past few years as a credit specialist providing value-added debt solutions, with structuring as an add-on. This strategy enabled the division to show strong earnings growth over the prior year and ensured that RMB retained its rating as the number one debt house in South Africa.

Treasury Trading produced a good performance attributable largely to successful proprietary trading activities. This was achieved on the back of declining interest rates and a disciplined approach to risk taking. The current year's performance was also boosted by structuring and annuity income thus improving the quality of revenue streams and counteracting the effects of declining volatility in traditional markets.

Equities Trading benefited from good contributions by the Structuring and Corporate Arbitrage businesses. Proprietary trading was less successful than prior years due to a marked decline in liquidity in non-ALSI 40 stocks, which are not as heavily researched by the market, and traditionally have been the source of most trading opportunities.

The bulk of SPJ International's revenue is US dollar denominated. In spite of the strengthening Rand the division still managed to produce a record performance, capitalising on lower default rates and significantly tighter credit spreads in both the emerging and high yield debt markets.

Corporate Finance increased its proactive value-add to clients, generating deal flow and placing the balance sheet behind deals. This contributed to a record performance driven principally by investment opportunities and its preference share business. The M&A team have earned a reputation for structuring innovative BEE deals while concluding a number of high profile transactions during the year.

Regulatory issues and the strong Rand impeded opportunities for the Project Finance division. Nevertheless, the division managed to exceed the prior year's performance. Continued investment in jurisdictional knowledge and relationships in Africa is expected to bear fruit in the coming years.

Innovation / RMB has a vested culture of innovation which manifests throughout the business by way of new product development, creative transaction structures, unique approaches to risk and risk management and improved business processes.

Innovation in 2004 included:

- CPI for CPIX swaps;
- PPI swaps;
- inflation linked retail deposits;
- equity linked retail deposits;
- equity contracts for differences (CFDs);
- an emerging market affordable farming product;
- Grainflow, the world's first grain commodity securitisation;
- a R4.1 billion empowerment deal between Mvelaphanda Resources and Gold Fields whereby Mvela acquired a 15% stake in Gold Fields; and
- a highly innovative approach to pricing for debt which affords a better insight into the risk/reward profile and pricing of debt.

COLLABORATION

RMB has worked effectively with many businesses within the FirstRand Group in an endeavour to jointly explore opportunities across the Group.

FNB	Merchant bank risk management skill was applied to hedge the risk posed by falling interest rates on FNB's banking book. Effective analysis and understanding of this risk facilitated proper hedging which in turn significantly shielded the Banking Group from the impact of rapidly declining interest rates on the endowment balances.
FNB Retail	Success was achieved in developing alternative investment products for the retail market. As a result, inflation linked and equity linked retail deposits are being marketed throughout the FNB branch network. In collaboration with FNB Retail, RMB has targeted investment in low income housing. Arising from this credit approvals have been received for construction of approximately 8 000 houses, and the deal pipeline is healthy. RMB and FNB's agricultural business jointly developed an emerging farmer funding product which eliminates risk relating to non-harvesting of crops.
FNB Corporate	The Structured Finance and Treasury business units within RMB combined with FNB Corporate to provide comprehensive property finance and hedging solutions to clients. RMB and FNB Corporate effectively coordinated debt origination efforts in the corporate market.

Priorities/way forward / The profitability of a merchant bank is generally very unpredictable due to the nature of merchant banking activities and the environment in which merchant banks operate. The key long-term strategy consequently is to invest in the best people and provide an environment in which they are able to thrive. RMB is confident that the continued ability to blend these two key components will place it in a good position to exploit a number of opportunities in the market which include:

- activity around BEE which is leading to advisory, structuring, lending and investment opportunities;
- the low interest rate environment which encourages investment and borrowing; and
- the current healthy credit markets.

FNB Corporate

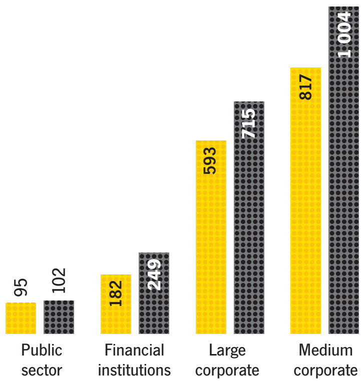
A division of FirstRand Bank Limited

FNB Corporate

THEUNIE LATEGAN / CEO,
FNB Corporate

	2004	2003	% change
Profit before tax (R million)	**1 035**	769	34.6
Profit after tax (R million)	**766**	582	31.6
Advances (R million)	**19 199**	24 110	(20.4)
Total deposits (R million)	**43 930**	36 618	20.0
Cost to income ratio (%)	**58.0**	62.1	(6.6)
Non-performing loans (%)	**3.4**	3.0	13.3

Business / FNB Corporate ("FNBC") is a major provider of transactional banking services, deposit taking and credit facilities to large and medium size corporates, financial institutions, parastatals and government entities. Through interactive client relationships, FNBC provides solutions that utilise the full financial service offering of the FirstRand Group.



Segment revenue growth year on year

2002/03
2003/04

Environment and performance / A number of positive market factors characterised the 2004 financial year. The market found itself in a cash rich cycle that, combined with the effects of the low inflationary environment, resulted in the growth of deposits, but caused pressure on loan volumes.

The latter part of the 2003 calendar year saw interest rates declining, the strengthening of the Rand and subsequent currency volatility, higher consumer spending and an overall improvement in transactional volume flows, particularly over the Christmas season. Into January 2004, the continued buoyancy of retail sector volumes resulted in strong transactional volume performances in cash deposits and credit card transactions acquired through retail merchants. All these factors generated a positive environment for the 2004 financial year.

FNB Corporate's **continued focus** on the medium corporate segment was reflected in new client acquisition, with market share increasing within the competitor arena. A focus on packaged solution offerings and an understanding of client needs created a solid environment for growth. Non-interest revenues grew by 29% year on year, while average asset volumes increased by 31% over the same period, with compression in asset margins of 18% being experienced as a result of the new client acquisitions. Overall revenues increased by 23%.

Within the large corporate segment, income grew by 21%. Deposit margins grew significantly on the back of margin optimisation strategies while volumes remained flat. Interest earnings on deposits grew year-on-year by 77%. Non-interest income grew by 16% as a result of increased electronic transactional volumes. The protection of asset margins and an improvement in return on equity were also primary areas of focus in this segment. This resulted in a growth in interest income from assets of 5%, despite a decline in average asset balances of 7%. Another factor contributing to the decline in asset volumes has been the anticipated increased use by clients of non–traditional corporate lending activities in the form of securitisations, conduit funding and corporate bonds, resulting in "lending disintermediation" of the banking sector.

Financial Institutions remained a focused niche market segment, with specific solutions for insurers and medical aid schemes being well received within this market space. A 58% growth in interest earnings from deposits arose on the back of margin optimisation strategies, while a 29% growth in non-interest income arose through increased market share, resulting in top line revenue growth of 36% year-on-year.

Within the Public sector, specific operational strategies existed for new client acquisition. Critical retention focus was placed on existing government business and areas of future focus were identified which, together with the Public Sector Unit (PSU), are to receive focus in the coming year.

Client service has been identified as an area of strategic differentiation and with this in mind, a service enhancement programme was initiated that has shown improved levels of customer service across the client base.

Property Finance was a particular area of focus for asset creation and reflected a growth of 39% in earnings year-on-year as a result of solid loan volume growth from new clients.

A major external factor currently affecting the performance of the international and cross border business was the 22% strengthening of the Rand over the period under review. This had an impact on both the volume of trade transactions and revenue from trade products that are predominantly *ad valorem* commission based. Foreign Exchange services were able to benefit from the volatility of the Rand, with profits reflecting solid growth. Notwithstanding the pressure from the Rand, the international business was able to grow profits 11% year-on-year.

With the growing utilisation of electronic channels, a renewed focus was placed on Electronic Banking. The revenue base increased by 23% year-on-year across all segments, with volumes reflecting a similar growth trend of 22%.

Merchant Acquiring performed well due to significant revenue growth from increased volumes as a result of new client acquisitions. A market share increase through client acquisitions drove annual growth in gross merchant turnover to above 20% per annum.

The restructuring of debt and continued focus on historical bad debts resulted in the disposal of certain investments that arose in prior financial periods. The entire McCarthy equity investment was sold to the Bidvest Group. The residual JD equity holdings, that arose after the successful Profurn restructure and merger with JD, were sold in the open market. These disposals will result in significant savings of funding costs going forward.

The active management of bad debt and a continuous refinement of the credit model, coupled with the low interest rates, led to a reduction in overall bad debt levels and a resultant decrease in non-performing loans to R645 million from R724 million.

The overall cost to income ratio, including the free funding benefit on notional capital, reduced to 51.8% from 55.4% (excluding free funding benefit – 58% from 62.1%). The strategy into the next financial year includes a focus on further increases in productivity. The ratio of non-interest income to total income remained flat at 66%.

In line with the Financial Services Charter, stepped procurement targets to 2008 were set and have been exceeded for this year. The focus within the employment equity programme has been on the number of black senior and middle management, with aggressive targets being set. Significant progress has been made to create diversity at the appropriate levels within the management teams.

Innovation / A cornerstone of the FNB Corporate environment has been the focus on innovation, with the initial focus being incremental innovation within the various business environments. A successful innovation campaign resulted in more than 400 innovative solutions being created by staff members, with a keen focus on customer service and the effective use of resources.

COLLABORATION

WesBank	New business written exceeded R2 billion with the WesBank penetration of products across the corporate client base increasing from almost zero to more than 30%.
RMB	20 deals completed with asset values exceeding R6.5 billion.
RMB Private Bank	New business written amounted to approximately R400 million.
Momentum Group	New business written has generated premium income flows in excess of R100 million, with pipelines into the new year in excess of R200 million.

Priorities/way forward / The medium corporate segment remains an area of anticipated growth into the future, with a focus on niche markets, a concerted cross sell drive of FirstRand products and services and aggressive client acquisition.

Integrated into the overall client acquisition strategy is the focus on BEE entities, with empowerment transactions a clear growth area into the future. FNB Corporate has made significant progress with a specialised team and good client acquisition in this market, is committed to the principles contained in the Financial Sector Charter and strives to provide funding and working capital finance to this growing segment of the market.

The focus of FNB Corporate remains being a major provider of transactional banking services and in so doing, focus on transactional volumes remains a key component of the strategy. With electronic banking becoming the preferred channel for corporate banking, a renewed focus is being placed on product development within the electronic banking environment.

RMB ASSET MANAGEMENT

RMB Asset Management

LOUIS VAN DER MERWE / CEO,
RMB Asset Management

	2004	2003	% change
Profit before tax (R million)	**151**	120	25.8
Profit after tax (R million)	**115**	97	18.6
Assets under management (R million)	**138 028**	123 275	12.0
Cost to income ratio (%)	**46**	49	(6.1)

Business / RMB Asset Management and RMB Unit Trusts ("RMBAM") offers a complete range of domestic and international asset management products to pension / provident funds, institutional and unit trust clients.

Environment and performance / The industry is in a mature phase and consequently highly competitive, and was characterised over the past year by volatile equity returns and low interest rates. Differentiating factors for RMBAM are strong investment performance, customer service and intellectual capital.

RMBAM once again achieved excellent investment performance, with the following ratings achieved per the Alexander Forbes Large Manager Watch (as at 30 June 2004):

	1 year	3 year	5 year
Global Manager Watch – Large	1	2	3
SA Manager Watch – Large	4	2	3

Profit before tax rose by 25.8%, in a period of consolidation for the company and re-alignment with its core business strategy. As a result of focused efforts, RMBAM is now well positioned for strong growth in operating profits going forward.

Retail funds under management increased by 34.5% and institutional funds by 11.4%.

The regulatory environment, including the requirements of FAIS and FICA, and a strong focus on corporate governance has and will continue to impact on costs. In spite of this, RMBAM has managed to improve the cost-to-income ratio, showing a decrease of 3%.

RMBAM believes Black Economic Empowerment to be a social imperative and fully subscribes to its principles. The Company is on target to meet the requirements of the Financial Services Charter.

Innovation / A Customised Solutions division has been formed which offers tailormade investment products and unique methods of asset/liability management for clients.

RMBAM recognises the importance of shareholder activism, and has formed a dedicated unit within the business to pursue active involvement on behalf of clients.

Priorities/way forward / RMB Asset Management Namibia is a new venture and was formed in partnership with FNB Namibia. Further expansion into SADEC and other African countries is under investigation, in line with RMBAM's strategic drive of becoming Southern Africa's asset manager of choice.

RMB PROPERTIES

RMB Properties

WARREN SCHULTZE / CEO, RMB Properties

	2004	2003	% change
Profit before tax (R million)	**55**	43	27.9
Profit after tax (R million)	**38**	29	31.0
Assets under management (R million)	**4 460**	4 650	(4.1)

Business / RMB Properties is active in the commercial property market including property development, property asset management, leasing and investment broking, property trading, property management, facilities management and property valuations.

Environment and performance / The commercial property market was buoyant during the year with listed property funds aggressively acquiring commercial property on the back of reduced interest rates. In addition, retail spending and residential expansion created strong demand for space by retailers, resulting in an active retail development climate.

Profit after tax increased by 31%, mainly due to a R12 million positive fair value adjustment to property residual value transactions. This fair value adjustment more than offset reduced management fees which resulted from the disposal of property assets by certain major clients.

The Emira property fund was listed by RMB Properties on 28 November 2003 with a market capitalisation of R1.3 billion and assets of R1.6 billion.

The fund is a unit trust constituted in terms of the Collective Investment Schemes Control Act. Since listing, a further R181 million of properties have been acquired with a further R150 million under consideration. Distributions for the period ended December 2003 and June 2004 exceeded forecasts in the pre-listing statement.

Property developments completed during the year amounted to R314 million – these included a call centre for FNB, a parkade added to the Bank City complex and a new head office for OUTsurance. In addition, two office blocks were on-sold to third parties and the redevelopment of the Sappi head office in Braamfontein was completed.

COLLABORATION

Momentum/ RMBAM	RMB Properties collaborated closely with RMB Asset Management and Momentum to facilitate the acquisition of the relevant properties for inclusion in the Emira listing.
FNB Retail	RMB Properties advised FNB and negotiated leases on behalf of FNB in the leasing of premises for the metropolitan branches, and assisted in the procurement of certain property services in relation thereto. Savings were achieved for FNB as a result of this cooperation.
RMB/ FNB Corporate	The establishment of a listed property fund by RMB Properties and the resultant requirement for loan finance by this entity created funding opportunities for RMB/FNB Corporate which have been mutually beneficial, due to highly competitive rates provided by the Banking Group.
FNB and OUTsurance	RMB Properties, through its property development division, originated development alternatives and erected premises for occupation by these Group companies.

Priorities/way forward / The primary drivers of ongoing profitability will be growth in assets under management and development volumes. These areas will be focused on in the new financial year.

Prospects appear good in this regard with property developments in progress approximating R780 million. Average assets under management should exceed values in the past financial year.

Wealth businesses

HILLIE MEYER / CEO, Wealth Cluster

The Wealth businesses offer products and services to the middle and upper income groups.

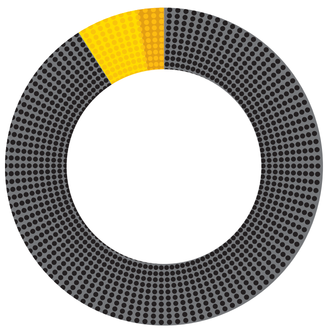
The main businesses are:

Momentum Retail Insurance and Asset Management divisions / Momentum Client and Products • Momentum Distribution Services • Corporate Advisory Services • Financial and Actuarial Solutions • Momentum MultiManagers • Momentum International • Ashburton

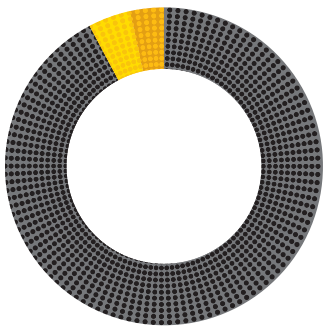
Banking divisions / RMB Private Bank • FNB Trust Services • Ansbacher UK

Contributions based on profit after tax of the different businesses:

	2004
Momentum retail insurance and Asset Management divisions	101%
RMB Private Bank	7%
FNB Trust Services	3%
Ansbacher	(11)%



	2003
Momentum retail insurance and Asset Management divisions	107%
RMB Private Bank	5%
FNB Trust Services	4%
Ansbacher	(16)%



momentum



Momentum Retail Insurance & Asset Management divisions

[left to right] **NICOLAAS KRUGER** / CEO, Financial and Actuarial Solutions
DANIE BOTES / CEO, Momentum Client and Products
NIGEL DUNKLEY / CEO, Corporate Advisory Services

	2004	2003	% change
Profit before tax (R million)	**812**	817	(1)
Profit after tax and minorities (R million)	**630**	605	4
New recurring premium volumes (R million)	**784**	737	6
Lump sum retail inflows (R million)	**7 060**	6 006	18
Value of new business (R million)	**288**	273	5

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

Environment and performance / The operating environment was characterised by the following:

A strong recovery in local equity markets to the point where equities are now more realistically priced;

A strong and stable Rand which results in subdued interest in offshore-based products;

A steady decline in the inflation rate, and a consequent decline in interest rates, which are now generally perceived to have bottomed-out. The low interest rate environment has impacted negatively on sales of interest sensitive products such as annuities and guaranteed endowments;

Subdued demand for savings products;

Increased demand for discretionary savings products such as unit trust linked products;

The introduction of an international accounting standard for insurance contracts based on fair value principles, which has already resulted in increased volatility in the reported earnings of insurers and banks; and

New business production in the risk product market has increased significantly as brokers shift from a largely investment focus to an increased focus on risk products.

The insurance and asset management operations increased operating profit by 4% to R630 million. If the combined effect of the termination of the Discovery Health distribution fee agreement and the investment in Momentum's new health initiative and loyalty programme is excluded, then earnings growth in the insurance and asset management operations increases from 4% to 13%.

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

[left to right] KOBUS SIEBERHAGEN / CEO, Momentum Distribution Services, TREVOR FALLE / CEO, Ashburton, PETER GÖBEL / CEO, Momentum International, WAYNE MCCURRIE / CEO, Momentum MultiManagers

Net cash inflows in the insurance operations, comprising individual life, linked products and employee benefits, totalled R2.5 billion for the year. This is extremely pleasing considering the general pressure on new business volumes, especially with regard to investment products. Two important contributors to the strong net cash inflow were the increased sales of linked products both locally and internationally, and the fact that clients of Momentum reinvested approximately 42% of all maturing policy proceeds (by value) back into Momentum products during 2004, compared with 28% during 2003.

Sales of Pulz, Momentum's new health offering, have been encouraging, with the scheme recently achieving its initial target of 6 000 principal members. This makes Pulz the fastest growing open medical scheme within the first year of operation. The process of amalgamating Pulz with National Medical Plan, an open scheme with 63 000 principal members, is well underway. The amalgamation provides Pulz with the critical mass to enable it to compete with larger open schemes. Momentum has also announced that it will acquire a 50% shareholding in Sovereign Health, one of the leading medical schemes administrators in the industry. Momentum's loyalty programme, Multiply, was also launched towards the middle of the financial year, and is available on a wide range of Momentum's products.

Momentum Collective Benefits, the provider of risk products to the employee benefits market, increased new group risk premiums by 91% to R135 million. This strong growth was achieved without sacrificing the profitability of new business. The overall profitability of group risk business improved due to good margins from the permanent health insurance (PHI) book.

The embedded value of new business increased by 5% from R273 million to R288 million. The new business profit margin increased from 16.5% for 2003 to 17.3% for the year ended 30 June 2004. The improved margin was due to the increased profitability of the Myriad risk product and the larger proportion of more profitable retirement annuity sales.

Momentum International, the Momentum Group's local and international multimanager business, benefited from the positive investment markets and encouraging new business growth. New business inflows in the international retail linked investment product business increased by an excellent 55% to R2.0 billion. Total assets under management or administration at Momentum International increased from R23.9 billion at 30 June 2003, to R27.8 billion at 30 June 2004.

Innovation / Momentum's Myriad individual life risk cover product has undergone a number of enhancements, and sales of this product have resulted in an increase of 51% in new annualised risk premium income (API).

The Pulz health initiative was launched at the beginning of the financial year, and has shown accelerated growth in sales during the latter part of the financial year with a total of 6 000 principal members at 30 June 2004.

The Multiply loyalty offering was launched within a short period of time, and has assisted in improving the competitiveness of the Pulz health offering in the market.

COLLABORATION

FNB Financial Consultants	Momentum Distribution Services (MDS) currently source 10% of all Momentum's new individual life business through FNB Financial Consultants. Momentum products in turn make up 38% of all new business written by FNB Financial Consultants
First Link	A pilot project has been launched with First Link to provide short-term insurance sales and administration infrastructure to brokers supporting MDS

Priorities/way forward / Momentum will focus on the following areas during the 2005 financial year:

- reduce management expenses by 15% in real terms between 2005 and 2007, which will result in improved expense efficiencies;
- achieve critical mass in the health initiative through the merging of Pulz with NMP (National Medical Plan);
- increase new business sales in the retail savings market through product innovation;
- target new business growth in the small pension scheme market utilising FundsAtWork products;
- increase the size of the agency force from 180 to 300 agents;
- improve the penetration of the Multiply loyalty programme as a value-added offering to more of Momentum's products; and
- continue with regular enhancements of the Myriad risk product offering.



RMB PRIVATE BANK

A division of FirstRand Bank Limited

TRADITIONAL VALUES. INNOVATIVE IDEAS.

RMB Private Bank

WILLIE MILLER / CEO,
RMB Private Bank

	2004	2003	% change
Profit before tax (R million)	**60**	43	39.5
Profit after tax (R million)	**41**	30	36.7
Gross advances (R million)	**9 478**	6 888	37.6
Total deposits (R million)	**2 902**	2 799	3.7
Non-performing loans (%)	**1.8**	2.2	(18.2)
Cost to income ratio (%)	**77.9**	74.0	5.3

Business / RMB Private Bank provides advice to high net worth individuals on wealth protection and enhancement.

Environment and performance / The trading environment was buoyant and remained highly competitive. In this competitive environment, differentiation on service and value offerings is required to attract new clients and more business from existing clients. The low interest rate environment put pressure on lending margins while the growth in equity markets supported growth in assets under management.

Profit before tax increased to R60 million, an increase of 40%. This was due to:

- strong growth in loans and advances and assets under management of R2.6 billion and R1.4 billion respectively;
- an increase in non-interest income of 21%; and
- a substantially lower bad debt charge.

The increase in advances was driven by the property market boom and low interest rates. The improvement in equity markets and the successful repositioning of the Wealth Management division were the main reasons for the growth in assets under management.

Client numbers have grown by 31%. This growth has been underpinned by the strong RMB brand.

Non-interest income increased by 21% due to the rapid growth of assets under management and a focus on structured lending, which led to a 62% increase in loan structuring fees.

Non-performing loans decreased to 1.8% of the loan book due to the low interest rate environment and a focus on arrears management within the division. Recoveries have been higher than prior years because of the increase in property prices.

COLLABORATION

Momentum	Joint product development of differentiated investment products has significantly supported the R1.4 billion growth in assets under management.
FNB Corporate	Focus on FNB Corporate clients whose personal banking is not with FirstRand. This has resulted in a R400 million growth in loans and advances.
First Link and OUTsurance	R26.7 million premium income has been generated from the RMB Private Bank client base.

Priorities/way forward / Continuous development of staff skill-levels and product innovation in the areas of Structured Finance and Wealth Management will be the channels for market share growth and increase in share of clients' financial services spend as well as system and process enhancement for superior client service.



FNB Trust Services

GRAHAM MCPHERSON / CEO, FNB Trust Services

	2004	2003	% change
Profit before tax (R million)	**28**	26	7.7
Profit after tax (R million)	**21**	20	5.0
Fiduciary funds under management (R million)	**8 118**	6 967	16.5
Cost to income ratio (%)	**78.0**	79.7	(2.1)

Business / FNB Trust Services provides trust company services within South Africa, Namibia and Swaziland and manages offshore trust business in Guernsey.

Environment and performance / The operating environment was positive for the business due to the effect of stronger equity and property markets on asset values in trusts, managed accounts and estates.

Very good estate inflows for the year were achieved (an increase of 22% from the previous year) which resulted in asset turnover of more than R1 billion. A 21.6% increase in estate income flowed from this.

The value of assets under management grew by 9.2% with total assets under management growing by 16.5%. The embedded value of gross new business written increased by R27 million.

Record new "Wills" sales resulted in **increases in numbers** and value of 32% and 33% respectively.

Changes in the business occurred during the year with the transfer of the Unit Trust Trustee area to FNB Corporate following legislative changes. For comparative purposes, the impact of this transfer on profit before taxation has been adjusted in the 2003 actuals reflected above, amounting to R4.2 million.

COLLABORATION

The business operates as a multi-branded trust company in the retail market within the Group and a high degree of collaboration results from this operating policy.

FNB Retail Bank	FNB customer tax amnesty applications were managed for FNB Retail. Advice was given to heirs in a fiduciary business. Over 1 000 opportunities were identified for clients during the period.
RMB (CI) Ltd	An offshore trust operation, based in Guernsey, with pricing structures focused on the South African market.
RMB Private Bank	Models were developed in conjunction with RMB Private Bank to benchmark asset management performance specifically for fiduciary products. R3.8 billion is currently managed in this way. RMB Private Bank is also a client acquisition channel for fiduciary products that are administered in conjunction with them.
FNB Africa	Delivery of trust products to the FNB Africa client base.
FNB Insurance	The Survivor Plan product, created together with FNB Life, addresses the "Wills" market.
FNB Retail	The Seniors banking pilot was successful with the client base growing by 72% during the year.

Priorities/way forward / As a result of the successful venture with Swaziland and Namibia further expansion into Africa will be explored.

Opportunities currently under development with FNB Corporate Bank and FNB Insurance will be a core focus of the year going forward.

Ansbacher UK

	2004	2003	% change
Profit before tax (R million)	**(24)**	(112)	78.6
Profit after tax (R million)	**(67)**	(89)	24.7
Advances (R million)	**4 760**	5 410	(12.0)

Business / Ansbacher UK focuses on the wealth preservation and creation needs of high net worth individuals.

The Ansbacher Group showed a pre-tax loss of R24 million for the year. This excludes the Irish tax case settlement (R61 million), which is disclosed in the indirect taxation line of the Banking Group.

Margins were negatively affected by movements in the dollar/sterling exchange rate and the decrease in deposits due to the lower interest rates and some conversions to other products.

Fees and commissions were adversely impacted due to a shortfall in new business levels across most of the activities. This was particularly the case in respect of the Fiduciary and Advisory activities.

The Fiduciary businesses in Switzerland suffered, following the loss of the former management teams and much of the businesses during the summer of 2003/04.

Staff costs were inflated by incentives paid to retain key Ansbacher staff during the year while the sale of Ansbacher was completed.

The Ansbacher Group absorbed significant professional fees relating to the sale of Ansbacher and various once-off restructuring activities.

Priorities/way forward / It was announced on 1 July 2004 that FirstRand had reached agreement with Qatar National Bank, a bank listed in Qatar, to dispose of all of the issued share capital in Ansbacher to Qatar National Bank. This will exclude certain investment portfolios as well as certain businesses which facilitate the South African businesses of FirstRand.

Discovery

Discovery

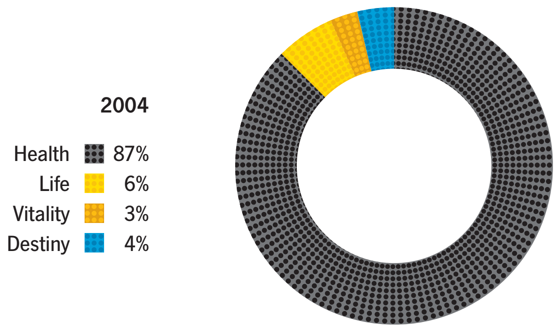
ADRIAN GORE / CEO, Discovery

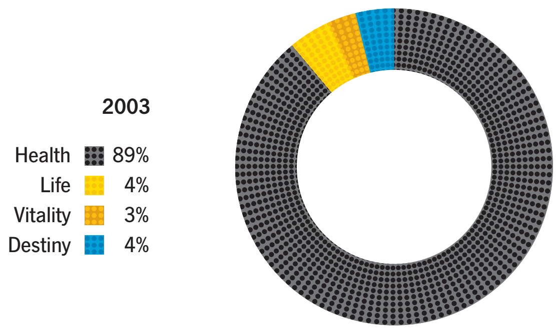
The Discovery Group is a subsidiary of FirstRand Limited.

The main businesses are:

Discovery Health – healthcare / Discovery Life – life assurance / Destiny Health – US-based healthcare / PruHealth – UK-based healthcare

Gross inflows under management:





	2004	2003	% change
Profit before tax (R million)	**720**	538	33.8
Profit after tax & minorities (R million)	**418**	362	15.5
New business premium income (R million)	**3 232**	3 148	2.7
Gross inflows under management (R million)	**14 345**	10 946	31.1

Business / Discovery operates in the health and life assurance markets, and its core purpose is making people healthier and enhancing and protecting their lifestyles.

Environment and performance / South Africa's health care environment has seen continued regulatory changes during the period under review aimed at broadening access to health care, specifically in terms of the benefits available to medical scheme members and the affordability of medicines. The implementation of prescribed minimum benefits based on a Chronic Disease List posed a risk management challenge to medical schemes in ensuring access to these benefits without compromising on the affordability or sustainability of the medical scheme. The latter few months of the period also saw the first phase of the implementation of the new medicine pricing regulations, which it is hoped will lead to long-term savings for consumers on the costs of medicines.

The implementation of FAIS regulations later this year has also been a key focus area for the industry over the past year, with intensive training and accreditation programmes being undertaken in the latter half of the year under review.

Discovery's businesses are built on the foundation of innovation and engaging people in the managing of their health in order to achieve better social and financial outcomes.

This has allowed Discovery to take a leadership position in the markets in which it operates by offering life and health insurance products that are competitive, efficient and sustainable. This has led to strong organic growth and a competitive position going forward.

Discovery is evolving into four key insurance businesses (Discovery Health, Discovery Life, Destiny Health and the new company PruHealth), each underpinned by a common philosophy and values set, but each in a different stage of development.

Robust performance, combined with strong organic growth and increased efficiencies across all the businesses, resulted in a 102% rise in operating profits (R708 million from R350 million at 30 June 2003).

Discovery Health continued to grow market share, rising to 22.8% (2003: 20.8%), and **membership** now stands in excess of 1.6 million members. This growth and improved administration efficiencies helped grow operating profits by 40% to R522 million (2003: R372 million).

Through the performance of product structures and sound risk management, the Discovery Health Medical Scheme generated a surplus of R1.52 billion over the financial year, enabling it to make significant progress towards meeting the 31 December 2004 statutory reserve requirements and creating a foundation for lower medical inflation for its members.

Against this background, Discovery Health and the Discovery Health Medical Scheme recently announced a 5.4% contribution increase for 2005, the lowest since inception. Member benefits were significantly enhanced and remuneration for specialists and general practitioners was significantly increased. KeyCare, which is aimed at employees earning less than R5 000 per month, continues to grow in line with projections, with approximately 67 000 members at June 2004.

Discovery Life's performance exceeded expectations. Profits increased by 138% to R271 million from R114 million, and new business annualised premium income increased to R554 million from R423 million in 2003, generating significant value. The company's market share of new business of the entire life assurance market now exceeds 6.1%. The number of policyholders increased by 91% to 119 884 (2003: 62 914).

Discovery Life is now an **established leader** in the pure life assurance market. This was reinforced when rated top by peers in a recent industry survey conducted among South Africa's leading insurance companies by PricewaterhouseCoopers.

Destiny Health, Discovery's US subsidiary, achieved an operating profit of US$190 000 in the last six months of the financial year. In addition, joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts were rolled out.

Destiny Health's membership grew by 66% to 36 189 (2003: 21 858) as a result of a 70% increase in new business to US$73 million (2003: US$43 million). Operating losses decreased by 37% to R106 million (2003: R169 million), reflecting a combination of membership growth, improved quality of business and focused expense management. The joint venture with Guardian has already produced pleasing results although the roll out of the Tufts Health Plan venture has been slower than initially anticipated. Significant elements of the back-office functionality of Destiny have been moved into Discovery to achieve benefits of scale and a lower cost environment. An important by-product of this has been the creation of nearly 100 jobs for South Africans in the past 12 months.

Innovation / During the year Discovery Life continued to focus on product innovation and the integration with Discovery Health and Vitality. The launch of the PayBack Benefit allows Discovery Health members who are Discovery Life policyholders to receive back a substantial percentage of their life assurance premiums, based on their health management.

COLLABORATION

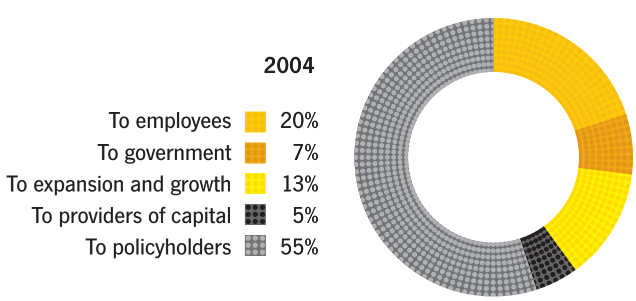
FNB Retail	FNB Retail are the underwriters for the Discovery Card.

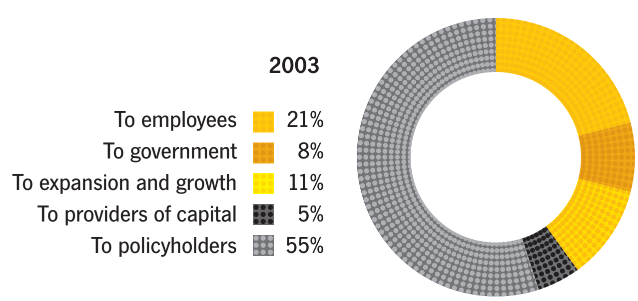
Priorities/way forward / DiscoveryCard is a credit card initiative set to roll out in the new year. It is a "new generation" credit card offering full VISA functionality, automatic savings at a network of leading stores, interest-free finance for healthcare and will also operate as a Discovery Health and Vitality membership card.

PruHealth is a joint venture between Discovery and the UK's Prudential plc. This will be a key focus as it launches into the UK's private medical insurance market during the coming year. The product range will be built on Discovery's consumer-driven healthcare experience and, as with Destiny Health, the company's administration and service support functions will reside in South Africa.

Value-added statement / for the year ended 30 June

	2004		2003	
	R million	**%**	R million	%
Value-added				
Net interest income earned by FirstRand Banking Group	**8 074**		7 626	
Net premium income and fees earned by Momentum	**14 622**		16 275	
Net income earned by Discovery	**2 234**		2 229	
Net loss by FirstRand	**(231)**		(54)	
Value-added by Group	**24 699**		26 076	
Operating income:	**17 988**		11 121	
FirstRand Banking Group	**9 278**		7 339	
Momentum	**8 704**		3 734	
Discovery	**6**		48	
Other expenditure:	**(6 687)**		(6 257)	
FirstRand Banking Group	**(4 201)**		(3 575)	
Momentum	**(1 385)**		(1 657)	
Discovery	**(1 059)**		(981)	
FirstRand Limited	**(42)**		(44)	
Value-added by Group	**36 000**		30 940	
To employees				
Salaries, wages and other benefits	**7 058**	**20**	6 360	21
To providers of capital				
Dividends to shareholders	**1 956**	**5**	1 647	5
To government	**2 664**	**7**	2 611	8
Normal taxation	**1 766**		1 903	
Value-added tax	**423**		396	
Regional Services levy	**152**		155	
Capital Gains Tax	**73**		62	
Other	**250**		95	
To policyholders				
Policyholder claims and benefits	**19 577**	**55**	16 940	55
Insurance contracts	**7 209**		6 794	
Investment contracts	**6 579**		6 572	
Adjustment to liabilities under investment and insurance contracts	**5 789**		3 574	
To expansion and growth	**4 745**	**13**	3 382	11
Retained income	**3 715**		2 869	
Depreciation	**676**		737	
Deferred taxation	**354**		(224)	
	36 000	**100**	30 940	100





BOARD OF DIRECTORS






1 4

2 5

3 6

The board has an appropriate **balance** of executive and non-executive directors, with the necessary credibility, skills and experience

1. GERRIT THOMAS FERREIRA / **56** / **Non-executive Chairman** / **BCom, Hons B (B&A), MBA** / **Appointed May 1998** / "GT" Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was managing director of RMB from 1985 to 1988 after which he was elected as executive chairman. When RMB Holdings was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of FirstRand in 1998 he was appointed non-executive chairman. He is a member of the Council of the University of Stellenbosch and is also a member of the board of the Open Society of South Africa.

FirstRand – memberships / Directors' affairs and governance committee / Remuneration committee / **Directorships** / RMB Holdings – Chairman / FirstRand Bank Holdings – Chairman / Momentum Group / Glenrand MIB / VenFin

2. LAURITZ LANSER DIPPENAAR / **55** / **Chief Executive Officer** / **MCom, CA (SA)** / **Appointed May 1998** / Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent a number of years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director in 1988, which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that time. He was appointed as executive chairman of that company, a position he held until being appointed chief executive officer of FirstRand in 1998.

FirstRand – memberships / Executive committee – Chairman / Audit committee / **Directorships** / Discovery Holdings – Chairman / RMB Holdings / FirstRand Bank Holdings / Momentum Group – Chairman / OUTsurance – Chairman

3. VIVIAN WADE BARTLETT / **61** / **Executive Director** / **AMP (Harvard), FIBSA** / **Appointed May 1998** / Viv Bartlett started his career with Barclays Bank DCO South Africa, which became First National Bank of SA in 1987. After some four years of overseas secondments he returned to South Africa in 1972 where he has served as general manager and managing director in various group companies until being appointed as group managing director and chief executive officer of First National Bank of Southern Africa in 1996. In 1998 he was appointed deputy chief executive officer of FirstRand Bank, a position he held until his retirement in 2004.

FirstRand – memberships / Executive committee / Remuneration committee / **Directorships** / FirstRand Bank Holdings / Board member – OUTsurance / Board member and Chairman – CEMEA Regional Visa International / Board member and executive committee member – Visa International / Board member Banking Ombudsman

(Following his retirement in July 2004 Mr Bartlett relinquished his position on the executive committee and was appointed to the directors' affairs and governance committee and the Financial Sector Charter Compliance committee.)

4. DAVID JOHN ALISTAIR CRAIG / **56** / **Independent Non-executive** / **British** / **Appointed May 1998** / David Craig held the position of Director – International Capital Markets Division at Hambros Bank until 1979 when he left to help set up JP Morgan Securities. In 1983, holding the position of deputy chief executive (chief executive designate), he left to take up the position of group managing director at IFM Trading, the first major hedge fund group in London, until the time of its sale to the J Rothschild Group in 1994.

FirstRand – memberships / Directors' affairs and governance committee / **Directorships** / Northbridge Management – Chairman and Chief Executive / Various international private companies

5. DENIS MARTIN FALCK / **58** / **Non-executive** / **CA (SA)** / **Appointed February 2001** / Denis Falck left the auditing profession in 1971 to join the Rembrandt Group. He was appointed group financial director in 1990 and currently holds the same portfolio on the board of Remgro.

FirstRand – memberships / Directors' affairs and governance committee **Directorships** / Remgro / RMB Holdings / FirstRand Bank Holdings

6. PATRICK MAGUIRE GOSS / **56** / **Independent Non-executive** **BEcon (Hons), BAccSc (Hons), CA (SA)** / **Appointed May 1998** / Pat Goss, after graduating from the University of Stellenbosch, served as president of the Association of Economics and Commerce Students (AIESEC), representing South Africa at The Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other related investments.

FirstRand – memberships / Directors' affairs and governance committee – Chairman / Remuneration committee – Chairman / **Directorships** /RMB Holdings / FirstRand Bank Holdings / Anglovaal Industries / Lewa Downs Wildlife Conservancy (Kenya)

BOARD OF DIRECTORS








7 11
8 12
9 13
10 14

7. NOLULAMO (LULU) GWAGWA / 45 / **Independent Non-executive / BA (Fort Hare), MTRP (Natal) , MSc (cum laude) (London), PhD (London) / Appointed February 2004** / Lulu Gwagwa worked as a town planner in the private, public and NGO sector between 1981 and 1986, whereafter she proceeded to further her studies. In 1992 she joined the University of Natal as a senior lecturer in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003 she was the chief executive officer of the Independent Development Trust. She is currently an independent development consultant.

FirstRand – memberships / Directors' affairs and governance committee / Financial Sector Charter Compliance committee / Directorships / ACSA / SA Post Office / Development Bank of South Africa

8. PAUL KENNETH HARRIS / 54 / **Executive Director / MCom / Appointed May 1998** / Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed deputy managing director of RMB. In 1992 he took over as managing director and chief executive officer. He has been chief executive officer of FirstRand Bank Holdings since July 1999.

FirstRand – memberships / Executive committee / Directorships / Remgro Limited / RMB Holdings / FirstRand Bank Holdings – CEO / Momentum Group

9. MICHAEL WALLIS KING / 67 / **Independent Non-executive / CA (SA), FCA / Appointed May 1998** / Mike King was educated at St John's College and the University of Witwatersrand. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances, and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of South Africa, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

FirstRand – memberships / Audit committee – Chairman / Remuneration committee / Directors' affairs and governance committee / Directorships / FirstRand Bank Holdings / The Tongaat-Hulett Group / African Rainbow Minerals / Sturrock and Robson Holdings

10. GUGU MOLOI / 36 / **Independent Non-executive Director / BA (Law), MA (Town and Regional Planning), Diploma (General Management) / Appointed February 2004** / Gugu Moloi is currently the CEO of Umgeni Water. She is a member of the KwaZulu-Natal University Council and has recently been appointed onto the Financial and Fiscal Commission. She is also a business owner.

FirstRand – memberships / Directors' affairs and governance committee / Directorships / Umgeni Water / CEO

11. KHEHLA CLEOPAS SHUBANE / 48 / **Independent Non-executive / BA (Hons) / MBA / Appointed May 1998** / Khehla Shubane graduated at the University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his release he was employed at Liberty Life for a short time. He served on various political organisations until joining the Centre for Policy Studies in 1988. He has been the co-author of several political publications, is a member of the board of the Centre for Policy Studies and chairman of the National Roads agency.

FirstRand – memberships / Directors' affairs and governance committee / Directorships / RMB Holdings / FCB South Africa / Newhco / Nurcha

12. BENEDICT JAMES VAN DER ROSS / 57 / **Independent Non-executive / Dip Law (UCT) / Appointed May 1998** / Ben van der Ross is a director of companies. He has a diploma in Law from the University of Cape Town and was admitted to the Cape Side Bar as an attorney and conveyancer. Thereafter he practised for his own account for 16 years. He became an executive director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was deputy chief executive officer from 1995 to 1998. He acted as chief executive officer of the South African Rail Commuter Corporation from 2001 to 2003 and as chief executive officer of Business South Africa from 2003 to 2004. He was appointed to the board of The Southern Life Association in 1986.

FirstRand – memberships / Financial Sector Charter Compliance committee – Chairman / Audit committee / Directors' affairs and governance committee / Remuneration committee / Directorships / RMB Asset Management – Chairman / FirstRand Bank Holdings / Momentum Group / Bonatla Property Holdings – Chairman / Strategic Real Estate Management – Chairman / Lewis Stores / Nasionale Pers / Pick 'n Pay Stores

13. FREDERIK VAN ZYL SLABBERT / 64 / **Independent Non-executive / BS, BA Hons (cum laude), MA (cum laude), D Phil / Appointed November 2001** / Frederik van Zyl Slabbert is a graduate of Stellenbosch University from which he received a Doctorate in Philosophy in 1967. He lectured at various South African universities until 1974 when he was elected to the South African Parliament as a member of the Progressive Party for the Rondebosch Constituency. At the time of his retirement from politics in 1986, he was the leader of the Progressive Federal Party, which was the official opposition in Parliament. He is currently a political analyst. He holds an Honorary Doctorate from the Simon Fraser University in Canada and the University of Natal. He will receive an honorary doctorate from the University of Free State in the latter part of 2004. He is the author of a number of books dealing with demographics and change in South Africa and also a member of the board of the Open Society of South Africa.

FirstRand – memberships / Directors' affairs and governance committee / Directorships / Metro Cash 'n Carry – Chairman / CTP Caxton – Chairman / Adcorp – Chairman

14. ROBERT ALBERT WILLIAMS / 63 / **Independent Non-executive / BA, LLB / Appointed May 1998** / Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the managing director in 1979. In 1983 he was appointed chief executive officer of Tiger Oats. In 1985 he assumed the Chairmanship of CG Smith Foods and Tiger Oats, and was appointed to the board of Barlow Rand. Following the unbundling of CG Smith, he remained chairman of Tiger Brands and Illovo Sugar.

FirstRand – memberships / Directors' affairs and governance committee / Remuneration committee / Directorships / FirstRand Bank Holdings / Tiger Brands – Chairman / Illovo Sugar – Chairman / Mutual & Federal Assurance Company / Nampak / Oceana Group

The executive committee is **empowered** and responsible for implementing the strategies approved by the FirstRand board.

EXECUTIVE COMMITTEE

1	7
2	8
3	9
4	10
5	11
6	12

1. Laurie Dippenaar / 55
MCom, CA (SA)
CEO: FirstRand

2. Viv Bartlett / 61
AMP (Harvard), FIBSA
Deputy CEO: FirstRand Bank Holdings
(Retired: 30 June 2004)

3. Johan Burger / 45
BCom (Hons), CA(SA)
CFO: FirstRand

4. Derek Carstens / 54
BEcon(Hons), MA (Cantab)
Director of Brands

5. Peter Cooper / 48
BCom (Hons), CA(SA), H Dip Tax
COO: RMB Holdings Limited

6. Ketso Gordhan / 47
BA – UDW, MPhil (Sussex University)
RMB Executive

7. Adrian Gore / 40
BSc (Hons), FFA, ASA, MAAA, FASSA
CEO: Discovery Holdings Limited

8. Paul Harris / 54
MCom
CEO: FirstRand Banking Group

9. Wendy Lucas-Bull / 50
BSc
CEO: Retail Cluster

10. Hillie Meyer / 45
BCom, FIA, AMP (Oxford)
CEO: Wealth Cluster

11. EB Nieuwoudt /42
MCom
CEO: Corporate Cluster

12. Ronnie Watson /57
AMP (Harvard)
CEO: WesBank and
Chairman: people processes committee
(Appointed 1 July 2004)

Cluster committees each **focus** on specific market segments and participation by different business units facilitates collaboration

STRATCO EXECUTIVES

CORPORATE CLUSTER

EB Nieuwoudt, CEO

Laurie Dippenaar

Paul Harris

Johan Burger

Derek Carstens

LP Collet

Theunie Lategan

Michael Pfaff

Louis van der Merwe

Modise Moatlhodi

Sam Moss

Peter Page

Warren Schultze

Zelda Roscherr

WEALTH CLUSTER

Hillie Meyer, CEO

Laurie Dippenaar

Frans Truter

Danie Botes

Johan Burger

Nigel Dunkley

Wayne McCurrie

Nicolaas Kruger

Kobus Sieberhagen

Derek Carstens

Brandon Zietsman

Graham McPherson

Willie Miller

RETAIL CLUSTER

Wendy Lucas-Bull, CEO

Laurie Dippenaar

Paul Harris

Viv Bartlett

Johan Burger

Derek Carstens

Michael Jordaan

Peet van der Walt

Modise Moatlhodi

John Macaskill

Alan Hedding

Ronnie Watson

Yatin Narsai

DISCOVERY

Adrian Gore, Chairman

Neville Koopowitz

Herschel Mayers

John Robertson

Barry Swartzberg

Richard Faber

Hylton Kallner

Keith Kropman

Shaun Matisonn

Khalik Mayet

Alan Pollard

Kenny Rabson

Johan van Rooyen

Good corporate governance is an **integral part** of FirstRand's business philosphy

CORPORATE GOVERNANCE STATEMENT

Governance ethos / FirstRand is committed to the highest standards of Corporate Governance.

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

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

Good corporate governance is an integral part of FirstRand's business philosophy. The values espoused in this philosophy govern the way in which the Group interfaces with all its stakeholders. The values stress the importance of good corporate citizenship, integrity, transparency, an owner manager culture, individual accountability and innovative thinking.

FirstRand believes that the implementation of Group strategies is best managed at subsidiary level. While the non-executive directors acknowledge the need for their independence, they recognise the importance of good communication and close co-operation between executive and non-executive directors. Team work between directors is an essential part of the Group's ethos and the annual FirstRand strategy conference is attended by all the directors of the principal wholly owned subsidiaries.

FirstRand is proactive in the distribution of information to relevant parties through the JSE SENS communication system, printed and electronic media releases and the statutory publication of its financial results.

The board would like to encourage all stakeholders to attend the shareholders' meetings as this is the ideal opportunity to voice their opinions.

The board of directors and its committees

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

At 30 June 2004 the board of FirstRand was comprised of fifteen directors with an appropriate balance of executive and non-executive directors, and the necessary calibre and credibility, skills and experience. Three of the directors were executive, a further two are defined as non-executive and the balance are regarded as independent non-executive directors. The board includes two women and five persons who are classified as black in terms of the Financial Sector Charter. The profiles of the directors appear on pages 54 to 57 of this report.

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

Induction programmes are available to meet the needs of incoming directors. Education is ongoing to ensure that directors are kept informed of industry developments and international best practice.

Appointment of directors / There is a clear policy in place detailing procedures for appointments to the board and such appointments are formal and a matter for the board as a whole, assisted by the directors' affairs and governance committee. When appointing directors, the board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics in order to make it effective.

A brief CV of each director standing for election or re-election at the Annual General Meeting accompanies the notice of the meeting contained in the annual report. A staggered rotation of directors ensures continuity of experience and knowledge. Non-executive directors are appointed for three years and are subject to Companies Act provisions relating to their removal. The re-appointment of non-executive directors is not automatic and is subject to performance and eligibility for re-appointment. The retirement age is set at age 70 across the Group. The executive directors all have contracts that can be terminated with one month's notice.

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

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

The fundamental responsibility of the board is to improve the economic prosperity of the Group over which it has full and effective control. In terms of its Charter, the board is responsible for appointing the chief executive, adopting corporate strategy, major plans of action and policies and procedures and the monitoring of operational performance. In so doing the board and subsidiary boards monitor key risk areas, risk management and internal controls, corporate governance, business plans, key performance indicators, including non-financial criteria and annual budgets. It oversees major capital expenditures, acquisitions and disposals and any other matters that are defined as material. The board is also responsible for managing successful and productive relationships with stakeholders.

In exercising control of the Group, the directors are empowered to delegate. This is done through the boards of the major subsidiaries, an executive committee and various board committees. Reports from the subsidiaries and board committees are reviewed at quarterly board meetings.

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

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

	Sept	Dec	Feb	May	June
GT Ferreira	√	√	√	√	√
LL Dippenaar	√	√	√	√	√
VW Bartlett	√	√		√	√
DM Falck	√	√	√	√	√
BH Adams		√			
DJA Craig	√	√	√	√	
PM Goss		√	√	√	√
N N Gwagwa			√	√	√
PK Harris	√	√	√	√	√
BJ van der Ross	√	√	√	√	√
MW King	√	√	√	√	√
G Moloi			√	√	√
KC Shubane	√	√	√	√	√
MC Ramaphosa	√		√		
RA Williams	√	√		√	√
F van Zyl Slabbert	√	√	√	√	√

Mr BH Adams resigned from the board on 4 February 2004 and Mesdames Gwagwa and Moloi were appointed to the board on 25 February 2004.

Mr MC Ramaphosa resigned subsequent to year end on 13 July 2004.

In addition to the meetings referred to above, special meetings were held in July and August 2003 to discuss the resignation of Mr SR Maharaj.

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

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

FirstRand holds 64% of Discovery Holdings, which is separately listed on the JSE Securities Exchange. While reporting directly to its shareholders and the Stock Exchange, its corporate governance procedures are the same as those practised by FirstRand.

Board committees assist the directors in the discharge of their duties and responsibilities. At FirstRand level, in addition to the executive committee (Exco), board committees have been appointed to deal with remuneration, audit, directors' affairs and governance and the monitoring of the implementation of the Financial Sector Charter. These committees have formal, written terms of reference and report to the board. They are chaired by independent non-executive directors and, except for the Exco, have a majority of independent non-executive directors. Independent professional advice may be obtained at the Group's expense in support of their duties.

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

Executive committee

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

Composition / Exco is chaired by the chief executive of FirstRand. Membership of Exco includes the executive directors, the chief executives of the Group's operating clusters, the Group chief financial officer and certain members of senior management. The members of the FirstRand Exco are listed on page 58.

Remuneration committee

Role / The primary objective of the remuneration committee is to develop the reward strategy for the Group. It is responsible for:

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

FirstRand espouses a remuneration philosophy that promotes widespread ownership for collective organisational goals and bases reward on individual contribution to the achievement of those goals. Further details relating to FirstRand's remuneration practices can be found on page 64.

No executive director is involved in the setting of his own remuneration. The FirstRand remuneration committee met once during the year.

The Company has closed periods prohibiting trade in FirstRand shares by directors before the announcement of interim and year end results and during any period where the Company is trading under cautionary or where they have knowledge of price sensitive information.

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

Composition / Membership includes representatives of the remuneration committees of the Group's principal subsidiaries. The chief executive of FirstRand, attends in an ex officio capacity but is not involved in discussions and decisions regarding his remuneration.

The members of the FirstRand remuneration committee are:

PM Goss (Chairman)
GT Ferreira
RJ Hutchison
M W King
RA Williams

The chairperson attends the annual general meeting.

Attendance by members at the two meetings held during the year was as follows:

	July	March
PM Goss	√	√
GT Ferreira	√	√
MW King	√	√
RA Williams	√	√
RJ Hutchison (Appointed 25/02/04)		

Audit committee

Role / The FirstRand audit committee reviews the findings and reports of the subsidiary company audit committees and addresses matters of a Group nature. The FirstRand audit committee and all Group audit committees have adopted terms of reference approved by their respective boards dealing with membership, structure, authority and duties. The FirstRand audit committee has complied with its terms of reference.

The responsibility across the Group of the FirstRand audit committee is to:

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

Composition / The members of the FirstRand audit committee are:

MW King	Chairman and Chairman of the Banking Group audit committee.
BJ van der Ross	Chairman of the Momentum Group audit committee.
LL Dippenaar	Chief Executive.

Given the Group's structure, the board deems it appropriate that the chief executive should be a full member of the committee. The FirstRand chief financial officer is the chairman of the Discovery audit committee. He attends FirstRand audit committee meetings in an ex-officio capacity. The external auditors are present at all audit committee meetings and meet independently with the non-executives at least once a year.

Attendance by directors at the two meetings held during the year was as follows:

	September	February
MW King	√	√
LL Dippenaar	√	√
BJ van der Ross	√	

The chairman attends the annual general meeting.

Directors' affairs and governance committee

Role / In terms of its Charter, the prime objective of this committee is to assist the board in discharging its responsibilities relative to corporate governance structures, matters relating to performance and remuneration of directors and the appointment of new directors, the effectiveness of the board and succession planning at executive level. This committee also ensures that adequate education and training is available to directors.

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

This committee met twice during the year. Attendance was as follows:

	13 August	25 May
PM Goss	√	√
GT Ferreira	√	√
DM Falck	√	√
BH Adams (resigned 04/02/04)	√	
DJA Craig		√
N Gwagwa (appointed 25/02/04)		
BJ van der Ross		√
MW King		√
G Moloi (appointed 25/02/04)		√
KC Shubane	√	√
MC Ramaphosa (resigned 13/07/04)		
RA Williams		√
F van Zyl Slabbert		√

The chairman attends the annual general meeting.

Financial Sector Charter Compliance committee / Towards the end of the financial year the FirstRand board approved the establishment of a board committee to monitor the Group's progress in meeting the requirements of a Financial Sector Charter. To assist the committee, the Group has established a Transformation Unit which collates data and information necessary to complete the "scorecard" against which the Group will be measured.

Role / The Charter of the committee lists its principal responsibilities as being:

- to receive reports from the FirstRand Transformation Unit to monitor progress; and
- to offer advice and encouragement to executive management on how best to achieve the Charter's goals.

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

Members include:

BJ van der Ross	Chairman
NN Gwagwa	FirstRand
VW Bartlett	FirstRand Bank
Z Manyathi	FirstRand Bank
R Watson	FirstRand Bank
NB Langa-Royds	Momentum Group
HP Meyer	Momentum Group
J Dlamini	Discovery
K Mayet	Discovery

It is the intention that this committee will meet at least four times a year.

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

Performance evaluation / During the year the directors participated in an evaluation of the Group's strategy formulation and the effectiveness of the FirstRand board. Directors were also encouraged to review the performance of the board committees on which they served and to recommend changes as they thought appropriate. No material concerns were expressed in these evaluations and the committees have satisfied their responsibilities during the year in compliance with their terms of reference.

Details of each respective director's remuneration for the period under review can be found on pages 107 and 108 of this report. The remuneration of the non-executive directors is reviewed annually and proposals relating to increases in fees are submitted to the annual general meeting of shareholders for approval.

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

Sustainability reporting / A separate report on sustainability reporting in terms of the Global Reporting Initiatives (GRI) has been issued.

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

Auditor independence / The Group financial statements have been audited by the independent auditors PricewaterhouseCoopers Inc. FirstRand believes that they have observed the highest level of business and professional ethics. It has no reason to believe that they have not at all times acted with unimpaired independence. During the year the audit committee formally approved a statement on "Auditor Independence: External Auditors Prohibited Services".

To recognise the divergent needs of the Group operating divisions, FirstRand follows a practice of **'industry specific'** remuneration strategies

Remuneration committee / The FirstRand Group companies operate in a number of sectors within the broader financial services industry. Each of these sections has its own distinct employment practices and unique human resource pressures.

To recognise and address such divergent needs, FirstRand follows a practice of devolving the design and implementation of appropriate "industry specific" remuneration structures through board committees:

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

The FirstRand board remuneration committee oversees the activities of the subsidiary remuneration committees and coordinates Group remuneration strategy thereby ensuring its appropriateness across all divisions.

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

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

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

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

The policy on remuneration of executive directors is consistent with that of senior staff. Non-executive directors receive fees for their services as directors and for services provided as members of the board committees. These fees vary depending on the role of the committee. Non-executive directors do not currently qualify for participation in share incentive schemes. Consideration will be given to inviting black non-executive directors to purchase shares in the company in terms of its BEE shareholder strategy.

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

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

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

All employees are required to belong to a medical aid scheme. Where the Group provides for medical aid contributions beyond the date of retirement, the present value of such contributions for existing pensioners has been determined and the liability provided for. In the case of current employees, such cost is charged over the service period of the employees concerned. Current employment practice is not to provide post-retirement medical aid benefits.

Performance related payments / Where appropriate, annual performance related payments are made to employees. The level of such payments is dependent upon a number of key measures including the performance of the individual and the business unit concerned. In certain business units bonus payments take place in tranches during the twelve months following the financial year to which they relate. Notwithstanding such deferral, the bonuses are provided for in full in the current year's expenditure. Should an employee resign or be dismissed from the Group's employ, unpaid bonus tranches are forfeited.

Share incentives / Share incentive schemes operated by the Group are a powerful tool in aligning the interests of staff with those of FirstRand shareholders. All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 544 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

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

- a series of conventional share option schemes (collectively "the FirstRand Share Option Schemes"); and
- the FirstRand Outperformance Share Scheme, in terms of which participants are rewarded only if the performance of the FirstRand share exceeds that of the FINI 15 over a 36 month period.

Up to half of the ordinary shares available in terms of the share incentive scheme may be allocated to the FirstRand Outperformance Share Scheme.

The Outperformance scheme was introduced in 2000. Its introduction recognises modern trends to encourage long-term sustainable performance relative to a peer group, thereby countering suggestions of windfall executive remuneration.

Allocations to both schemes are reviewed annually and no schemes exist beyond 10 years.

Workforce profile / for the year ended 30 June

	AIC		White		Grand total		Total
	Male	Female	Male	Female	Male	Female	
South African workforce							
1 Top management	12	6	104	18	116	24	140
2 Senior management	74	35	526	199	600	234	834
3 Professionally qualified and experienced specialists and mid-management	529	458	1 699	1 213	2 228	1 671	3 899
4 Skilled technical and academically qualified workers, junior management, supervisors	1 696	2 816	2 082	3 800	3 778	6 616	10 394
5 Semi-skilled and discretionary decision-making	3 525	7 426	883	4 669	4 408	12 095	16 503
6 Unskilled and defined decision-making	679	276	6	1	685	277	962
Total	**6 515**	**11 017**	**5 300**	**9 900**	**11 815**	**20 917**	**32 732**

AIC = African, Indian and Coloured

	By race				By gender				
	2004	**%**	2003	%		**2004**	**%**	2003	%
AIC	**17 532**	**53.6**	16 204	50.5	Male	**11 815**	**36.1**	11 737	36.6
White	**15 200**	**46.4**	15 906	49.5	Female	**20 917**	**63.9**	20 373	63.4
Total	**32 732**	**100.0**	32 110	100.0	Total	**32 732**	**100.0**	32 110	100.0

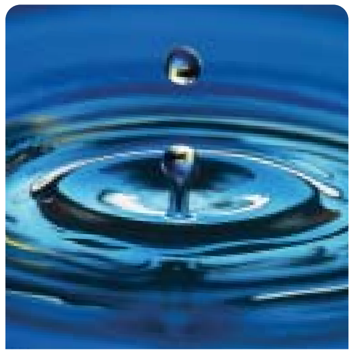
Change in South African workforce

	2004	2003
Staff complement at 1 July	**32 110**	31 035
New appointments	**3 770**	3 739
Resignations	**(1 993)**	(2 246)
Retrenchments	**(89)**	(120)
Dismissals	**(104)**	(192)
Deaths or disability	**(58)**	(106)
Other*	**(904)**	–
Staff complement at 1 July	**32 732**	32 110

** Contract workers*

Total workforce

	2004		2003	
	Number	**%**	Number	%
South Africa	**32 732**	**91.3**	32 110	90.8
Rest of Africa	**2 331**	**6.5**	2 305	6.5
Other countries	**774**	**2.2**	929	2.7
Total workforce	**35 837**	**100.0**	35 344	100.0

FIRSTRAND GROUP / Annual report 2004

integrated

financial services

Strong organic growth

was the main driver of the Group's results, reflected in the excellent growth in new business volumes and transactional income, as well as significantly improved bad debts.

These financial statements cover the consolidated and company financial statements of FirstRand Limited, its wholly-owned subsidiaries, FirstRand Bank Holdings Limited and Momentum Group Limited and its 66%-owned subsidiary Discovery Holdings Limited.

FIRSTRAND

Contents


Directors' responsibility statement

To the members of FirstRand Limited / The directors of FirstRand are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the Company and the Group at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed, suitable accounting policies have been applied and reasonable estimates have been made. The board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the Group's philosophy on corporate governance.

The directors have reviewed the Group's budget and flow of funds forecast for the year to 30 June 2005. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand will not be a going concern for the foreseeable future. The going-concern basis has therefore been adopted in preparing the financial statements.

The Group's external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 70.

The financial statements of the Group and the Company for the year ended 30 June 2004, which appear on pages 71 to 97 and 98 to 106 respectively, have been approved by the board of directors and are signed on its behalf by:

GT Ferreira
Chairman

LL Dippenaar
Chief Executive Officer

Sandton
13 September 2004

Report of the independent auditors

To the members of FirstRand Limited / We have audited the annual financial statements of the Group and Company set out on pages 71 to 97 and 98 to 106 for the year ended 30 June 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope / We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting policies used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion / In our opinion, the financial statements fairly present, in all material respects, the financial position of the Group and the Company at 30 June 2004 and the results of their operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act of 1973.

Pricewaterhousecoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
13 September 2004

Directors' report / for the year ended 30 June 2004

Nature of business / FirstRand Limited ("FirstRand") is listed under banks on the JSE Securities Exchange South Africa ("JSE") and the Namibian Stock Exchange and is the holding company of the FirstRand Group of companies, which comprise diverse financial services activities in the areas of retail, corporate, investment and merchant banking, life insurance, employee benefits, health insurance and asset and property management.

A schedule of group companies is set out on page 13.

Share capital

Authorised – ordinary and preference share capital / At the annual general meeting of shareholders held on 2 December 2003, shareholders approved the conversion of 300 million authorised and unissued ordinary shares of 1 cent each into authorised preference shares as follows:

- 100 000 000 "B" variable rate, non-cumulative, non-redeemable preference shares of 1 cent each;
- 100 000 000 "C" variable rate, convertible, non-cumulative, redeemable preference shares of 1 cent each; and
- 100 000 000 "D" variable rate, cumulative, redeemable preference shares of 1 cent each.

This was achieved by extending the FirstRand Articles of Association by article numbers 53, 54 and 55. Subsequent to year end, at a general meeting of shareholders held on 2 September 2004, it was agreed to further amend these articles to bring them in line with prevailing practices relating to preference shares.

Details of FirstRand's authorised share capital as at 30 June 2004 are shown in note 34 to the financial statements.

Issued – ordinary share capital / On 30 June 2004, FirstRand issued 16 053 803 new ordinary shares. These new shares resulted from the redemption of the same number of "A" variable rate, convertible, redeemable, cumulative preference shares issued by FirstRand on 28 March 2000 in terms of the FirstRand Outperformance share incentive scheme.

At a general meeting of shareholders held on 2 September 2004, it was agreed in terms of a special resolution that FirstRand would alter its Articles of Association to enable it to make an offer to all shareholders who hold in aggregate less than 100 shares at the close of business on Friday, 17 September 2004 and that those shareholders may elect to:

- purchase or subscribe for a sufficient number of additional shares at the offer price to increase their odd-lot holdings to holdings of 100 shares; or
- sell their odd-lot holdings at the offer price of R10.23 being the weighted average traded price of shares on the JSE over the five trading days commencing 20 August 2004, plus a 5% premium; or
- retain their odd-lot holdings.

These shareholders held in aggregate 55 304 shares in FirstRand and represented approximately 8% of the total number of shareholders at 25 June 2004. The offer is scheduled to close on 17 September 2004.

At the annual general meeting of the shareholders of FirstRand, held on 2 December 2003, a special resolution was passed authorising the board of FirstRand or the board of a subsidiary of FirstRand to approve the purchase of shares in FirstRand during the period up to and including the date of the following annual general meeting. This repurchase is limited in any one financial year to a cumulative maximum of 20% of FirstRand's issued share capital.

This resolution is subject to the provisions of the Companies Act, as amended, and the Listings Requirements of the JSE.

Issued – preference share capital / There were no new issues of preference shares during the year.

The following redemptions of "A" preference shares took place during the year:

Date	Number of shares	Premium
1 October 2003	5 040 000	R8.14
	360 000	R7.44
	360 000	R6.53
1 March 2004	2 520 000	R8.14
	360 000	R7.44
	390 000	R6.53
30 June 2004	9 905 987	R8.14
	2 122 710	–
	16 053 803	–

For reporting purposes, preference shares are shown as liabilities.

Shareholder analysis / *(Disclosure in terms of section 140 A (8 (a)) of the Companies Act).*

Based on information disclosed by STRATE and investigations conducted on behalf of the Company, the following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the Company:

RMB Holdings Limited	32.64%	(2003: 32.74%)
Financial Securities Limited (Remgro)	9.51%	(2003: 9.54%)
Public Investment Commissioner	9.29%	(2003: 7.83%)

A detailed analysis of shareholders is set out on page 355.

Directors' interest in FirstRand / *(Disclosure in terms of paragraph 8.61 (d) of the Listings Requirements of the JSE Securities Exchange South Africa)*

Details of the directors' interest in the issued ordinary shares of FirstRand are reflected on page 107.

Group results / A general review of the financial results of the Group and the operations of its subsidiaries commences on page 21. FirstRand's financial results have been prepared in accordance with Statements of Generally Accepted Accounting Practice in South Africa.

In line with accepted industry practice regarding the evolving interpretation of "AC 132 – Consolidated financial statements and accounting for investments in associates", together with "AC 412 – Consolidation – special purpose vehicles", the accounting policy has been changed to consolidate the share incentive schemes.

The impact of these and other changes in accounting policy on the prior year figures is set out in note 40 to the FirstRand Group financial statements.

Earnings / Headline earnings and the contribution from the Banking Group, Momentum and Discovery for the year was as follows:

R million	2004	2003
Banking Group	**4 760**	3 829
Momentum	**1 081**	947
Discovery	**265**	178
FirstRand	**(274)**	(39)
Consolidation of Share Trusts	**(105)**	(68)
Headline earnings for the Group	**5 727**	4 847
Headline earnings per share (cents)	**110.3**	92.5

Dividends

Ordinary shares / The following ordinary cash dividends were declared in respect of the 2004 financial year.

Cents per share	2004	2003
Interim (declared 2 March 2004)	**19.25**	16.50
Final (declared 14 September 2004)*	**26.75**	18.50
	46.00	35.00

** The last day to trade in FirstRand Shares on a cum-dividend basis in respect of the final dividend will be 15 October 2004 and the first day to trade ex-dividend will be 18 October 2004. The record date will be 22 October 2004 and the payment date 25 October 2004. No dematerialisation or rematerialisation of shares may be done during the period 18 October 2004 and 22 October 2004, both days inclusive.*

"A" 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:

For the six months to 31 December 2003:	R39 073 135 (2003: R62 944 771)
For the six months to 30 June 2004:	R28 101 308 (2003: R57 225 978)

Directorate / Since the last annual report the following changes to the directorate have been noted :

- Mr SR Maharaj – resigned with effect 31 August 2003
- Mr BH Adams – resigned with effect from 4 February 2004
- Mrs G Moloi – appointed to the board 25 February 2004
- Dr NN Gwagwa – appointed to the board 25 February 2004
- Mr MC Ramaphosa – resigned with effect 13 July 2004

Details of the board of directors are set out on page 54.

Interest of directors and officers / During the financial year, no contracts were entered into in which directors or officers of the Company had an interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders of RMB Holdings, which together with Remgro has management control of FirstRand.

Directors' emoluments / Directors' emoluments are disclosed on page 107. Information relating to the determination of directors' emoluments, share option allocations and related matters are contained in the remuneration report on page 64.

Group share incentive scheme / Executive directors participate in the FirstRand incentive schemes. Invitations to participate are subject to specific approval by the FirstRand remuneration committee and are done on pricing parameters consistent with that extended to other senior executives. The current interest of executive directors in the share incentive schemes is set out on page 108.

Property and equipment / There is no change in the nature of the property and equipment of the Group or in the policy regarding their use during the year.

Insurance / The Group protects itself against crime risks as well as professional indemnity by carrying large deductibles through a structured insurance risk financing programme which carries levels of cover commensurate with the size and stature of the organisation.

Subsidiaries and associates / Interest in subsidiary and associate companies which are considered material in the light of the Group's financial position and results are set out on page 13.

Company secretary and registered offices / AH Arnott was appointed company secretary on 25 November 2002. The address of the company secretary is that of the registered office as stated on page 357.

Events subsequent to balance sheet date / On 1 July 2004, the Ansbacher Group of companies was sold to the Quatar National Bank, subject to the approval of the Bank of England and Financial Services Authority.

Declaration by the company secretary in respect of section 268g(d) of the Companies Act

I declare that, to the best of my knowledge, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

AH Arnott
BCom, CA(SA)
Company Secretary

Accounting policies

The following are the principal accounting policies adopted in the preparation of the financial statements.

Basis of presentation / These financial statements have been prepared 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 and liabilities held for trading;
- financial assets classified as available for sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

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

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. Where necessary and permitted, comparative figures were adjusted to conform to changes in presentation in the current year.

In line with the accepted industry practice regarding the evolving interpretation of "AC 132 – Consolidated financial statements and accounting for investments in associates", together with "AC 412 – Consolidation – special purpose vehicles", the accounting policy has been changed to consolidate share incentive schemes.

The effect of the change in accounting policy on the financial statements is set out in note 40 below.

Consolidation / The financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has a long-term interest and the power to exercise control over the operations. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

The Group consolidates a special purpose entity ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies.

Goodwill arising from business combinations before 31 March 2004 / Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over the period of the expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Investment in subsidiaries / The Group's investment in subsidiaries is reflected at the attributable net asset value of the subsidiaries. This is achieved by applying equity accounting principles.

Revenue and expense recognition

Investment income / Investment income comprises interest, dividends and equity accounted earnings of subsidiaries. The Group accounts for dividends as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares.

Interest and other investment income, including dividend income on cumulative preference share investments, are accounted for on an accrual basis.

Direct and indirect taxation / Direct tax includes South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional services levies.

Indirect taxes are separately disclosed in the notes to the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction the Group operates in.

Recognition of assets, liabilities and provisions

Assets / Assets are recognised when the Group obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

Liabilities and provisions / Liabilities, including provisions, are recognised when the Group:

- has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Contingent liabilities / Contingent liabilities are recognised when the Group:

- has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Derecognition of assets, liabilities and provisions / A financial asset is derecognised when the Group loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is legally extinguished.

Cash and cash equivalents / In the cash flow statement, cash and cash equivalents comprise money at call and short notice.

Accounting policies specific to Banking Group, Momentum and Discovery / For detailed accounting policies relating to the Banking Group, Momentum and Discovery, please refer to pages 147 to 155, pages 233 to 239 and pages 300 to 305.

Income statement / for the year ended 30 June

R million	Notes	2004	2003
Banking Group			
Interest income	Banking note 3	**22 412**	26 293
Interest expenditure	Banking note 4	**(13 505)**	(17 189)
Net interest income before impairment of advances		**8 907**	9 104
Impairment of advances	Banking note 11	**(833)**	(1 478)
Net interest income after impairment of advances		**8 074**	7 626
Non-interest income	Banking note 5	**8 970**	7 123
Transactional income		**6 583**	5 735
Trading income		**2 121**	1 592
Investment income		**430**	109
Other non-interest income		**206**	219
Translation losses		**(370)**	(532)
Net income from operations		**17 044**	14 749
Operating expenditure	Banking note 6	**(10 503)**	(9 537)
Income from operations		**6 541**	5 212
Share of earnings of associated companies	Banking note 16	**585**	494
Income before taxation		**7 126**	5 706
Indirect taxation	Banking note 7	**(436)**	(346)
Income before direct taxation		**6 690**	5 360
Direct taxation	Banking note 7	**(1 701)**	(1 308)
Income after taxation		**4 989**	4 052
Earnings attributable to outside shareholders	Banking pg 156	**(277)**	(278)
Earnings from banking operations	Banking pg 156	**4 712**	3 774
Momentum and Discovery			
Group operating profit after tax	4	**1 013**	594
Revenue		**11 306**	11 593
Net premium income		**10 026**	10 529
Fees for asset manager services rendered		**1 280**	1 064
Investment income attributable to policyholders		**5 122**	5 002
Policyholder benefits		**(7 498)**	(7 346)
Operating and administration expenses		**(3 291)**	(3 083)
Impairment of goodwill		**–**	(242)
Commissions		**(1 452)**	(1 219)
Fair value adjustment to policyholder liabilities from investment contracts		**(3 208)**	(1 419)
Realised and unrealised investment surpluses		**3 377**	(1 553)
Direct taxation		**(661)**	(566)
Indirect taxation		**(134)**	(139)
Abnormal item		**–**	120
Transfer to policyholder liabilities under insurance contracts		**(2 328)**	(427)
Earnings attributable to outside shareholders		**(220)**	(127)
Investment income on the shareholders' portfolio		**326**	250
Investment income attributable to shareholders	Momentum note 4	**346**	288
Profit on sale of available-for-sale assets	Momentum pg 240	**15**	–
Taxation on investment income	Momentum note 8	**(35)**	(38)
Earnings from Momentum and Discovery		**1 339**	844
Earnings from Momentum	Momentum note 7, 9	**1 065**	616
Earnings from Discovery	Discovery note 11, 12	**274**	228
FirstRand Limited		**(275)**	(39)
Management expenses		**(50)**	(27)
Capital raising expenses		**(110)**	–
Secondary tax on companies		**(115)**	(12)
Goodwill amortised – intergroup		**5**	5
Consolidation of share trusts		**(105)**	(68)
Earnings attributable to ordinary shareholders	3, 6, 35	**5 676**	4 516
Headline earnings per share (cents)	6	**110.3**	92.5
Earnings per share (cents)	6	**109.3**	86.2
Diluted earnings per share (cents)	6	**106.8**	84.5
Diluted headline earnings per share (cents)	6	**107.7**	90.7
Headline earnings per share excluding currency translation losses (cents)	6	**117.4**	102.6
Diluted headline earnings per share excluding currency translation losses (cents)	6	**114.7**	100.7
Dividend per share (cents)	5	**46.0**	35.0

Balance sheet / as at 30 June

R million	Notes	2004	2003
ASSETS			
Banking Group		**277 326**	256 655
Cash and short-term funds	7	**25 104**	29 252
Advances	8	**208 874**	188 112
– originated		**141 627**	130 436
– held-to-maturity		**8 971**	9 562
– available-for-sale		**4 499**	7 406
– fair value		**53 777**	40 708
Investment securities and other investments	9	**36 131**	36 379
Financial instruments held for trading		**9 660**	10 870
Investment securities		**26 471**	25 509
– held-to-maturity		**957**	1 220
– available-for-sale		**16 867**	21 451
– elected fair value		**8 647**	2 838
Commodities		**702**	509
Non-recourse investments	10	**6 515**	2 403
Momentum and Discovery		**82 654**	75 697
Cash and cash equivalents	11	**15 149**	15 836
Government and public authority stocks		**13 123**	12 574
– available-for-sale	12	**627**	98
– elected fair value	12	**12 496**	12 476
Debentures and other loans		**8 110**	10 166
– available-for-sale	13	**75**	119
– elected fair value	13	**8 035**	10 047
Equity investments		**42 070**	33 787
– held-to-maturity	14	**749**	681
– available-for-sale	14	**1 665**	1 337
– elected fair value	14	**39 656**	31 769
Investment properties	15	**3 648**	2 753
Policy loans originated		**554**	581
Banking Group, Momentum and Discovery		**64 841**	61 322
Loans and receivables	16	**8 865**	8 694
Investments in associated companies	17	**2 815**	2 455
Derivative financial instruments	18	**45 485**	43 879
– qualifying for hedging		**4 798**	12 632
– trading		**40 687**	31 247
Taxation	26	**174**	–
Deferred taxation	19	**983**	982
Assets arrising from insurance contracts	22	**1 403**	772
Intangible assets	20	**660**	472
Property and equipment	21	**4 456**	4 068
Total assets		**424 821**	393 674
SHAREHOLDERS' EQUITY AND LIABILITIES			
Liabilities			
Deposits and current accounts	23	**219 061**	215 637
Non-recourse deposits		**6 515**	2 403
Current liabilities	24	**14 052**	17 150
Provisions	25	**1 345**	908
Taxation	26	**1 414**	1 430
Derivative financial instruments	27	**40 783**	46 657
– qualifying for hedging		**4 606**	12 632
– trading		**36 177**	34 025
Short trading positions	28	**23 286**	4 219
Deferred taxation	19	**2 155**	1 945
Retirement funding liabilities	29	**1 402**	1 293
Debentures and long-term liabilities	30	**7 104**	3 943
Policyholder liabilities		**81 969**	76 286
Policyholder liabilities under insurance contracts	31	**42 337**	39 710
Policyholder liabilities under investment contracts	32	**39 632**	36 576
Total liabilities		**399 086**	371 871
Outside shareholders' interest	33	**1 823**	1 010
SHAREHOLDERS' FUNDS			
Share capital and share premium	34	**6 767**	7 055
Reserves	35	**17 145**	13 738
– Distributable reserves		**15 105**	11 881
– Non-distributable reserves		**2 040**	1 857
Total shareholders' funds		**23 912**	20 793
Total shareholders' equity and liabilities		**424 821**	393 674
Contingencies and commitments	36	**23 443**	25 888

Cash flow statement / for the year ended 30 June

R million	Notes	**2004**	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	38.1	**16 312**	13 981
Working capital changes	38.2	**(11 844)**	4 520
Cash inflow from operations		**4 468**	18 501
Taxation paid	38.3	**(2 482)**	(1 332)
Dividends paid	38.4	**(1 956)**	(1 647)
Net cash inflow from operating activities		**30**	15 522
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Banking Group investment activities	38.5	**73**	(6 471)
Momentum and Discovery investment activities	38.6	**(6 275)**	(767)
Net purchase of property and equipment		**(1 265)**	(938)
Investment in associates		**(106)**	(391)
Net purchase of intangible assets		**(393)**	(41)
Net cash outflow from investment activities		**(7 966)**	(8 608)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(repayment of) long-term borrowings		**3 101**	(65)
Net cash inflow/(outflow) from financing activities		**3 101**	(65)
Net (decrease)/increase in cash and cash equivalents		**(4 835)**	6 849
Cash and cash equivalents at the beginning of the year		**45 088**	38 239
Cash and cash equivalents at the end of the year	38.7	**40 253**	45 088

Statement of changes in equity / for the year ended 30 June

R million	Share capital (Note 34)	Share premium (Note 34)	Retained earnings (Note 35)	Non-distributable reserves (Note 35)	Total shareholders' funds
Balance at 1 July 2002					
As previously stated	55	8 432	8 983	1 687	19 157
Consolidation of share trusts	(2)	(1 163)	125	(198)	(1 238)
Adjusted opening balance	53	7 269	9 108	1 489	17 919
Movement in revaluation reserves	–	–	–	823	823
Currency translation differences	–	–	–	(535)	(535)
Movement in other reserves	–	–	–	2	2
Earnings attributable to shareholders	–	–	4 584*	–	4 584
Dividends	–	–	(1 647)	–	(1 647)
Transfer (to)/from reserves	–	–	(96)	96	–
Consolidation of share trusts	†	(267)	(68)*	(18)	(353)
Balance at 30 June 2003	53	7 002	11 881	1 857	20 793
Balance at 1 July 2003	**53**	**7 002**	**11 881**	**1 857**	**20 793**
Movement in revaluation reserves	**–**	**–**	**–**	**(201)**	**(201)**
Currency translation differences	**–**	**–**	**–**	**(254)**	**(254)**
Movement in other reserves	**–**	**–**	**–**	**70**	**70**
Earnings attributable to shareholders	**–**	**–**	**5 781***	**–**	**5 781**
Realised loss on minority share buy-back	**–**	**–**	**(3)**	**–**	**(3)**
Dividends	**–**	**–**	**(1 956)**	**–**	**(1 956)**
Transfer (to)/from reserves	**–**	**–**	**(493)**	**493**	**–**
Consolidation of share trusts	**(1)**	**(287)**	**(105)***	**75**	**(318)**
Balance at 30 June 2004	**52**	**6 715**	**15 105**	**2 040**	**23 912**

† Less than R500 000

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

R million	2004	2003
Earnings attributable to shareholders per the income statement	**5 676**	4 516
Consolidation of share trusts	**105**	68
Earnings attributable to shareholders per above	**5 781**	4 584

R million	Reference	2004	2003
1. Accounting policies			
The accounting policies of the Group are set out on pages 74 to 75.			
2. Turnover			
Turnover is a concept not relevant to the business of the Group.			
3. Net income after tax attributable to shareholders			
Net income after tax is stated after charging the following:			
Directors' emoluments paid			
Executive directors			
Salaries, pension and medical aid contributions		**26**	22
Non-executive directors			
Fees for services as directors/consultants		**5**	4
		31	26
Directors' emoluments paid by:			
Company		**2**	2
Subsidiaries		**29**	24
		31	26
4. Momentum and Discovery: Operating profit after taxation			
Net premium income		**10 026**	10 529
Momentum	Momentum note 3	**6 621**	7 115
Discovery	Discovery note 3	**3 405**	3 414
Fees for asset manager services rendered		**1 280**	1 064
Momentum	Momentum pg 240	**1 280**	1 064
Investment income attributable to policyholders		**5 122**	5 002
Momentum	Momentum note 4	**5 045**	4 904
Discovery	Discovery note 6	**124**	123
Discovery	Discovery note 7	**(47)**	(25)
Policyholder benefits		**(7 498)**	(7 346)
Momentum	Momentum note 5	**(6 657)**	(5 980)
Discovery	Discovery note 4	**(841)**	(1 366)
Operating and administration expenses		**(3 291)**	(3 083)
Momentum	Momentum note 6	**(1 482)**	(1 419)
Discovery	Discovery note 5	**(1 495)**	(1 437)
Discovery	Discovery pg 306	**(314)**	(227)
Impairment of goodwill		**–**	(242)
Momentum	Momentum note 15	**–**	(242)
Commissions		**(1 452)**	(1 219)
Momentum	Momentum pg 240	**(876)**	(781)
Discovery	Discovery pg 306	**(576)**	(438)

R million	Reference	2004	2003
4. Momentum and Discovery: Operating profit after taxation *(continued)*			
Fair value adjustment to policyholder liabilities arising from investment contracts		**(3 208)**	(1 419)
Momentum	Momentum note 22	**(3 137)**	(1 483)
Discovery	Discovery note 22	**(71)**	64
Realised and unrealised investment surpluses		**3 377**	(1 553)
Momentum	Momentum pg 240	**3 371**	(1 450)
Discovery	Discovery pg 306	**68**	(77)
Discovery	Discovery note 8	**(62)**	(17)
Intergroup goodwill write off		**–**	(9)
Direct taxation		**(661)**	(566)
Momentum	Momentum note 8	**(362)**	(386)
Discovery	Discovery note 10	**(299)**	(180)
Indirect taxation		**(134)**	(139)
Momentum	Momentum note 8	**(134)**	(137)
Discovery	Discovery note 10	**–**	(2)
Abnormal items		**–**	120
Discovery	Discovery note 9	**–**	120
Transfer to policyholder liabilities under insurance contacts		**(2 328)**	(427)
Momentum	Momentum note 21	**(2 857)**	(831)
Discovery	Discovery note 17	**529**	404
Earnings attributable to outside shareholders		**(220)**	(127)
Momentum	Momentum pg 240	**(73)**	(8)
Discovery	Discovery pg 306	**(3)**	6
FirstRand Group consolidation of Discovery		**(144)**	(125)
Operating profit after taxation		**1 013**	594
5. Dividends			
Ordinary dividends			
An interim dividend of 19.25 cents (2003: 16.5 cents) per share was declared on 2 March 2004 in respect of the six months ended 31 December 2003.		**1 051**	899
A final dividend of 26.75 cents (2003: 18.5 cents) per share was declared on 14 September 2004 in respect of the six months ended 30 June 2004.		**1 465**	1 010
		2 516	1 909

R million	Reference	**2004**	2003
6. Earnings per share			
Attributable earnings			
Earnings per share is based on the net income after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.			
Earnings attributable to ordinary shareholders amounted to R5 676 million (2003: R4 516 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 192 070 171 (2003: 5 241 302 320). The weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share amounted to 5 317 088 855 (2003: 5 343 711 238).			
Headline earnings			
Headline earnings per share is based on the net income after tax attributable to ordinary shareholders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.			
Headline earnings reconciliation			
Net income after tax attributable to ordinary shareholders		**5 676**	4 516
Add: Amortisation of goodwill		**58**	104
Add: Impairment of goodwill		**–**	242
Add: Loss on disposal of assets		**92**	35
(Less)/Add: Realised (profit)/loss on sale of available for sale financial instruments		**(99)**	5
Less: Abnormal profit on release of reserves – Discovery		**–**	(55)
Headline earnings		**5 727**	4 847
Add: Foreign currency translation loss on integrated foreign operations-Banking Group		**370**	532
Headline earnings excluding currency translation losses		**6 097**	5 379
7. Cash and short-term funds			
Banking Group	Banking note 8	**25 104**	29 252
8. Advances			
Banking Group	Banking note 10	**210 414**	189 611
Consolidation adjustment		**15**	15
Consolidation of share trusts		**(1 555)**	(1 514)
		208 874	188 112
9. Investment securities and other investments			
Banking Group	Banking note 12	**36 007**	36 146
Consolidation adjustment		**(10)**	(10)
Consolidation of share trusts		**134**	243
		36 131	36 379
10. Non-recourse investments			
Banking Group	Banking note 14	**6 515**	2 403

R million	Reference	2004	2003
11. Cash and cash equivalents			
FirstRand Limited	FirstRand Ltd pg 98	**14**	7
Momentum	Momentum pg 241	**14 495**	15 258
Discovery	Discovery pg 307	**998**	1 469
Consolidation adjustment		**(358)**	(898)
		15 149	15 836
12. Government and public authority stocks			
Momentum – available-for-sale	Momentum pg 241	**497**	44
Discovery – available-for-sale	Discovery pg 307	**130**	54
		627	98
Momentum – elected fair value	Momentum pg 241	**12 444**	12 422
Discovery – elected fair value	Discovery pg 307	**52**	54
		12 496	12 476
13. Debentures and other loans			
Momentum – available-for-sale	Momentum pg 241	**523**	556
Consolidation of share trusts		**(448)**	(437)
		75	119
Momentum – elected fair value	Momentum pg 241	**7 958**	9 973
Discovery – elected fair value	Discovery note 15.2	**77**	74
		8 035	10 047
14. Equity investments			
Momentum – held-to-maturity	Momentum note 10	**749**	681
Momentum – available-for-sale	Momentum note 10	**1 313**	1 120
Discovery – available-for-sale	Discovery note 13	**602**	217
Consolidation adjustment		**(250)**	–
		1 665	1 337
Momentum – elected fair value	Momentum note 10	**39 537**	31 675
Discovery – elected fair value	Discovery note 13	**251**	224
Consolidation adjustment		**(132)**	(130)
		39 656	31 769
15. Investment properties			
Momentum	Momentum note 12	**3 648**	2 753
16. Loans and receivable			
FirstRand Limited	FirstRand Ltd pg 98	**275**	307
Banking Group	Banking note 15	**2 796**	3 196
Momentum	Momentum note 13	**5 682**	6 162
Discovery	Discovery note 15.1	**353**	217
FirstRand Investment Holdings Group		**3**	–
Consolidation adjustment		**(7)**	(946)
Consolidation of share trusts		**(237)**	(242)
		8 865	8 694

R million	Reference	2004	2003
17. Investments in associated companies			
Banking Group	Banking note 16	**2 208**	1 915
Momentum	Momentum note 11	**605**	536
Discovery	Discovery note 14	**2**	4
		2 815	2 455
18. Derivative financial instruments			
Banking Group	Banking note 9	**34 415**	36 375
Momentum	Momentum note 25	**11 070**	7 504
		45 485	43 879
19. Deferred taxation			
Banking Group – debit balances	Banking note 7	**918**	931
Momentum – debit balances	Momentum note 14	**55**	44
Discovery – debit balances	Discovery note 16	**10**	7
		983	982
Banking Group – credit balances	Banking note 7	**1 723**	1 721
Momentum – credit balances	Momentum note 14	**304**	198
Discovery – credit balances	Discovery note 16	**128**	26
		2 155	1 945
20. Intangible assets			
FirstRand Limited	FirstRand Ltd note 5	**47**	–
Banking Group	Banking note 19	**451**	205
Momentum	Momentum note 15	**230**	321
Discovery	Discovery note 18	**38**	36
Consolidation adjustment		**(106)**	(90)
		660	472
21. Property and equipment			
Banking Group	Banking note 17	**3 839**	3 455
Momentum	Momentum note 16	**416**	392
Discovery	Discovery note 19	**201**	221
		4 456	4 068
22. Assets arising from insurance contracts			
Banking Group	Banking note 20	**85**	–
Discovery	Discovery note 17	**1 318**	772
		1 403	772
23. Deposits and current accounts			
Banking Group	Banking note 21	**219 371**	215 693
Consolidation adjustment		**(310)**	–
Consolidation of share trusts		**–**	(56)
		219 061	215 637

R million	Reference	2004	2003
24. Current liabilities			
FirstRand Limited	FirstRand Ltd pg 98	**303**	321
Banking Group	Banking note 23	**7 715**	11 888
Momentum	Momentum note 17	**3 962**	3 759
Discovery	Discovery note 20	**578**	547
Discovery	Discovery note 23.1	**–**	876
FirstRand Investment Holdings Group		**116**	–
Consolidation adjustment		**1 625**	7
Consolidation of share trusts		**(247)**	(248)
		14 052	17 150
25. Provisions			
Banking Group	Banking note 24	**1 347**	976
Momentum	Momentum note 18	**159**	99
Discovery	Discovery note 21	**22**	16
Consolidation of share trust		**(183)**	(183)
		1 345	908
26. Taxation			
FirstRand Limited – credit balances	FirstRand Ltd pg 98	**19**	1
FirstRand Investment Holdings Group – credit balances		**1**	–
Banking Group – credit balances	Banking pg 157	**1 351**	1 091
Momentum – credit balances	Momentum pg 241	**–**	294
Discovery – credit balances	Discovery pg 307	**43**	44
		1 414	1 430
Momentum – debit balances	Momentum pg 241	**174**	–
27. Derivative financial instruments			
Banking Group	Banking note 9	**34 427**	43 103
Momentum	Momentum note 25	**6 356**	3 554
		40 783	46 657
28. Short trading positions			
Banking Group	Banking note 22	**23 286**	4 219
29. Retirement funding liabilities			
Banking Group	Banking note 18	**1 111**	1 004
Momentum	Momentum note 19	**291**	289
		1 402	1 293

R million	Reference	2004	2003
30. Debentures and long-term liabilities			
FirstRand Limited	FirstRand Ltd note 8	**386**	686
Banking Group	Banking note 25	**5 078**	2 910
Momentum	Momentum note 20	**2 498**	2 408
Discovery	Discovery note 23.2	**316**	281
FirstRand Investment Holdings Group	Refer below	**1 405**	–
Consolidation adjustment		**(2 193)**	(1 656)
Consolidation of share trusts		**(386)**	(686)
		7 104	3 943
During July 2003 the Group raised R1 405 million through the issue of preference shares.This issue was made to facilitate the restructuring of Momentum's balance sheet and the transfer of the investment in Discovery from Momentum to FirstRand Limited.			
The Momentum investment in Discovery comprised an existing shareholding and Momentum's portion of the Discovery rights issue on 28 July 2003.			
The total number of shares held in Discovery as at 30 June 2004 total to 337 060 024 at a cost of R1 326.8 million. This represent a 65.6% shareholding in Discovery Limited.			
The acquisition was financed through the issue of 14 055 cumulative redeemable preferences shares with a nominal value of 1 cent per share issued at a premium of R99 999.99. These preference shares were issued at a dividend rate of 67% of Prime. They have been classified as long-term liabilities and comprise the following:			
2 750 Preference shares subscribed for by the Banking Group		**275**	–
2 500 Preference shares subscribed for by Momentum		**250**	–
8 805 Preference shares subscribed for by third and related parties (refer note 37)		**880**	–
		1 405	–
31. Policyholder liabilities under insurance contracts			
Banking Group	Banking note 20	**77**	–
Momentum	Momentum note 21	**42 207**	39 674
Discovery	Discovery note 17	**42**	25
Consolidation adjustment		**11**	11
		42 337	39 710
32. Policyholder liabilities under investment contracts			
Momentum	Momentum note 22	**39 373**	36 342
Discovery	Discovery note 22	**400**	370
Consolidation adjustment		**(141)**	(136)
		39 632	36 576
33. Outside shareholders' interest			
Banking Group	Banking pg 157	**898**	549
Momentum	Momentum pg 241	**21**	23
Discovery	Discovery note 24	**67**	67
Consolidation adjustment		**837**	371
		1 823	1 010

R million	2004	2003
34. Share capital and share premium		
Share capital		
Authorised		
5 928 000 000 ordinary shares of 1 cent each (2003: 6 228 000 000)	**59**	62
272 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each (2003: 272 000 000)	**3**	3
100 000 000 "B" variable rate, non-cumulative, non-redeemable preference shares of 1 cent each (2003: nil)	**1**	–
100 000 000 "C" variable rate, convertible, non-cumulative redeemable preference shares of 1 cent each (2003: nil)	**1**	–
100 000 000 "D" variable rate, cumulative, redeemable preference shares of 1 cent each (2003: nil)	**1**	–

	Number of ordinary shares	Number of preference shares	Share capital R million	Share premium R million	Total R million
Issued					
Balance at 1 July 2002 as previously stated					
Ordinary shares of 1 cent each	5 445 303 089		55	8 432	8 487
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		135 520 000	1	1 097	1 098
Opening balance of treasury shares					
Treasury shares: ordinary shares of 1 cent each	(201 927 348)		(2)	(1 163)	(1 165)
Restated balance at 1 July 2002					
Ordinary shares of 1 cent each	5 243 375 741		53	7 269	7 322
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		135 520 000	1	1 097	1 098
Shares issued during the year					
Ordinary shares of 1 cent each	15 017 941		–	–	–
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		17 700 000	–	116	116
Shares redeemed during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(19 364 559)	–	(280)	(280)
Shares converted during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(15 017 941)	–	–	–
Current year movement in treasury shares					
Ordinary shares of 1 cent each	(30 734 019)		–	(267)	(267)
Balance at the end of the year					
Ordinary shares of 1 cent each			53	7 002	7 055
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each			1	933	934
Preference shares disclosed under liabilities			(1)	(933)	(934)
Total share capital at 30 June 2003	5 227 659 663	118 837 500	53	7 002	7 055

	Number of ordinary shares	Number of preference shares	Share capital R million	Share premium R million	Total R million
34. Share capital and share premium *(continued)*					
Balance at 1 July 2003					
Ordinary shares of 1 cent each	**5 227 659 663**		**53**	**7 002**	**7 055**
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		**118 837 500**	**1**	**933**	**934**
Shares issued during the year					
Ordinary shares of 1 cent each	**16 053 803**		**–**	**–**	**–**
Shares redeemed during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		**(21 058 697)**	**–**	**(301)**	**(301)**
Shares converted during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		**(16 053 803)**	**–**	**–**	**–**
Current year movement in treasury shares					
Ordinary shares of 1 cent each	**(17 064 061)**		**(1)**	**(287)**	**(288)**
Balance at the end of the year					
Ordinary shares of 1 cent each			**52**	**6 715**	**6 767**
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each			**1**	**632**	**633**
Preference shares disclosed under liabilities			**(1)**	**(632)**	**(633)**
Total share capital at 30 June 2004	**5 226 649 405**	**81 725 000**	**52**	**6 715**	**6 767**

	2004 %	2003 %
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:		
Momentum Group Limited – held on behalf of policyholders	**1.9**	2.0
Share option schemes		
Details of the investment in FirstRand Limited by the share incentive schemes in existence within the Group are set out in note 39.		

R million	2004	2003
35. Reserves		
Distributable reserves		
Retained earnings at the beginning of the year as previously stated	**11 881**	8 983
Consolidation of share trusts adjustment to opening balance	**–**	125
Restated balance at the beginning of the year	**11 881**	9 108
Earnings attributable to ordinary shareholders	**5 676**	4 516
Realised loss on minority share buy-back	**(3)**	–
Dividend for the year	**(1 956)**	(1 647)
Transfer to non-distributable reserves	**(493)**	(96)
Retained earnings at the end of the year	**15 105**	11 881
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking Group	**1 645**	1 909
General risk reserve	**1 146**	901
Revaluation reserve	**317**	689
Currency translation reserve	**4**	303
Other	**178**	16
Momentum	**306**	140
Revaluation reserve	**155**	20
Currency translation reserve	**106**	72
Reserve on capitalisation of subsidiary	**51**	51
Other	**(6)**	(3)
Discovery	**74**	22
Revaluation reserve	**33**	(3)
Currency translation reserve	**45**	34
Other	**(4)**	(9)
FirstRand Investment Holdings Group		
Other	**6**	–
FirstRand Limited		
Capital redemption reserve	**148**	–
FirstRand Share Trusts	**(139)**	(214)
Non-distributable reserves at the end of the year	**2 040**	1 857
Total reserves	**17 145**	13 738
Movement for the year in non-distributable reserves		
Balance at the beginning of the year as previously stated	**1 857**	1 687
Consolidation of share trusts adjustment to opening balance	**–**	(198)
Restated balance at the beginning of the year	**1 857**	1 489
Transfer from retained earnings relating to Banking Group	**94**	(42)
Transfer from retained earnings to FirstRand Investment Holdings Group	**6**	–
Transfer to Capital redemption reserve fund	**148**	–
General risk reserve	**245**	138
Revaluation reserve	**(201)**	823
Currency translation reserve	**(254)**	(535)
Other	**70**	2
Consolidation of share trusts	**75**	(18)
Non-distributable reserves at the end of the year	**2 040**	1 857

R million	Reference	2004	2003
36. Contingencies and commitments			
Banking Group	Banking note 28	**23 443**	25 883
FirstRand Limited	FirstRand Ltd pg 98	**–**	5
		23 443	25 888

37. Related parties

Major shareholders

The major shareholders of FirstRand Limited are RMB Holdings Limited and Remgro Limited. Both of these companies are incorporated in South Africa.

Transactions with major shareholders and with share trusts

Interest free loans to share trusts amounted to R2 674 million (2003: R2 962 million) and have been eliminated on consolidation. For details of options granted by share trusts refer to note 39.

Loans advanced to RMB Holdings Limited amounted to R nil (2003: R71 million) and loans received amounted to R551 million (2003: R nil). Income received from RMB Holdings Limited amounted to R1 million (2003: R15 million) and expenses paid to R6 million (2003: R4 million).

Deposits received from the Remgro Limited Group amounted to R290 million (2003: R411 million).

Transactions with directors

Directors' emoluments are detailed in note 3 and pages 80 and 107. Transactions with directors are entered into in the normal course of business.

In addition to emoluments, trusts under the control of directors subscribed for R13 million of cumulative redeemable preference shares, detailed in note 30 and received dividends of R1 million on these preference shares.

Transactions with entities in the Group

FirstRand Limited is the ultimate controlling entity in the Group. The company advanced, repaid and received loans from other entities in the Group during the current and previous financial years. These loans have been eliminated upon consolidation.

Fixed interest securites and derivative instruments

The Momentum Group invests from time to time in fixed interest securities and equity instruments issued by FirstRand Bank. These assets are acquired at market rates in accordance with the Group accounting policy. Due to the fact that these assets are acquired to back liabilities to policyholders under unmatured policies, they are not eliminated upon consolidation. At 30 June 2004 Momentum Group reflected assets with FirstRand Bank of R9 096 million and liabilities of R6 290 million (2003: assets of R7 515 million and liabilities of R550 million). The shareholding of Momentum Group in FirstRand Limited is detailed in note 34.

R million	2004	2003
38. Cash flow information		
38.1 Cash generated by operations		
Net income before tax attributable to ordinary shareholders	**12 457**	6 837
Adjustment for non-cash items and taxation	**3 855**	7 144
	16 312	13 981
38.2 Working capital changes		
Net increase in current assets	**(1 492)**	(11 684)
Net (decrease)/increase in current liabilities	**(10 352)**	16 204
Net working capital changes	**(11 844)**	4 520
38.3 Taxation paid		
Balance at the beginning of the year	**(1 430)**	(508)
Taxation charged for the year	**(2 292)**	(2 254)
Balance at the end of the year	**1 240**	1 430
Taxation paid	**(2 482)**	(1 332)

R million	2004	2003
38. Cash flow information *(continued)*		
38.4 Dividends paid		
Final dividend declared on:		
– 16 September 2003 in respect of the year ended 30 June 2003	**(1 010)**	
– 16 September 2002 in respect of the year ended 30 June 2002		(816)
Interim dividend declared on:		
– 2 March 2004 in respect of the period ended 31 December 2003	**(1 051)**	
– 26 February 2003 in respect of the period ended 31 December 2002		(899)
Dividends paid on treasury shares	**105**	68
	(1 956)	(1 647)
38.5 FirstRand Banking Group investment activities		
(Increase)/decrease in investment securities and other investments	**(1 081)**	4 367
Increase in advances	**(24 435)**	(19 215)
	(25 516)	(14 848)
Deposits and current accounts	**38 685**	(8 931)
Short trading positions	**(13 096)**	17 308
Net decrease/(increase) in Banking Group investment activities	**73**	(6 471)
38.6 Momentum and Discovery investment activities		
Cash (outflow)/inflow from:		
Government and public authority stocks	**(1 115)**	(1 299)
Debentures and other loans	**1 410**	(2 936)
Policy loans	**27**	(1)
Equity investments	**(5 356)**	3 120
Property investments	**(778)**	161
Derivative instruments	**(764)**	(746)
Loans	**301**	934
Net increase in Momentum and Discovery investment activities	**(6 275)**	(767)
38.7 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and short-term funds	**25 104**	29 252
Funds on deposit	**15 149**	15 836
	40 253	45 088

39. Share option schemes

Details of the investment in FirstRand Limited by the share incentive schemes in existence within the Group are set out below. These schemes comprise the Momentum Life Assurers Limited Share Trust (Momentum Life), the Southern Life Association Limited Share Scheme (Southern Life), the First National Bank Share Purchase/Option Scheme (FNB) and the FirstRand Limited Share Trust (FirstRand).

Details of the investment in RMB Holdings Limited by the RMB Share Trust (RMB) have also been set out below as this scheme is operated for the benefit of employees of companies within the FirstRand Group.

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Share Option Schemes 2004					
Number of options in force at the beginning of the year (millions)	19.3	4.7	45.2	176.0	26.5
Granted at prices ranging between (cents)	527 – 990	348 – 1 029	225 – 1 069	655 – 861	250 – 1 450
Number of options granted during the year (millions)	–	–	–	76.0	–
Granted at prices ranging between (cents)	–	–	–	685 – 1 015	–
Number of options exercised/released during the year (millions)	(18.7)	(2.1)	(23.1)	(10.4)	(15.5)
Market value range at date of exercise/release (cents)	532 – 1 020	348 – 1 040	225 – 1 037	655 – 1 040	1 194 – 1 617
Number of options cancelled/lapsed during the year (millions)	(0.5)	–	(0.2)	(13.3)	(8.3)
Granted at prices ranging between (cents)	527 – 591	348 – 648	628 – 690	655 – 772	1 184 – 1 450
Number of options in force at the end of the year (millions)	0.1	2.6	21.9	228.3	2.7
Granted at prices ranging between (cents)	532 – 867	348 – 1 029	325 – 1 069	655 – 1 015	300 – 1 350
Options are exercisable over the following periods (first date able to release)					
Financial year 2004/2005 (millions)	*	2.6	21.7	19.6	2.7
Financial year 2005/2006 (millions)	*	–	0.2	29.3	–
Financial year 2006/2007 (millions)	–	–	*	54.5	–
Financial year 2007/2008 (miilions)	–	–	–	51.3	–
Financial year 2008/2009 (millions)	–	–	–	49.4	–
Financial year 2009/2010 (millions)	–	–	–	24.2	–
Total	0.1	2.6	21.9	228.3	2.7
Options outstanding (by expiry date)					
Financial year 2004/2005 (millions)	–	–	–	–	1.4
Financial year 2005/2006 (millions)	–	0.5	0.3	–	1.0
Financial year 2006/2007 (millions)	–	0.2	0.8	74.4	0.3
Financial year 2007/2008 (millions)	–	–	9.2	5.7	–
Financial year 2008/2009 (millions)	–	1.9	1.3	75.6	–
Financial year 2009/2010 (millions)	*	–	10.0	72.6	–
Financial year 2010/2011 (millions)	*	–	0.3	–	–
Total	0.1	2.6	21.9	228.3	2.7
Total options outstanding – in the money (millions)	0.1	2.5	21.8	228.3	2.7
Total options outstanding – out of the money (millions)	–	0.1	0.1	–	–
Total	0.1	2.6	21.9	228.3	2.7
Number of participants	5	239	300	1 745	47

* *Less than R100 000.*

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
39. Share option schemes *(continued)*					
Share Option Schemes 2003					
Number of options in force at the beginning of the year (millions)	28.2	8.0	53.1	100.9	31.5
Granted at prices ranging between (cents)	527 – 990	256 – 1 029	173 – 1 026	674 – 861	250 – 1 625
Number of options granted during the year (millions)	–	–	–	82.8	–
Granted at prices ranging between (cents)	–	–	–	655 – 785	–
Number of options exercised/released during the year (millions)	(7.5)	(0.3)	(7.5)	–	(3.5)
Market value range at date of exercise/release (cents)	625 – 810	625 – 689	617 – 807	–	910 – 1 142
Number of options cancelled/lapsed during the year	(1.4)	(3.0)	(0.4)	(7.7)	(1.5)
Granted at prices ranging between (cents)	591 – 910	233 – 689	690	655 – 785	825 – 1 625
Number of options in force at the end of the year (millions)	19.3	4.7	45.2	176.0	26.5
Granted at prices ranging between (cents)	527 – 990	348 – 1 029	225 – 1 069	655 – 861	250 – 1 450
Options are exercisable over the following periods (first date able to release)					
Financial year 2003/2004 (millions)	19.3	4.7	37.5	29.5	26.1
Financial year 2004/2005 (millions)	–	–	7.0	31.6	0.4
Financial year 2005/2006 (millions)	–	–	0.2	58.7	–
Financial year 2006/2007 (millions)	–	–	0.5	29.2	–
Financial year 2007/2008 (millions)	–	–	–	27.0	–
Total	19.3	4.7	45.2	176.0	26.5
Options outstanding (by expiry date)					
Financial year 2003/2004 (millions)	19.2	0.9	2.6	–	22.4
Financial year 2004/2005 (millions)	0.1	1.1	0.8	–	2.6
Financial year 2005/2006 (millions)	–	0.2	2.0	88.4	1.2
Financial year 2006/2007 (millions)	–	0.1	16.4	6.5	0.3
Financial year 2007/2008 (millions)	–	2.4	2.9	81.1	–
Financial year 2008/2009 (millions)	–	–	20.0	–	–
Financial year 2009/2010 (millions)	–	–	0.5	–	–
Total	19.3	4.7	45.2	176.0	26.5
Total options outstanding – in the money (millions)	19.2	4.6	43.7	172.7	17.2
Total options outstanding – out of the money (millions)	0.1	0.1	1.5	3.3	9.3
Total	19.3	4.7	45.2	176.0	26.5
Number of participants	325	369	568	1 419	249

39. Share option schemes *(continued)*

RMB Preference Share Scheme

RMB had a share purchase scheme for employees, which was discontinued after the establishment of FirstRand Limited and the subsequent Outperformance Share Incentive Scheme for the FirstRand Group. RMB Holdings shares were purchased and housed in special purpose companies established for this purpose, which companies were financed by the issue of fixed rate preference shares taken up by the RMB Share Trust. The cost is included in the company loan account to the trust. The initial investment period was five years but can be extended by a further two years.

	2004	2003
Number of RMBH shares in SPV companies at the beginning of the year (millions)	**5.1**	6.5
Purchased at prices ranging between (cents)	**900 – 1 327**	900 – 1 335
Number of shares repurchased by share trust (resignation)	**–**	(0.2)
Number of shares released during the year (millions) (preference shares redeemed)	**(2.5)**	(1.2)
Number of RMBH shares in SPV companies at the end of the year (millions)	**2.6**	5.1
Purchased at prices ranging between (cents)	**900 – 1 327**	900 – 1 327
Cost price of shares in special purpose companies at the beginning of the year (R million)	**57.2**	74.0
Cost price of shares repurchased by the share trust (resignation)	**–**	(2.5)
Cost price of shares released during the year (R million) (preference shares redeemed)	**31.6**	(14.3)
Cost price of shares in special purpose companies at the end of the year (R million)	**25.6**	57.2
Market value of shares in special purpose companies at the end of the year (R million)	**41.5**	54.5
Preference shares are redeemable over the following periods (by first date)		
Financial year 2003/2004 (millions)	**2.3**	4.8
Financial year 2004/2005 (millions)	**0.3**	0.3
Total	**2.6**	5.1
Preference shares outstanding (by final redemption date)		
Financial year 2003/2004 (millions)	**–**	1.1
Financial year 2004/2005 (millions)	**1.4**	1.4
Financial year 2005/2006 (millions)	**0.9**	2.3
Financial year 2006/2007 (millions)	**0.3**	0.3
Total	**2.6**	5.1
Total shares outstanding – in the money (millions)	**2.6**	1.7
Total shares outstanding – out of the money (millions)	**–**	3.4
Total	**2.6**	5.1
Number of participants	**17**	35

39. Share option schemes *(continued)*

FirstRand Outperformance Share Incentive Scheme

Convertible, redeemable “A” preference shares issued by FirstRand Limited are taken up by SPV companies of employees established for this purpose. These companies are financed by the issue of redeemable preference shares at the ruling market rates to the FirstRand Limited Share Trust, which in turn is funded by an equivalent loan from FirstRand Limited. These preference shares are convertible in four equal tranches after three years. At the time of conversion bonus shares are awarded in terms of a formula based on the level of outperformance achieved by FirstRand Limited ordinary shares versus the FINI 15 Index over the same period. The underlying preference shares are redeemed at par or converted into ordinary shares at the then ruling market price should the market price of ordinary shares be lower than the market price upon issue of the preference shares, or should there be no outperformance for any particular conversion period.

If there is value at the conversion date the “A” preference shares are converted into ordinary shares that, together with the bonus shares, will be obtained by way of a fresh issue of new ordinary shares. The number of ordinary shares into which the “A” preference shares are converted is the amount of preference share capital originally subscribed for divided by the then ruling market price. The number of bonus shares are awarded in terms of a formula as mentioned above and would, for illustrative purposes, equate to 0.27 ordinary shares per preference share assuming an annual 5% outperformance over and above an annual 5% increase in the index over four years and assuming that the market price of ordinary shares was higher than the market price upon issue of the preference shares.

The maximum number of ordinary shares into which a preference share may be converted, is one. The total number of “A” preference shares issued and redeemed during the period is dealt with under share capital. The loan to the share trust is equavalent to the total preference share capital and share premium account plus accrued preference share dividend.

	2004	2003
Number of “A” preference shares at the beginning of the year (millions)	**118.8**	135.5
Purchased at prices ranging between (cents)	**654 – 815**	654 – 815
Number of shares redeemed during the year (millions) (resignations)	**(9.0)**	(5.1)
Number of shares issued during the year (millions)	**–**	17.7
Number of shares converted/redeemed during the year (millions)	**(28.1)**	(29.3)
Number of “A” preference shares at the end of the year (millions)	**81.7**	118.8
Purchased at prices ranging between (cents)	**654 – 815**	654 – 815
Preference shares are redeemable over the following periods:		
Financial year 2003/2004 (millions)	**–**	30.8
Financial year 2004/2005 (millions)	**30.3**	33.0
Financial year 2005/2006 (millions)	**34.5**	37.4
Financial year 2006/2007 (millions)	**6.3**	6.6
Financial year 2007/2008 (millions)	**6.3**	6.6
Financial year 2008/2009 (millions)	**4.3**	4.4
Total	**81.7**	118.8
Number of participants	**222**	229

40. Comparative figures

Comparative figures have been restated where necessary to afford proper comparison. The table below summarises these changes.

R million	As restated	As originally stated	Difference	Reason
Advances				
– orginated	130 436	135 062	(4 626)	The restatement is due to the net of the following: – Consolidation of share trusts (–) R1 515 million, elimination of loans – (–) R3 111 million impairment previously disclosed separately
– held-to-maturity	9 562	9 753	(191)	Balance disclosed net of impairment of (–) R191 million previously disclosed separately.
– *Less:* Impairments	–	(3 302)	3 302	Impairment previously disclosed separately-balances disclosed net of impairment.
Financial instruments held for trading	10 870	11 379	(509)	Commodity instruments have been disclosed separately.
Investment securities	25 509	25 266	243	Consolidation of share trusts – investment in RMB Holdings (Pty) Ltd shares brought on balance sheet.
– available-for-sale	21 451	21 208	243	Refer above.
Commodities	509	–	509	Reallocated from "Financial instruments held for trading".
Debentures and other loans	10 166	10 759	(593)	Consolidation of share trusts – elimination of loans granted.
Equity investments	33 787	33 793	(6)	The restatement is due to the net of the following: – Consolidation of share trusts (–) R9 million – (+) R3 million reallocated from "Investments in associates"
Loans and receivables	8 694	8 926	(232)	The restatement is due to the net of the following: – Consolidation of share trusts (–) R240 million – (+) R8 million re-allocation of debit balances previously disclosed as part of "Current liabilities"
Loan	–	686	(686)	Consolidation of share trusts – elimination of long-term portion of Outperformance loan.
Investment in associated companies	2 455	2 458	(3)	(–) R3 million reallocated to "Equity Investments".
Assets arising from insurance contracts	772	–	772	"Assets arising from insurance contracts" disclosed separately, previously disclosed as part of "Policyholder liabilities under insurance contracts".
Deposits and current accounts	215 637	186 031	29 606	The restatement is due to the net of the following: – Consolidation of share trusts – elimination of deposit of FirstRand Limited Share Trust (–) R56 million – Reallocation of negotiable deposits (+) R29 662 million
Current liabilities	17 150	17 335	(185)	The restatement is due to the net of the following: – Consolidation of share trusts – elimination of short-term portion of preference shares issued by FirstRand Limited (–) R247 million – (+) R53 million refer "Policyholders liabilities under insurance contracts" – (+) R8 million refer "Loans and receivables"

40. Comparative figures *(continued)*

R million	As restated	As originally stated	Difference	Reason
Provisions	908	1 092	(184)	Consolidation of share trusts – elimination of specific provisions.
Debentures and long-term liabilities	3 943	4 645	(702)	The restatement is due to the net of the following: – Consolidation of share trust – elimination of long-term portion of preference shares issued by FirstRand Limited (–) R686 million – (–)R16 million previously disclosed as part of "Debentures and long-term liabilities" reallocated to "Policyholder liabilities under insurance contracts"
Policyholder liabilities under insurance contracts	39 710	38 975	735	The restatement is due to the net of the following: – "Assets arising under insurance contracts" of (+) R772 million previously disclosed as part of "Policyholder liabilities under insurance contracts" now disclosed separately – (–) R53 million provision for claims reallocated to "Current liabilities" – (+) R16 million Discovery liabilities arising from reinsurance contracts reallocated from "Debentures and long-term liabilities"
Outside shareholders' interest	1 010	1 145	(135)	The restatement is due to the net of the following: – Restatement of R96 million due to consolidation of share trusts – R39 million due to restatement by Discovery of their outside shareholders interest of Destiny Health
Share capital and share premium	7 055	8 487	(1 432)	Consolidation of share trusts – treasury shares eliminated against issued share capital.
Distributable reserves	11 881	11 766	115	Consolidation of share trusts.
Non-distributable reserves	1 857	2 033	(176)	The restatement is due to the net of the following: – Consolidation of share trusts (–) R215 million – Discovery outside shareholders interest of (+) R39 million Refer to "Outside shareholders interest"
Earnings attributable to ordinary shareholders	4 516	4 594	(78)	Restatement due to consolidation of share trusts.

FirstRand Limited

Income statement / for the year ended 30 June

		Company	
R million	Notes	**2004**	2003
Net investment income	1	**5 909**	4 640
Management and administration expenses	2	**(42)**	(44)
Income before taxation		**5 867**	4 596
Taxation	3	**(107)**	(12)
Earnings attributable to ordinary shareholders	10	**5 760**	4 584

Balance sheet / as at 30 June

		Company	
R million	Notes	**2004**	2003
ASSETS			
Investments			
Funds on deposit		**14**	7
Investment in subsidiaries	12	**25 572**	22 264
Total investments		**25 586**	22 271
Current assets		**275**	307
Intangible assets	5	**47**	–
Loan to share trust	6	**386**	686
Deferred tax asset	3	**8**	–
Total assets		**26 302**	23 264
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Current liabilities		**303**	321
Derivative financial instruments	7	**27**	–
Long-term liabilities	8	**386**	686
Taxation		**19**	1
Total liabilities		**735**	1 008
Shareholders' funds			
Share capital and share premium	9	**8 487**	8 487
Reserves	10	**17 080**	13 769
Total shareholders' funds		**25 567**	22 256
Total liabilities and shareholders' funds		**26 302**	23 264
Contingencies		**–**	5

Cash flow statement / for the year ended 30 June

		Company	
R million	Notes	**2004**	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	11.1	**2 456**	1 698
Working capital changes	11.2	**(35)**	10
Cash inflow from operations		**2 421**	1 708
Taxation paid	11.3	**(97)**	(12)
Dividends paid	11.4	**(2 061)**	(1 715)
Net cash inflow/(outflow) from operating activities		**263**	(19)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in subsidiaries		**(1 326)**	21
Loan to subsidiaries		**(3)**	–
Net cash (outflow)/inflow from investment activities		**(1 329)**	21
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from subsidiaries		**1 073**	–
Net cash inflow from financing activities		**1 073**	–
Increase in cash and cash equivalents		**7**	2
Cash and cash equivalents at the beginning of the year		**7**	5
Cash and cash equivalents at the end of the year		**14**	7

FirstRand Limited

Statement of changes in equity / for the year ended 30 June

R million	Share capital (Note 9)	Share premium (Note 9)	Retained earnings (Note 10)	Non-distributable reserves (Note 10)	Total shareholders' funds
Balance at 1 July 2002					
As previously stated	55	8 432	8 983	1 687	19 157
Consolidation of share trusts by subsidiary	–	–	(58)	(2)	(60)
Adjusted opening balance	55	8 432	8 925	1 685	19 097
Movement in revaluation reserves	–	–	–	823	823
Currency translation differences	–	–	–	(535)	(535)
Movement in other reserves	–	–	–	2	2
Earnings attributable to shareholders	–	–	4 584	–	4 584
Dividends	–	–	(1 715)	–	(1 715)
Transfer (to)/from reserves	–	–	(96)	96	–
Balance at 30 June 2003	55	8 432	11 698	2 071	22 256
Balance at 1 July 2003	**55**	**8 432**	**11 698**	**2 071**	**22 256**
Movement in revaluation reserves	**–**	**–**	**–**	**(201)**	**(201)**
Currency translation differences	**–**	**–**	**–**	**(254)**	**(254)**
Movement in other reserves	**–**	**–**	**–**	**70**	**70**
Earnings attributable to shareholders	**–**	**–**	**5 760**	**–**	**5 760**
Realised loss on minority share buy-back	**–**	**–**	**(3)**	**–**	**(3)**
Dividends	**–**	**–**	**(2 061)**	**–**	**(2 061)**
Transfer (to)/from reserves	**–**	**–**	**(493)**	**493**	**–**
Balance at 30 June 2004	**55**	**8 432**	**14 901**	**2 179**	**25 567**

R million	Company 2004	2003
1. Net investment income		
Net investment income earned in respect of:		
Preference share dividends received	**67**	120
Preference share dividends paid	**(67)**	(120)
Investment income earned from subsidiaries:		
Equity accounted earnings of subsidiaries	**3 487**	2 898
Dividends – unlisted shares	**2 459**	1 728
Fees from subsidiaries	**13**	14
Interest paid	**(26)**	–
Interest received	**2**	–
Other investment income:		
Option premium received	**2**	–
Fair value adjustment of derivative financial instruments	**(28)**	–
	5 909	4 640
2. Management and administration expenses		
Included in marketing and administration expenses are the following:		
Auditors' remuneration		
Audit fees – current year	**–**	–
Operating lease charges		
Land and buildings	**1**	1
Value-added tax	**3**	1
Regional services levies	**8**	3
Goodwill amortised	**2**	–
3. Taxation		
South African normal taxation		
Deferred		
– Current year	**(8)**	–
South African secondary taxation on companies ("STC")	**115**	12
Total taxation	**107**	12
Tax rate reconciliation	**%**	%
Effective rate of taxation	**1.8**	0.3
Equity accounted earnings	**17.8**	19.0
Dividends received	**12.6**	11.3
Non-deductible expenses	**(0.2)**	(0.3)
Secondary taxation on companies ("STC")	**(2.0)**	(0.3)
Standard rate of taxation	**30.0**	30.0
Deferred tax asset comprise:		
Change in fair value of derivative financial instrument	**8**	–
4. Dividends		
Ordinary dividends		
An interim dividend of 19.25 cents (2003: 16.5 cents) per share was declared on 2 March 2004 in respect of the six months ended 31 December 2003.	**1 051**	899
A final dividend of 26.75 cents (2003: 18.5 cents) per share was declared on 14 September 2004 in respect of the six months ended 30 June 2004.	**1 465**	1 010
	2 516	1 909

R million	Company 2004	2003
5. Intangible assets		
Goodwill		
Gross amount	**49**	–
Less: Accumulated amortisation	**(2)**	–
	47	–
Movement in goodwill-book value		
Opening balance	**–**	–
Additions: Acquisition of Discovery	**49**	–
Amortisation charge and impairment	**(2)**	
	47	–
6. Loan to Share Trust		
Outperformance Share Incentive Scheme loan		
Total amount outstanding	**633**	934
Short-term portion disclosed under current assets	**(247)**	(248)
Long-term portion	**386**	686
This loan is repayable by the FirstRand Limited Trust upon conversion of the preference shares into ordinary shares. If the conditions for conversion are not met, the loan and preference shares will be cancelled. The return on the loan is linked to the preference share dividend.		
7. Derivative financial instruments		
Held for trading		
Equity option at fair value	**27**	–
Comprises 6 700 000 Discovery Holdings Limited ordinary share options at a strike price of R10.00 per option expiring on 30 September 2005. A premium of R2.1 million was received. A market price of R12.83 was used in the valuation of the option on 30 June 2004.		
8. Long-term liabilities		
Outperformance Share Incentive Scheme liability		
Total amount outstanding	**633**	934
Short-term portion disclosed under current liabilities	**(247)**	(248)
Long-term portion	**386**	686
This liability represents the preference shares issued in terms of the Outperformance Share Incentive Scheme.		
9. Share capital and share premium		
Share capital		
Authorised		
5 928 000 000 ordinary shares of 1 cent each (2003: 6 228 000 000)	**59**	62
272 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each (2003: 272 000 000)	**3**	3
100 000 000 "B" variable rate, non-cumulative, non-redeemable, preference shares of 1 cent each (2003: nil)	**1**	–
100 000 000 "C" variable rate, convertible, non-cumulative, redeemable preference shares of 1 cent each (2003: nil)	**1**	–
100 000 000 "D" variable rate, cumulative, redeemable, preference shares of 1 cent each (2003: nil)	**1**	–

	Number of Ordinary Shares	Number of Preference Shares	Share Capital R million	Share Premium R million	Total R million
9. Share capital and share premium *(continued)*					
Issued					
Balance at 1 July 2002					
Ordinary shares of 1 cent each	5 445 303 089		55	8 432	8 487
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		135 520 000	1	1 097	1 098
Shares issued during the year					
Ordinary shares of 1 cent each	15 017 941		–	–	–
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		17 700 000	–	116	116
Shares redeemed during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(19 364 559)	–	(280)	(280)
Shares converted during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(15 017 941)	–	–	–
Balance at the end of the year					
Ordinary shares of 1 cent each			55	8 432	8 487
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each			1	933	934
Preference shares disclosed under liabilities			(1)	(933)	(934)
Total share capital at 30 June 2003	5 460 321 030	118 837 500	55	8 432	8 487
Balance at 1 July 2003					
Ordinary shares of 1 cent each	**5 460 321 030**		**55**	**8 432**	**8 487**
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		**118 837 500**	**1**	**933**	**934**
Shares issued during the year					
Ordinary shares of 1 cent each	**16 053 803**		**–**	**–**	**–**
Shares redeemed during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		**(21 058 697)**	**–**	**(301)**	**(301)**
Shares converted during the year					
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		**(16 053 803)**	**–**	**–**	**–**
Balance at the end of the year					
Ordinary shares of 1 cent each			**55**	**8 432**	**8 487**
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each			**1**	**632**	**633**
Preference shares disclosed under liabilities			**(1)**	**(632)**	**(633)**
Total share capital at 30 June 2004	**5 476 374 833**	**81 725 000**	**55**	**8 432**	**8 487**

	2004 %	2003 %
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:		
Momentum Group Limited – held on behalf of policyholders	**1.9**	2.0

	Company	
R million	**2004**	2003
10. Reserves		
Retained earnings		
Retained earnings at the beginning of the year	**11 698**	8 983
Consolidation of share trusts	**–**	(58)
Restated balance at the beginning of the year	**11 698**	8 928
Earnings attributable to odinary shareholders	**5 760**	4 584
Realised loss on minority share buy-back	**(3)**	–
Dividend for the year	**(2 061)**	(1 715)
Transfer to non-distributable reserves	**(493)**	(96)
Retained earnings at the end of the year	**14 901**	11 698
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking Group	**1 645**	1 909
General risk reserve	**1 146**	901
Revaluation reserve	**317**	689
Currency translation reserve	**4**	303
Other	**178**	16
Momentum	**306**	140
Revaluation reserve	**155**	20
Currency translation reserve	**106**	72
Reserve on capitalisation of subsidiary	**51**	51
Other	**(6)**	(3)
Discovery	**74**	22
Revaluation reserve	**33**	(3)
Currency translation reserve	**45**	34
Other	**(4)**	(9)
FirstRand Investment Holdings Group		
Other	**6**	–
FirstRand Limited		
Capital redemption reserve	**148**	–
Non-distributable reserves at the end of the year	**2 179**	2 071
Total reserves	**17 080**	13 769
Movement for the year in non-distributable reserves		
Balance at the beginning of the year as previously stated	**2 071**	1 687
Consolidation of share trusts	**–**	(2)
Restated balance at the beginning of the year	**2 071**	1 685
Transfer from retained earnings relating to Banking Group	**94**	(42)
Transfer from retained earnings relating to FirstRand Investment Holdings Group	**6**	–
Transfer to Capital redemption reserve fund	**148**	–
General risk reserve	**245**	138
Revaluation reserve	**(201)**	823
Currency translation differences	**(254)**	(535)
Other	**70**	2
Non-distributable reserves at the end of the year	**2 179**	2 071

R million	Company 2004	Company 2003
11. Cash flow information		
11.1 Cash generated by operations		
Net income after taxation attributable to ordinary shareholders	**5 760**	4 584
Adjustment for non-cash items and taxation	**(3 304)**	(2 886)
Cash generated by operations	**2 456**	1 698
11.2 Working capital changes		
Increase in current assets	**(17)**	(88)
Increase/(decrease) in current liabilities	**(18)**	98
Net working capital changes	**(35)**	10
11.3 Taxation paid		
Balance at the beginning of the year	**(1)**	(1)
Taxation charged for the year	**(107)**	(12)
Balance at the end of the year	**11**	1
Taxation paid	**(97)**	(12)
11.4 Dividends paid		
Final dividend declared on:		
– 16 September 2003 in respect of the year ended 30 June 2003	**(1 010)**	
– 16 September 2002 in respect of the year ended 30 June 2002		(816)
Interim dividend declared on:		
– 2 March 2004 in respect of the period ended 31 December 2003	**(1 051)**	
– 26 February 2003 in respect of the period ended 31 December 2002		(899)
	(2 061)	(1 715)

	Effective percentage holding		Investment of holding company			
			Amounts owing by/(to) subsidiaries		Shares at net carrying amount	
	2004 %	2003 %	**2004 R million**	2003 R million	**2004 R million**	2003 R million
12. Investment in subsidiaries						
Banking Group						
FirstRand Bank Holdings Limited	**100**	100	**(1 390)**	(317)	**18 133**	16 014
Momentum						
Momentum Group Limited	**100**	100	**11**	8	**7 189**	6 531
Discovery						
Discovery Holdings Limited	**66**	–	**–**	–	**1 599**	–
FirstRand Investment Holdings Limited	**100**	100	**–**	–	**30**	28
			(1 379)	(309)	**26 951**	22 573
Total interest in subsidiaries					**25 572**	22 264
Carrying amount at the beginning of the year					**22 573**	19 169
Movement for the year:						
Equity accounted earnings					**3 487**	2 898
Acquisition of Discovery					**1 325**	–
Increase in investment in FirstRand Banking Group					**–**	300
Goodwill on acquisition (transfer to intangible assets)					**(49)**	–
Reserve accounting by subsidaries					**(385)**	266
Adjustment made to opening retained income					**–**	(58)
Adjustment made to non-distributable reserves					**–**	(2)
Carrying amount at the end of the year					**26 951**	22 573

The following share trusts are controlled by FirstRand Limited:

- Momentum Life Assurers Limited Share Trust
- Southern Life Association Limited Share Scheme
- First National Bank Share Purchase /Option Scheme
- FirstRand Limited Share Trust
- RMB Share Trust

The carrying amount of these investments is nil, except for the loan to the FirstRand Limited Share Trust which is disclosed in note 6.

Directorate

Details of directors / The names of the directors, their age, qualifications and other details appear on page 54 to 57 of this report.

Directors' emoluments

Remuneration and fees / Payments to directors during the year for services rendered are as follows:

	Services as directors		Cash	Other	Performance	**Total**	Total
	FirstRand	Group	package[1]	benefits[2]	related[3]	**2004**	2003
	R000's	R000's	R000's	R000's	R000's	**R000's**	R000's
Executive							
VW Bartlett[4]			3 003	616	3 500	**7 119**	5 429
LL Dippenaar[4]			3 065	756	5 350	**9 171**	8 390
PK Harris[4]			3 211	610	5 350	**9 171**	8 390
Sub-total			9 279	1 982	14 200	**25 461**	22 209
Non-executive							
GT Ferreira (Chairman)[5]	250	1 000				**1 250**	1 150
BH Adams	130	183				**313**	371
DJA Craig	110	146				**256**	214
DM Falck	130	325				**455**	216
PM Goss	155	297				**452**	196
NN Gwagwa	46	–				**46**	–
MW King	175	980				**1 155**	414
SR Maharaj	–	–				**–**	1 948
G Moloi	46	–				**46**	–
MC Ramaphosa	110	–				**110**	30
KC Shubane	130	–				**130**	60
F van Zyl Slabbert	110	–				**110**	60
BJ van der Ross	155	512				**667**	176
RA Williams	130	390				**520**	300
Sub-total	1 677	3 833	–	–	–	**5 510**	5 135
Total	1 677	3 833	9 279	1 982	14 200	**30 971**	27 344

1 "Cash package" includes travel and other allowances

2 "Other benefits" comprises provident fund and medical aid contributions

3 "Performance related" payments are in respect of the year ended 30 June 2004, but will be paid (together with an interest factor) in three tranches, during the year ending 30 June 2005.

4 Messrs Bartlett, Dippenaar and Harris also earned directors' fees from FirstRand and its subsidiaries. Any such fees receivable by them have been waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity

5 The emoluments due to Mr Ferreira per above have been waived in favour of RMB Holdings Limited and do not accrue to him in his private capacity

In addition the executive directors participate in Group share incentive schemes. Their participation is subject to the specific approval of the FirstRand remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

The current interests of executive directors in Share Incentive Schemes, together with benefits derived from redemptions, are as follows:

	Opening balance (no of shares)	Strike price (cents)	Expiry date	Taken up this year (no of shares)	Benefit derived Rand	Closing balance (no of shares)
Share Option Scheme (FirstRand shares)						
VW Bartlett	506 250	408	10/9/2006	506 250	2 136 375	–
	450 000	628	24/3/2009	–	–	450 000
	1 170 000	690	9/4/2006	1 170 000	1 322 100	–
	1 000 000	655	17/9/2007	–	–	1 000 000
	3 126 250			1 676 250	3 458 475	1 450 000
LL Dippenaar	2 750 000	690	9/4/2006			2 750 000
	2 000 000	655	17/9/2007			2 000 000
	500 000*	770	16/9/2008			500 000
	5 250 000					5 250 000
PK Harris	2 750 000	690	9/4/2006			2 750 000
	2 000 000	655	17/9/2007			2 000 000
	500 000*	770	16/9/2008			500 000
	5 250 000					5 250 000
Outperformance Scheme (FirstRand preference shares)						
VW Bartlett	1 125 000	815	1/4/2006	375 000	2 184 481	750 000
LL Dippenaar	1 500 000	815	1/4/2006	500 000	2 912 638	1 000 000
PK Harris	1 500 000	815	1/4/2006	500 000	2 912 638	1 000 000

** Granted during the year ended June 2004.*

Directors' interests / According to the Register of directors' interest, maintained by FirstRand in accordance with the provisions of section 140A of the Companies Act, directors of FirstRand have disclosed the following interest in the ordinary shares of the company at 30 June 2004. Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which company holds a 32.6% interest in FirstRand.

000's	Direct Beneficial	Indirect Beneficial	Indirect via RMBH	**Total 2004**	Total 2003
VW Bartlett	2 546	407	–	**2 953**	2 232
DJA Craig	–	–	–	**–**	–
LL Dippenaar	4	948	137 815	**138 767**	137 811
DM Falck	–	–	–	**–**	–
GT Ferreira	–	–	131 402	**131 402**	131 412
PM Goss	1	–	17 103	**17 104**	17 104
NN Gwagwa	–	–	–	**–**	–
PK Harris	–	577	45 132	**45 709**	45 011
MW King	23	–	45	**68**	68
G Moloi	–	–	–	**–**	–
MC Ramaphosa	–	–	–	**–**	–
KC Shubane	25	–	–	**25**	25
BJ van der Ross	–	–	–	**–**	–
F v Z Slabbert	–	–	–	**–**	–
RA Williams	–	59	–	**59**	59
Total 2004	2 599	1 991	331 497	**336 087**	333 722

Since the end of the financial year to the date of this report the interest of directors remained unchanged.

banking

FIRSTRAND BANKING GROUP / Annual report 2004

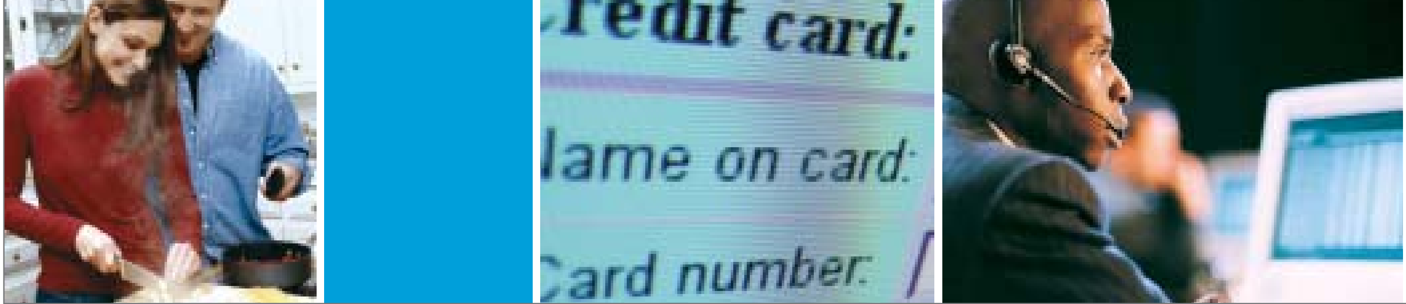
Banking

The Banking Group produced excellent results, benefiting from exceptional performances by RMB, FNB Retail, WesBank and FNB Corporate

FIRSTRAND
Banking Group

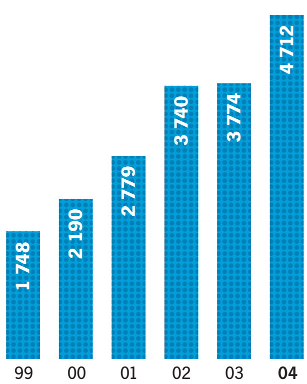
FirstRand Banking Group annual report 2004

Contents

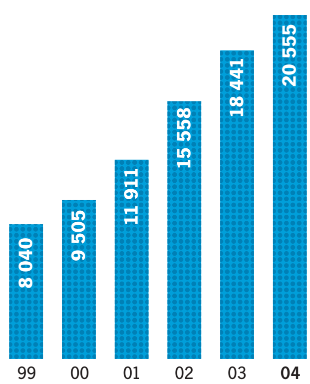


Financial highlights

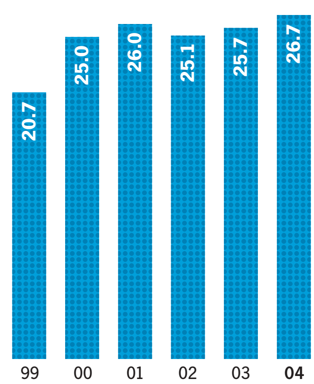
	% change
Attributable earnings	+24.9
Headline earnings	+24.3
	%
Return on average equity (including translation losses)	24.2
Return on average equity (excluding translation losses)	26.7
Cost to income ratio (including translation losses)	56.9
Cost to income (excluding translation losses)	55.8



Attributable earnings (R million)
Compound annual growth: 21.9%



Net asset value (R million)
Compound annual growth: 20.7%



Return on equity (%)

Six-year review

R million	1999	2000	2001	2002	2003	**2004**	Compound annual growth %
Balance sheet							
Total assets	146 067	155 721	189 979	281 722	303 998	**323 454**	17.2
Advances	93 824	102 652	123 328	175 145	189 611	**210 414**	17.5
Deposits	116 306	117 592	141 461	203 142	218 096	**225 886**	14.2
Total shareholders' equity	8 040	9 505	11 911	15 558	18 441	**20 555**	20.7
Income statement							
Net interest income before impairment of advances	4 594	4 697	5 415	6 417	9 104	**8 907**	14.2
Impairment of advances	(1 363)	(1 329)	(1 143)	(1 705)	(1 478)	**(833)**	(9.4)
Non-interest income	5 145	5 847	6 446	8 319	7 123	**8 970**	11.8
Operating expenditure	(6 086)	(6 365)	(7 180)	(8 378)	(9 537)	**(10 503)**	11.5
Earnings attributable to ordinary shareholders	1 748	2 190	2 779	3 740	3 774	**4 712**	21.9
Headline earnings	1 748	2 190	2 787	3 771	3 829	**4 760**	22.2
Headline earnings excluding translation gains and losses	1 748	2 190	2 580	3 223	4 361	**5 130**	24.0
Key ratios (%)							
Return on average equity excluding translation gains and losses	20.7	25.0	26.0	25.1	25.7	**26.7**	
Cost to income ratio	62.4	61.0	60.9	55.5	57.0	**56.9**	
Adjusted cost to income ratio*	61.5	60.3	59.9	57.6	55.3	**55.8**	
Bad debts as a percentage of advances	1.5	1.3	0.9	1.0	0.8	**0.4**	
Non-interest income as a percentage of total income	52.8	55.5	52.9	53.9	44.4	**49.6**	
Return on average total assets	1.2	1.5	1.6	1.6	1.5	**1.8**	
Interest margin on average advances	4.9	4.8	4.8	4.3	5.0	**4.5**	
Impairment of advances as a percentage of average gross advances	1.5	1.3	0.9	1.1	0.8	**0.4**	

** Excludes currency translation gains and losses*

Currency balance sheet and income statement

	1999	2000	2001	2002	2003	**2004**	Compound growth %
Exchange rates							
Rand: US$							
– Closing	6.0300	6.7725	8.0670	10.3100	7.5576	**6.1800**	
– Average	5.9500	6.4013	7.4198	9.1891	8.8906	**6.7722**	
Rand: £							
– Closing	9.5051	10.2590	11.3511	15.7454	12.4723	**11.1994**	
– Average	9.6271	9.8821	10.8051	14.8113	14.1176	**11.8255**	
Balance sheet US$ million							
Total assets	24 223	22 993	23 550	27 325	40 224	**52 339**	16.7
Advances	15 560	15 157	15 288	16 988	25 089	**34 048**	17.0
Deposits	19 288	17 363	17 536	19 703	28 858	**36 551**	13.7
Total shareholders' equity	1 333	1 403	1 477	1 500	2 440	**3 326**	20.1
Income statement US$ million							
Net interest income before impairment of advances	772	734	730	698	1 024	**1 315**	11.2
Impairment of advances	(229)	(208)	(154)	(186)	(166)	**(123)**	(11.7)
Non-interest income	865	913	869	905	801	**1 325**	8.9
Operating expenditure	(1 023)	(994)	(968)	(912)	(1 073)	**(1 551)**	8.7
Earnings attributable to ordinary shareholders	294	342	375	407	424	**696**	18.8
Balance sheet £ million							
Total assets	15 367	15 179	16 737	17 892	24 374	**28 881**	13.4
Advances	9 871	10 006	10 865	11 124	15 203	**18 788**	13.7
Deposits	12 236	11 462	12 462	12 902	17 486	**20 169**	10.5
Total equity	846	927	1 049	982	1 479	**1 835**	16.8
Income statement £ million							
Net interest income before impairment of advances	477	475	501	433	645	**753**	9.6
Impairment of advances	(142)	(134)	(106)	(115)	(105)	**(70)**	(13.2)
Non-interest income	534	592	597	562	505	**759**	7.3
Operating expenditure	(632)	(644)	(665)	(566)	(676)	**(888)**	7.0
Earnings attributable to ordinary shareholders	182	222	257	253	267	**398**	16.9

* *Excludes currency translation gains and losses*

Board of directors and board committees of FirstRand Bank Holdings Limited

GT FERREIRA / **56** / **Non-executive** / **BCom, Hons B(B&A), MBA** / Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings and Director of Momentum Group.

PK HARRIS / **54** / **Executive** / **MCom** / Chief Executive Officer of FirstRand Bank Holdings, director of FirstRand, RMB Holdings and Momentum Group

VW BARTLETT / **61** / **Non-executive** / **AMP (Harvard), FIBSA** / Director of FirstRand and FirstRand Bank Holdings

JP BURGER / **45** / **Executive** / **BCom (Hons), CA(SA)** / Chief financial officer of FirstRand and financial director of FirstRand Bank Holdings

I CHARNLEY / **44** / **Independent Non-executive** / Director of FirstRand Bank Holdings

LL DIPPENAAR / **55** / **Executive** / **MCom, CA(SA)** / Chief executive officer of FirstRand, chairman of Momentum Group and Discovery Holdings, director of FirstRand Bank Holdings and RMB Holdings

DM FALCK / **58** / **Independent Non-executive** / **CA(SA)** / Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PM GOSS / **56** / **Independent Non-executive** / **BEcon (Hons), BAccSc (Hons, CA(SA)** / Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

WR JARDINE / **39** / **Independent Non-executive** / **BSc, MSc** / Director of FirstRand Bank Holdings

MW KING / **67** / **Independent Non-executive** / **CA(SA), FCA** / Director of FirstRand, FirstRand Bank Holdings and FirstRand International

SE NXASANA / **47** / **Independent Non-executive** / **BCom, BCompt (Hons), CA(SA)** / Director of FirstRand Bank Holdings

BJ VAN DER ROSS / **57** / **Independent Non-executive** / **Dip Law (UCT)** / Director of FirstRand, FirstRand Bank Holdings and Momentum Group

RA WILLIAMS / **63** / **Independent Non-executive** / **BA, LLB** / Director of FirstRand and FirstRand Bank Holdings

The following directors were appointed to the board during the year on the dates indicated below:

I Charnley – 21 January 2004
WR Jardine – 21 January 2004
SE Nxasana – 21 January 2004
BJ van der Ross – 21 January 2004

The following directors served on the board during the year and resigned on the dates indicated below:

MPC Brogan* – 17 February 2004
JW Gafney – 12 February 2004
AS Vahed – 17 February 2004

**Australian*

Mr VW Bartlett relinquished all executive functions with effect from 30 June 2004.

Audit committee

MW King (Chairman)
DM Falck
SE Nxasana
RA Williams

Risk committee

MW King (Chairman)
DM Falck
SE Nxasana
RA Williams

Remuneration committee

PM Goss (Chairman)
VW Bartlett
LL Dippenaar
GT Ferreira
MW King
BJ van der Ross
RA Williams

Large exposures credit committee

GT Ferreira (Chairman)
PK Harris
PM Goss
WR Jardine
BJ van der Ross

Directors' affairs and governance committee

DM Falck (Chairman)
VW Bartlett
I Charnley
GT Ferreira
PM Goss
WR Jardine
MW King
SE Nxasana
BJ van der Ross
RA Williams

Executive summary / The Banking Group achieved attributable earnings of R4 712 million (+24.9%) and headline earnings of R4 760 million (+24.3%). On a basis consistent with the prior year, the Banking Group achieved headline earnings excluding translation losses of R5 130 million (+17.6%) during the year under review.

The performance of the Banking Group is best measured in context of the operating environment described below:

- the rapid and substantial decline in domestic interest rates which had a considerable impact on the results of the Banking Group during the period under review. Interest margins, particularly on the liability side, are placed under substantial pressure in a low interest rate environment;
- a significant improvement in credit experience, primarily due to the more benign interest rate environment;
- satisfactory asset growth in a buoyant consumer market, assisted by increased demand for credit due to the lower interest rate environment, especially in the mortgage and instalment finance areas as well as in the mid-corporate market;
- deposit growth driven by demand for shorter-term retail investment products and cash flush corporates driving deposit growth; and
- a welcome upturn in the equity markets, together with trending interest rates and foreign exchange markets, which benefited the Banking Group's trading and investment teams.

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] (%)	22.0	26.7
Headline earnings growth[2] (%)	15.0	24.3
Cost to income ratio[3] (%)	55.0 – 57.0	55.8
Non-performing loans percentage[4]	3.0	1.6
Impairment charge as a percentage of average gross advances[5]	0.75	0.41
Net asset value growth[6]	15.0	11.5

Notes:

1 *Calculated as operational headline earnings before currency translation losses as a percentage of average equity. The Banking Group targets return on equity figure of 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. Excluding the effect of currency translation losses referred to in the table on page 116, the Banking Group increased net asset value by 15.1% year-on-year.*

Financial overview

AC 133 – Financial instruments – Recognition and measurement ("AC 133") / The Banking Group adopted AC 133 with effect from 1 July 2002. The commentary below is based on the post-AC 133 numbers for the current and comparative period.

Additional disclosure on certain AC 133-specific anomalies which affect the financial results under discussion are set out on page 121.

Financial results at a glance / The Banking Group produced excellent results for the year, benefiting from exceptional performance by RMB, FNB Retail, WesBank and FNB Corporate.

Growth in gross non-interest revenue of 25.9%, resulting from strong performances in transactional income growth (+14.8%), trading income (+33.2%) and investment income (+>100), historically low bad debt levels (–43.6%) and growth in income from associated companies (+18.4%) positively impacted on the results.

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

Total assets of the Banking Group grew by 6.4% during the year. This was in part as a result of satisfactory advances growth of 11%, assisted by exceptional new business growth of 67% and 26% respectively in the mortgage and instalment finance areas of the Banking Group.

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

The net asset value of the Banking Group grew by 11.5% during the year, resulting in a compound annual growth rate of 20.7% since 1999.

Reconciliation between earnings attributable to ordinary shareholders and headline earnings

R million	**2004**	2003	% change
Earnings attributable to ordinary shareholders	**4 712**	3 774	24.9
Adjusted for:			
Loss on sale of fixed assets	**92**	36	>100.0
Goodwill	**31**	10	>100.0
(Profit)/Loss on sale of available-for-sale assets	**(75)**	9	(>100.0)
Headline earnings	**4 760**	3 829	24.3

Calculation of headline earnings excluding translation losses

R million	2004	2003	% change
Headline earnings	4 760	3 829	24.3
Adjusted for:			
Translation losses	370	532	(30.4)
Headline earnings excluding translation losses	5 130	4 361	17.6

The operational performance above includes the effect of AC 133. Information on AC 133 specific adjustments included in these results is set out on page 121.

Currency translation gains and losses / The Banking Group recognises translation gains and losses on currency movements in the income statement to the extent that the underlying operations are defined as integral to those of the South African-based business. Translation gains and losses relating to independent operations are recognised directly in equity.

The volatility of the Rand during the last three financial years gave rise in the first instance to significant translation gains during the 2002 financial year, followed by large translation losses in the year under review and the previous financial year.

Consistent with prior year treatment, translation gains or losses are excluded when measuring the operating performance of the Banking Group. The table below provides an analysis of the cumulative effect of translation gains and losses on the results of the Banking Group over the past three financial years:

R million	2004	2003	2002	Cumulative
Headline earnings	4 760	3 829	3 771	12 360
Headline earnings excluding translation gains or losses	5 130	4 361	3 223	12 714

The currency translation losses reduced the Banking Group's net asset value in Rand terms by R669 million (–3.2%) for the year ended 30 June 2004, as follows:

R million	2004
Net asset value before translation losses	21 224
Adjusted for:	
Translation losses in the income statement	(370)
Translation losses taken to equity	(299)
Net asset value as reported	20 555

Excluding the currency translation effect referred to above, the net asset value of the Banking Group increased by 15.1% year-on-year. The strengthening of the Rand from the levels experienced in the 2002 financial year, has assisted in the appreciation of the Banking Group's net asset value measured in US$ terms from US$1 500 million at 30 June 2002 to US$3 326 million at 30 June 2004, a compound annual growth rate in US$ terms of 48.9%.

Unpacking the year's performance

Interest income / Interest rates declined by 4% during the first six months of the financial year, after a 1% reduction in June 2003. On average, rates were 4.2% lower than in the comparative year. Net interest income before impairment of advances decreased by 2.2% in comparison to the previous year.

The Banking Group put hedge structures in place in anticipation of a falling interest rate environment during the financial year ended 30 June 2003, to provide protection against the anticipated negative endowment effect. The majority of these hedge structures will mature during the 2005 financial year. Based on the Banking Group's existing interest rate view, new hedging instruments and structures have been put in place to provide continuing protection of margins during the 2005 financial year, although not to the same extent as that experienced during the 2004 year.

Net interest income was positively influenced by:

- the volume effect arising from organic growth in both assets and liabilities;
- the increase in the average capital base following the retention of earnings in the previous financial year;
- the endowment hedges entered into to protect margins; and
- the benefits of net fixed-rate asset business entered into prior to the significant reduction in interest rates.

These positive factors were marginally outweighed by the negatives, which included:

- the negative impact on endowment margins (capital and deposits) of the lower interest rate environment;
- significantly lower average interest rates during the current financial year;
- the lower translation rate relating to non-Rand denominated interest income; and
- margin-squeeze in the linked-rate asset generators of the Banking Group.

Interest margins / Interest margins on average interest earning advances experienced an overall decline during the year from 5.02% to 4.47%.

This can primarily be ascribed to the following:

- the anticipated and partially hedged negative endowment effect on capital and deposits; and
- pressure on the asset generators in the Banking Group.

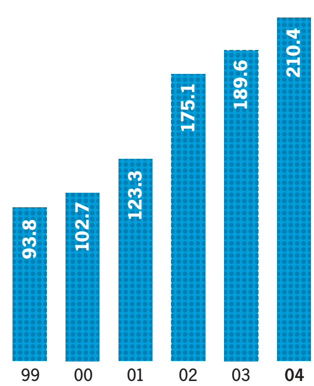
A summarised reconciliation of the net interest margin before impairment of advances is set out below:

R million	Net interest income	Interest margin %
Net interest income (2003)	9 104	5.02
Volume effect (Growth in advances and deposits)	854	0.00
Endowment effect (Deposits)	(511)	(0.28)
Endowment effect (Capital)	(792)	(0.43)
Protection provided by hedges	566	0.31
Other	(314)	(0.15)
Net interest income (2004)	8 907	4.47

A more comprehensive margin reconciliation is contained on page 207.

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

Advances / Net advances grew by a satisfactory 11.0% during the year under review.



Net advances (R million)
Compound annual growth: 17.5%

Advances can be deconstructed as follows:

R million	2004	% of total
South African retail book[1]	**94 016**	44.6
South African corporate book[2]	**68 389**	32.5
FNB Africa book	**9 167**	4.4
International operations	**7 112**	3.4
Sovereign and other	**31 730**	15.1
Net advances at 30 June 2004	**210 414**	100.0

1 Includes FNB Retail, WesBank (excluding WesBank corporate book) and FNB HomeLoans.
2 Includes FNB Corporate, RMB and WesBank corporate book.

South African advances growth of 12.9% was boosted by the significant reduction in domestic interest rates, which stimulated demand for credit.

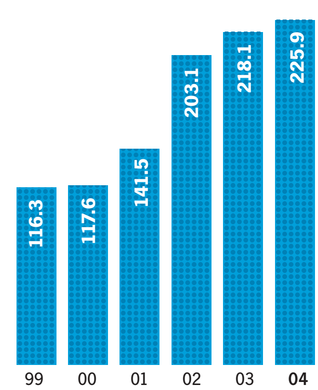
This was specifically noticeable in the retail credit environment, where lower rates, the resultant increase in disposable income and a buoyant residential property market, resulted in significant advances growth in the instalment finance, home loan, and personal and credit card loan-segments. New business production in the South African home loan book was exceptionally strong, with a 67% growth year-on-year – however, the run-off of the older acquired Saambou and NBS home loan books limited gross advances growth to 11.3%. The instalment finance book achieved significant advances growth of 22.2% year-on-year, assisted by robust new business growth driven by record new vehicle sales.

FNB Africa achieved advances growth of 29.6% including the acquisition of SWABOU. Excluding the SWABOU acquisition, advances growth was 5.0% because of relatively lacklustre underlying economic conditions.

The South African corporate advances book benefited from strong growth in the mid-corporate market due to new client acquisitions, resulting in market share growth. Overall growth levels of advances were, however, hampered by cash-flush corporates, as well as by the increasing trend of major corporate entities to raise funds utilising their own paper. Overall corporate advances declined by 20.4%.

Rand-denominated advances grew by a satisfactory 16.3% in the year under review. This growth was offset by a 16.3% decline in the Banking Group's non-Rand denominated advances portfolio as a direct result of the strengthening of the Rand. Non-Rand denominated advances grew by 2.3% in US dollar terms. The significant strengthening of the Rand against the Pula resulted in a decline of 5.0% in gross advances in Botswana in Rand terms despite increasing 10% in Pula terms.

Deposits / The Banking Group was successful in increasing the component of funding raised from customers by 11.0%, while reducing the funding raised from the professional market by 8.9%.



Deposits and current accounts
Compound annual growth: 14.2%

Deposits can be deconstructed as follows:

R million	2004	% of total
South African retail book[1]	**63 086**	27.9
South African corporate book[2]	**47 688**	21.1
FNB Africa book	**8 857**	3.9
International operations	**23 003**	10.2
Sovereign and other	**76 737**	34.0
Non-recourse	**6 515**	2.9
Total deposits at 30 June 2004	**225 886**	100.0

1 Includes FNB Retail, WesBank (excluding WesBank corporate book) and FNB HomeLoans.
2 Includes FNB Corporate, RMB and WesBank corporate book.

FNB Retail's deposit book grew by 10.3% year-on-year. Growth was driven by a shorter interest rate perspective of consumers, resulting in growth in short-term products such as money market accounts (+26.3%), current accounts (+24.5%), call accounts (+12.1%) and savings and transmission accounts (+15.4%). This was partially offset by a resultant move away from fixed deposits (–10.1%) and other longer-term products.

A focus on the mid-corporate market has resulted in deposit growth in this area of 28.0%, driving total deposit growth within FNB Corporate of 13.8% year-on-year.

The African operations have seen significant deposit growth of 25.2%, primarily driven by the SWABOU acquisition, and despite the effect of the strengthening Rand.

Deposit growth in the international book was negatively affected through the downscaling of the operations of Ansbacher.

Non-performing loans and impairment of advances

Non-performing loans ("NPLs") / The credit quality of the Banking Group's core advances book has continued to improve during the year under review, as reflected below:

	2004	2003	% change
NPLs as % of gross advances	**1.6**	2.4	(33.3)
Gross non-performing loans (R million)	**3 389**	4 620	(26.6)

The improved level of non-performing loans can be ascribed to the following factors:

- the positive impact of the lower interest environment, which has freed up disposable income of lenders resulting in improved servicing of debt;
- continued focus on credit management processes within the Banking Group, including the use of sophisticated client scoring and rating models, and the consequential improvement in pricing for risk;
- the positive effect of improved collection and work-out processes in the year under review;
- the final workout of the non-performing legacy retail industry advances; and
- a significant improvement in the emerging market and high-yield international debt markets.

The table below provides a breakdown of non-performing loans in the Banking Group per broad business classification:

R million	NPLs	NPLs as a % of gross advances
South African retail book[1]	1 679	1.8
South African corporate book[2]	1 133	1.7
FNB Africa book	374	4.1
International operations	22	0.3
Sovereign and other	181	0.6
Total	3 389	1.6

1 Includes FNB Retail, WesBank (excluding WesBank corporate book) and FNB HomeLoans.
2 Includes FNB Corporate, RMB and WesBank corporate book.

Credit rating of the advances book / The Banking Group uses internal credit rating models to evaluate and monitor credit quality and to assist in the pricing of loans. These models produce a credit rating ("FR rating") ranging from 1 to 100 with 1 being the best credit rating and 100 the worst credit rating. The FR ratings have been mapped to default probabilities as well as National and International rating agency scales.

The improvement in the credit quality of the book over the past 12 months is reflected in the improved average FR rating of the total advances book, improving from a counterparty rating (which ignores the effect of collateral) of FR 48 at 30 June 2003 to FR 42 at 30 June 2004. Mapping the advances book to relevant rating agencies' credit ratings, the aggregate credit quality of the advances book is equivalent to a National scale external credit rating of zaBBB (2003: zaBBB).

The credit quality in the retail advances books (FNB Retail, FNB HomeLoans and WesBank) has on average improved from a counterparty rating of FR 51 at 30 June 2003, to FR 40 at 30 June 2004. On the corporate advances books (RMB and FNB Corporate), the average counterparty credit rating has remained at FR 43.

Movement in non-performing loans

R million	2004	2003	% change
Non-performing loans	**3 389**	4 620	(26.6)
Add: Present value adjustment	**377**	360	4.7
	3 766	4 980	(24.4)
Less: Recoverable amount	**(14)**	(92)	(84.8)
Net credit exposure	**3 752**	4 888	(23.2)
Less: Security	**(993)**	(1 579)	(37.1)
Less: Contractual interest suspended	**(564)**	(613)	(8.1)
Residual risk	**2 195**	2 696	(18.6)
Specific impairments	**2 195**	2 696	(18.6)
Portfolio impairments	**832**	606	37.3
Total impairments	**3 027**	3 302	(8.3)
Fair value provisions	**135**	378	(64.3)
Provisions and impairments	**3 162**	3 680	(14.1)
General Risk Reserve	**1 467**	1 117	31.3
Total impairments and reserves	**4 629**	4 797	(3.5)
Total advances	**214 005**	193 526	10.6
Less: Contractual interest suspended	**(564)**	(613)	(8.1)
Gross advances	**213 441**	192 913	10.6
Less: Impairments	**(3 027)**	(3 302)	(8.3)
Net advances	**210 414**	189 611	11.0

Impairments of advances / The total impairments reflected in the balance sheet represent a prudent 1.4% of gross advances (2003: 1.7%).

Impairment of advances

R million	2004	2003
Non-performing loans as a percentage of gross advances	**1.59**	2.39
Specific impairments as a percentage of non-performing loans	**64.77**	58.35
Specific impairments as a percentage of gross advances	**1.03**	1.40
Portfolio impairments as a percentage of gross advances	**0.39**	0.31
Fair value impairment as a percentage of gross advances	**0.06**	0.20
General Risk Reserve[1]	**0.69**	0.58
Total impairments and reserves as a percentage of gross advances	**2.17**	2.49
Total impairments as a percentage of non-performing loans	**136.59**	103.82
Total impairments as a percentage of residual risk	**210.93**	177.94

1 The General Risk Reserve is maintained to comply with the minimum provisioning requirements set by the South African Reserve Bank.
The General Risk Reserve is increased or decreased to the extent that the specific and portfolio impairments are below or above the required level of General Provisions as required by the SARB.

Income statement charge / The income statement charge for impairment of advances reflects a 43.6% decrease relative to the prior period, as reflected below:

	2004	2003	% change
Impairment charge (R million)	**833**	1 478	(43.6)
Impairment charge as a % of average gross advances	**0.41**	0.79	(48.2)

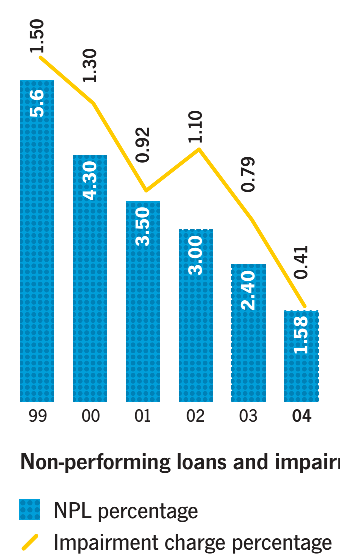
Specific impairments are calculated on non-performing advances and have reduced in line with the improvement of non-performing loans of the Banking Group.

Portfolio impairments are calculated with reference to the performing book of the Banking Group, and effectively reflect impairments inherent in the performing portfolio which have not been specifically identified. The level of portfolio impairments is based on the expected cash flows of the performing book over the expected life of the advances portfolios.

An analysis of the total impairment charge is set out below:

Income statement charge

R million	2004	2003	% change
Specific impairments	**536**	1 409	(62.0)
Portfolio impairments	**297**	69	>100.0
	833	1 478	(43.6)



Non-performing loans and impairments (%)

Non-interest income / Non-interest income increased by 25.9% to an amount of R8 970 million (2003: R7 123 million). Non-interest revenue excluding currency translation gains or losses, increased by an exceptional 22.0% to R9 340 million (2003: R7 655 million). These results are discussed in more detail overleaf:

Transactional income / Transactional income increased by a satisfactory 14.8%. Banking fee and commission income increased by 13.0%, while knowledge-based fee and commission income increased by a healthy 42.2%.

The retail businesses' fee and commission income grew by 24.6% as a result of steady growth in active client numbers and transaction volumes, strong new business growth in the instalment finance and home loans books, continued focus on revenue leakage initiatives, and limited price increases.

Corporate fee and commission income increased by 15.8%, benefiting from increased transactional volumes from existing clients as well as from market share growth. Areas of note were volume growth of 21.5% in the Electronic Banking environment and a year-on-year increase of 21.4% in merchant turnover in the Merchant Acquiring business unit.

Knowledge-based fee income improved by 42.2% from a low base. RMB benefited from stronger equity markets as well as increased mergers & acquisitions activity and strong structured finance deal flows during the year. International fee income remains under pressure in subdued markets, and was further negatively affected by the shortfall in new business flows in the fiduciary and advisory businesses of Ansbacher. This was further exacerbated by the strengthening of the Rand against the US dollar in the current year.

Trading income / Trading income increased by a significant 33.2% during the year, benefiting from trending markets.

The treasury trading operations of the Merchant Bank produced a good performance, benefiting from the declining interest rate environment. The equities trading area produced good results, benefiting from structuring and arbitrage opportunities, although proprietary trading opportunities were affected by reduced market liquidity in non-ALSI 40 counters.

Investment income / Investment income includes gains and losses from the Banking Group's private equity businesses.

The Banking Group's private equity businesses had a very successful year, benefiting from strong growth in income from associated companies. Realisation opportunities remained subdued during the period under review. The unrealised profit inherent in the Private Equity portfolio amounted to R984 million at 30 June 2004 (2003: R699 million).

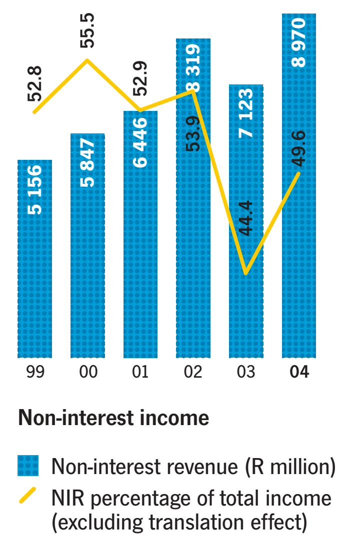
The Banking Group realised certain legacy retail-industry investments, which had resulted from debt restructurings during the past two financial years, by clawing back provisions.

Share of income of associated companies / Income from associated companies increased by 18.4% to R585 million during the year.

The increase is as a result of:

- outstanding results by OUTsurance, which benefited from significant top-line business growth as well as record low claims ratios;
- improved results from the Banking Group's private equity associated companies; and
- strong performances from associated finance companies managed by WesBank.

Diversity ratio of income for the Banking Group



Operating expenditure / Non-interest expenditure increased by 10.1% during the 2004 financial year.

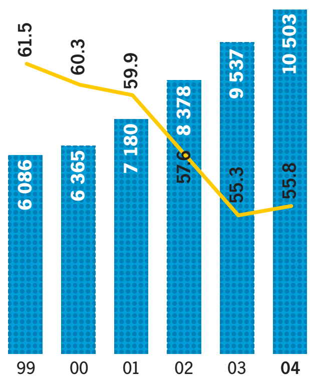
Staff costs increased by an acceptable 7.6%. This was as a result of significant new business growth in areas of FNB Retail, costs relating to the merger with SWABOU and a 2% bonus payable to unionised staff in terms of the most recent salary negotiation process.

Major increases were experienced in professional fees of 42.1%, equipment leasing expenditure of 13.3% and fees payable to the auditors of 29.1%. Third party origination costs in respect of FNB HomeLoans increased by 82.2% during the year in line with the level of new business volumes.

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

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

The historical trend in the cost to income ratio, excluding the effect of translation gains or losses, is set out below:



Operating efficiency

Operating expenditure (R million)
Cost to income ratio (%) (excluding translation effect)

AC 133 / AC 133, as previously documented, introduces volatility into the reported income of companies.

While the Banking Group has made every effort to reduce this volatility, the philosophy of the Group is that accounting considerations cannot be allowed to detract from good business decision-making.

The table below is not a reconciliation to pre-AC 133 numbers, but rather concentrates on those elements of AC 133 which, in the opinion of management, do not necessarily reflect the operational performance of the Banking Group.

	2004	2003
Portfolio impairments	**(297)**	(69)
(Profit)/loss on sale of available-for-sale assets	**(107)**	9
Mark-to-market of ineffective hedges	**71**	398
	(333)	338
Tax effect	**100**	(101)
(Reduction)/increase in headline earnings as a consequence of AC 133	**(233)**	237

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

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

FirstRand still believes, based on independent legal advice, that there was no liability for Irish tax, and therefore did not provide for the settlement.

The settlement is included in the indirect tax charge of the Banking Group.

Business reviews / The divisional performances of the Banking Group, before tax, can be analysed as follows:

R million	2004	2003	% change
Retail cluster	**4 212**	3 315	27.1
FNB Retail	**1 823**	1 319	38.2
FNB HomeLoans	**548**	554	(1.1)
WesBank	**1 049**	689	52.2
FNB Africa	**571**	606	(5.8)
Insurance	**221**	147	50.3
Corporate cluster	**2 430**	1 843	31.9
Investment banking	**1 395**	1 074	29.9
Corporate banking	**1 035**	769	34.6
Wealth cluster	**64**	(43)	>100.0
Private banking			
– Domestic	**60**	43	39.5
First Trust	**28**	26	7.7
Private banking			
– Offshore	**(24)**	(112)	78.6
Capital centre	**790**	1 123	(29.7)
	7 496	6 238	20.2
Translation (losses)	**(370)**	(532)	30.5
Income before tax	**7 126**	5 706	24.9

A detailed discussion of the results of the various businesses is set out on pages 22 to 52.

Risk management

Risk management philosophy / To achieve business success, one has to get many things right and avoid adverse outcomes.

Risk is anything that may have an adverse impact on a business or which may prevent it from achieving its desired objectives. Risk cannot be managed unless it is known and understood. Risk management is the process of identification and evaluation of actual and potential risk areas, across the full spectrum of business management functions. These risks are then pro-actively addressed, tolerated, mitigated or terminated in the best possible way so that business can achieve its desired outcomes.

Risk management is simply an integral part of management's functions and includes the management of strategy, reputation, human resources, competitive positioning, all financial risks, tax, market and credit risk, capital management, liquidity, technology, business continuity, information security, legal and compliance risks, criminal activities, processes and systems risk and external factors.

The Business Success and Risk Management Framework ("the Framework") of the Banking Group is a policy of the board of directors of the Banking Group ("Board") and was updated in May 2003. Its main objectives are to establish a formal approach to risk management, to vest a risk management culture in the Banking Group, to facilitate business success and to ensure compliance with statutes and industry codes.

The Framework distinguishes between strategic and operating business risks. The management of strategic business risks is the responsibility of business entity leaders, while the management of operating business risks may be delegated to operating managers, specialist risk managers and risk committees. However, business performance remains the responsibility of the business entity leaders. (Business entities include all holding, operating and subsidiary companies as well as their divisions, departments and business units).

Risk governance structure and reporting / The risk management processes are monitored by the independent and deployed risk managers and the entity risk committees which meet monthly. The effectiveness of the risk management processes in the Banking Group is monitored on a quarterly basis by the risk committees of the business entities, deployed risk managers and Risk Management Services team within Risk and Audit Services, a division of the Finance, Risk and Audit area of the Banking Group and assessed, on behalf of the board, by the FirstRand Banking Group risk committee ("Group risk committee"). All the business units report on the effectiveness of their risk management processes, in a generic dashboard format, to their relevant risk management functions and risk committees, and to Risk Management Services via a bottom-up process. The assessments are submitted to the risk committee for each of the main business units.

This process provides the specialist risk managers, sub-risk committees and the Group risk committee with an overview of the effectiveness of risk management of the main business units by risk factor or category across the Banking Group. Business units rate the effectiveness of their risk management processes by risk factor on a three point, colour coded scale being red (unacceptable), amber (room for improvement) and green (acceptable). Explanations are provided where process shortcomings are identified.

Process ratings are combined with potential impact on the income of the business unit, should there be a breakdown in the control processes or the occurrence of an unforeseen event, to determine priorities for corrective actions. Actions to address shortcomings are then initiated and monitored by management, specialist risk managers, the sub-risk committees and ultimately the Group risk committee.

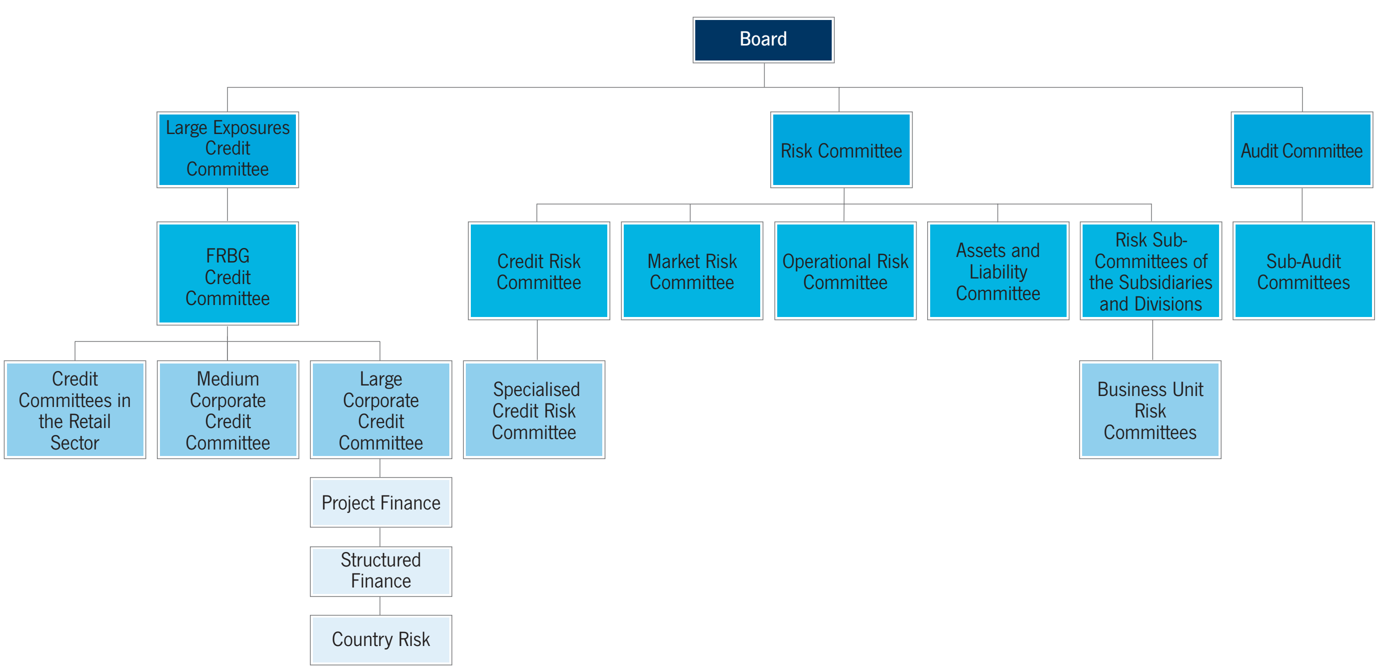
Responsibility of the board / The board is responsible for the overall risk management and the quality of internal control systems. The board is supported in these tasks by the committees of the board ("board committees") and their sub-committees. The table below lists these committees and their main responsibilities.

Audit and risk committees of the board

Committee and chairperson	Main duties and responsibilities
Audit committee MW King Sub-audit committees	Approves the financial statements and accounting policies. Monitors the quality of internal controls and processes of the Banking Group and the implementation of corrective actions.
Risk committee MW King Sub-risk committees	Approves risk management policy, standards and processes; monitors Group risk assessments; monitors the effectiveness of risk management and high priority corrective actions.
Large exposures credit committee GT Ferreira	Approves credit exposures in excess of 10% of bank capital.
FirstRand Banking Group credit committee JP Burger	Credit approvals of Group or individual credit facilities in excess of R100 million. Approves all credit products and product policies.

Committee and chairperson	Main duties and responsibilities
Credit approval committees and sub-committees ● Corporate credit ● Medium corporate ● Property finance ● Structured finance ● Project finance ● Consumer sectors ● Wealth sector ● Country risk	Credit approvals as per individual committee mandates.
Corporate and consumer credit risk committees	Approves credit risk management policies, standards and processes; monitors the effectiveness of the credit risk management processes.
Market risk committee MH Field	Approves market risk management policy, standards and processes; monitors the effectiveness of the market risk management processes.
Operational risk committee JJH Bester Sub-committees ● Security committee ● Technology and information management committee	Monitors the risk management processes, the effectiveness of risk management, process breakdowns and corrective actions and operational risk management.
Asset and liability committee (ALCO) EB Nieuwoudt	Approves liquidity and interest rate risk management policies for the banking book and monitors the effectiveness of the risk management processes.
Risk sub-committees of the subsidiaries and main operating divisions	Monitors risk management processes and risk assessments; monitors the effectiveness of risk management and high priority corrective actions.

Risk governance structure / The diagram below depicts the risk management governance structures for the Banking Group. All subsidiaries, divisions and major business units of the Banking Group have risk committees.



Independent risk monitoring responsibilities / The independent risk management functions of the Banking Group are vested in the Finance, Risk and Audit services division. The independent risk managers and the deployed risk management functions of the business entities monitor the implementation and execution of the Framework, risk management policies, standards, processes and methodologies, the identification of risks and risk management weaknesses and the implementation of corrective actions. The managers report to the relevant governance structures in an appropriate manner and in a format as agreed.

Representatives from the central and deployed risk management functions and internal audit functions attend all risk committee meetings. Through this hands-on process, risk management and internal audit are able to keep abreast of all developments in the Banking Group and are notified of process deficiencies and breakdowns at the earliest opportunity to enable identification of problem areas that might be generic across the Banking Group and to ensure that corrective actions are implemented.

The Group risk management functions of the Finance, Risk and Audit services division are responsible for the establishment of uniform risk management standards, policies, procedures and methodologies in conjunction with the business entities, audit and risk committees, management boards and boards of the Banking Group. The central Group risk management function is also responsible for setting the risk culture in the organisation, facilitating the risk management processes and communicating risk management strategies and general risk management requirements to the business entities. Furthermore, it is responsible for creating general and specific risk awareness, monitoring the implementation and effectiveness of the risk management processes and assisting with improvements to the risk management processes.

Finance, Risk and Audit services employs experts in the following areas to drive and facilitate risk management across the Banking Group, while Risk Management Services will drive the risk management processes:

- asset and liability management (ALCO);
- business continuity;
- capital management;
- compliance;
- corporate governance;
- credit (corporate, property, retail and wealth);
- criminal loss prevention;
- direct and indirect tax;
- financial market trading;
- information security;
- internal audit;
- legal;
- liquidity risk;
- market risk;
- operational risk;
- risk insurance; and
- financial management.

Strategic business risks are managed by executive management and monitored by the executive and strategic governance structures of the Banking Group. Shortcomings in these processes are also highlighted in the assessments of the effectiveness of risk management and reported as already outlined.

Responsibilities of the business units / Each business entity must allocate the responsibility for the monitoring of the management of the business success and risk management processes and the maintenance of risk management standards, policies, procedures and methodologies to a person in an independent role. Furthermore, appropriate governance structures are established in conjunction with the central risk management function to monitor the execution of the risk management strategy at all levels of the entity.

The management of strategic business risks is the responsibility of business entity leaders, while the management of operating business risks may be delegated to operations managers and specialist risk managers, operational and risk working groups and risk committees.

Enterprise-wide risk management / All risks are managed in terms of the policies and frameworks of the board and its committees and their sub-committees; for example the Business Success and Risk Management Framework, the Credit Risk Management Framework, the Market Risk Management Framework, the Compliance Risk Management Framework, the Legal Risk Management Framework, the Financial Risk Management Framework and the Direct Tax Risk Management Framework.

Risk management is well entrenched throughout the Banking Group. The Banking Group is pleased with the success that it has achieved as demonstrated by the review of the effectiveness of the risk management processes that follows.

Overall the Banking Group has achieved its desired business objectives and avoided unexpected losses of any consequence, which might have been caused by shortcomings in risk controls.

However, there is always room for improvement. During the current year the Banking Group will focus on the following:

- further integration of the management and risk management processes;
- improving the measurement and reporting of the effectiveness of risk management;
- improving the alignment between risk management, internal audit and other governance functions;
- improving the qualitative and quantitative measures of key risks;
- improving risk controls to vest best practices or to address identified weaknesses and to strengthen defences against external threats. In particular, the Banking Group will concentrate on further improving its general systems controls, credit administration processes and business continuation arrangements;
- improving management information and financial reporting systems;

- reacting pro-actively and timeously to market events; and
- automating the risk management reporting and risk quantification processes generally, and specifically to address the requirements of the New Basel Capital Accord in respect of credit, market and operational risk.

Key risks / The senior executives of the Banking Group and the FirstRand Group annually review the risks facing the Banking Group to identify key risks. The effectiveness of the management of these key risks is assessed by the executive and special actions initiated where required to address shortcomings or to re-enforce management initiatives. The key risks, the assessment of the effectiveness of the management thereof and special actions initiated are reviewed and approved by the risk committee and the board.

Risk management effectiveness / The effectiveness of risk management is assessed by means of a framework template which is divided into seven main risk categories and 136 sub-categories. Each business entity in the reporting structure does a quarterly self-assessment which is agreed to by the risk managers and reported to the relevant governance committees as previously outlined. The process provides an overview right across the Banking Group of the effectiveness of risk management by business unit and by risk category. This enables management to identify processes or controls which are weak as well as business units where the risk management and control processes are sub-standard and to take corrective action.

In addition to the Banking Group wide overview by risk category and business unit, the heads of risk management and internal audit report all significant issues of process breakdown and control shortcomings to the sub-risk committees and ultimately to the Group risk committee. Follow-up reports are submitted to the risk committee until the issue has been resolved.

The following is a summary of the assessment of the effectiveness of risk management during the past financial year. The review is provided by selected risk factors which include all the key operating risks. This summary and the divisional performance reviews in the annual report demonstrate that the Banking Group was effective in controlling its business risks.

The review shows that credit defaults declined further. This is the result of improved business and economic conditions and improved credit risk management processes. Market risk was well controlled, yielding a satisfactory return on risk exposure. The Banking Group did not experience any funding problems such as a scarcity of funds or higher-than-market costs for funding.

The decline in the general level of interest rates was anticipated and the Banking Group benefited from appropriate hedging strategies.

The credit processes in the corporate sector, business continuation and general systems and process controls improved substantially.

The Banking Group's insurance programmes were renewed on favourable terms due to the quality of the risk management processes.

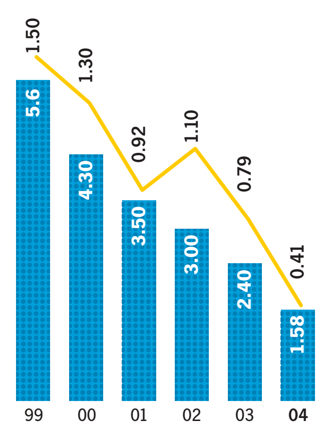
On the negative side, operational losses were higher than last year, but low in absolute terms. Losses due to criminal activities were higher due to more burglaries in the branches and increased volumes in the credit and debit card businesses. The Banking Group is upgrading its alarm systems in the branches to combat the increase in criminal activities.

The following summary in qualitative comments on key questions to assess the effectiveness of the risk management processes. Appropriate quantitative indicators are shown where possible.

Credit risk:

The risk that a counterparty will default on an obligation to the Banking Group / Non-performing loans and credit defaults for the Banking Group have declined considerably since 2000. Non-performing loans have declined from 2.4% of total loans and advances to 1.6% for the year to 30 June 2004 and credit defaults from 1.3% to 0.4%.

The improvement in the quality of the loan book can be attributed to favourable economic conditions, improved credit origination and credit risk management processes.



Non-performing loans and impairments (%)

Credit risk: Large and medium corporate sector

Credit cycle	Generic key business risk areas in credit management	Control evaluation
Origination	Origination aligned to segmentation criteria	Yes
	Standardisation of origination methodology	Implemented
	Pricing for risk	Yes with continuous enhancement
Assessment	Calibrated risk measurement (grading) models in place	Yes
	Credit research aligned with portfolio dynamics	Yes
Approval	Credit losses in line with statistically expected and budgeted losses	Yes, better than expected
	Credit approval mandates adhered to	Yes
	Prudential limit policy in place	Yes
Ongoing risk management	Identification and management of high risk exposures	In place
	Operational limit management	In place
	Monitoring of facility covenants	In place with continuous enhancement
	Timely review of facilities	Yes
Credit legal and risk compliance	Losses caused by operational breakdowns in the credit processes with specific reference to validity of documentation	Losses insignificant; control enhancement in progress
Ongoing credit administration	Automated limit monitoring and exposure aggregation systems	Major systems enhancements in progress
	Data accuracy	Enhancement in progress
	Regulatory compliance	Comprehensive process
Recovery of defaulted accounts	Effectiveness of collection process	Very good
	Robustness of provisioning process	According to formal policies
Credit portfolio management	Robustness of process for measurement and management of portfolio risks	Enhancement In progress
	Alignment of capital management and credit management process	Key focus area

Key initiatives

- Ongoing development of credit risk management framework and related policies, norms and standards.
- Ongoing Basel II readiness assessment and related actions such as rating models calibration and collateral recovery measurement.
- Further development of the dynamic provisioning methodology.
- Segmentation alignment project in respect of SMEs in the Corporate and Retail segments.
- Development of robust systems architecture to address current and future needs including:
  – continued development of the Exposure and Limit Management System for the Corporate sector.
  – establishment of a Credit Data Matrix;
  – implementation and enhancement of workflow technology; and
  – development of a group-wide collateral register;
- In depth training of credit analysts in rating methodology, risk pricing and financial analysis.

Credit risk: Retail sector

Credit default losses in line with or better than expectations.	Yes, better than expected
Reward for risk; return on capital	Above hurdle rate
Ongoing credit risk management	Formal processes in place
Level of non-performing loans	Acceptable
Collection processes	Excellent

Key initiatives

- Event driven systems to automate time consuming credit management processes.
- Enhancement of credit scoring systems.
- Further refinement of AC 133 compliant provisioning model.
- Single platform to automate credit applications from branch network to product houses.
- Review of credit policies.

Summary

The credit performance of the Retail book has been excellent and good progress has been made to automate the initiation and approval processes.

Non-performing loans (NPLs) as a % of gross advances

Portfolio	**2004**	2003
Cheque	**7.73%**	9.90%
Instalment loans	**3.50%**	4.06%
Mortgages	**1.57%**	3.04%
Auto loans	**0.72%**	1.06%
Card	**5.40%**	5.40%

Risk rating of retail advances

	Average FR Rating	
Portfolio	**2004**	2003
Cheque	**FR33**	FR41
Instalment loans	**FR47**	FR50
Mortgages	**FR28**	FR30
Auto loans	**FR28**	FR31
Card	**FR48**	FR54
Total	**FR30**	FR33

The Banking Group applies a uniform calibration of credit risk by way of an FR rating – the lower the rating the lower the risk. The ratings in the table are expressed on a deal rating basis i.e. after taking into account the value of security or underlying assets. The ratings show that the quality of the portfolio improved slightly.

Loss ratios or probability of default are ascribed to each FR rating (e.g. FR30 = 0.5% and FR50 = 3%). The credit risk spreads for individual advances are priced to take the loss ratio or probability of default and potential loss at default into account so that portfolio losses incurred during a year will be funded by the credit risk premiums earned across the portfolio of advances.

FNB Property Finance

Credit losses in line with statistically expected and budgeted losses	Losses are minimal due to the lower interest rate environment and higher recovery rates on security
Losses caused by operational breakdowns in the credit processes	None
Reward for risk return on capital	Very good
Ongoing management of high risk exposures	In place
Limit monitoring and exposure aggregation systems	Processes in place
Compliance with credit approval processes	Excellent. Credit policy and procedures in place
Ongoing credit administration	Processes have been improved. Credit division expanded

Key initiatives

- Credit policy and application procedures implemented.
- Lotus notes deal tracking system implemented.
- Deal rating mode devised to effect correct provisioning.
- Deal and FR rating model to be applied to calculate credit premium, economic capital allocation and pricing for risk.
- Systems enhancements.

Interest rate risk:

The risk of loss of interest income due to fluctuations in interest rates

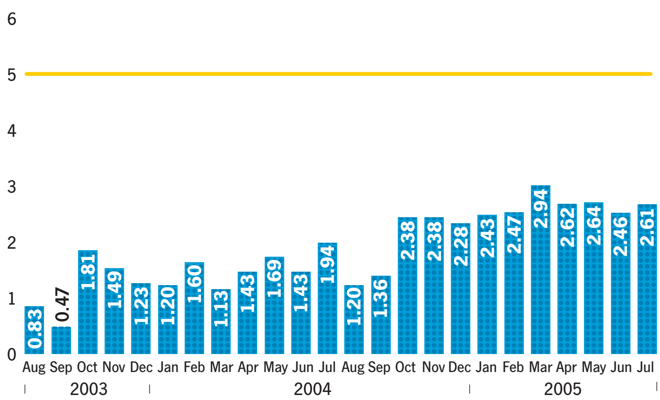
Interest rate risk in the banking book

Net interest income in line with expectations and interest rate forecast	Yes
Loss of income due to unexpected developments in interest rate markets	None
Interest rate sensitivity in line with approved limits, no exceptions noted during the period under review	Yes
Effectiveness of income hedges taken against expected rate trends	Very good
Portfolios managed within interest rate risk limits, namely interest rate sensitivity, economic value sensitivity, net interest income at risk.	Yes

Key initiatives

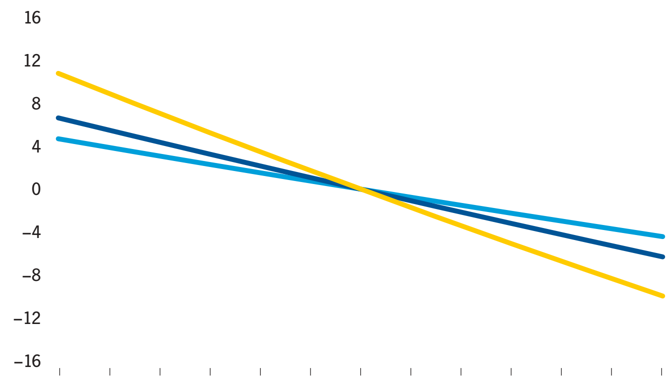
- Refinement of the quantification of interest rate risk per portfolio.
- Protection of the interest margin of portfolios by means of appropriate hedges where possible.

The table below reflects the adverse change in net interest income to a 1% instantaneous downward shock to the yield curve over a twelve month period and in addition, a forecast 12 month cycle. The limit reflects the impact of 1% instantaneous shock against the approved limit of not greater than 5% change to net interest income.



NII changes <5% for a 1% instantaneous shock to yield curve (%)

24 months rolling total %
5% limit



% change to net interest income for a shock in rates – June 2004

Last month's 1st 12m
First 12 months
Second 12 months

The sensitivity of interest income in comparison to the base scenario (where current market rates and client behaviour are held constant for the next twelve months) is considered small relative to the size of the Banking Group's net interest income of R8 907 million.

Liquidity risk:

The inability to discharge funding or trading obligations which fall due at market related prices

Liquidity risk in the Banking Group

Material or significant incidences of being unable to fund banking operations at market related prices	None
Sources, mix and term of funding aligned with market composition	Yes
Growth in deposit base	Acceptable

Key initiatives

- Refinement of liquidity management in the African and International entities.
- Focus on optimising the funding base throughout the Banking Group in terms of mix, stability of funding sources and cost.
- Focus on sensitivity of cash flows with refinement of alternative sources of funding and contingency plans.

The aims of liquidity risk management are twofold. Firstly, the Banking Group's liquidity risk management framework aims to ensure that there are sufficiently diversified funding sources to meet obligations when due. This is achieved by ensuring the Banking Group is able to fund ongoing lending and trading activity under increasing levels of stress at a maximum acceptable level of cost. Secondly, liquidity risk management serves to facilitate appropriate decision making around funding mix and cost optimisation for the Banking Group.

No significant changes to the Banking Group's liquidity position have been noted during the current financial period. Based on local and international benchmarks the Banking Group is adequately funded and able to meet all its current and future obligations.

Capital adequacy risk:

The risk of having insufficient capital to act as a buffer against unexpected losses or to comply with minimum regulatory requirements

Capital adequacy risk in the Banking Group

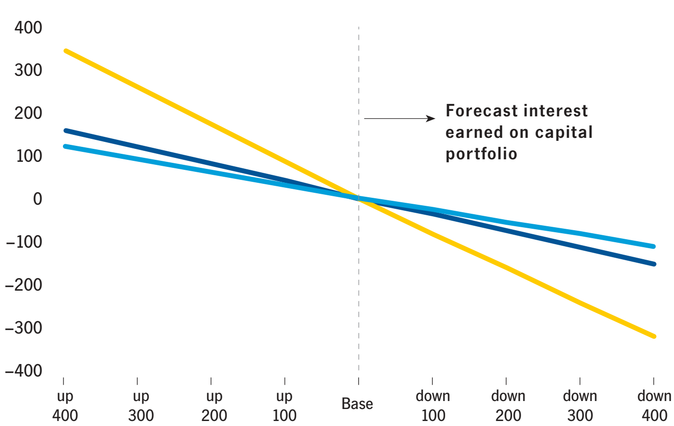
Breaches of minimum capital adequacy ratios	None
Measurement of capital requirements in both regulated and unregulated entities – capital maintenance at the higher of regulatory or economic capital	Yes
Income buffers in the Banking Group	Acceptable
Income sensitivity analysis	Yes
Internal generation of capital	Acceptable
Income on own funds	Key focus area

Key initiatives

- Ongoing refinement of economic capital calculation and allocation methodologies.
- Refinement of capital forecasting processes.
- Preparation for Basel II – including quarterly quantitative and qualitative impact assessments.
- Ongoing optimisation of the composition of capital base of the Banking Group (debt versus equity).

Income on own funds / The graph depicts the impact of an instantaneous interest rate shock on the interest income forecast for the capital portfolio of FirstRand Bank. As can be seen from the graph, the income effect of a shock in the interest rate is minimal to the Bank. The base is the forecast or budgeted interest income on the capital portfolio.

The forecast interest earned on the capital portfolio is subject to interest rate forecasts, hedging strategies and actual market movements. Given these risks FirstRand Bank is expecting to earn the budgeted income on its own funds portfolio.



Net interest income shock – Rand change to base (R million)

Last month's 1st 12m
First 12 months
Second 12 months

Market risk:

The risk of loss on trading instruments due to changes in market prices and rates

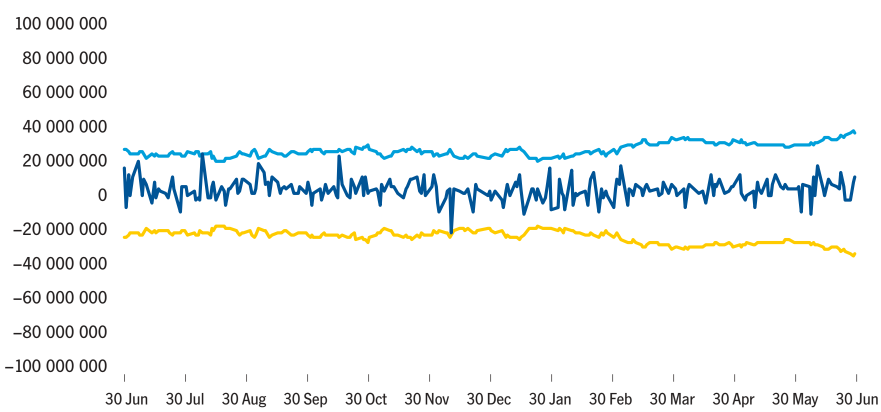
Market risk control of trading activities

Net income generated by trading activities relative to risk exposures	Very good
Containment of exposures within risk limits	Excellent
Profit and losses in line with risk exposures and identified risk factors	Yes
Highest market risk exposure (One day 99% VAR)	R35 million
Average market risk exposure	R25 million
General risk control of trading activities	Very good

Key initiatives

- Refinement of profit and loss attribution by risk factor.

Market risk exposures are controlled by means of stress exposure limits. The following graph shows the derived value at risk for the year under review. The value at risk graph is derived from the daily stress exposures for the trading activities and shows that the market risk exposures were small in relative terms.



Value at risk (99% 1 day) (Rand) – 1 July 2003 to 30 June 2004

- 99% VaR
- P&L
- 99% VaR

Operational risk:

The risk of loss due to criminal activities, the failure of a process, system or human error

Operational risk management in the Banking Group

Risk management	
Independent operational risk management function to develop, implement and coordinate operational risk management strategies, processes and systems	In place
Operational risk management processes and systems	Good, being refined
Operational losses	
Losses due to criminal activities	Small increase
Losses due to process or systems failures or human error relative to size of operations and benchmarks	Low
Process losses	Higher than last year's figure; low in relative value terms
Reporting of operational losses	Good

Key initiatives

- Refinement of operational loss reporting and operational risk management processes.
- Alignment of internal audit processes with the risk management functions and the risk management framework.
- Alignment with Basel II requirements.

The following table shows the history of operational losses indexed to 100 with the year to 30 June 2000 as the base. The figures for 2001 and 2000 are for criminal losses only, while process losses have been formally recorded since 2002. Losses were higher than last year because of increases in robberies and burglaries, card fraud and process losses. Overall, losses due to criminal activities are 19% lower than in 2000, with process errors the cause of the increase in total losses. It was mentioned in last year's annual report that losses due to process errors were low in relative terms, but were expected to increase with the vesting of formal recording of losses due to process errors which had not been reported separately in the past.

Losses due to robberies were only slightly higher than last year. Losses due to burglaries at branches were markedly higher. The Banking Group is implementing an upgrade of its alarm systems and response procedures to counter the threat of criminal gangs which focus on the latter.

Process errors were higher mainly due to a payment process control error, which occurred following the installation of new software.

Losses due to criminal activities and process errors (Index Total Losses 2000 = 100) Financial Year to 30 June

Loss category	**2004**	2003	2002	2001	2000
Banking fraud and forgery	**21**	30	29	37	67
Robberies and burglaries	**32**	12	15	19	12
Card fraud	**19**	15	11	16	11
Transit losses	**1**	–	–	2	1
Money differences	**2**	3	7	7	7
Other	**–**	–	–	–	1
International fraud	**–**	–	–	14	1
Credit fraud	**7**	11	16	–	–
Losses due to criminal activities	**81**	72	78	95	100
Process losses	**40**	20	9	–	–
Total operational losses	**121**	92	88	95	100

Information risk:

The risk of breakdown in the confidentiality, integrity and availability of systems and data

Information security and risk management in the Banking Group

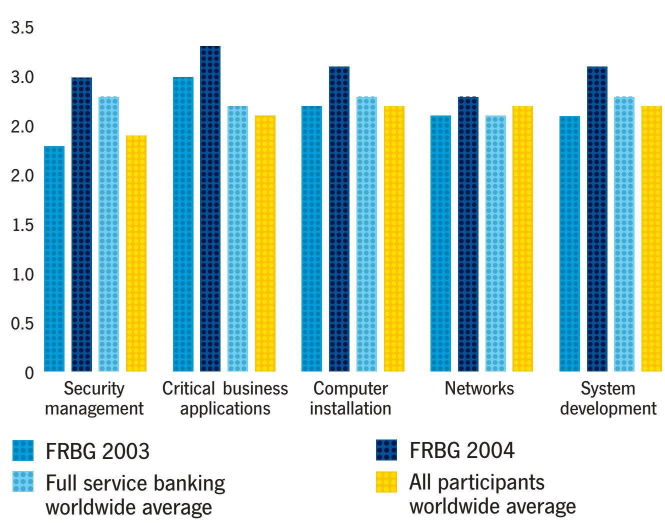
Information risk management processes

The Information Security Forum (ISF) survey resulted in an improved global ranking (to 16th out of 98)	Much improved
Policy and standards	In place
Awareness	Ongoing training
Control status in respect of: Baselines on UNIX/Windows servers, network perimeter, general access controls, virus controls, patch management, application controls	Formal policies and standards in place, continuous awareness training, continuous monitoring, internal audits, continuous enhancement
Change management	Continuous enhancement
Availability of main banking and payment systems	Acceptable
Availability of electronic banking systems	Acceptable

Key initiatives

- Integration of information security reporting into the operational risk management framework.
- Ongoing policy and standards update.
- Awareness campaign.
- Emphasis on access controls through the information security officers.
- Major review of Hogan Access Control System (HASS).
- Change management controls.
- Project to evaluate identity management as a strategic IT architecture issue.

The following graph compares the results of the ISF survey for the Banking Group with the worldwide averages. It demonstrates that the Banking Group compares favourably with similar organisations.



Legal risk:

The risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations or by the inability of the organisation to enforce its rights.

Legal risk management in the Banking Group

Legal Risk Management Framework implemented	Yes
Identification of the sources of legal risk by business units	In progress
Implementation of action plans by business units to monitor legal risks and to ensure that these are obviated or appropriately managed	In progress
Remedial actions by business units where legal defect is detected	Yes
Litigation database maintained	Yes
Adequate management of claims and litigation	Yes

Key initiatives

- Development of a contract management system.
- Development of an intellectual property management framework and management system.

Insurance risk:

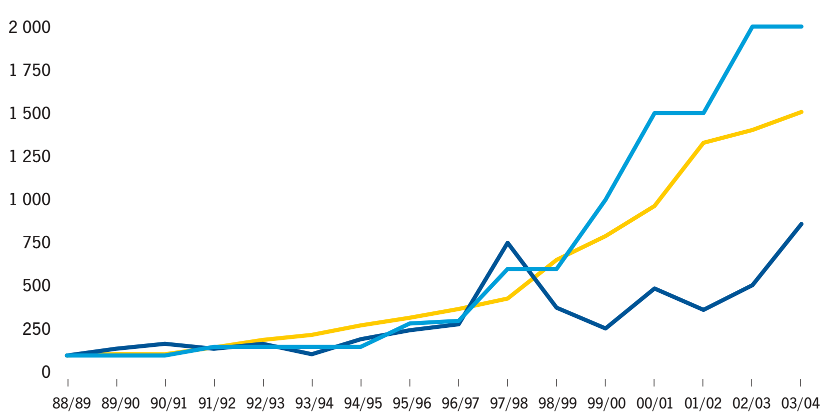
The risk that unexpected losses which are not business related losses, are not adequately covered by insurance

Insurance risk management in the Banking Group

Appropriate financial institutions, professional indemnity, directors and officers' liability, assets and liability insurance covers in place	Yes
Cost effective self-insurance, insurance and first loss structures in place	Yes
Insurance cover readily available in the market	Yes
Regular review of insurance policies and insurance cover by brokers and independent consultants	Yes

Key initiatives

- Continued assessment of insurance risk financing programmes and structures to ensure cover is cost effective and remain current with developments in the Banking Group.



Group financial institutions insurance programme – Insurance cover and cost (including claims) relative to assets (indexed) (R million)

Assets Insurance cost Cover

The financial institutions insurance programme is the largest placement of the Group's own insurance portfolio. The increase in cost in 2003/04 was mainly due to the difficult conditions over the past few years that prevailed in the international insurance and reinsurance markets, particularly since the catastrophe which occurred on 11 September 2001.

All the Banking Group's own insurance requirements have been successfully renewed on acceptable terms.

Business continuation and disaster recovery risk:

The risk of loss of data or the ability to continue business processes or activities due to unforeseen events

Business continuity and disaster recovery risk management

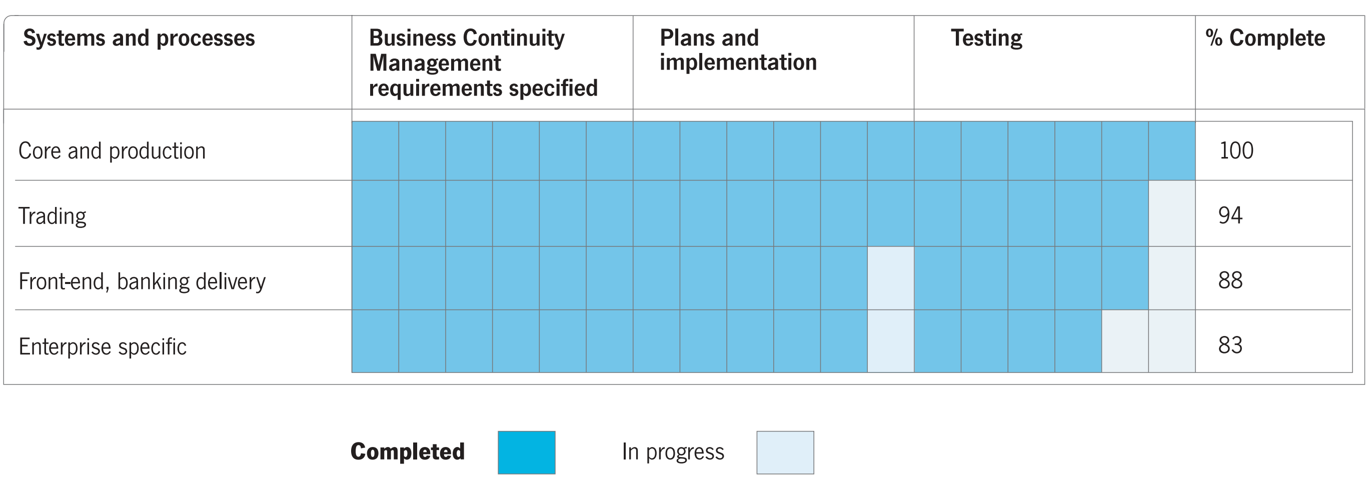
Business continuity management activity cycle implemented – Adequacy of plans assessment (annually) – Plan update and facility review (bi-annually) – Full testing (annually)	Yes
Test objectives for previous financial year met	Yes (90%)
Core systems disaster recovery facility improved – remote site implemented	Yes

Key initiatives

- Rigid and clear quarterly status reporting mechanism.
- Training of staff that are responsible for business continuity planning.

The challenge in the Banking Group's business continuity management programme is to maintain the effectiveness of plans amidst constant change of business profiles, system growth and changes, as well as the occasional physical transfer of units to new or alternative sites. In addition, embedding a culture of continuity planning as part of the overall risk and business management framework is given ongoing attention and is proving effective. Successful tests carried out during the past year have had positive effects on staff morale resulting in a more positive outlook regarding managing and exercising recovery strategies in the new financial year.

Business continuity status (systems and processes)



Enterprise-wide risk management processes

Enterprise-wide Risk Management Framework documented, communicated and implemented	Yes
Risk and sub-risk committees in place and effective	Yes
Effectiveness of risk management self-assessments performed by business units and confirmed by risk managers, advised to and monitored by the risk committee and sub-committees	Quarterly by business units
Effectiveness of risk management self-assessments performed by senior executives and advised to the risk committee and the relevant boards	Annually
Independent risk managers represented at risk committees of business units	Yes
Did the risk management processes succeed in assisting the various businesses to achieve their desired outcomes and to avoid adverse outcomes?	Yes
Internal audit	
Branch audits conducted according to plan	Yes, at least once per annum
Business and systems audits performed according to plans	Yes
Significant audit findings communicated to relevant audit committees	Yes
Internal audit representation at main and sub-risk committees	Yes
Corrective actions identified and monitored	Yes

Key initiatives

- Alignment of audit programmes with key risk factors.
- Automation of tracking of corrective actions.

Financial risk:

The risk of inappropriate accounting policies, sub-optimal financial performance and breakdown of financial controls

Financial risk management

Return on equity	Above target
Cost to income ratio	Satisfactory, in target range
Formal accounting policies	Yes
Indirect tax management	Formal processes in place
Direct tax management	Formal processes in place
Financial Risk Management Framework in place	Consolidated policy implemented
Quality of financial controls	Good

Key initiatives

- Embedding the implementation of the Consolidated Financial Risk Management Framework throughout the Banking Group.
- Planning for conversion to International Financial Reporting Standards.

Credit risk management processes:

Corporate sector / (Please refer to the section on risk effectiveness under "Credit Risk: Large and medium corporate")

Retail sector / The approach to lending in the consumer sectors is characterised by a separation between credit initiation and the credit approval and management processes, which are centralised in each credit product house.

The majority of advances are approved by means of scorecards, whilst the larger amounts are subjected to a judgemental process, achieved through a series of credit committees. An overview process ensures that quality standards are continuously monitored.

Each counterparty is subjected to the FR credit risk rating and pricing process, primarily by means of the scorecards. This provides the Banking Group with a view of the overall risk weighted pricing of its lending portfolio. The credit management processes also make use of statistical modelling in order to identify early signs of default. This allows for proactive management with varying degrees of intensity, accordingly the level of risk observed.

Significant progress has been made in automating credit application processes across all product offerings. This provides for fast and consistent decision-making as well as systems driven risk rating, pricing and fee generation, which creates significant credit efficiencies for the Banking Group.

The requirements of AC 133 were again applied to the provisioning process. The model takes the following into account:

- the expected default rate of each counterparty;
- the rate which the bank earns on the transaction;
- the expected recoveries; and
- the aggregated results for each product portfolio.

The value of an asset in the credit portfolio is expressed as a present value and any shortfall relative to the face value is regarded as an impairment and is provided for as a portfolio impairment.

Default on an individual account occurs when payment arrears exceed defined triggers. Such accounts are then classified as non-performing, with specific impairments made against them.

Collection of non-performing debts is clustered around centres of excellence in either WesBank or FNB HomeLoans.

Liquidity risk management

Objective of liquidity risk management / The aims of liquidity risk management are twofold. Firstly, the Banking Group's liquidity risk management framework aims to ensure that there are sufficiently diversified funding sources to meet obligations when they fall due. This is achieved by ensuring the Banking Group is able to fund ongoing lending and trading activity under increasing levels of stress at a maximum acceptable level of cost. Secondly, liquidity risk management serves to facilitate appropriate decision making around funding mix and cost optimisation for the Banking Group.

Management structure / The Banking Group has a Group-wide funding and liquidity management process in place. The liquidity positions are managed at currency level and across all jurisdictions in which the Banking Group operates.

Use of liquidity risk limits / The Banking Group's liquidity risk management framework requires that each legal entity in the Banking Group set liquidity risk limits and monitors their liquidity position against those limits. Specific divisional limits are in place within each legal entity. Where divisional limits are not in place the cash flows and balance sheet positions giving rise to liquidity risk in those divisions are monitored and managed through balance sheet analysis models.

Cash and collateral management / The funding desks of the Banking Group take care of all daily cash flow requirements arising from the various operating divisions. The payment streams of the Banking Group are isolated and monitored separately to add efficiency in the sourcing and application of funds throughout the Banking Group's operations. Collateral requirements are monitored and actively managed on the appropriate lending and trading portfolios as well as in the funding portfolios.

Contingency planning / Contingency planning takes place around the size and mix of the Banking Group's balance sheet position. Product behaviour assumptions are assessed and stress analysis is performed on the current liquidity position in order to assess cash flow at risk. Consideration is given to a variety of appropriate contingency funding mechanisms aimed at ensuring the Banking Group remains solvent during stress conditions.

Current liquidity position / No significant changes to the Banking Group's liquidity position have been noted during the current financial period. Based on local and international benchmarks the Banking Group is adequately funded and able to meet all its current and future obligations.

Market risk management / Trading in the financial, equity and commodity markets is undertaken in terms of the Market Risk Management Framework which is a policy of the board.

Market risk exposures are controlled by means of stress loss limits which are approved by the relevant business and risk management functions, the Market risk committee (RMB risk committee), the Group risk committee and the board.

Market risk exposures are quantified daily across all trading activities of the Banking Group and monitored by the business risk managers and the business unit heads. The daily market risk committee at RMB monitors limit excesses, the causes of any excesses and the correction thereof for the main trading activities namely Treasury and Equity Trading. This committee also tracks the daily profits and losses against risk exposures and monitors the attribution of profits and losses by risk factor to ensure that risk exposures do not go undetected and that profits and losses are explained.

The market risk management processes are well vested and have functioned effectively over the past five years. The daily risk monitoring and internal audit processes have not identified significant process deficiencies. Process shortcomings which may be identified are corrected and the progress with corrective actions are monitored by the risk managers and the market risk committee.

The market risk control processes are being strengthened by the implementation of continuous audits and ongoing daily auditing of selected trade types and changes to counterparty, settlement, transaction and accounting records.

Implementation of the Basel II requirements for the calculation of capital adequacy in the Banking Group

General:	
• Qualitative and quantitative impact assessment	Ongoing
• Documentation	On track
Credit risk:	
• Credit rating models implemented	Yes
• Economic capital allocation methodology implemented	Yes
• Systems refinement	Ongoing
• Model validation	On track
Operational risk:	
• Framework documented and implemented	Yes
• Operational risk processes and systems refinement	On track
Other (market risk, investment risk, Basel Pillar II and III issues)	On track

The Banking Group aims to comply with the Foundation Internal Ratings based approach for credit risk for corporate exposures and the Advanced Internal Rating Based approach for credit risk for retail exposures at the common implementation date of Basel II – currently set for 1 January 2008.

The Banking Group is conducting a cost-benefit analysis to finalise its decision on the advanced measurement approach versus the standardised approach for operational risk.

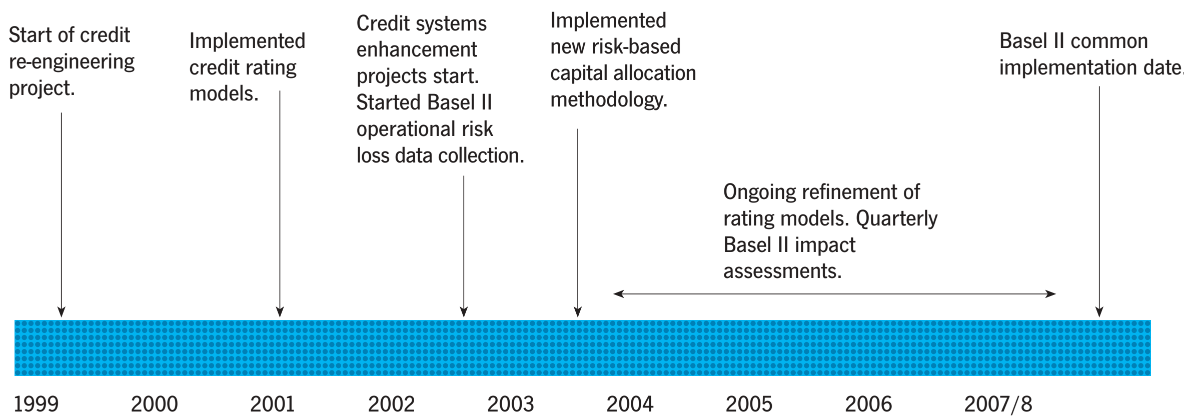
Preparations for Basel II compliance started as far back as 1999, when the Banking Group embarked on an extensive credit re-engineering project under the sponsorship of the Group CFO to develop appropriate rating models and associated probability of default estimates across the Banking Group, as well as the required supporting processes.

In 2001 the FirstRand master FR rating scale was implemented, as well as the corporate and retail credit rating approaches and supporting credit rating models. The following segments are covered:

- large corporates (listed and unlisted);
- medium corporates (SMEs);
- banks;
- sovereigns;
- project and structured finance;
- credit card;
- revolving credit facilities;
- instalment sales and asset finance; and
- mortgages.

The Framework for operational risk management is implemented throughout the organisation. This includes the allocation of accountability and responsibility for operational risk management, continuous improvement of operational systems and processes and internal controls and operational loss and breakdown reporting. Operational risk loss data collection, which started more than 10 years ago in areas such as fraud data collection, was extended and aligned with the Basel II loss data categories in 2002.

The diagram below illustrates the key milestones in the Basel II preparations:



The Banking Group's ongoing Basel II project focus is to facilitate ongoing qualitative and quantitative impact assessments, strategic analysis of Basel II impacts and enhancements of credit rating models operation, calibration and validation, as well as credit and operational risk processes for purposes of Basel II compliance.

The project is coordinated by the Capital Management unit, in close collaboration with the various risk and business owners. Oversight on this process is provided by the Banking Group's Basel II steering committee, chaired by the Group CFO, supported by a number of specific business unit Basel II steering committees.

Quarterly Basel II quantitative impact assessments have been performed across the Banking Group since March 2003, in order to assess the Basel II impact at a point in time for the Group as well as specific business units and business lines, and to determine the sensitivity of Basel II capital estimates across a period where the balance sheet composition and asset profile, as well as market conditions, are changing.

The quantitative impact assessments have been complemented by ongoing qualitative gap analyses to monitor the progress made in those areas where there are gaps relative to the Basel II requirements.

An ongoing focus area for the Banking Group is improvements in exposure and management information systems and processes relating to corporate exposures. To this end, an Exposure and Limit Management System (ELMS) as well as a Credit Datamart project was launched during 2003. These multi-year projects are expected to yield substantial enhancements on the automation of management information and reporting for corporate exposures.

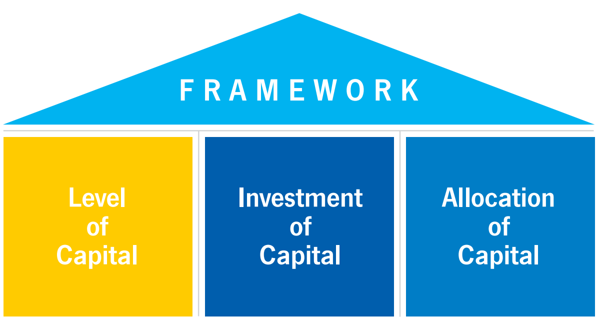
Capital management

Framework for capital management / The Banking Group actively manages its capital base in order to support the creation of shareholder value. The key objectives of the capital management process are to:

- facilitate growth in the net asset value of the Banking Group;
- protect the capital base; and
- embed incentives which align the business unit behaviour with shareholder value growth objectives.

To achieve these objectives the capital management process considers the various views of capital (economic capital, regulatory capital and book capital) as well as the different perspectives of shareholders, debt holders and regulators in determining appropriate capital levels, investment strategies and capital allocation processes.

The overall framework for the management of the Banking Group's capital base consists of three pillars as depicted in the diagram below:



The key principles underpinning this framework are as follows:

Level of capital / The Banking Group capitalises itself appropriately to facilitate business growth, minimise business disruption and meet the requirements of shareholders, debt holders and regulators.

It maintains the higher of regulatory or economic capital. Further capital buffers are only held if required for risk concentrations, expected growth or capital volatility.

The level of capital is funded in the most efficient manner to achieve prudent and appropriate gearing levels within the constraints of regulatory and rating agency requirements.

Investment of capital / Free capital is invested in approved liquid or tradable debt instruments such as government bonds. A small proportion of funds are placed into the general funding pool of the bank.

Interest rate hedging instruments with approved highly rated institutions are used to achieve the desired interest rate profile which maximises wealth within acceptable earnings at risk.

Allocation of capital / Allocation of capital to business units is based on a bottom-up calculation of economic capital on a risk-adjusted basis, and charged for using appropriate hurdle rates.

Economic capital is defined as the amount of capital required by the Banking Group in order to maintain the confidence of its depositors, counterparties and its desired credit rating.

The capital allocation process, used in conjunction with the matched maturity fund transfer pricing system, liquidity cost transfer process and cost allocation processes facilitate:

- informed pricing and reserving for transactions;
- informed strategic decision making;
- risk adjusted performance measurement of business units on a NIACC (net income after capital charge) basis; and
- alignment of managers and shareholders' interest.

The following risk parameters play a key role in the calculation of economic capital:

- **Credit risk /** Long run expected default frequencies, loss given default and exposure at default parameters are stressed to a 99.9% confidence level to determine economic capital, using conservative assumptions regarding correlations between exposures.

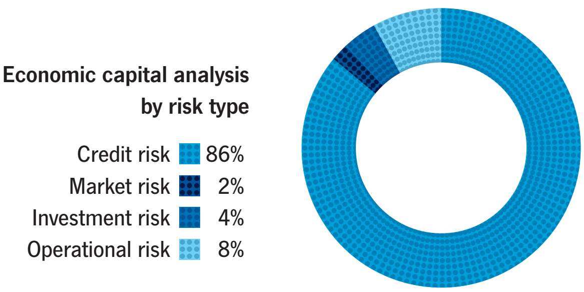
- **Market risk /** An assessment of earnings volatility, which is stressed to a 99.9% 10 day confidence level provides the base for the calculation of market risk economic capital.

- **Investment risk /** Economic capital for investment risk for long-term holdings of listed and unlisted equity investments is calculated using conservative stress tests on each holding.

- **Operational risk /** A combination of a quantitative and qualitative assessment of the inherent exposure of business lines to operational risk, using industry benchmark ratios, is used to calculate operational risk economic capital. There is an ongoing focus to enhance the building blocks required in order to calculate operational risk capital requirements in a more scientific way.

The economic capital calculation is conservative in that the Banking Group currently only recognises diversification within risk types, and not across credit, market, investment and operational risks.

The diagram below illustrates the relative contribution of the various risk types to economic capital requirements.



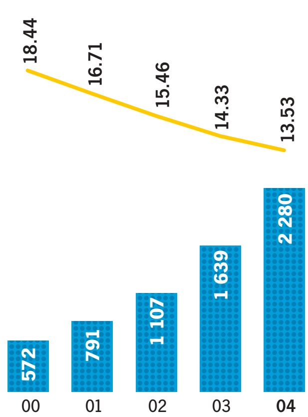
Economic profit contribution (net income after capital charge) / A key indicator of the efficiency of capital usage in the Banking Group is the absolute level and growth of net income after capital charge (NIACC), also referred to as economic profit.

NIACC is defined as the surplus profit that the Banking Group generates for shareholders, after deducting an appropriate charge for the cost of equity.

In equation form:

NIACC = Headline earnings – (cost of equity x average shareholders' equity and reserves, i.e. "net asset value").

The graph below indicates the growth in economic profit, as well as the internally estimated average cost of equity over the past five years.



Growth in economic profit (NIACC)

NIACC
Cost of equity

Accounting capital analysis / The following tables provide a geographical breakdown of the average accounting capital for the previous two financial years, together with geographical return on average accounting capital ("ROE") percentages.

2004

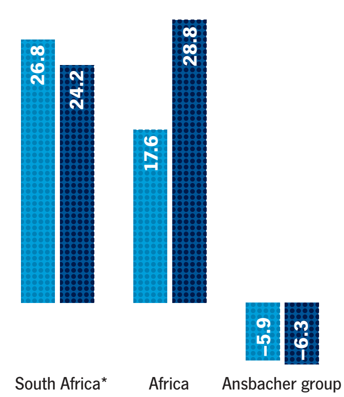
R million	Average allocated capital	Attri-butable income	ROE %	% of total average capital
South Africa*	16 717	4 480	26.8	85.7
FNB Africa	1 678	296	17.6	8.6
Ansbacher	1 103	(64)	(5.9)	5.7
Total	**19 498**	**4 712**	**24.2**	**100.0**

2003

R million	Average allocated capital	Attri-butable income	ROE %	% of total average capital
South Africa*	14 567	3 530	24.2	86.0
FNB Africa	1 123	323	28.8	6.6
Ansbacher	1 261	(79)	(6.3)	7.4
Total	**16 951**	**3 774**	**22.3**	**100.0**

**Includes FirstRand Bank Limited and other South African operations, as well as offshore subsidiaries and branches in Dublin, Mauritius and Australia which are currently managed as an extension of the South African businesses.*

The Banking Group achieved a return on average book capital of 24.2% during the year under review. The graph below provides an analysis of the geographical split of total ROE:



ROE geographical analysis (%)

ROE 2004
ROE 2003

*Including offshore branches and subsidiaries

The following tables provide segmental ROE information. Book capital allocations to business units have been made taking into account the business units' regulatory capital requirements, economic capital requirements and accounting capital not available for gearing purposes (e.g. certain types of revaluation reserves). All central income and expenditure as well as capital buffers have been re-allocated to business units.

2004

R million	Average allocated capital	Attributable income	ROE %	% of total average capital
Retail banking	10 374	2 909	28.0	53.2
Corporate and investment banking	7 455	1 804	24.2	38.2
Private banking and wealth management	1 669	(1)	(0.1)	8.6
Total Banking Group	**19 498**	**4 712**	**24.2**	**100.0**

2003

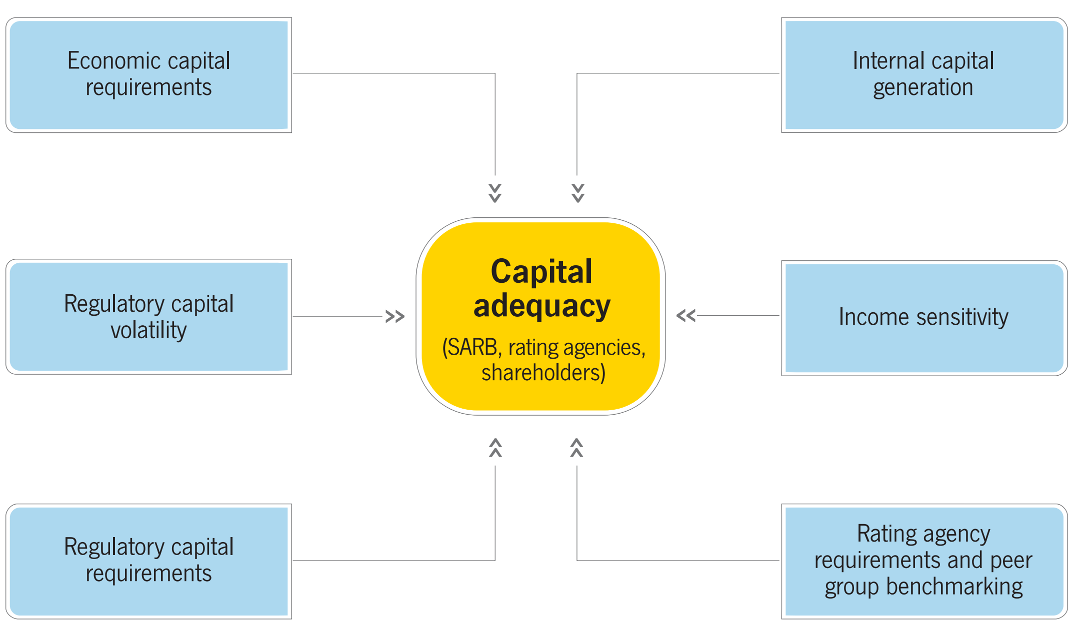
R million	Average attributed capital	Attributable income	ROE %	% of total average capital
Retail banking	8 569	2 384	27.8	50.6
Corporate and investment banking	6 826	1 418	20.8	40.3
Private banking and wealth management	1 556	(28)	(1.8)	9.1
Total Banking Group	**16 951**	**3 774**	**22.3**	**100.0**

Capital adequacy / The registered banks in the Banking Group are subject to regulatory capital adequacy requirements. The capital base of the Banking Group provides the foundation for lending, off-balance sheet transactions and other activities. The statutory capital adequacy of the Banking Group is measured in terms of the Banks Act, which requires that the Banking Group maintains a minimum level of capital based on its risk adjusted assets and off-balance sheet exposures.

Measurement of capital adequacy

The Banking Group has implemented a structured process to monitor and assess the appropriateness of its capital adequacy.

A number of indicators and processes are used as illustrated in the diagram below.



The regulatory capital adequacy requirement represents the minimum capital level for the regulated entities within the Banking Group. Regulatory capital requirements are monitored on an ongoing basis to ensure compliance.

Volatility of regulatory capital is an important indicator used to determine the extent of capital buffers required. The higher the regulatory capital volatility (which is driven by the volatility of assets and income), the higher the required capital buffer.

Economic capital requirements are calculated on a "bottom-up" basis for credit risk, market risk, investment risk and operational risk, for both regulated and unregulated entities. This provides an indication of the exposure to event risk (tail or stress risk) that the Banking Group may face. The Banking Group's policy is to capitalise at the higher of economic or regulatory capital.

The level of internal capital generation relative to the historical and expected growth in capital requirements is monitored on a month to month basis, and is a specific focus of the capital budgeting process.

Income sensitivity is an important indicator of the appropriateness of capital buffers and overall capital levels.

Finally, rating agency requirements and the results of benchmarking exercises are taken into account as a final input in the capital assessment process.

The consolidated capital adequacy position of the regulated entities in the Banking Group is set out below:

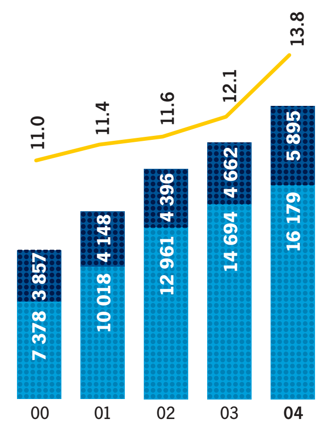
%	**2004**	2003	change
Tier 1	**10.1**	9.2	0.9
Tier 2	**3.7**	2.9	0.8
Total capital	**13.8**	12.1	1.7

The capital adequacy ratio of FirstRand Bank Limited at 30 June 2004 was 13.5% (2003: 10.3%).

As part of its ongoing capital optimisation programme the Banking Group successfully raised Tier 2 capital during the past financial year in FirstRand Bank Limited in order to improve the composition of its capital structure. The capital issue, which was oversubscribed 2.7 times, consisted of fixed and floating rate subordinated bonds of R1 billion raised at the following effective spreads:

Type	Amount	Effective rate
Fixed rate subordinated bond	R700 million	R153 + 120 bps
Floating rate subordinated bond	R300 million	JIBAR + 71.5 bps

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



Banking Group regulatory capital position

The graph clearly indicates the healthy internal capital generation ability of the Banking Group over time. The only capital raising that took place was the R1 billion of subordinated debentures which increased Banking Group's capital adequacy by approximately 0.8%.

A detailed analysis of the capital adequacy calculation is set out in the capital adequacy statement on page 204.

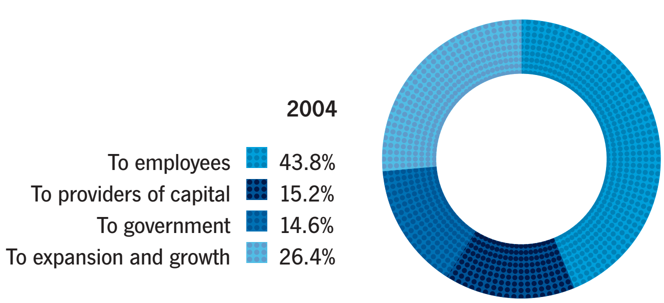
Analysis of book capital / Total shareholder equity and reserves per the Banking Group balance sheet totalled R20 555 million as at 30 June 2004 (R18 441 million in 2003).

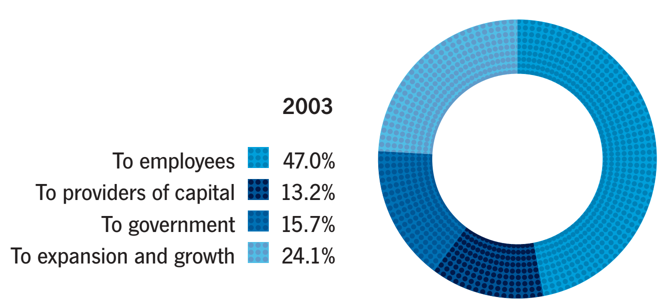
Reconciliation of shareholders' equity and reserves capital balance

R million	Shareholders' equity
Balance at 1 July 2003	18 441
Internally generated – attributable income	4 712
Internally generated – currency translation reserve	(299)
– other	(304)
Paid out during financial year	(1 995)
Balance at 30 June 2004	**20 555**
Average shareholders' equity and reserves for the year	**19 498**

Value-added statement / for the year ended 30 June

	2004		2003	
	R million	**%**	R million	%
Value-added				
Income earned by providing banking services	**22 412**		26 293	
Cost of services	**(14 338)**		(18 667)	
Value-added by banking services	**8 074**		7 626	
Other income	**9 278**		7 339	
Expenditure	**(4 201)**		(3 575)	
Value-added by banking services	**13 151**		11 390	
To employees				
Salaries, wages and other benefits	**5 756**	**43.8**	5 350	47.0
To providers of capital				
Dividends to shareholders	**1 995**	**15.2**	1 500	13.2
To government				
Normal taxation	**1 484**	**11.3**	1 451	12.7
Value-added tax	**267**	**2.0**	268	2.3
Regional services levy	**56**	**0.4**	44	0.4
Capital gains tax	**1**	**0.0**	2	0.0
Other	**113**	**0.9**	34	0.3
To expansion and growth				
Retained income	**2 717**	**20.6**	2 274	20.0
Depreciation	**546**	**4.2**	612	5.4
Deferred taxation	**216**	**1.6**	(145)	(1.3)
	13 151	**100.0**	11 390	100.0





Directors' responsibility statement

The directors of FirstRand Bank Holdings Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of FirstRand Bank Holdings Limited and its subsidiary and associated companies ("the Banking Group") at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed. Suitable accounting policies have been applied, and reasonable estimates have been made. The board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Group's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears on page 146.

The directors have reviewed the Banking Group's budget and cash flows for the year to 30 June 2005. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the Banking Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The consolidated financial statements for the year ended 30 June 2004, which appear on pages 147 to 203, have been approved by the Board of Directors and are signed on its behalf by:

JP Burger	**PK Harris**
Chief Financial Officer	Chief Executive Officer

Sandton

13 September 2004

Report of the independent auditors

To the directors of FirstRand Limited / We have audited the consolidated financial statements of FirstRand Bank Holdings Limited, and its subsidiary and associate companies ("the Banking Group") set out on pages 147 to 203, for the year ended 30 June 2004. These financial statements are the responsibility of the directors of FirstRand Bank Holdings Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope / We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion / In our opinion, the financial statements fairly present, in all material respects, the financial position of the FirstRand Banking Group at 30 June 2004 and the results of its operations and cash flows for the year then ended in accordance with Generally Accepted Accounting Practice in South Africa.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
13 September 2004

Accounting policies

The Banking Group adopts the following accounting policies in preparing its consolidated financial statements.

1. Basis of presentation / The Banking Group prepares its audited 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 and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

FirstRand Bank Holdings Limited is a wholly-owned subsidiary of FirstRand Limited and is consequently not obliged to produce consolidated Group financial statements.

The financial statements presented on pages 147 to 203 are prepared as an integral part of FirstRand Limited's annual financial statements.

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 year, except where noted. The Banking Group adjusts comparative figures to conform to changes in presentation in the current year. Changes in the presentation of prior year numbers to conform with current year presentation is set out in note 27 below.

AC 140 – Business combinations, became effective in respect of business combinations with agreement dates on or after 31 March 2004. The statement contains detailed transitional provisions as set out in note 26.1 below.

The Banking Group has changed its accounting policy regarding the capitalisation of material acquired trademarks, patents and similar assets, where it derives a benefit in more than one accounting period from these assets. These capitalised intangible assets are amortised and subject to an annual impairment test.

The effect of the changes in accounting policy on the financial statements of the Banking Group is set out in note 26.3 below.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. Consolidation / The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Banking Group, directly or indirectly, has the power to exercise control over the operations for its own benefit, and which it does not intend to dispose of within a short term (12 months). The Banking Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

The Banking Group consolidates a Special Purpose Entity ("SPE") when the substance of the relationship between the Banking Group and the SPE indicates that the Banking Group controls the SPE.

The Banking Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the Banking Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Banking Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Banking Group companies.

3. Associated companies / Associated companies are companies in which the Banking Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control, and which it does not intend to dispose of within a short term (12 months).

The Banking Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The Banking Group eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Banking Group's share of earnings of associated companies. The Banking Group's reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Banking Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any unamortised excess or deficit of the purchase price over the fair value of the attributable assets of the associated company at date of acquisition.

The Banking Group discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

The Banking Group increases the carrying amount of investments with its share of the associated company's income when equity accounting is resumed.

Investments acquired and held exclusively with the view to disposal in the near future are not accounted for using the equity accounting method, but carried at fair value in terms of the requirements of AC 133.

4. Joint ventures / The Banking Group accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method the Banking Group includes its share of a joint venture's individual income or expense, assets and liabilities and cash flows in the relevant components of its financial statements.

5. Revenue recognition

5.1 Interest income / The Banking Group recognises interest income, excluding that arising from trading activities, on an accrual basis, applying the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the advance, save for mortgage origination costs which are expensed in the year incurred.

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC 133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount of the advance. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances. Dividends received on these instruments are included in interest income.

5.2 Trading income / The Banking Group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of AC 133), both realised and unrealised, in income as incurred.

5.3 Fee and commission income / The Banking Group recognises fee and commission income on an accrual basis as and when the service is rendered.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

5.4 Services rendered / The Banking Group recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.

When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

5.5 Dividends / The Banking Group recognises dividends on the "last day to trade" for listed shares, and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

6. Foreign currency translation

6.1 General / The Banking Group presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Banking Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

6.2 Independent entities / Assets and liabilities of foreign subsidiary companies regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year end. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

6.3 Integral operations / Non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Banking Group's operations, are translated into South African Rand at historical rates, with monetary assets and liabilities translated at rates of exchange ruling at year end. Resultant gains and losses are recognised in the income statement.

6.4 Other / In both of the cases above, the Banking Group translates capital, reserves and any goodwill or fair value adjustments arising on the acquisition of foreign operations at historical rates. Income statement items are translated at the average rate for the year.

The Banking Group converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

7. Borrowing costs / The Banking Group capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed when incurred.

8. Direct and indirect taxation / Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and regional services levies.

Indirect taxes are disclosed separately from direct tax in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Banking Group operates.

9. Recognition of assets, liabilities and provisions

9.1 Assets / The Banking Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets / The Banking Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Banking Group's control.

9.3 Liabilities and provisions / The Banking Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

9.4 Contingent liabilities / The Banking Group discloses a contingent liability where:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

9.5 Sale and repurchase agreements and lending of securities / The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the reverse repos using the effective yield method. Securities lent to counterparties are retained in the financial statements of the Banking Group.

The Banking Group does not recognise securities borrowed in the financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded as a liability at fair value.

10. Derecognition of assets and liabilities / The Banking Group derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. Offsetting financial instruments / The Banking Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off;
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability is denominated in the same currency.

12. Cash and cash equivalents / In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks;
- balances guaranteed by central banks; and
- balances with other banks.

13. Financial instruments

13.1 General / Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associated companies, fixed assets, deferred taxation, taxation payable and intangible assets.

The Banking Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is brought to account on an effective interest rate basis.

The Banking Group separately measures and recognises the fair value of the equity component of an issued convertible bond in equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Note 5 above contains the specific revenue recognition methods adopted for financial instruments held for trading purposes.

Where the Banking Group purchases its own debt, the debt is presented on a net basis in the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

The Banking Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered to or by it. Otherwise such transactions are treated as derivatives until settlement.

13.2 Advances and impairments for credit losses

13.2.1 Originated advances / The Banking Group classifies advances as "Originated" where it provides money directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the transaction in determining the effective yield of the advance.

The Banking Group expenses mortgage origination costs in the year incurred.

All advances are recognised when cash is advanced to borrowers.

13.2.2 Purchased advances and receivables and investment securities / The Banking Group classifies purchased advances and receivables and investment securities as held-to-maturity, available-for-sale or elected fair value assets.

Purchased advances and receivables (including sub-participations acquired after providing the original loan) and investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as "Held-to-maturity". The Banking Group classifies purchased advances and receivables and investment securities where the intention is to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Available-for-sale" or as "At elected fair value". Management determines the appropriate classification at the time of purchase.

The Banking Group initially recognises purchased advances and receivables and investment securities at cost (which includes transaction costs, excluding mortgage origination costs). It subsequently re-measures available-for-sale and elected fair value advances and receivables and investment securities at fair value, based on quoted bid prices where the underlying markets for the instruments are liquid and well developed. Alternatively, it derives fair value from cash flow models or other appropriate valuation models where markets are illiquid or do not reflect the true market value based on the underlying risks of the instrument.

The Banking Group estimates fair values for unquoted equity instruments using applicable price: earnings ratios or cash flow models. It estimates the fair value of debt instruments with reference to applicable underlying interest rate yield curves and estimated future cash flows on the applicable instruments.

The Banking Group recognises unrealised gains and losses arising from changes in the fair value of advances and receivables classified as available-for-sale, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Banking Group recognises fair value adjustments on loans and advances classified as elected fair value in trading income. Interest income on these assets is included in the fair value adjustment.

The Banking Group carries held-to-maturity advances and receivables and investments at amortised cost using the effective yield method, less any impairment.

The Banking Group classifies purchased advances and receivables acquired in terms of a business combination, where such advances and receivables were classified as "Originated" by the seller, as "Originated".

13.3 Impairments for credit losses

13.3.1 General / A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Financial assets are assessed on an annual basis to determine whether there is objective evidence of impairment.

13.3.2 Impairment of originated advances / The Banking Group creates a specific impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

The Banking Group creates further portfolio impairments in respect of performing advances where there is objective evidence that components of the advances portfolio contain losses at the balance sheet date, which will only be specifically identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The portfolio impairments are based upon historical patterns of losses in each component of the performing portfolio, the credit ratings allocated to the borrowers and take account of the current economic climate in which the borrowers operate.

When an advance is uncollectable, it is written off against the related impairment. Subsequent recoveries are credited thereto.

The Banking Group writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan loss reserve requirements that exceed the specific and portfolio impairment amounts are dealt with in a General Risk Reserve as an appropriation of retained earnings.

The Banking Group reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

Property in possession is included in advances and is shown at the lower of cost and net realisable value.

13.3.3 Impairment of other financial assets carried at amortised cost / The Banking Group calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

13.4 Trading securities / The Banking Group includes in "Trading securities", securities that are:

- acquired for generating a profit from short-term fluctuations in price or dealer's margin; or

- included in a portfolio in which a pattern of short-term profit-taking exists; or
- designated as such on initial recognition.

The Banking Group initially recognises trading securities at cost (which includes directly attributable transaction costs) and subsequently re-measures them at fair value based on quoted bid prices. It includes all related realised and unrealised gains and losses in trading income. It reports interest earned on trading securities as non-interest income. Dividends received are included in dividend income.

The Banking Group determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant.

For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and on assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of long-term debt or investment securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

13.5 Derivative financial instruments and hedging / The Banking Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at cost (including transaction costs) and subsequently re-measures these instruments at their fair value.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate. The Banking Group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The Banking Group recognises fair value changes of derivatives that are designated and qualify as fair value hedges in the income statement along with the corresponding change in fair value relating to the hedged risk of the hedged asset or liability.

If the hedge no longer meets the accounting criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity.

The transitional adjustment as at 1 July 2002 in respect of the un-hedged portion of available-for-sale equity securities remains in equity until the disposal of the instrument.

The Banking Group recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, the Banking Group transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the period during which the hedged firm commitment or forecasted transaction affects the income statement.

The Banking Group treats derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

On the date a derivative is entered into, the Banking Group designates certain derivatives as either:

- a hedge of the fair value of a recognised asset or liability ("fair value hedge"); or
- a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment ("cash flow hedge").

The Banking Group applies hedge accounting for a derivative instrument when the following criteria are met:

- formal documentation identifying the hedging instrument, hedged item, hedging objective, hedging strategy and relationship between the hedged item and the hedge, is prepared before hedge accounting is applied; and
- the hedge documentation shows that the hedge is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

14. Commodities / Commodities are carried at the lower of cost or net realisable value. Net realisable value is determined with reference to open market value in an arm's length transaction.

15. Property and equipment / The Banking Group carries property and equipment at cost less accumulated depreciation.

It depreciates property and equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	Shorter of estimated life or period of lease
Freehold property	50 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

The Banking Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in income on disposal.

16. Accounting for leases – where a group company is the lessee / The Banking Group classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments. The Banking Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar owned fixed assets.

The Banking Group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The Banking Group recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

17. Accounting for leases – where a group company is the lessor

17.1 Finance leases / The Banking Group recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

17.2 Operating leases / The Banking Group includes in property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

17.3 Instalment credit agreements / The Banking Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable thereunder, less unearned finance charges, in advances.

It calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

18. Intangible assets

18.1 Goodwill / Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Banking Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on associated companies is included in the carrying value of the associated company.

18.1.1 Goodwill arising from business combinations before 31 March 2004 / The Banking Group capitalises and amortises goodwill on a straight-line basis over the period of expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the Banking Group's share of the net assets acquired over the cost of acquisition. The Banking Group presents negative goodwill in the same balance sheet classification as goodwill.

The Banking Group recognises negative goodwill that relates to expectations of future losses and expenses which are identified in its plan for the acquisition, and can be measured reliably, but which do not represent identifiable liabilities, in the income statement when the future losses and expenses are recognised. It recognises any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

18.1.2 Goodwill arising from business combinations after 31 March 2004 / Goodwill that arises from a business combination on or after 31 March 2004 is not amortised. An annual impairment test is performed and any impairment calculated is expensed to the income statement. For impairment purposes goodwill is allocated to the lowest components of the business that are expected to benefit from synergies of the combination and at which management monitor goodwill ("cash generating unit").

Impairment tests are performed on all cash generating units to which goodwill is allocated. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows generated by other groups of assets. The Banking Group compares the recoverable amount of the cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset cannot be reduced below the highest of:

- its net selling price (if determinable);
- its value in use (if determinable); and
- zero.

Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Banking Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in income in the year in which it arises.

18.2 Computer software development costs / The Banking Group generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Banking Group exceeding the costs incurred for more than one accounting period, the Banking Group capitalises such costs and recognises them as an intangible asset.

The Banking Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

18.3 Other intangible assets / The Banking Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts.

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

However, the Banking Group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

The Banking Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

19. Deferred taxation / The Banking Group calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Banking Group recognises deferred tax assets if the directors of FirstRand Bank Holdings Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and other post-retirement benefits and tax losses carried forward.

20. Employee benefits

20.1 Post-employment benefits / The Banking Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Banking Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Banking Group employees. Qualified actuaries perform annual valuations.

The Banking Group writes off current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are written off immediately in the case of retired employees.

20.2 Post-retirement medical benefits / In terms of certain employment contracts, the Banking Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Banking Group created an independent fund in 1998 to fund these obligations. AC 116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Banking Group recognises all expenses for post-retirement medical benefits, as well as all investment income of the Fund, in the income statement.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

20.3 Termination benefits / The Banking Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

20.4 Leave pay provision / The Banking Group recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses / Actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. A portion of the actuarial gains or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

The Banking Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

21. Acceptances / Acceptances comprise undertakings by the Banking Group to pay bills of exchange drawn on customers. The Banking Group accounts for and discloses acceptances as a contingent liability.

22. Related party transactions / In accordance with the requirements of AC 126 – Related party disclosure, transactions with related parties of the Banking Group that eliminate on consolidation are not disclosed.

23. Segment reporting / The Banking Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"); or
- products or services within a particular economic environment ("geographical segment"), subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

24. Fiduciary activities / The Banking Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

25. Policies relating to Insurance operations in FNB Namibia ("the Insurance operations")

25.1 Revenue and expense recognition

Premium income / The Insurance operations reflect premium income relating to insurance business net of reinsurance premiums. Premiums on investment contracts are excluded from the income statement with effect from 1 July 2002.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

Premiums on short-term insurance business written are accounted for in the period the risk incepts. Unearned premiums are carried forward and are calculated by estimating the proportion of annual premiums that relate to future periods.

Policyholder benefits / The Insurance operations show policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

Life insurance operating profits / The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104 (1998).

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life funds.

Gains or losses arising from the fair valuation of shareholders' assets designated as "Available-for-sale" are accounted for directly to equity.

Commission / Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

Marketing and administration expenses / Marketing and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

Claims / Claims are written off in full as incurred. Provision is made for the estimated costs of claims (net of anticipated recoveries under re-insurance arrangements) notified but not settled at the balance sheet date. The provision is calculated on the best available information of historical trends and management's estimates of future claim costs.

25.2 Policyholder contracts / The Insurance operations classify all policyholder contracts that transfer significant insurance risk as insurance contracts. These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts".

26. Changes in accounting policy

26.1 Business combinations / AC 140 – Business combinations is effective in respect of business combinations where the agreement date is on or after 31 March 2004.

AC 140 should be applied prospectively for all business combinations with an agreement date after 31 March 2004. Prior to 31 March 2004, any existing goodwill will be amortised to the income statement. Goodwill arising from business combinations after 31 March 2004 will not be amortised, but will be subject to an annual impairment cost.

The transitional provisions to AC 140 require that in respect of goodwill arising from a business combination prior to 31 March 2004, with effect from the beginning of the first annual reporting period commencing after this date (i.e. 1 July 2004 for the Banking Group), an entity must:

- discontinue the amortisation of goodwill through the income statement;
- eliminate the carrying amount of the related accumulated amortisation of goodwill with a corresponding reduction in goodwill; and
- perform an annual impairment test on goodwill, with any impairments expensed against income in the year incurred.

Similarly, the carrying amount of negative goodwill arising from a business combination before 31 March 2004 must be written back to opening retained income at the beginning of the first annual reporting period commencing on or after 31 March 2004 ie on 1 July 2004.

The change in accounting policy does not affect opening retained income at 1 July 2003 or income for the year ended 30 June 2004.

26.2 Acquired trademarks, patents and similar intangible assets / The Banking Group has changed its accounting policy regarding the capitalisation of material acquired trademarks, patents and similar assets where it derives a benefit in more than one accounting period from these assets. These capitalised intangible assets are amortised and subject to an annual impairment test.

26.3 Impact of the changes in accounting policy on opening equity and current period income / The changes in accounting policy do not affect opening retained income.

The Banking Group acquired a significant trademark with the merger of FNB Namibia and SWABOU. The effect on current period income of the amortisation of this trademark is set out below:

Gross adjustment before taxation	(17)
Taxation	6
Net adjustment	(11)

27. Restatement of prior year numbers / The following line items on the face of the balance sheet, income statement and in the statement of changes of equity have been restated to conform with the presentation in the year under review. These restatements affect classifications only.

Item	As previously reported – R million	As restated – R million	Reason for restatement
Balance sheet			
Investment securities and other investments	36 655	36 146	Commodities have been separately disclosed – previously disclosed as part of financial instruments held for trading, a sub-section of investment securities
Commodities	–	509	Refer above
Financial instruments held for trading	11 389	10 880	Refer above
Negotiable deposits	–	29 662	Disclosed as part of deposits and current accounts – previously shown as part of short-trading positions
Deposits and current accounts	186 031	215 693	Refer negotiable deposits above
Short-trading positions	33 881	4 219	Refer negotiable deposits above
Income statement			
Trading income	1 583	1 592	Reclassification of recycling of loss on disposal of available-for-sale assets to Investment income
Net investment income	118	109	Refer trading income above
Statement of changes in equity			
Share capital and share premium	106 and 1632	1 738	These items have been combined
Other non-distributable reserves	1 050	392	Currency translation reserve disclosed separately

Income statement / for the year ended 30 June

R million	Notes	2004	2003
Interest income	3	**22 412**	26 293
Interest expenditure	4	**(13 505)**	(17 189)
Net interest income before impairment of advances		**8 907**	9 104
Impairment of advances	11	**(833)**	(1 478)
Net interest income after impairment of advances		**8 074**	7 626
Non-interest income	5	**8 970**	7 123
– transactional income		**6 583**	5 735
– trading income		**2 121**	1 592
– investment income		**430**	109
– other non-interest income		**206**	219
– translation losses		**(370)**	(532)
Net income from operations		**17 044**	14 749
Operating expenditure	6	**(10 503)**	(9 537)
Income from operations		**6 541**	5 212
Share of earnings of associated companies	16	**585**	494
Income before taxation		**7 126**	5 706
Indirect taxation	7.2	**(436)**	(346)
Income before direct taxation		**6 690**	5 360
Direct taxation	7.1	**(1 701)**	(1 308)
Income after taxation		**4 989**	4 052
Earnings attributable to outside shareholders		**(277)**	(278)
Earnings attributable to ordinary shareholders		**4 712**	3 774
Reconciliation of earnings attributable to ordinary shareholders and headline earnings			
Earnings attributable to ordinary shareholders		**4 712**	3 774
Plus: Loss on sale of fixed assets		**92**	36
Plus: Goodwill amortisation		**13**	10
Plus: Goodwill amortisation on associates		**18**	–
(Minus)/Plus: (Profit)/Loss on sale of available-for-sale assets		**(75)**	9
Headline earnings		**4 760**	3 829

Balance sheet / as at 30 June

R million	Notes	2004	2003
ASSETS			
Cash and short-term funds	8	**25 104**	29 252
Derivative financial instruments	9	**34 415**	36 375
– qualifying for hedging		**4 798**	12 632
– trading		**29 617**	23 743
Advances	10	**210 414**	189 611
– originated		**143 167**	131 935
– held-to-maturity		**8 971**	9 562
– available-for-sale		**4 499**	7 406
– fair value		**53 777**	40 708
Investment securities and other investments	12	**36 007**	36 146
Financial instruments held for trading		**9 670**	10 880
Investment securities		**26 337**	25 266
– held-to-maturity		**957**	1 220
– available-for-sale		**16 733**	21 208
– elected fair value		**8 647**	2 838
Commodities	13	**702**	509
Non-recourse investments	14	**6 515**	2 403
Accounts receivable	15	**2 796**	3 196
Investment in associated companies	16	**2 208**	1 915
Property and equipment	17	**3 839**	3 455
Deferred taxation assets	7.5	**918**	931
Intangible assets	19	**451**	205
Assets of insurance operations	20	**85**	–
Total assets		**323 454**	303 998
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposits		**225 886**	218 096
– deposit and current accounts	21	**219 371**	215 693
– non-recourse deposits	14	**6 515**	2 403
Short trading positions	22	**23 286**	4 219
Derivative financial instruments	9	**34 427**	43 103
– qualifying for hedging		**4 606**	13 655
– trading		**29 821**	29 448
Creditors and accruals	23	**7 715**	11 888
Provisions	24	**1 347**	976
Taxation		**1 351**	1 091
Post-retirement benefit fund liability	18.3	**1 111**	1 004
Deferred taxation liabilities	7.4	**1 723**	1 721
Long-term liabilities	25	**5 078**	2 910
Liabilities of insurance operations – policyholder liabilities	20	**77**	–
Total liabilities		**302 001**	285 008
Outside shareholders' interest		**898**	549
Ordinary shares	26	**106**	106
Share premium		**1 632**	1 632
Non-distributable reserves	27	**2 376**	2 640
Distributable reserves		**16 441**	14 063
Total shareholders' equity		**20 555**	18 441
Total liabilities and shareholders' funds		**323 454**	303 998
Contingencies and commitments	28	**23 443**	25 883

Cash flow statement / for the year ended 30 June

R million	Notes	**2004**	2003
Cash flows from operating activities	29.1	**7 336**	7 244
Cash received from customers		**31 535**	33 548
Interest income		**22 581**	26 293
Fee and commission income		**6 583**	5 735
Other income		**2 371**	1 520
Cash paid to customers, suppliers and employees		**(22 181)**	(24 802)
Interest expenditure (excluding debenture interest)		**(12 814)**	(16 657)
Total other operating expenditure (excluding depreciation)		**(9 367)**	(8 145)
Cash flows from returns on investments and servicing of finance		**(2 018)**	(1 502)
Debenture interest paid		**(484)**	(532)
Dividends from other investments		**220**	402
Dividends from associated companies		**241**	130
Dividends paid	29.2	**(1 995)**	(1 502)
Taxation paid	29.3	**(1 264)**	(765)
Cash flows from banking activities		**(11 425)**	(801)
(Increase) in income-earning assets		**(25 335)**	(14 637)
Liquid assets and trading securities		**(1 128)**	4 612
Advances		**(24 207)**	(19 249)
Increase in deposits and other liabilities		**13 910**	13 836
Term deposits		**15 566**	(17 974)
Current deposit accounts		**(2 008)**	15 281
Deposits from banks		**4 833**	1 887
Negotiable certificates of deposit		**(9 051)**	(6 694)
Savings accounts		**248**	(1 916)
Creditors net of debtors		**(4 138)**	4 699
Other		**8 460**	18 553
Net cash (outflow)/inflow from operating activities		**(5 353)**	5 678
Cash flows from investment activities			
Capital expenditure			
– to maintain operations		**(1 093)**	(865)
– to increase operations		**(239)**	(206)
Purchase of associates		**(106)**	(375)
Proceeds from sale of property and equipment		**242**	72
Proceeds from sale of investments		**17**	–
Net cash outflow from investment activities		**(1 179)**	(1 374)
Cash flows from financing activities			
Net proceeds from the issue of long-term liabilities		**2 384**	5
Proceeds from the issue of ordinary shares		**–**	300
Net cash flow from financing activities		**2 384**	305
Net (decrease)/increase in cash and cash equivalents		**(4 148)**	4 609
Cash and cash equivalents at beginning of the year		**29 252**	24 643
Cash and cash equivalents at end of the year	8	**25 104**	29 252

Statement of changes in equity / for the year ended 30 June

R million	Share capital and share premium	General risk reserve	Cash flow hedge reserve	Available-for-sale reserve	Currency translation reserve	Other non-distributable reserves	Distributable reserves	Total shareholders' equity
Balance at 1 July 2002	1 438	763	–	(208)	1 258	421	11 886	15 558
Currency translation differences					(600)			(600)
Non-distributable reserves of associated companies						8		8
Earnings attributable to ordinary shareholders							3 774	3 774
Final dividend – 4 November 2002							(615)	(615)
Interim dividend – 31 March 2003							(885)	(885)
Transfer to General Risk Reserve		138					(138)	
Revaluation of available-for-sale assets				589				589
Revaluation of cash flow hedges			308					308
Sale of revalued property						(41)	41	
Movement in other non-distributable reserves						4		4
New share issue	300							300
Balance as at 30 June 2003	1 738	901	308	381	658	392	14 063	18 441
Currency translation differences					**(299)**			**(299)**
Non-distributable reserves of associated companies						**(1)**		**(1)**
Earnings attributable to ordinary shareholders							**4 712**	**4 712**
Final dividend – 6 November 2003							**(649)**	**(649)**
Interim dividend – 15 March 2004							**(1 346)**	**(1 346)**
Transfer to General Risk Reserve		**245**					**(245)**	
Revaluation of available-for-sale assets				**(193)**				**(193)**
Revaluation of cash flow hedges			**(179)**					**(179)**
Reserves arising on acquisition of subsidiaries						**19**		**19**
Movement in other non-distributable reserves						**(24)**		**(24)**
Effect of change in shareholding in subsidiary						**168**	**(94)**	**74**
Balance as at 30 June 2004	**1 738**	**1 146**	**129**	**188**	**359**	**554**	**16 441**	**20 555**

1. Accounting policies

The accounting policies of the Banking Group are set out on pages 147 to 155.

2. Turnover

Turnover is not relevant in banking business.

R million	2004	2003
3. Interest income		
Interest on:		
Advances	**19 679**	21 029
– originated	**16 445**	18 842
– held-to-maturity	**1 003**	1 630
– available-for-sale	**831**	15
– fair value	**1 400**	542
Cash and short-term funds	**866**	1 723
Investment securities	**1 039**	2 751
– held-to-maturity	**242**	183
– fair value	**797**	2 568
Accrued on impaired advances	**194**	109
Accrued on off-market advances	**8**	4
Other	**626**	677
	22 412	26 293
4. Interest expenditure		
Interest on:		
Deposits from banks and financial institutions	**(499)**	(861)
Current accounts	**(2 329)**	(5 487)
Savings accounts	**(85)**	(112)
Term deposits	**(8 630)**	(8 276)
Finance leases	**(78)**	(82)
Debentures	**(484)**	(532)
Other	**(1 400)**	(1 839)
	(13 505)	(17 189)
5. Non-interest income		
Transactional income		
– Banking fee and commission income	**5 782**	5 116
– Knowledge-based fee and commission income	**431**	303
– Non-banking fee and commission income	**370**	316
Transactional income	**6 583**	5 735

R million	2004	2003
5. Non-interest income *(continued)*		
Trading income		
– Foreign exchange		
Domestic-based currency trading	**745**	772
Foreign-based currency trading	**(71)**	(41)
– Foreign exchange trading	**674**	731
– Treasury trading operations	**1 447**	861
Trading income	**2 121**	1 592
Investment income		
– Profit/(loss) on realisation of investment banking assets	**17**	(1)
– Transfer from revaluation reserve on sale of available-for-sale assets	**107**	(9)
– Dividends received	**220**	214
– Income from associated companies (note 16)	**585**	494
Investment income	**929**	698
– Profit/(loss) on assets held against employee liabilities	**86**	(95)
Gross investment income	**1 015**	603
– Share of income from associated companies disclosed separately (note 16)	**(585)**	(494)
Net investment income	**430**	109
Other non-interest income		
– Other income	**274**	255
– Loss on sale of fixed assets	**(92)**	(36)
– Net income from insurance operations disclosed separately (note 5.1)	**24**	–
Other non-interest income	**206**	219
Total non-interest income	**9 340**	7 655
Translation losses	**(370)**	(532)
Non-interest income	**8 970**	7 123
5.1 Net income from insurance operations	**24**	–
Premium income	**71**	–
Other income	**17**	–
Claims and policyholder benefits	**(27)**	–
Insurance funds	**(21)**	–
Other expenditure	**(16)**	–
6. Operating expenditure		
Auditors' remuneration		
– Audit fees	**(61)**	(50)
– Fees for other services	**(9)**	(7)
– Prior year (under)/over provision	**(1)**	2
	(71)	(55)

R million	2004	2003
6. Operating expenditure *(continued)*		
Amortisation of intangible assets		
– Goodwill	**(13)**	(10)
– Software	**(22)**	(14)
– Development costs	**(1)**	(2)
– Other	**(39)**	(51)
	(75)	(77)
Depreciation		
– Property	**(90)**	(174)
Freehold buildings	**(29)**	(87)
Leasehold premises	**(61)**	(87)
– Equipment	**(456)**	(438)
Computer equipment	**(277)**	(280)
Furniture and fittings	**(122)**	(110)
Motor vehicles	**(12)**	(20)
Office equipment	**(41)**	(26)
Capitalised leased assets	**(4)**	(2)
	(546)	(612)
Other impairments incurred		
– Goodwill	**(10)**	–
– Property, plant and equipment	**(6)**	–
	(16)	–
Operating lease charges		
– Land and buildings	**(348)**	(428)
– Equipment	**(175)**	(23)
– Motor vehicles	**(24)**	(32)
	(547)	(483)
Professional fees		
– Managerial	**(43)**	(45)
– Technical	**(154)**	(95)
– Other	**(201)**	(140)
	(398)	(280)

R million	2004	2003
6. Operating expenditure *(continued)*		
Direct staff costs		
– Salaries, wages and allowances	**(4 311)**	(4 104)
– Contributions to employee benefit funds	**(621)**	(554)
Defined contribution schemes	**(612)**	(543)
Defined benefit schemes	**(9)**	(11)
– Social security levies	**(59)**	(60)
– Other	**(283)**	(192)
	(5 274)	(4 910)
Other staff related costs	**(482)**	(440)
	(5 756)	(5 350)
Other operating costs	**(3 094)**	(2 680)
– Insurance	**(163)**	(130)
– Advertising and marketing	**(443)**	(413)
– Maintenance	**(396)**	(407)
– Other	**(2 092)**	(1 730)
Total operating expenditure	**(10 503)**	(9 537)
7. Taxation		
7.1 Direct taxation		
Normal taxation		
– Current	**(1 202)**	(1 185)
Current year	**(1 278)**	(1 366)
Prior year adjustment	**76**	181
– Deferred	**(151)**	77
Current year	**(42)**	280
Prior year adjustment	**(109)**	(203)
– Share of tax of associated companies (note 16)	**(187)**	(116)
Total normal taxation	**(1 540)**	(1 224)
Foreign company and withholding taxation		
– Current	**(95)**	(150)
Current year	**(93)**	(163)
Prior year adjustment	**(2)**	13
– Deferred (current year)	**(65)**	68
Total foreign and witholding taxation	**(160)**	(82)
Capital gains tax	**(1)**	(2)
Total direct taxation	**(1 701)**	(1 308)

R million	2004	2003
7. Taxation *(continued)*		
7.2 Indirect taxation		
Secondary taxation on companies (current year)	**(36)**	(32)
Miscellaneous taxes		
Value-added taxation (net)	**(267)**	(268)
Regional services levy	**(56)**	(44)
Ansbacher settlement	**(62)**	–
Other	**(15)**	(2)
Total miscellaneous taxes	**(400)**	(314)
Total indirect taxation	**(436)**	(346)
Total taxation	**(2 137)**	(1 654)
7.3 Taxation rate reconciliation – South African normal taxation	**%**	%
Effective rate of taxation	**30.0**	29.0
Total taxation has been affected by:		
Miscellaneous taxes	**(5.6)**	(5.5)
Non-taxable income	**6.5**	9.3
Prior year adjustments	**(0.5)**	(0.2)
Other permanent differences	**(0.4)**	(2.6)
Standard rate of South African taxation	**30.0**	30.0
7.4 Deferred taxation		
The movement on the deferred taxation account is as follows:		
Credit balance		
– Balance at the beginning of the year	**1 721**	1 241
– Exchange rate difference	**(9)**	(8)
– AC 133 transitional adjustments	**–**	278
– Charge to the income statement	**243**	186
– Acquisitions and disposals	**9**	–
– Other	**(241)**	24
Total credit balance	**1 723**	1 721

R million	2004	2003
7. Taxation *(continued)*		
7.5 Debit balance		
– Balance at the beginning	**(931)**	(563)
– Exchange rate difference	**(1)**	(5)
– Release to the income statement	**(26)**	(331)
– Acquisitions and disposals	**(22)**	(21)
– Other	**62**	(11)
Total debit balance	**(918)**	(931)
Net balance for the year	**805**	790

Deferred taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority. Deferred taxation assets and liabilities and the deferred taxation charge/(credit) in the income statement are attributable to the following items:

R million	Opening balance	Exchange rate	Acquisitions & disposals	Taxation charge	Other	**2004 Closing balance**
Deferred tax assets and liabilities						
Taxation losses	(36)	3	(17)	25	(29)	**(54)**
Provision for loan impairment	45		(5)	7	(101)	**(54)**
Provision for post-retirement benefits	39			2	(51)	**(10)**
Other provisions	78			1	(82)	**(3)**
Cash flow hedges	(52)			4	47	**(1)**
On fair value adjustments of financial instruments	(3)	1		5	(1)	**2**
Instalment credit agreements	1 043	(14)		31	(2)	**1 058**
Accruals	694			(1)	74	**767**
Revaluation of available-for-sale securities to equity	129	1	9		(201)	**(62)**
Other	(1 147)	(1)		143	167	**(838)**
Total deferred taxation	790	(10)	(13)	217	(179)	**805**

R million	2004	2003
8. Cash and short-term funds		
Coins and bank notes	**2 243**	1 865
Money at call and short notice	**2 534**	546
Balances with central banks	**3 681**	3 496
Balances guaranteed by central banks	**4 656**	6 852
Balances with other banks	**11 990**	16 493
	25 104	29 252
Mandatory reserve balances included in above:	**2 224**	2 644

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank. These deposits bear no or very low interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

9. Derivative financial instruments

The Banking Group uses the following financial instruments for hedging purposes:

Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate).

Rand overnight deposit swaps are commitments to exchange fixed rate interest flows with floating rate interest flows where the repricing takes place daily on the floating leg based on the daily overnight rates.

Strategy in using hedging instruments

Interest rate derivatives comprising mainly interest rate swaps, rand overnight deposit swaps ("RODS") and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Banking Group faces due to volatile interest rates. The Banking Group accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Banking Group also has assets at variable rates and uses receive fixed interest rate derivatives as cash flow hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Banking Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates.

Further information pertaining to the risk management of the Banking Group is set out in note 30 below.

	2004			
	Assets		**Liabilities**	
R million	**Notional**	**Fair value**	**Notional**	**Fair value**
The Banking Group utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	500	–	1 100	–
– Swaps	22 830	270	7 497	30
	23 330	270	8 597	30
Currency derivatives				
– Forward rate agreements	47	–	–	–
– Swaps	4 528	4 528	4 576	4 576
	4 575	4 528	4 576	4 576
Total cash flow hedges	27 905	4 798	13 173	4 606

R million	2004			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
9. Derivative financial instruments *(continued)*				
Fair value hedges				
Currency derivatives				
– Swaps	–	–	8	–
Total fair value hedges	–	–	8	–
Total qualifying for hedge accounting	27 905	4 798	13 181	4 606
Held for trading				
Currency derivatives				
– Forward rate agreements	33 113	2 997	34 348	2 809
– Swaps	58 101	9 435	54 821	7 773
– Options	921	254	1 358	69
– Other	–	–	3 475	(14)
	92 135	12 686	94 002	10 637
Interest rate derivatives				
– Forward rate agreements	75 390	68	88 150	76
– Swaps	130 173	8 365	154 958	8 553
– Options	5 495	7	2 497	16
– Other	4 444	3 036	1 395	3 030
	215 502	11 476	247 000	11 675
Equity derivatives				
– Options	14 186	1 234	4 900	1 845
– Other	271	144	168	108
	14 457	1 378	5 068	1 953
Commodity derivatives				
– Forward rate agreements	5 649	370	5 299	875
– Swaps	146	4	453	19
– Options	5 606	1 527	5 540	889
– Other	250	16	384	43
	11 651	1 917	11 676	1 826
Credit derivatives	3 183	2 160	1 459	3 730
Total held for trading	336 928	29 617	359 205	29 821
Total	364 833	34 415	372 386	34 427

	2004					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R Million	Notional	Fair value	Notional	Fair value	Notional	Fair value
9. Derivative financial instruments *(continued)*						
Qualifying for hedge accounting						
Cash flow hedges	4 577	4 530	23 328	268	27 905	4 798
Interest rate derivatives	2	2	23 328	268	23 330	270
Currency derivatives	4 575	4 528	–	–	4 575	4 528
Held for trading	15 089	12 609	321 839	17 008	336 928	29 617
Currency derivatives	4 054	3 967	88 081	8 719	92 135	12 686
Interest rate derivatives	8 528	7 094	206 974	4 382	215 502	11 476
Equity derivatives	115	14	14 342	1 364	14 457	1 378
Commodity derivatives	–	–	11 651	1 917	11 651	1 917
Credit derivatives	2 392	1 534	791	626	3 183	2 160
Total	19 666	17 139	345 167	17 276	364 833	34 415

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	4 576	4 576	8 597	30	13 173	4 606
Interest rate derivatives	–	–	8 597	30	8 597	30
Currency derivatives	4 576	4 576	–	–	4 576	4 576
Fair value hedges	–	–	8	–	8	–
Currency derivatives	–	–	8	–	8	–
Held for trading	14 207	11 482	344 998	18 339	359 205	29 821
Currency derivatives	7 849	4 265	86 153	6 372	94 002	10 637
Interest rate derivatives	6 281	7 201	240 719	4 474	247 000	11 675
Equity derivatives	63	2	5 005	1 951	5 068	1 953
Commodity derivatives	–	–	11 676	1 826	11 676	1 826
Credit derivatives	14	14	1 445	3 716	1 459	3 730
Total	18 783	16 058	353 603	18 369	372 386	34 427

	2003			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
9. Derivative financial instruments *(continued)*				
The Banking Group utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	500	1	–	–
– Swaps	19 385	292	2 850	24
Total cash flow hedges	19 885	293	2 850	24
Fair value hedges				
Currency derivatives				
– Swaps	8 112	8 110	8 115	8 063
	8 112	8 110	8 115	8 063
Interest rate derivatives				
– Swaps	3 704	4 193	8 117	4 361
– Options	192	–	–	–
– Other	74 879	–	74 879	236
	78 775	4 193	82 996	4 597
Other	–	36	–	971
Total fair value hedges	86 887	12 339	91 111	13 631
Total qualifying for hedge accounting	106 772	12 632	93 961	13 655
Held for trading				
Currency derivatives				
– Forward rate agreements	62 563	4 262	64 912	3 533
– Swaps	116 207	8 597	107 971	8 570
– Options	3 492	401	2 203	139
Total currency derivatives	182 262	13 260	175 086	12 242
Interest rate derivatives				
– Forward rate agreements	84 533	243	52 460	155
– Swaps	131 828	4 958	113 830	4 800
– Options	2 582	80	3 168	141
– Other	788 563	5	567 518	13
Total interest rate derivatives	1 007 506	5 286	736 976	5 109

R million	2003 Assets Notional	2003 Assets Fair value	2003 Liabilities Notional	2003 Liabilities Fair value
9. Derivative financial instruments *(continued)*				
Equity derivatives				
– Options	924	2 187	1 295	1 535
– Other	28	–	–	–
Total equity derivatives	952	2 187	1 295	1 535
Commodity derivatives				
– Forward rate agreements	204	1 041	172	1 772
– Swaps	–	2	60	81
– Options	4 939	1 005	5 154	714
– Other	279	111	98	68
Total commodity derivatives	5 422	2 159	5 484	2 635
Credit derivatives	751	851	8 193	7 927
Total held for trading	1 196 893	23 743	927 034	29 448
Total	1 303 665	36 375	1 020 995	43 103

R million	**2004 Originated**	**2004 Held-to-maturity**	**2004 Available-for-sale**	**2004 Fair value**	**2004 Total**	2003 Total
10. Advances						
Sector analysis						
Agriculture	**5 217**	**–**	**418**	**225**	**5 860**	4 092
Banks and financial services	**6 318**	**–**	**–**	**32 452**	**38 770**	35 742
Building and property development	**7 613**	**–**	**80**	**103**	**7 796**	7 219
Government, Land Bank and public authorities	**689**	**–**	**–**	**10 928**	**11 617**	5 559
Individuals	**90 486**	**7 874**	**–**	**–**	**98 360**	83 885
Manufacturing and commerce	**23 803**	**–**	**–**	**7 916**	**31 719**	37 347
Mining	**1 954**	**–**	**–**	**116**	**2 070**	2 574
Transport and communication	**3 900**	**–**	**229**	**1 163**	**5 292**	4 740
Other services	**6 658**	**1 217**	**3 772**	**874**	**12 521**	12 368
Notional value of advances	**146 638**	**9 091**	**4 499**	**53 777**	**214 005**	193 526
Contractual interest suspended	**(540)**	**(24)**	**–**		**(564)**	(613)
Gross advances	**146 098**	**9 067**	**4 499**	**53 777**	**213 441**	192 913
Impairment of advances (note 11)	**(2 931)**	**(96)**	**–**		**(3 027)**	(3 302)
Net advances	**143 167**	**8 971**	**4 499**	**53 777**	**210 414**	189 611
Net advances – 2003	131 935	9 562	7 406	40 708	189 611	

R million	2004 Originated	2004 Held-to-maturity	2004 Available for sale	2004 Fair value	2004 Total	2003 Total
10. Advances *(continued)*						
Geographic analysis (based on credit risk)						
South Africa	**133 012**	**9 091**	**418**	**32 979**	**175 500**	153 060
Other Africa	**9 535**	**–**	**–**	**1 065**	**10 600**	8 047
United Kingdom	**2 029**	**–**	**48**	**13 519**	**15 596**	10 974
Other	**2 062**	**–**	**4 033**	**6 214**	**12 309**	21 445
National value of advances	**146 638**	**9 091**	**4 499**	**53 777**	**214 005**	193 526
Contractual interest suspended	**(540)**	**(24)**	**–**		**(564)**	(613)
Gross advances	**146 098**	**9 067**	**4 499**	**53 777**	**213 441**	192 913
Impairment of advances (note 11)	**(2 931)**	**(96)**	**–**		**(3 027)**	(3 302)
Net advances	**143 167**	**8 971**	**4 499**	**53 777**	**210 414**	189 611
Net advances – 2003	131 935	9 562	7 406	40 708	189 611	
Category analysis						
Overdrafts and managed account debtors	**23 196**	**–**	**1**	**2 731**	**25 928**	29 550
Card loans	**5 709**	**–**	**–**	**–**	**5 709**	4 630
Instalment sales	**28 576**	**–**	**418**	**289**	**29 283**	25 766
Lease payments receivable	**13 956**	**–**	**–**	**965**	**14 921**	11 817
Home loans	**51 046**	**7 883**	**80**	**–**	**59 009**	53 433
Collateralised debt obligations	**630**	**–**	**3 772**	**40**	**4 442**	6 762
Assets under agreement to resell	**339**	**–**	**–**	**19 988**	**20 327**	8 387
Preference share advances	**1 654**	**–**	**–**	**–**	**1 654**	3 303
Personal loans	**5 971**	**–**	**–**	**–**	**5 971**	5 020
Other	**15 561**	**1 208**	**228**	**29 764**	**46 761**	44 858
Notional value of advances	**146 638**	**9 091**	**4 499**	**53 777**	**214 005**	193 526
Contractual interest suspended	**(540)**	**(24)**	**–**		**(564)**	(613)
Gross advances	**146 098**	**9 067**	**4 499**	**53 777**	**213 441**	192 913
Impairment of advances (note 11)	**(2 931)**	**(96)**	**–**		**(3 027)**	(3 302)
Net advances	**143 167**	**8 971**	**4 499**	**53 777**	**210 414**	189 611
Net advances – 2003	131 935	9 562	7 406	40 708	189 611	

A maturity analysis of advances is set out in note 30.7 and is based on the remaining periods to contractual maturity from the year end.

R million	2004				2003
Analysis of instalment sales and lease payments receivable	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**	Total
10. Advances *(continued)*					
Lease payments receivable	**1 888**	**12 950**	**126**	**14 964**	33 132
Suspensive sale instalments receivable	**2 630**	**32 743**	**320**	**35 693**	16 294
	4 518	**45 693**	**446**	**50 657**	49 426
Less: Unearned finance charges	**(348)**	**(6 052)**	**(53)**	**(6 453)**	(11 843)
	4 170	**39 641**	**393**	**44 204**	37 583

A maturity analysis of advances is set out in note 30.7 and is based on the remaining periods to contractual maturity from the year end.

	2004			
R million	**Total impairment**	**Specific impairment**	**Portfolio impairment**	**Income statement**
11. Impairment of advances				
Analysis of movement in impairment of advances				
Opening balance	**3 302**	**2 696**	**606**	
Exchange rate difference	**(81)**	**(81)**		
Amounts written off	**(1 306)**	**(1 306)**		
Unwinding of discounted present value on non-performing loans	**(113)**	**(113)**		
Reclassifications		**103**	**(103)**	
Net new impairments created	**1 179**	**882**	**297**	**(1 179)**
Impairments created	**1 839**	**1 542**	**297**	**(1 839)**
Impairments released	**(660)**	**(660)**		**660**
Recoveries of bad debts				**335**
Acquisitions	**46**	**14**	**32**	
Realisation of security				**11**
Closing balance	**3 027**	**2 195**	**832**	**(833)**

R million	2003 Total impairment	Specific impairment	Portfolio impairment	General provision	Income statement
11. Impairment of advances *(continued)*					
Opening balance	4 365	2 300		2 065	
Present value adjustment on adoption of AC 133	311	311			
Transfer of general provision to General Risk Reserve	(2 065)			(2 065)	
Exchange rate difference	(78)	(78)			
Amounts written off	(1 327)	(1 327)			
Unwinding of discounted present value on non-performing loans	(109)	(109)			
Unwinding of discounted present value on off-market loans	(4)	(4)			
Creation of portfolio impairment	535		535		
Net new impairments created	1 681	1 612	69		(1 681)
Impairments created	2 183	2 114	69		(2 183)
Impairments released	(502)	(502)			502
Recoveries of bad debts					218
Realisation of security					(15)
Other	(7)	(9)	2		
Closing balance	3 302	2 696	606	–	(1 478)

R million	2004 **Credit risk**	**Security held**	**Contractual interest suspended**	**Specific impairments**	2003 Specific impairments
Non-performing lendings by sector					
Agriculture	**157**	**38**	**22**	**41**	26
Banks and financial services	**324**		**17**	**309**	340
Building and property development	**101**	**26**	**16**	**23**	167
Government, Land Bank and public authorities	**232**			**3**	3
Individuals	**1 457**	**666**	**274**	**870**	1 223
Manufacturing and commerce	**1 212**	**219**	**213**	**632**	563
Mining	**31**	**2**	**2**	**6**	28
Transport and communication	**36**	**3**	**4**	**10**	6
Other services	**216**	**39**	**16**	**301**	340
Total	**3 766**	**993**	**564**	**2 195**	2 696
2003 Total non-performing lendings	4 980	1 579	613	2 696	
Non-performing lendings by category					
Overdrafts and managed account debtors	**1 151**	**251**	**258**	**748**	608
Card loans	**289**		**33**	**213**	196
Instalment sale	**232**	**43**	**39**	**162**	191
Lease payments receivable	**221**	**24**	**23**	**136**	63
Home loans	**886**	**644**	**153**	**376**	562
Personal loans	**179**	**7**	**37**	**95**	144
Other	**808**	**24**	**21**	**465**	932
Total	**3 766**	**993**	**564**	**2 195**	2 696

	2004					2003
	Trading	**Held-to-maturity**	**Available-for-sale**	**Elected fair value**	**Total**	Total
12. Investment securities and other investments						
Total						
Negotiable certificates of deposit	**450**	**–**	**–**	**807**	**1 257**	417
Treasury bills	**2 005**	**38**	**442**	**–**	**2 485**	1 419
Other government and government guaranteed stock	**2 042**	**771**	**13 435**	**1 859**	**18 107**	16 151
Other dated securities	**1 449**	**76**	**2 805**	**2 676**	**7 006**	6 110
Other undated securities	**216**	**–**	**3**	**12**	**231**	1 077
Other	**3 508**	**72**	**48**	**3 293**	**6 921**	10 972
	9 670	**957**	**16 733**	**8 647**	**36 007**	36 146
Total – 2003	10 880	1 220	21 208	2 838	36 146	
Listed						
Negotiable certificates of deposit	**–**	**–**	**–**	**107**	**107**	417
Treasury bills	**–**	**–**	**399**	**–**	**399**	1 157
Other government and government guaranteed stock	**964**	**477**	**13 413**	**1 859**	**16 713**	15 720
Other dated securities	**621**	**–**	**2 805**	**791**	**4 217**	1 187
Other undated securities	**–**	**–**	**–**	**12**	**12**	2
Other	**2 654**	**–**	**48**	**58**	**2 760**	952
	4 239	**477**	**16 665**	**2 827**	**24 208**	19 435
Listed – 2003	7 584	620	11 206	25	19 435	
Unlisted						
Negotiable certificates of deposit	**450**	**–**	**–**	**700**	**1 150**	–
Treasury bills	**2 005**	**38**	**43**	**–**	**2 086**	262
Other government and government guaranteed stock	**1 078**	**294**	**22**	**–**	**1 394**	431
Other dated securities	**828**	**76**	**–**	**1 885**	**2 789**	4 923
Other undated securities	**216**	**–**	**3**	**–**	**219**	1 075
Other	**854**	**72**	**–**	**3 235**	**4 161**	10 020
	5 431	**480**	**68**	**5 820**	**11 799**	16 711
Unlisted – 2003	3 296	600	10 002	2 813	16 711	

R10 556 million (2003: R9 988 million) of the financial instruments held for trading forms part of the Banking Group's liquid asset portfolio in terms of the South African Reserve Bank or foreign banking regulators' requirements.

R million	2004	2003
12. Investment securities and other investments *(continued)*		
Analysis of investment securities		
Listed	**24 208**	19 435
Equities	**2 673**	3 173
Debt	**21 535**	16 262
Unlisted	**11 799**	16 711
Equities	**3 619**	2 434
Debt	**8 180**	14 277
	36 007	36 146
Aggregate market value of listed investments	**24 208**	19 479
Aggregate directors' valuation of unlisted investments	**11 799**	16 986
	36 007	36 465

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act.

The maturity analysis for investment securities is set out in note 30.7 below.

	2004	2003
13. Commodities		
Agricultural stock	**702**	509

14. Non-recourse investments and deposits

Non-recourse investments

Non-recourse investments include government bonds which were acquired to serve as security in terms of the Fresco and Procul Synthetic Collateralised Debt Obligation structures. The Banking Group has no control over these assets. These assets were consolidated as the Banking Group is deemed to control these structures in terms of AC 412. These investments are categorised as trading and carried at fair value, with changes in fair value taken to the income statement. These investments consist of:

	2004	2003
South African Government Bonds		
R153 at fair value	**1 185**	1 236
R194 at fair value	**1 127**	1 167
	2 312	2 403
Investment grade commercial paper[1]	**4 203**	
	6 515	2 403

Non-recourse deposits

Non-recourse deposits represent multiple class linked notes issued to fund the structures whereby note holders have no recourse to the Banking Group under any circumstances. These have been issued in various tranches and are priced according to the credit risk of the underlying reference portfolio and the relative credit enhancement applied to the respective tranches. These notes were consolidated in terms of AC 412. The deposits represent notes issued to external parties and are carried at fair value.

	2004	2003
Total fair value of notes issued	**7 555**	3 451
Less: Notes acquired by the Banking Group	**(1 040)**	(1 048)
	6 515	2 403

1 iNdwa Investments Limited, an asset-backed conduit that provides South African institutional investors with short-dated investment-grade commercial paper is consolidated. The Banking Group has no obligations toward other investors beyond the amounts already contributed. The Banking Group has no management control or influence over these investments which are recorded at fair value under the available-for-sale category in the above table.

R million	2004	2003
15. Accounts receivable		
Items in transit	**262**	360
Accrued interest	**101**	270
Accounts receivable	**1 099**	549
Other debtors	**1 334**	2 017
	2 796	3 196
16. Investment in associated companies		
Listed investments		
Equity investments	**204**	655
Total cost less amounts written off	**204**	655
Unlisted investments		
Equity investments	**1 398**	694
Total cost less amounts written off	**1 398**	694
Income before taxation for the year (note 5)	**585**	494
Taxation for the year (note 7)	**(187)**	(116)
Dividends received for the year	**(241)**	(130)
Retained income for the year	**157**	248
Exchange differences	**–**	(2)
Acquisitions and disposals	**21**	(71)
Share of retained income at beginning of the year	**373**	206
Adjustment to opening retained income due to adoption of AC 133	**–**	(8)
Share of retained income at end of the year	**551**	373
Share of other reserves	**55**	193
Total retained income and reserves	**606**	566
Total carrying value	**2 208**	1 915
Goodwill included in cost above		
Gross amount	**121**	41
Less: Accumulated amortisation and impairment losses	**(6)**	12
	115	53
Movement in goodwill		
Opening balance	**53**	40
Exchange differences	**(7)**	1
Disposals	**–**	(1)
Additions	**87**	32
Amortisation charge and impairment losses	**(18)**	(19)
At end of year	**115**	53
Valuation		
Listed investments at market value	**582**	730
Unlisted investments at directors' valuation	**2 885**	1 662
Total valuation	**3 467**	2 392

R million	Nature of business	Issued ordinary share capital	Number of ordinary shares held	Year end
16. Investment in associated companies *(continued)*				
Listed				
McCarthy Limited	Retail	1 027 631	–	30 Jun
Relyant Retail Limited	Retail	239 819 570	254 004 433	30 Jun
Other	Various	Various	Various	Various
Unlisted				
OUTsurance Insurance Company Limited	Insurance	34 871 631	1 584 225 400	30 Jun
Zeda Car Leasing (Pty) Limited	Leasing	100	25	31 March
Mobile Acceptances (Pty) Limited	Leasing	700 000	182 000	31 Dec
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 499	31 March
Marsh Holdings SA (Pty) Limited	Insurance brokers	100 000	40 000	31 Dec
Private Equity Associates	Various	Various	Various	Various

	Effective holding %		Group carrying amount		Group costs less amounts written off	
R million	**2004**	2003	**2004**	2003	**2004**	2003
Listed						
McCarthy Limited	**–**	48	**–**	444	**–**	444
Relyant Retail Limited	**26**	26	**190**	192	**190**	192
Other	**Various**	Various	**53**	26	**14**	19
Total listed			**243**	662	**204**	655
Unlisted						
OUTsurance Insurance Company Limited	**49***	46	**343**	221	**134**	117
Zeda Car Leasing (Pty) Limited	**50**	50	**61**	53	**1**	1
Mobile Acceptances (Pty) Limited	**26**	26	**4**	4	**–**	–
Toyota Financial Services (Pty) Limited	**33**	33	**146**	106	**150**	120
Marsh Holdings SA (Pty) Limited	**40**	40	**20**	11	**9**	11
Private Equity Associates	**Various**	Various	**1 229**	613	**915**	223
Other	**Various**	Various	**162**	245	**189**	222
Total unlisted			**1 965**	1 253	**1 398**	694
Total listed and unlisted			**2 208**	1 915	**1 602**	1 349

** Pursuant to the consolidation of the OUTsurance Share Incentive Scheme in 2004.*

R million	OUTsurance Insurance Company Limited 2004	2003	Zeda Car Leasing (Pty) Ltd 2004	2003	Mobile Acceptances (Pty) Limited 2004	2003
16. Investment in associated companies *(continued)*						
Summarised financial information of associated companies:						
Balance sheet						
Non-current assets	**1 420**	409	**1 022**	836	**7**	31
Current assets	**105**	556	**74**	103	**16**	20
Current liabilities	**(847)**	(605)	**(915)**	(786)	**(2)**	(11)
Non-current liabilities	**(69)**	(1)	**(51)**	(51)	**(5)**	(26)
Equity	**609**	359	**130**	102	**16**	14
Income statement						
After tax profit attributable to the Banking Group	**112**	50	**7**	15	**–**	–
Loans to associates	**–**	–	**693**	586	**–**	27

R million	Toyota Financial Services (Pty) Limited 2004	2003	Marsh Holdings (Pty) Limited 2004	2003	McCarthy Limited 2004	2003
Balance sheet						
Non-current assets	**3 584**	2 490	**7**	8		405
Current assets	**1 261**	1 056	**249**	191		1 807
Current liabilities	**(173)**	(187)	**(157)**	(116)		(1 472)
Non-current liabilities	**(4 233)**	(3 041)	**(62)**	(62)		(34)
Equity	**439**	318	**37**	21	**–**	706
Income statement						
After tax profit attributable to the Banking Group	**10**	3	**9**	–	**39**	–
Loans to associates	**3 444**	3 041	**–**	–	**–**	–

R million	Private Equity Associates 2004	2003	Relyant Retail Limited 2004	2003	Other 2004	2003
Balance sheet						
Non-current assets	**3 776**	938	**501**	536	**862**	866
Current assets	**3 462**	696	**1 846**	2 466	**960**	2 180
Current liabilities	**(1 804)**	(776)	**(695)**	(1 886)	**(705)**	(1 616)
Non-current liabilities	**(1 804)**	(625)	**(337)**	–	**(687)**	(955)
Equity	**3 630**	233	**1 315**	1 116	**430**	475
Income statement						
After tax profit attributable to the Banking Group	**119**	185	**12**	–	**108**	97
Loans to associates	**–**	–	**–**	–	**–**	1

16. Investment in associated companies *(continued)*

The most recent audited annual financial statements of associates are used by the Banking Group in applying the equity method of accounting for associates. These financial statements are not always drawn up to the same date as the financial statements of the Banking Group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the Banking Group, the effect of such events are adjusted for. Where the last financial statement date of an associate was more than six months before the financial statement date of the Banking Group, the Banking Group uses the unaudited management accounts of the associate. The Banking Group has applied this principle consistently since adopting the equity accounting method for associates.

R million	Cost 2004	Accumulated depreciation and impairments 2004	Net book value 2004	Cost 2003	Accumulated depreciation and impairments 2003	Net book value 2003
17. Property and equipment						
Property						
Freehold land and buildings	**1 562**	**(440)**	**1 122**	1 575	(451)	1 124
Leasehold premises	**1 452**	**(198)**	**1 254**	1 305	(170)	1 135
	3 014	**(638)**	**2 376**	2 880	(621)	2 259
Equipment						
Computer equipment	**2 299**	**(1 438)**	**861**	2 325	(1 649)	676
Furniture and fittings	**816**	**(410)**	**406**	886	(542)	344
Motor vehicles	**95**	**(46)**	**49**	90	(49)	41
Office equipment	**288**	**(143)**	**145**	259	(126)	133
Capitalised leased assets	**6**	**(4)**	**2**	6	(4)	2
	3 504	**(2 041)**	**1 463**	3 566	(2 370)	1 196
Total	**6 518**	**(2 679)**	**3 839**	6 446	(2 991)	3 455

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets
17. Property and equipment *(continued)*							
Movement in property and equipment – net book value							
Net book value at 1 July 2002	1 182	1 196	530	389	72	40	3
Foreign currency adjustments on translation	(93)	(3)	(22)	(5)	–	(1)	–
Additions	178	44	456	76	28	123	1
Depreciation charge for period	(87)	(87)	(280)	(110)	(20)	(26)	(2)
Disposals	(60)	(11)	(4)	(8)	(39)	(4)	
Intergroup transfers	4	(4)	(4)	–	–	–	–
Other	–	–	–	2	–	1	–
Net book value at 30 June 2003	**1 124**	**1 135**	**676**	**344**	**41**	**133**	**2**
Foreign currency adjustments on translation	**(54)**	**(9)**	**(11)**	**(4)**	**(1)**	**(2)**	**–**
Changes in group structure	**49**	**2**	**8**	**2**	**3**	**6**	**–**
Additions	**98**	**197**	**530**	**192**	**23**	**51**	**2**
Depreciation charge for period	**(29)**	**(61)**	**(277)**	**(122)**	**(12)**	**(41)**	**(4)**
Impairments	**(6)**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**(68)**	**(26)**	**(27)**	**(16)**	**(4)**	**(8)**	**(1)**
Intergroup transfers	**(5)**	**6**	**(1)**	**–**	**–**	**–**	**–**
Other	**13**	**10**	**(37)**	**10**	**(1)**	**6**	**3**
Net book value at 30 June 2004	**1 122**	**1 254**	**861**	**406**	**49**	**145**	**2**

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

R million	2004	2003
18. Pension and post-retirement benefits		
The Banking Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees.		
At 30 June 2004, the actuarially determined liability of the Banking Group was R1 184 million (2003: R1 036 million).		
18.1 Post-retirement pension		
Pension liability		
Present value of funded liability	**9 831**	8 980
Fair value of plan assets	**(9 649)**	(8 503)
Pension fund deficit	**182**	477
Unrecognised actuarial losses	**(167)**	(455)
Retirement benefit liability	**15**	22
The amounts recognised in the income statement are as follows:		
Current service cost	**248**	220
Interest cost	**978**	1 043
Expected return on plan assets	**(935)**	(1 092)
Net actuarial profit recognised in the year	**(43)**	(127)
Total included in staff costs	**248**	44
Movement in retirement benefit liability		
Present value at the beginning of the year	**22**	–
Exchange differences	**–**	(2)
Amounts recognised in the income statement as above	**248**	44
Contributions paid	**(255)**	(20)
Present value at the end of the year	**15**	22
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**10.0**	11.5
Expected return on plan assets (%)	**10.0**	11.5
Salary inflation (%)	**6.0**	6.3
Net interest rate used to value pensions, allowing for pension increases (%)	**5.0**	5.0
18.2 Post-retirement medical liability		
Present value of unfunded liability	**1 184**	1 036
Unrecognised actuarial losses	**(88)**	(54)
Post retirement medical liability	**1 096**	982
The amounts recognised in the income statement are as follows:		
Current service cost	**28**	26
Interest cost	**104**	103
Total included in staff costs	**132**	129

R million	2004	2003
18. Pension and post-retirement benefits *(continued)*		
18.2 Post-retirement medical liability *(continued)*		
Movement in post-retirement medical liability		
Present value at the beginning of the year	**982**	897
Subsidiary balances acquired	**32**	–
Amounts recognised in the income statement as above	**132**	129
Contributions paid	**(50)**	(44)
Present value at the end of the year	**1 096**	982
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**10.00**	10.3
Long-term increase in medical subsidies (%)	**8.00**	8.3
18.3 Pension and post-retirement benefits		
Post-retirement pension	**15**	22
Post-retirement medical liability	**1 096**	982
Total pension and post-retirement benefits	**1 111**	1 004
19. Intangible assets		
Goodwill		
Gross amount	**312**	177
Less: Accumulated amortisation and impairment losses	**(51)**	(28)
	261	149
Movement in goodwill – book value		
Opening balance	**149**	177
Exchange differences	**(34)**	(5)
Disposals	**(22)**	(29)
Additions	**191**	16
Amortisation charge and impairment losses	**(23)**	(10)
	261	149
Software		
Gross amount	**86**	54
Less: Accumulated amortisation and impairment losses	**(49)**	(27)
	37	27
Movement in software – book value		
Opening balance	**27**	23
Disposals	**(3)**	1
Additions	**35**	17
Amortisation charge and impairment losses	**(22)**	(14)
	37	27
Development costs		
Gross amount	**7**	2
Less: Accumulated amortisation and impairment losses	**(3)**	(2)
	4	–

R million	2004	2003
19. Intangible assets *(continued)*		
Movement in Development costs – book value		
Opening balance	**–**	2
Exchange differences	**–**	–
Disposals	**–**	–
Additions	**5**	–
Amortisation charge and impairment losses	**(1)**	(2)
	4	–
Trademarks		
Gross amount	**126**	–
Less: Accumulated amortisation and impairment losses	**(17)**	–
	109	–
Movement in Trademarks – book value		
Opening balance	**–**	–
Disposals	**–**	–
Additions	**126**	–
Amortisation charge and impairment losses	**(17)**	–
	109	–
Other		
Gross amount	**151**	118
Less: Accumulated amortisation and impairment losses	**(111)**	(89)
	40	29
Movement in Other – book value		
Opening balance	**29**	86
Exchange differences	**(3)**	(16)
Disposals	**–**	6
Additions	**36**	4
Amortisation charge and impairment losses	**(22)**	(51)
	40	29
Total intangible assets		
Goodwill	**261**	149
Software	**37**	27
Development costs	**4**	–
Trademarks	**109**	–
Other	**40**	29
	451	205

R million	2004	2003
20. Insurance operations		
Assets		
Investment securities and other investments		
– Originated	**18**	–
– Trading	**67**	–
Total assets	**85**	–
Liabilities		
Subsidiary balances acquired – policyholder liabilities	**60**	–
Operating income transferred from income statement	**17**	–
Total liabilities	**77**	–
21. Deposit and current accounts		
From banks and financial institutions	**30 065**	25 232
– In the normal course of business	**16 404**	17 112
– Under repurchase agreements	**13 661**	8 120
From customers	**139 711**	125 905
– Current accounts	**56 976**	58 984
– Savings account	**2 467**	2 219
– Term deposits	**80 268**	64 702
Other deposits	**49 595**	64 556
– Negotiable certificates of deposit	**23 700**	32 751
– Other deposits	**25 895**	31 805
	219 371	215 693
Geographic analysis (based on counterparty risk)		
South Africa	**183 393**	175 085
Other Africa	**10 145**	9 120
United Kingdom	**13 965**	14 585
Other	**11 868**	16 903
	219 371	215 693

A maturity analysis of deposits and current accounts is set out in note 30.7 and is based on the remaining periods to contractual maturity from the year end. Deposits include amounts raised under repurchase agreements with a carrying value of R13 661 million (2003: R8 120 million).

R million	2004	2003
22. Short trading positions		
Government and government guaranteed	**13 310**	4 219
Other dated securities	**3 060**	–
Undated securities	**6 916**	–
	23 286	4 219
Analysed as follows:		
Listed	**20 210**	4 219
Unlisted	**3 076**	–
	23 286	4 219
Short trading positions are carried at fair value. Fair market value for listed securities are their market quoted prices, and for unlisted securities are based on the directors' valuation using suitable valuation methods.		
23. Creditors and accruals		
Accrued interest	**249**	42
Accounts payable	**955**	612
Other Group companies	**2 867**	6 771
Short-term portion of long-term liabilities (note 25)	**216**	193
Short-term portion of financial leases (note 25)	**87**	62
Other creditors	**3 341**	4 208
	7 715	11 888
24. Provisions		
Leave pay		
Opening balance	**620**	551
Charge to the income statement	**119**	115
Utilised	**(73)**	(46)
Closing balance	**666**	620
Audit fees		
Opening balance	**29**	16
Charge to the income statement	**61**	50
Utilised	**(64)**	(37)
Closing balance	**26**	29
Other		
Opening balance	**327**	264
Charge to the income statement	**405**	323
Utilised	**(77)**	(260)
Closing balance	**655**	327
Total provisions	**1 347**	976

R million	2004	2003
25. Long-term liabilities		
Debentures		
100 debentures of R1 million each carrying interest at prime minus 3%[a]	**100**	100
120 debentures of R1 million each carrying interest at prime minus 2%[b]	**120**	120
	220	220

Both of the instruments above relate to debentures which are convertible into non-redeemable preference shares.

a Rand Merchant Bank Limited has the sole right, at any stage after 30 June 2002, to convert the debentures into non-redeemable preference shares. Interest is payable six-monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 3%.

b The holder has the right, at any stage after 30 June 2005, to convert the debentures into non-redeemable preference shares. The debentures will automatically convert into non-redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable six-monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.

R million	2004	2003
Preference shares		
Authorised		
500 000 000 (2003: 500 000 000) cumulative redeemable shares with a par value of R0.0001		
1 000 000 cumulative redeemable shares with a par value of R0.10		
Issued		
1 000 (2003: 1 500) cumulative redeemable shares with a par value of R0.0001 and a premium of R99 999.9999 per share[c]	**100**	150
10 000 cumulative redeemable shares with a par value of R0.10 and a premium of R9 999.90 per share[d]	**100**	100
14 000 cumulative redeemable shares with a par value of R0.0001 and a premium of R99 999.9999 per share[e]	**1 400**	–
	1 600	250

c These preference shares are redeemable at the company's discretion on or after 1 June 2003, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 10.4%.

d These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 9.9%.

e These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 7.8%.

R million	2004	2003
Unsecured debt securities amortising over the period to 2007[f]	**405**	284
Secured loan[g]	**12**	29
Subordinated notes[h]	**1 365**	1 534
Fixed rate bonds[i]	**700**	–
Floating rate bond[j]	**300**	–
Less: Portion repayable within 12 months transferred to current liabilities (note 23)	**(216)**	(193)
	2 566	1 654

25. Long-term liabilities *(continued)*

f Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.

g This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.

h The subordinated notes are redeemable in six-monthly tranches until 2009 and do not bear interest. The notes were issued at a discount to notional value and bear an effective interest rate of 16.5%.

i The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.

j The floating rate bonds mature 31 August 2010 and bear interest at 0.715% above the three month JIBAR rate.

R million	2004	2003
Finance lease liabilities		
Not later than 1 year	**158**	140
Later than 1 year and not later than 5 years	**860**	1 026
Later than 5 years	**–**	–
	1 018	1 166
Future finance charges on finance leases	**(239)**	(318)
Present value of finance lease liability	**779**	848
Less: Portion repayable within 12 months transferred to current liabilities (note 23)	**(87)**	(62)
	692	786
	5 078	2 910

26. Ordinary shares

	2004	2003
Authorised		
550.0 million shares with a par value of 20 cents per share	**110**	110
Issued		
530.0 million shares with a par value of 20 cents per share	**106**	106

27. Non-distributable reserves

	2004	2003
Non-distributable reserves in associated companies	**54**	55
Currency translation reserve	**359**	658
Revaluation reserve – available-for-sale instruments	**188**	381
Revaluation reserve – cash flow hedges	**129**	308
General risk reserve (impaired capital reserve)	**1 146**	901
Other	**500**	337
	2 376	2 640

A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.

R million	2004	2003
28. Contingencies and commitments		
Contingencies		
Guarantees*	**14 540**	19 794
Acceptances	**110**	261
Letters of credit	**8 793**	5 828
	23 443	25 883

** Includes undrawn irrevocable facilities*

There are a number of legal or potential claims against the Banking Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or group basis. Provision is made for all liabilities which are expected to materialise.

	2004	2003
Employee benefit contingent liability		
A contingent liability has been raised in respect of pension fund holidays taken since 15 December 2001.	**323**	323
Interest claims		
The Banking Group has contingent liabilities in respect of interest claims of	**150**	–
Against these liabilities, the Banking Group has reciprocal claims against other institutions. These qualify as contingent assets of	**(150)**	–
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	**68**	190
Not contracted for	**215**	265
Funds to meet these commitments will be provided from Banking Group resources.		

Group commitments under operating leases

R million	2004		
	Next year	**2nd to 5th year**	**After 5th year**
Office premises	**483**	**1 274**	**49**
Recoverable under sub-leases	**(5)**	**(15)**	**(4)**
	478	**1 259**	**45**
Equipment and motor vehicles	**30**	**31**	**2**
	508	**1 290**	**47**

R million	2003		
	Next year	2nd to 5th year	After 5th year
Office premises	194	1 196	13
Recoverable under sub-leases	(5)	(18)	(8)
	189	1 178	5
Equipment and motor vehicles	54	48	–
	243	1 226	5

R million	2004	2003
29. Cash flow information		
29.1 Reconciliation of operating profit to cash flow from operating activities		
Income from operations	**6 541**	5 212
Adjusted for:		
– Depreciation, amortisation and impairment costs	**637**	689
– Impairment of advances	**833**	1 478
– Provision for post-employment benefit obligations	**–**	173
– Unrealised (profit)/loss on assets held against employee liabilities	**(86)**	95
– Other non-cash provisions	**961**	530
– Loss on sale of fixed assets and investments	**75**	37
– Foreign currency translation reserve	**370**	532
– Dividends paid	**(1 995)**	(1 502)
Cash flows from operating activities	**7 336**	7 244
29.2 Dividends paid		
Amounts unpaid at beginning of the year	**–**	(2)
Charged to distributable reserves	**(1 995)**	(1 500)
Total dividends paid	**(1 995)**	(1 502)
29.3 Taxation paid		
Amounts unpaid at beginning of the year	**1 091**	(429)
Taxation charge per income statement	**(2 137)**	(1 654)
Transfer from deferred taxation to current taxation	**1 350**	82
Deferred taxation included in tax charge	**(217)**	145
Amounts unpaid at end of the year	**(1 351)**	1 091
Total taxation paid	**(1 264)**	(765)

30. Risk management

30.1 General

A report dealing with risk management of the Banking Group is contained on pages 122 to 139 of the annual report ("the Risk Report"). The report sets out in detail the various risks the Banking Group is exposed to, as well as the strategy, methodology and instruments used to manage and mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Banking Group are approved by the board, while operational policies and control procedures are approved by the relevant risk committees. Details of the Banking Group's risk management structure, the risk management methodologies and the various risk committees are set out on pages 122 to 123 of the Risk Report.

Pages 122 to 125 form part of the audited financial statements.

30. Risk management *(continued)*

30.1 General *(continued)*

Strategy in using financial instruments

By its nature the Banking Group's activities are principally related to the use of financial instruments including derivatives. The Banking Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Banking Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Banking Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board of the Banking Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

30.2 Strategy in using hedges

The Banking Group strategy for using hedges is set out in note 9 above, read with the Risk Report.

30.3 Credit risk management

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Banking Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further detail on credit risk management is contained on pages 125 to 128 of the annual report.

Significant credit exposures at 30 June 2004 were:

	2004									
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Ireland**	**Other Europe**	**North America**	**South America**	**Austral-asia**	**Other**	**Total**
Assets										
Advances	**175 500**	**10 600**	**15 596**	**1 727**	**4 541**	**4 587**	**96**	**436**	**922**	**214 005**
Contingencies	**19 801**	**1 801**	**173**	**541**	**205**	**1**	**17**	**271**	**633**	**23 443**
	195 301	**12 401**	**15 769**	**2 268**	**4 746**	**4 588**	**113**	**707**	**1 555**	**237 448**

Significant credit exposures at 30 June 2003 were:

	2003									
	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austral-asia	Other	Total
Assets										
Advances	153 060	8 047	10 974	615	7 928	4 482	62	374	7 984	193 526
Contingencies	23 806	1 294	783	–	–	–	–	–	–	25 883
	176 866	9 341	11 757	615	7 928	4 482	62	374	7 984	219 409

Economic sector risk concentrations in respect of advances are set out in note 10.

30. Risk management *(continued)*

30.4 Market risk

The Banking Group takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Banking Group applies a "value at risk" methodology to estimate the market risk positions held and the mechanisms losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss tests and limits. Further details on the market risk management are set out on page 131 of the annual report.

30.5 Currency risk management

The Banking Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Banking Group manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2004 is set out below:

	2004					
R million	Rand	UK£	US$	€	Other	Total
Assets						
Cash and short-term funds	17 192	601	6 058	376	877	25 104
Derivative financial instruments	12 880	309	18 841	1 515	870	34 415
– qualifying for hedging	2 933	43	154	1 030	638	4 798
– trading	9 947	266	18 687	485	232	29 617
Advances	183 466	2 004	12 884	2 164	9 896	210 414
– originated	129 176	1 669	2 084	521	9 717	143 167
– held-to-maturity	8 971					8 971
– available-for-sale	4 188		204	24	83	4 499
– fair value	41 131	335	10 596	1 619	96	53 777
Investment securities and other investments	22 835	1 099	9 187	1 359	1 527	36 007
Financial instruments held for trading	7 280	248	1 055	172	915	9 670
Investment securities	15 555	851	8 132	1 187	612	26 337
– held-to-maturity	482		294	76	105	957
– available-for-sale	7 206	851	7 167	1 029	480	16 733
– at elected fair value	7 867		671	82	27	8 647
Commodities	577		101		24	702
Non-recourse investments	6 515					6 515
Accounts receivable	2 039	41	350	28	338	2 796
Investment in associated companies	2 063				145	2 208
Property and equipment	2 971	607	8	1	252	3 839
Deferred taxation assets	907				11	918
Intangible assets	150		11	2	288	451
Assets of insurance operations	85					85
	251 680	4 661	47 440	5 445	14 228	323 454

R million	Rand	UK£	US$	€	Other	Total
	2004					
30. Risk management *(continued)*						
30.5 Currency risk management *(continued)*						
Liabilities						
Deposits	195 092	2 878	16 302	2 308	9 306	225 886
– deposit and current accounts	188 577	2 878	16 302	2 308	9 306	219 371
– non-recourse deposits	6 515					6 515
Short trading positions	22 584	56	490	74	82	23 286
Derivative financial instruments	14 984	249	16 848	1 189	1 157	34 427
– qualifying for hedging	2 461	40	461	1 000	644	4 606
– trading	12 523	209	16 387	189	513	29 821
Creditors and accruals	7 094	9	277	29	306	7 715
Provisions	1 202	39	35		71	1 347
Taxation	1 373	16	10	(6)	(42)	1 351
Post-retirement benefit fund liability	1 070	15			26	1 111
Deferred taxation liabilities	1 650	8		4	61	1 723
Long-term liabilities	3 896		849	28	305	5 078
Liabilities of insurance operations – policyholder liabilities					77	77
Outside shareholders' interest	595	54	68		181	898
Shareholders' equity	16 055	954	1 806	4	1 736	20 555
	265 595	4 278	36 685	3 630	13 266	323 454

30.6 Interest rate risk management

Interest sensitivity of assets, liabilities and off-balance sheet items – repricing analysis

The Banking Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

Further details on the interest rate risk management are set out on pages 128 to 129 of the annual report.

The following table summarises the Banking Group's exposure to interest rate risk, categorised by contractual repricing date.

R million	Carrying amount	2004 Interest earning/bearing Demand	Term to repricing 1 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/ bearing
30. Risk management *(continued)*						
30.6 Interest rate risk management *(continued)*						
Assets						
Cash and short-term funds	**25 104**	22 019	840	2		2 243
Derivative financial instruments	**34 415**	894	15 616	10 200	7 061	644
– qualifying for hedging	**4 798**	1	114	2 513	2 170	
– trading	**29 617**	893	15 502	7 687	4 891	644
Advances	**210 414**	128 562	47 586	26 204	5 008	3 054
– originated	**143 167**	109 363	11 945	18 686	1 197	1 976
– held-to-maturity	**8 971**	7 630	557	634	26	124
– available-for-sale	**4 499**	666	2 238	260	601	734
– fair value	**53 777**	10 903	32 846	6 624	3 184	220
Investment securities and other investments	**36 007**	2 883	10 370	9 627	5 831	7 296
Financial instruments held for trading	**9 670**	119	4 417	1 160	441	3 533
Investment securities	**26 337**	2 764	5 953	8 467	5 390	3 763
– held-to-maturity	**957**	255				702
– available-for-sale	**16 733**	1 405	5 402	6 781	2 465	680
– at elected fair value	**8 647**	1 104	551	1 686	2 925	2 381
Commodities	**702**					702
Non-recourse investments	**6 515**		230	5 623	662	
Accounts receivable	**2 796**	71	471			2 254
Investment in associated companies	**2 208**					2 208
Property and equipment	**3 839**					3 839
Deferred taxation assets	**918**					918
Intangible assets	**451**					451
Assets of insurance operations	**85**		85			
	323 454	154 429	75 198	51 656	18 562	23 609
Liabilities						
Deposits	**225 886**	117 222	98 201	8 979	1 099	385
– deposit and current accounts	**219 371**	117 219	97 240	4 073	454	385
– non-recourse deposits	**6 515**	3	961	4 906	645	
Short trading positions	**23 286**	23 286				
Derivative financial instruments	**34 427**	4 672	17 624	7 334	3 599	1 198
– qualifying for hedging	**4 606**		23	2 435	2 148	
– trading	**29 821**	4 672	17 601	4 899	1 451	1 198
Creditors and accruals	**7 715**	3 239	663	310	33	3 470
Provisions	**1 347**	241	27			1 079
Taxation	**1 351**	102	327			922
Post-retirement benefit fund liability	**1 111**					1 111
Deferred taxation liabilities	**1 723**					1 723
Long-term liabilities	**5 078**			3 676	1 402	
Liabilities of insurance operations – policyholder liabilities	**77**					77
Outside shareholders' interest	**898**					898
Shareholders' equity	**20 555**					20 555
	323 454	148 762	116 842	20 299	6 133	31 418
Net interest sensitivity gap		5 667	(41 644)	31 357	12 429	(7 809)

30. Risk management *(continued)*

30.7 Liquidity risk management

The Banking Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Banking Group does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Banking Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Banking Group and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process are set out on page 129 of the annual report.

The table below sets out the maturity analysis of the Banking Group's balance sheet based on the remaining period from year-end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

	2004				
			Term to maturity		
R million	Carrying amount	Demand	1 – 12 months	1 – 5 years	Over 5 years
Assets					
Cash and short-term funds	**25 104**	17 289	3 256	4 559	
Derivative financial instruments	**34 415**	892	13 234	10 827	9 462
– qualifying for hedging	**4 798**		114	2 514	2 170
– trading	**29 617**	892	13 120	8 313	7 292
Advances	**210 414**	19 771	71 733	91 087	27 823
– originated	**143 167**	16 362	34 330	73 298	19 177
– held-to-maturity	**8 971**	13	1 091	4 186	3 681
– available-for-sale	**4 499**	407	249	3 797	46
– fair value	**53 777**	2 989	36 063	9 806	4 919
Investment securities and other investments	**36 007**	3 805	12 622	12 562	7 018
Financial instruments held for trading	**9 670**	1 656	6 096	1 420	498
Investment securities	**26 337**	2 149	6 526	11 142	6 520
– held-to-maturity	**957**		244	305	408
– available-for-sale	**16 733**		3 922	8 583	4 228
– at elected fair value	**8 647**	2 149	2 360	2 254	1 884
Commodities	**702**	678	24		
Non-recourse investments	**6 515**		230	5 623	662
Accounts receivable	**2 796**	778	2 018		
Investment in associated companies	**2 208**	1	19	794	1 394
Property and equipment	**3 839**	24	49	2 036	1 730
Deferred taxation assets	**918**	3	3	822	90
Intangible assets	**451**		15	51	385
Assets of insurance operations	**85**	85			
	323 454	43 326	103 203	128 361	48 564

R million	Carrying amount	Demand	1 – 12 months	1 – 5 years	Over 5 years
	2004				
			Term to maturity		
30. Risk management *(continued)*					
30.7 Liquidity risk management *(continued)*					
Liabilities					
Deposits	**225 886**	98 445	101 249	16 468	9 724
– deposit and current accounts	**219 371**	98 443	100 748	11 101	9 079
– non-recourse deposits	**6 515**	2	501	5 367	645
Short trading positions	**23 286**	23 286			
Derivative financial instruments	**34 427**	878	17 433	8 421	7 695
– qualifying for hedging	**4 606**		23	2 435	2 148
– trading	**29 821**	878	17 410	5 986	5 547
Creditors and accruals	**7 715**	3 900	3 490	168	157
Provisions	**1 347**		936	411	–
Taxation	**1 351**	79	860	407	5
Post-retirement benefit funds liability	**1 111**		74	296	741
Deferred taxation liabilities	**1 723**	1	1 623	16	83
Long-term liabilities	**5 078**			3 676	1 402
Liabilities of insurance operations – policyholder liabilities	**77**				77
Outside shareholders' interest	**898**				898
Shareholders' equity	**20 555**				20 555
	323 454	126 589	125 665	29 863	41 337
Net liquidity gap		(83 263)	(22 462)	98 498	7 227

R million	2004 Carrying amount	Fair value	Unrecognised gain/(loss)
30. Risk management *(continued)*			
30.8 Fair value of financial instruments			
The following represents the fair values of financial instruments not carried at fair value on the balance sheet.			
Assets			
Advances			
– originated	**143 167**	143 167	–
– held-to-maturity	**8 971**	8 971	–
Investment securities	**957**	957	–
	153 095	153 095	–
Deposit and current accounts			
Long-term liabilities	**5 078**	5 078	–
	5 078	5 078	–

Fair value has been determined as follows:

- advances – based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest-bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;
- long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

31. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R14 934 million (2003: – R12 484 million).

32. Segment information

32.1 Primary segments (business)

Cluster	Segment	Brands	Target segment	Description
Retail Cluster	Retail banking	First National Bank FNB Card, BOB, FNB HomeLoans	Small businesses and individuals	Retail banking, wholesale banking and support services
	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
	Short-term insurance	OUTsurance and First Link	Corporates and individuals	Short-term insurance
	African subsidiaries	FNB Namibia, FNB Botswana and FNB Swaziland	Corporates and individuals	Corporate and retail banking
Corporate Cluster	Investment banking	Rand Merchant Bank, RMB Private Equity, RMB International, RMB Resources RMB Australia	Large corporates, parastatals and government	Merchant and investment banking services
	Corporate	FNB Corporate, Hyphen	Medium and large corporates	Corporate banking
Wealth Cluster	Wealth management	RMB Private Bank Ansbacher UK and FNB Trust Services	High net worth individuals	Wealth management Trust services
Capital Centre	Capital centre	FirstRand Bank		Owns the capital of the Banking Group

2004 R million	Cluster Retail FNB Retail	FNB HomeLoans	WesBank	FNB Africa	Insurance
32. Segment information *(continued)*					
32.1 Primary segments (business)					
Income statement					
Net interest turn before impairment of advances	2 808	1 234	1 722	785	12
Charge for bad and doubtful debts	(211)	(11)	(274)	(57)	(2)
Net interest turn after impairment of advances	2 597	1 223	1 448	728	10
Other operating income	3 906	176	782	429	144
Net income from operations	6 503	1 399	2 230	1 157	154
Other operating expenditure	(4 694)	(851)	(1 260)	(608)	(107)
Income from operations	1 809	548	970	549	47
Share of earnings of associated companies	14	–	79	22	174
Income before taxation	1 823	548	1 049	571	221
Indirect taxation	(162)	(29)	(48)	(10)	
Income before direct taxation	1 661	519	1 001	561	221
Direct taxation	(400)	(125)	(241)	(137)	(53)
Income after taxation	1 261	394	760	424	168
Earnings attributable to outside shareholders	–	–	(1)	(133)	–
Income attributable to ordinary shareholders	1 261	394	759	291	168
Income statement includes:					
Depreciation	(312)	(19)	(31)	(38)	(5)
Amortisation		(4)		(19)	(3)
Impairment charges	(6)			(10)	
Balance sheet includes:					
Advances	14 204	44 975	49 034	9 462	
Non-performing loans	836	560	386	374	
Investment in associates	25		212	5	357
Total deposits	62 006	55	115	8 857	95
Capital expenditure	664	12	84	44	11
Key ratios					
Cost to income ratio	69.8%	60.4%	48.8%	49.2%	32.4%
Bad debt charge as a % of advances	1.5%	0.0%	0.6%	0.6%	
Non-performing loans as a % of advances	5.9%	1.2%	0.8%	4.0%	

The segmental analysis is based on the management accounts for the respective segments.
All consolidation adjustments have been recorded in the Capital Centre.
Taxation is allocated on a pro-rata basis.

Cluster						
Corporate		Wealth				
Merchant Bank	FNB Corporate	Private banking	Ansbacher UK	FNB Trust Services	Capital Centre	Total
–	1 010	178	143	6	1 009	8 907
–	(123)	(8)	12	–	(159)	(833)
–	887	170	155	6	850	8 074
1 639	1 750	129	298	121	(404)	8 970
1 639	2 637	299	453	127	446	17 044
(468)	(1 602)	(239)	(477)	(99)	(98)	(10 503)
1 171	1 035	60	(24)	28	348	6 541
224	–	–	–	–	72	585
1 395	1 035	60	(24)	28	420	7 126
(17)	(26)	(6)	(64)		(74)	(436)
1 378	1 009	54	(88)	28	346	6 690
(332)	(243)	(13)	21	(7)	(171)	(1 701)
1 046	766	41	(67)	21	175	4 989
(32)	–	–	–	–	(111)	(277)
1 014	766	41	(67)	21	64	4 712
(37)	(35)	(7)	(47)	(2)	(13)	(546)
			(4)		(45)	(75)
					–	(16)
77 320	19 199	9 478	4 760		(14 991)	213 441
213	645	166	112		97	3 389
1 319	190			2	98	2 208
35 775	43 930	2 902	6 399		65 752	225 886
29	31	9		6	442	1 332
25.1%	58.0%	77.9%	108.2%	78.0%	14.5%	55.8%
0.0%	0.6%	0.1%	(0.3%)			0.4%
0.3%	3.4%	1.8%	2.4%			1.6%

2003 R million	Cluster Retail FNB Retail	FNB HomeLoans	WesBank	FNB Africa	Insurance
32. Segment information *(continued)*					
32.1 Primary segments (business)					
Income statement					
Net interest turn before impairment of advances	2 556	1 275	1 409	699	15
Charge for bad and doubtful debts	(525)	(131)	(257)	(27)	
Net interest turn after impairment of advances	2 031	1 144	1 152	672	15
Other operating income	3 273	136	561	411	105
Net income from operations	5 304	1 280	1 713	1 083	120
Other operating expenditure	(3 985)	(726)	(1 051)	(477)	(90)
Income from operations	1 319	554	662	606	30
Share of earnings of associated companies	–	–	27	–	117
Income before taxation	1 319	554	689	606	147
Indirect taxation	(157)	(23)	(35)	(13)	
Income before direct taxation	1 162	531	654	593	147
Direct taxation	(258)	(118)	(145)	(132)	(33)
Income after taxation	904	413	509	461	114
Earnings attributable to outside shareholders	–	–	(3)	(132)	–
Income attributable to ordinary shareholders	904	413	506	329	114
Income statement includes:					
Depreciation	(259)	(13)	(22)	(24)	(5)
Amortisation		(18)		(3)	(1)
Impairment charges					
Balance sheet includes:					
Advances	12 801	40 407	40 141	7 302	
Non-performing loans	999	1 184	358	215	
Investment in associated companies	21		163	5	232
Total deposits	56 223	57	103	7 076	
Capital expenditure	630	20	35	48	8
Key ratios					
Cost to income ratio	68.4%	51.5%	52.6%	43.0%	38.0%
Bad debt charge as a % of advances	4.1%	0.3%	0.6%	0.4%	
Non-performing loans as a % of advances	7.8%	2.9%	0.9%	2.9%	

The segmental analysis is based on the management accounts for the respective segments.
All consolidation adjustments, have been recorded in the Capital Centre.
Taxation is allocated on a pro-rata basis.

Cluster						
Corporate		Wealth				
Merchant Bank	Corporate	Private banking	Ansbacher UK	FNB Trust Services	Capital Centre	Total
–	955	176	181	9	1 829	9 104
(5)	(179)	(29)	(3)	–	(322)	(1 478)
(5)	776	147	178	9	1 507	7 626
1 183	1 546	101	310	119	(622)	7 123
1 178	2 322	248	488	128	885	14 749
(403)	(1 553)	(205)	(600)	(102)	(345)	(9 537)
775	769	43	(112)	26	540	5 212
299	–	–	–	–	51	494
1 074	769	43	(112)	26	591	5 706
(15)	(21)	(5)	(2)	–	(75)	(346)
1 059	748	38	(114)	26	516	5 360
(235)	(166)	(8)	25	(6)	(232)	(1 308)
824	582	30	(89)	20	284	4 052
(25)	–	–	–	–	(118)	(278)
799	582	30	(89)	20	166	3 774
(33)	(31)	(8)	(40)		(177)	(612)
(59)		(1)	(6)		11	(77)
					–	–
69 311	24 110	6 888	5 410	74	(13 531)	192 913
338	724	149	124		889	4 980
641	634			2	217	1 915
50 032	36 618	2 799	9 185		56 003	218 096
23		9		4	294	1 071
27.2%	62.1%	74.0%	122.2%	79.7%	27.4%	55.3%
0.0%	0.7%	0.4%	0.1%			0.8%
0.5%	3.0%	2.2%	2.3%			2.6%

R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
32. Segment information *(continued)*						
32.2 Secondary segments (geographic)						
2004						
Segment revenue	**15 339**	**2 099**	**152**	**196**	**676**	**18 462**
Segment expense	**(8 960)**	**(1 436)**	**(281)**	**(112)**	**(547)**	**(11 336)**
Segment assets	**252 851**	**11 980**	**31 616**	**1 423**	**25 584**	**323 454**
Segment liabilities	**243 317**	**12 787**	**26 462**	**1 164**	**18 271**	**302 001**
2003						
Segment revenue	13 804	1 125	1 617	77	98	16 721
Segment expense	(8 893)	(517)	(1 492)	(104)	(9)	(11 015)
Segment assets	231 225	11 030	39 107	1 205	21 431	303 998
Segment liabilities	227 995	9 773	29 868	896	16 476	285 008

	Nature of business	Country of incorporation	Listed/ Unlisted	Issued ordinary capital R million	Effective holding % **2004**	% 2003
33. Subsidiaries						
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	28	**100**	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	**60**	77
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	28	**100**	100
FirstCorp Merchant Bank Holdings Limited	Commercial banking	South Africa	Unlisted	10	**100**	100
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	**100**	100
First National Asset Management & Trust Company (Pty) Limited	Asset management and trust services	South Africa	Unlisted	0	**100**	100
Rand Merchant Bank Limited	Merchant banking	South Africa	Unlisted	19	**100**	100
Non-banking						
FirstRand International Limited	International holding company	Guernsey	Unlisted		**100**	100
First Land Developments Limited	Property company	South Africa	Unlisted	1	**100**	100
FNB Equipment Finance (Pty) Limited	Equipment and finance	South Africa	Unlisted		**100**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	250	**100**	100
Firstlink Insurance Brokers Holdings (Pty) Limited	Insurance brokers	South Africa	Unlisted	0	**100**	100
RMB Private Equity (Pty) Limited	Investment and financial services	South Africa	Unlisted		**88**	88
Significant quasi-subsidiaries						
iNdwa Investments Limited	Investment and financial services	South Africa	Unlisted		**N/A**	N/A

R million	Group carrying amount **2004**	2003
Banking		
First National Bank Holdings (Botswana) Limited	**56**	56
First National Bank of Namibia Limited	**9**	9
First National Bank of Swaziland Limited	**15**	15
FirstCorp Merchant Bank Holdings Limited	**54**	54
FirstRand Bank Limited	**2 104**	2 014
First National Asset Management & Trust Company (Pty) Limited	**–**	–
Rand Merchant Bank Limited	**334**	334
Non-banking		
FirstRand International Limited	**1 446**	1 446
First Land Developments Limited	**1**	1
FNB Equipment Finance (Pty) Limited	**5**	5
FirstRand (International) Mauritius Limited	**250**	250
Firstlink Insurance Brokers Holdings (Pty) Limited	**14**	14
RMB Private Equity (Pty) Limited	**–**	–
iNdwa Investments Limited	**–**	–

34. Related parties

All related party transactions are at arm's length and incurred in the ordinary course of business.

Capital adequacy

Banking Group

The registered banks within the Banking Group are subject to regulatory capital adequacy requirements. The capital base of the Banking Group provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the Banking Group is measured in terms of the Banks Act in terms of which the Banking Group must maintain a minimum level of capital based on their risk adjusted assets and off-balance sheet exposures.

At 30 June 2004, the minimum regulatory capital requirement was 10% of risk weighted assets. The current capital ratios within the Banking Group are:

R million	**2004**	2003
Regulatory capital		
Tier 1	**16 179**	14 694
Share capital	**1 195**	1 368
Share premium	**2 490**	2 490
Reserves	**13 000**	11 430
Less: Impairments	**(506)**	(594)
Tier 2	**5 895**	4 662
Subordinated debt instruments	**4 049**	2 903
Qualifying provisions	**1 846**	1 759
Total regulatory capital	**22 074**	19 356
Capital adequacy ratios		
Tier 1 (%)	**10.1%**	9.2%
Tier 2 (%)	**3.7%**	2.9%
Total	**13.8%**	12.1%

Calculation of risk weighted assets

				Risk weighted assets	
			Risk weighting	**2004**	2003
Banking book	**442 776**	421 198		**157 322**	156 789
Cash, own bank, and central government advances	**91 962**	102 238	0%	**–**	–
Central Securities Depository Participation	**137 967**	105 875	0%	**–**	–
Public sector body advances	**2 411**	4 029	10%	**241**	403
Other bank advances and letters of credit	**26 910**	32 147	20%	**5 382**	6 429
Mortgage advances, remittances in transit and performance related guarantees	**63 655**	53 905	50%	**31 828**	26 953
Other advances and lending related guarantees	**114 133**	110 577	100%	**114 133**	110 577
Counterparty risk exposure	**4 587**	8 128	100%	**4 587**	8 128
Large exposures	**1 151**	4 299	100%	**1 151**	4 299
Trading book	**3 082**	2 939		**3 082**	2 939
Position risk	**2 430**	1 070	100%	**2 430**	1 070
Counterparty risk exposure	**561**	1 618	100%	**561**	1 618
Large exposures	**91**	251	100%	**91**	251
	445 858	424 137		**160 404**	159 728

FirstRand Bank Limited

R million	2004	2003
Regulatory capital		
Tier 1	**13 101**	9 555
Share capital	**4**	4
Share premium	**2 490**	2 490
Reserves	**10 692**	7 378
Less: Impairments	**(85)**	(317)
Tier 2	**5 203**	3 392
Subordinated debt instruments	**3 564**	2 471
Qualifying provisions	**1 639**	921
Total regulatory capital	**18 304**	12 947
Capital adequacy ratios		
Tier 1 (%)	**9.7%**	7.6%
Tier 2 (%)	**3.8%**	2.7%
Total (%)	**13.5%**	10.3%

Calculation of risk weighted assets

				Risk weighted assets	
			Risk weighting	**2004**	2003
Banking book	**393 859**	351 265		**132 690**	122 473
Cash, own bank and central government advances	**75 439**	77 648	0%	**–**	–
Central Securities Depository Participation	**137 967**	105 875	0%	**–**	–
Public sector body advances	**2 134**	2 932	10%	**213**	293
Other bank advances and letters of credit	**21 114**	26 172	20%	**4 223**	5 234
Mortgage advances, remittances in transit and performance related guarantees	**57 904**	43 384	50%	**28 952**	21 692
Other advances and lending related guarantees	**94 889**	87 532	100%	**94 889**	87 532
Counterparty risk exposure	**4 412**	7 722	100%	**4 412**	7 722
Large exposures	**–**	–	100%	**–**	–
Trading book	**2 788**	2 935		**2 788**	2 935
Position risk	**2 178**	1 067	100%	**2 178**	1 067
Counterparty risk exposure	**554**	1 617	100%	**554**	1 617
Large exposures	**56**	251	100%	**56**	251
	396 647	354 200		**135 478**	125 408

Credit ratings

Standard & Poor's – Jan 2004	**FirstRand Bank Limited**
Local currency – long-term	BBB
Local currency – outlook	Stable
Local currency – short-term	A-2
Foreign currency – long-term	BBB
Foreign currency – outlook	Stable
Foreign currency – short-term	A-3

Moody's Investor Service – Dec 2003	**FirstRand Bank Limited**
Bank deposits – Foreign currency	Baa2/Prime-2
Bank deposits – Domestic currency	A1/P-1
Bank financial strength	C Stable

Fitch Ratings – April 2004	**FirstRand Bank Limited**
Foreign currency	
Short-term	F3
Long-term	BBB
Long-term rating outlook	Stable
Local currency	
Long-term	AA-(zaf)
Short-term	F1+(zaf)
Outlook	Stable
National	
Short-term senior	F1 + (zaf)
Long-term senior	AA (zaf)
Individual	B/C
Support	2

Fitch Ratings – April 2004	**FirstRand Bank Holdings Limited**
Foreign currency	
Long-term	BBB
Short-term	F3
Outlook	Stable
National	
Long-term	AA-
Short-term	F1+
Individual	B/C
Support	5

Fitch Ratings	
Sovereign risk	**Republic of South Africa**
Foreign long-term	BBB
Local short-term	A-
Outlook	Stable

Margin analysis

	2004		2003	
	Average balance R million	**Average margin %**	Average balance R million	Average margin %
Margin assets				
Liquid assets				
Cash and short-term funds	**25 868**		25 129	
Advances				
Sub-Saharan Africa, corporate and consumer advances				
– Mortgage loans – variable	**53 454**	**2.7**	42 579	3.4
– Instalment sales and leases – variable	**34 573**	**3.4**	25 045	3.6
– Other prime linked loans – variable	**16 007**	**4.4**	19 429	5.8
– Fixed rate loans – Mortgage, instalment sale & wholesale term	**19 641**	**4.0**	17 522	4.1
– Call related loans	**10 527**	**1.3**	13 147	1.0
– Other banking advances (includes trading book)	**64 971**	**3.4**	63 527	3.1
Investment securities and other investments	**41 689**		43 696	
Total margin assets	**266 730**		250 074	
Non-margin assets	**45 243**		42 832	
Total assets	**311 973**		292 906	
Liabilities and shareholders' funds				
Interest-bearing liabilities				
– Current & savings deposits	**26 532**	**6.1**	23 240	8.0
– Fixed rate deposits	**33 849**	**0.6**	30 937	0.8
– Call related deposits	**45 940**	**2.0**	42 944	1.7
– Other interest-bearing liabilities (includes trading book)	**120 525**		126 558	
	226 846		223 679	
Non-interest-bearing liabilities	**64 517**		51 847	
Total liabilities	**291 363**		275 526	
Shareholders' funds				
Share capital and reserves	**19 803**		16 891	
Outside shareholders' interest	**807**		489	
Total liabilities and shareholders' funds	**311 973**		292 906	
Net interest income and margin on average interest earning advances	**199 173**	**4.47**	181 249	5.02

Additional margin analysis on interest-earning/bearing assets and liabilities

Margin analysis / *continued*

	2004		2003	
	Average balance R million	**Average margin %**	Average balance R million	Average Margin %
Margin on advances				
– FNB Retail[1]	**18 999**	**4.9**	23 784	5.5
– FNB HomeLoans	**41 468**	**2.6**	30 919	3.5
– WesBank	**46 502**	**3.9**	36 392	4.0
– FNB Corporate	**20 513**	**0.8**	21 844	1.0
– Private Banking	**6 720**	**1.9**	4 783	2.8
Cash and short-term funds	**25 868**		25 129	
Other banking advances	**64 971**	**3.4**	63 527	3.1
Investment securities and other investments	**41 689**		43 696	
Non-margin assets	**45 243**		42 832	
	311 973		292 906	
Margin on deposits				
– FNB Retail[1]	**66 536**	**3.2**	58 503	4.0
– WesBank	**–**		–	
– FNB Corporate	**37 689**	**1.5**	36 188	1.5
– Private Banking	**1 993**	**0.5**	2 383	0.6
– Other interest-bearing liabilities (Includes trading book)	**120 628**		126 605	
Non-interest-bearing liabilities	**64 517**		51 847	
Shareholders' funds	**20 610**		17 380	
	311 973		292 906	
Net interest income and margin on average interest earning advances	**199 173**	**4.47**	181 249	5.02

1 Includes the primary deposit taking, transactional banking and card loan banking products of the Sub-Saharan Banking operations.

Glossary of terms

Definitions relating to operations

Attributable earnings	Earnings attributable to ordinary shareholders
Headline earnings	Earnings attributable to ordinary shareholders from trading operations, excluding capital profits and losses, the amortisation of goodwill and impairment of assets
Return on average equity (%)	Earnings attributable to ordinary shareholders divided by average ordinary shareholders' funds
Return on average total assets (%)	Earnings attributable to ordinary shareholders divided by average total assets
Interest margin on average total assets (%)	Net interest income (before deducting the income statement charge for bad and doubtful advances) divided by average gross total assets
Interest margin on average advances (%)	Net interest income (before deducting the income statement charge for bad and doubtful advances) divided by average gross advances
Efficiency ratio (%) (cost to income ratio)	Operating expenditure divided by total income

Other definitions

Non-performing loan	A loan on which neither interest payment nor principal repayment is being made. When a bank has such a loan on its books, it can either write it off against profits immediately or make loan loss provisions available for such a write-off in the future
Mark-to-market	Valuation at an appropriate market price, with unrealised profit and losses reflected in income or equity depending on the classification of the instrument
Short trading positions	Trading positions where the Banking Group trades in financial instruments that it does not own with a view of acquiring such instruments at a later stage on terms which are beneficial to the Group
Repo rate	The rate at which the South African Reserve Bank will lend to banks
Organic growth	Non-acquisitive growth

Administration

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

Registered office
1st Floor, 4 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton 2196

Postal address
PO Box 786273
Sandton 2146

Telephone
National (011) 282 4000
International +27 11 282 4000

Telefax
National (011) 282 1699
International +27 11 282 1699

Websites
www.fnb.co.za
www.rmb.co.za
www.ebucks.com

Company secretary
BW Unser

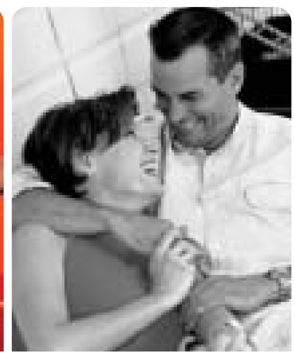
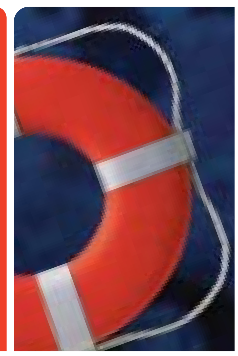
Auditors
PricewaterhouseCoopers Incorporated
2 Eglin Road, Sunninghill

Deloitte & Touche,
The Woodlands
20 Woodlands Drive
Woodmead

insurance

MOMENTUM GROUP / Annual report 2004



Insurance

The Momentum Group produced solid headline earnings growth, driven mainly by a strong increase in earnings from asset management operations, and increased investment income on shareholders' assets.

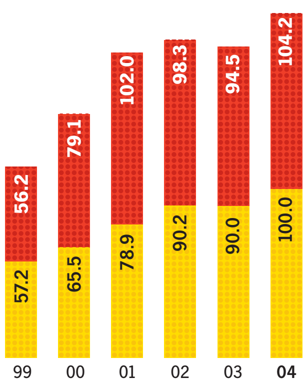
momentum

Momentum Group annual report 2004

Contents

Financial highlights

Group headline earnings	+14% to R1 081 million
Retail new business inflows	+16% to R7.8 billion
New business inflows	+25% to R28.7 billion
	%
Return on capital	24.3
Return on embedded value	16.6
Margin on new business	17.3

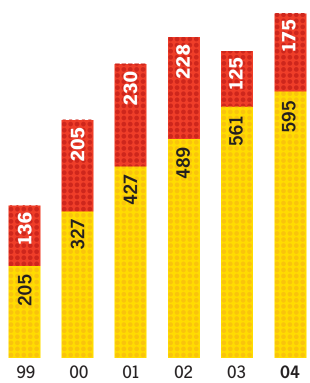


Assets under management or administration (R billion)

Compound annual growth: 12%

On balance sheet

Off balance sheet



Group operating profit growth (R million)

Compound annual growth: 18%

Insurance operations

Asset management operations

Six-year review

	1999 Rm	2000 Rm	2001 Rm	2002 Rm	2003 Rm	**2004 Rm**	Compound growth %
GROUP HEADLINE EARNINGS							
Insurance operations	205	327	427	489	561	**595**	24
Asset management operations	136	205	230	228	125	**175**	5
Group operating profit after tax	341	532	657	717	686	**770**	18
Investment income on the shareholders' portfolio	226	170	171	190	261	**311**	7
Group headline earnings	567	702	828	907	947	**1 081**	14
FUNDS RECEIVED FROM CLIENTS							
Individual life premium income	5 497	7 721	7 957	7 328	8 893	**6 648**	4
Single premiums	2 111	3 021	3 944	3 021	3 284	**2 454**	3
Corporate policy premiums	598	1 874	1 021	1 255	2 323	**602**	–
Recurring premiums	2 788	2 826	2 992	3 052	3 286	**3 592**	5
Employee benefits premium income	2 807	2 800	3 991	4 297	4 621	**4 552**	10
Single premiums[1]	1 485	1 661	2 727	2 927	3 242	**2 997**	15
Recurring premiums	1 322	1 139	1 264	1 370	1 379	**1 555**	3
Linked product sales[2]	3 728	4 744	2 963	2 920	2 722	**4 606**	4
Unit trust sales	3 977	6 713	8 055	7 348	5 751	**7 097**	12
Segregated third party inflows[1]	15 570	10 612	7 233	10 665	4 897	**10 268**	(8)
Total funds received from clients	31 579	32 590	30 199	32 558	26 884	**33 171**	1
Net flow of funds	12 253	11 776	3 607	2 205	327	**727**	(43)
GROUP ASSETS UNDER MANAGEMENT OR ADMINISTRATION							
Total assets per balance sheet	57 241	65 482	78 865	90 162	90 021	**99 950**	12
Off-balance sheet assets managed on behalf of clients	56 152	79 067	102 020	98 328	94 569	**104 218**	13
Total assets under management or administration	113 393	144 549	180 885	188 490	184 590	**204 168**	12
EXCHANGE RATES							
Rand/US$							
– closing	6.03	6.77	8.07	10.31	7.56	**6.18**	
– average	5.95	6.40	7.42	9.19	8.89	**6.77**	
Rand/GBP							
– closing	9.51	10.26	11.35	15.75	12.47	**11.20**	
– average	9.63	9.88	10.81	14.81	14.12	**11.83**	
US$ million							
Group headline earnings	95	110	112	99	107	**160**	11
Total funds received from clients	5 307	5 092	4 070	3 543	3 024	**4 900**	(2)
Net flow of funds	2 059	1 840	486	240	37	**107**	(45)
Total assets under management or administration	18 805	21 351	22 414	18 282	24 417	**33 037**	12
GBP million							
Group headline earnings	59	71	77	61	67	**91**	9
Total funds received from clients	3 279	3 299	2 794	2 198	1 904	**2 804**	(3)
Net flow of funds	1 272	1 192	334	149	23	**61**	(46)
Total assets under management or administration	11 924	14 089	15 937	11 968	14 803	**18 229**	9

1 Excludes transfers between on- and off-balance sheet business.
2 Includes sales of products on the life insurance balance sheet.

As noted under the basis of preparation in the report of the Chief Financial Officer and under the accounting policies, the results of Discovery have been excluded from this six-year review following the transfer of Momentum's investment in Discovery to FirstRand Limited, effective 1 July 2003.

Board of directors and board committees of Momentum Group Limited

LL DIPPENAAR / **55** / **Executive** / **MCom, CA(SA)** / **Chairman** / Chief Executive Officer of FirstRand, Director of FirstRand Bank Holdings, Director of RMB Holdings, Chairman of Discovery Holdings

HP MEYER / **46** / **Executive** / **BCom, FIA, AMP (Oxford)** / Managing Director

DJ BOTES / **40** / **Executive** / **B Compt (Hons)** / Chief Executive Officer: Momentum Client and Products

JP BURGER / **45** / **Executive** / **CA(SA)** / Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

GT FERREIRA / **56** / **Non-executive** / **BCom (Hons), (B&A), MBA** / Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

RB GOUWS / **61** / **Non-executive** / **BSc, FFA, FASSA, AMP (Oxford)** / Chairman of the actuarial committee

PK HARRIS / **54** / **Non-executive** / **MCom** / Director of FirstRand, Chief Executive Officer of FirstRand Bank Holdings, Director of RMB Holdings

RJ HUTCHISON / **57** / **Non-executive** / **BCom (Hons), (B&A), MBA**

JD KRIGE / **55** / **Non-executive** / **MCom, FIA, AMP (Harvard)**

NB LANGA-ROYDS /**42** / **Independent Non-executive** / **BA (Law), LLB**

PV MJOLI / **42** / **Indepdendent Non-executive** / **MBA, MDP, B Compt (Hons), B Com**

DR JJ SIEBERHAGEN / **45** / **Executive** / **BA Admission, Psychology (Honours), MA: Clinical Psychology, D Phil** / Chief Executive Officer: Momentum Distribution Services

S SITHOLE / **42** / **Independent Non-executive** / **BSc (Political Science) Lincoln University of Pennsylvania, MSc (Industrial Relations) University of London**

FJC TRUTER / **49** / **Executive** / **BCom (Hons), CA(SA), AMP (Oxford)** / Financial Director

BJ VAN DER ROSS / **57** / **Independent Non-executive** / **Dip Law (UCT)** / Director of FirstRand

The following directors were appointed to the board during the year on the dates indicated below:

DJ Botes – 24 March 2004
PV Mjoli – 1 March 2004
Dr JJ Sieberhagen – 24 March 2004
S Sithole – 27 February 2004
FJC Truter – 24 March 2004

The following directors served on the board during the year and resigned on the dates indicated below:

BH Adams – 24 March 2004
AH Arnott – 24 March 2004
VW Bartlett – 24 March 2004
WFE Bragg – 24 March 2004
K Gordhan – 4 June 2004

Actuarial committee

RB Gouws (Chairman)
D Brown
S Jurisich
NAS Kruger
HP Meyer

Remuneration committee

RJ Hutchison (Chairman)
LL Dippenaar
NB Langa-Royds (Appointed 24 March 2004)
BH Adams (Resigned 24 March 2004)

Audit committee

BJ van der Ross (Chairman)
WFE Bragg
HP Meyer
JP Burger (Appointed 24 March 2004)
PV Mjoli (Appointed 24 March 2004)
BH Adams (Resigned 24 March 2004)
AH Arnott (Resigned 24 March 2004)

Report of the Chief Financial Officer /

for the year ended 30 June 2004

FRANS TRUTER / CFO, Momentum Group

Momentum Group Limited is a wholly-owned subsidiary of FirstRand Limited. The consolidated figures in this report comprise the operations of Momentum Group Limited and its divisions, associates and subsidiary companies, including Momentum Life, Momentum International, RMB Asset Management, RMB Properties, 87% of Ashburton, 70% of Lekana Employee Benefit Solutions, 40% of Futuregrowth and 33% of African Life, collectively referred to as the Momentum Group (the Group). A comprehensive group structure is set out on page 13.

Basis of preparation / The attached annual financial statements relate to the insurance and asset management interests of the FirstRand Group of Companies, and should be read in conjunction with the FirstRand Group financial statements set out on pages 71 to 97.

Effective 1 July 2003, the Momentum Group's interest in Discovery Holdings Limited (Discovery) was transferred to FirstRand Limited. As a consequence of this transfer, the results of Discovery are consolidated at the FirstRand Group level for the full financial year to 30 June 2004, and Momentum's comparative figures for the 2003 year have been adjusted to remove Discovery from these results.

In order to provide a better understanding of the results of the Momentum Group, these results have been provided on a segmental basis, where appropriate. The segments into which the Group has been divided are:

- Insurance Operations – Includes Momentum Life, the provider of life insurance, investment and retirement products to the upper income market, and Momentum International, the Group's local and international multi-manager and investment research house.
- Asset Management – The results of the asset management companies in the Group, comprising RMB Asset Management, RMB Properties, 87% of Ashburton and 40% of Futuregrowth. These companies provide institutional as well as retail asset management products in South Africa and internationally.
- Investment income on shareholders' assets – The investment income on the Momentum Group shareholders' portfolio is disclosed separately.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of the Group, as this is the basis on which the Group's affairs are managed.

This report includes information relating to the off-balance sheet activities of the Group, as these are a significant contributor to profit as well as to the assets managed by the Group. Reconciliations between the figures presented in the Group annual financial statements, which represent only the on-balance sheet cash flows and assets of Momentum Group and its subsidiaries, and the figures presented in this report, which represent all on- and off-balance sheet cash flows and assets, have been provided where necessary.

Accounting policies / The accounting policies applied are in accordance with South African Statements of Generally Accepted Accounting Practice. These accounting policies are consistent with those of the year ended 30 June 2003, with the exception of the following change in the accounting for share trusts:

In line with the evolving industry practice regarding the interpretation of AC 132 – Consolidated financial statements and accounting for investments in associates, and AC 412 – Consolidation – special purpose vehicles, Momentum Group has changed its accounting policy to consolidate its share incentive schemes with effect from the current financial year. The primary impact of the consolidation of the share incentive schemes operated by certain subsidiary companies is that the loans between the entities in the Group and the respective share trusts have been eliminated on consolidation. The impact of this change on the opening retained income and the current year income is set out in note 27 to the annual financial statements.

The International Accounting Standards Board's (IASB) international project on insurance has released an International Financial Reporting Standard (IFRS) regarding the disclosure of insurance contracts (IFRS4), at the end of March 2004. This IFRS is effective for financial years commencing on or after 1 January 2005, and will be applied by South African insurers from that date. The principles regarding the classification of policy contracts between insurance contracts and investment contracts have been applied consistently with those applied during the year ended 30 June 2003.

Operating environment / During the first half of the current financial year local equity markets staged a strong recovery, with the JSE ALSI 40 index increasing by 24%. During the second six months of the financial year, local equity markets have remained static as the continued strengthening of the Rand impacted negatively on resource stocks.

According to the statistics released by the Life Offices Association, individual life new business in the life insurance industry has remained relatively flat for the past two years. Investors appear cautious to commit their savings to longer-term equity-based products, and have preferred to either repay debt or place the largest portion of discretionary savings in property, money market and fixed interest products. Sales of discretionary linked investment products, where there is no contractual investment term, have however increased significantly due to improved equity markets.

The long-term insurance industry experienced strong demand for individual risk products during the year, and Momentum capitalised on this very successfully with its Myriad risk product range.

Overview of Group results / Group headline earnings increased by 14% to R1 081 million for the year ended 30 June 2004. These results benefited from good new business growth in the linked investment product and unit trust businesses. Total new business inflows increased by a healthy

25% to R28.7 billion. The conscious decision by the Group a number of years ago to move away from its dependency on pure life insurance products, to an approach where retail and institutional products are offered both on- and off-balance sheet, benefited the Group during the year under review.

The headline return on equity for the year amounted to 24.3% and the return on embedded value totalled 16.6%.

Earnings attributable to ordinary shareholders increased by 73% to R1 065 million. This significant growth is mainly due to the impairment of goodwill amounting to R242 million included in the comparative earnings.

Six-year review / The six-year review of key financial indicators is set out on page 214. What is particularly pleasing to note is that Group operating profit has increased by an average of 18% per annum since 1999, mainly due to the strong performance of individual business. Pressure on segregated third party inflows from subdued investment markets has resulted in a decline of 8% per annum since 1999. It is, however, encouraging to note that the net flow of funds has remained positive for each of the financial years since 1999.

Group assets under management or administration have shown consistent growth of 12% per annum, which is significantly better than the growth in the JSE ALSI 40 Index over the same period of 8% per annum. In US$ terms, Group headline earnings have shown an increase of 11% per annum over the past six years, which is gratifying given the volatility in the Rand/Dollar exchange rate since 1999.

Group operating results / The following table shows the main components of the increase in Group headline earnings for the year:

R million	2004	2003	% change
Earnings source			
Insurance operations[1]	**595**	561	6
Asset management operations	**175**	125	40
Group operating profit	**770**	**686**	**12**
Investment income on shareholders' assets	**311**	261	19
Group headline earnings[2]	**1 081**	**947**	**14**

1 From 1 July 2003, the Individual Life and Employee Benefits operations have been integrated and are now referred to collectively as Insurance operations.

2 Due to the fact that the Group does not include any translation gains in earnings, core headline earnings are equal to Group headline earnings.

The performance of the business units that contributed to the Group operating profit after tax of R770 million, is discussed in more detail in the Operational review set out on pages 22 to 52. A detailed segmental income statement is also provided in note 9 to the annual financial statements, including information regarding total assets and liabilities per segment.

Investment income on shareholders' assets / The after tax investment income earned on shareholders' assets increased by 19% to R311 million. The main reason for the increase is the higher cash balance in the shareholders' portfolio arising from the restructuring of the portfolio as detailed in last year's report of the Chief Financial Officer. The most significant aspect of this restructuring was the disposal of Momentum's investment in Discovery to FirstRand Limited for R740 million in cash. The after-tax earnings on these proceeds totalled R59 million for the year.

The directors' valuation of shareholders' net assets at 30 June 2004, as well as the investment income earned on the shareholders' portfolio investments, are set out in the following table:

	Directors' valuation		Investment income earned after tax	
R million	**2004**	2003 (restated)[1]	**2004**	2003
Shareholders' net assets				
Strategic subsidiary investments:[2]				
– Asset management operations	**1 479**	1 337	**–**	–
– Momentum Multi-Managers	**35**	36	**–**	–
– Lekana Employee Benefit Solutions (70%)	**95**	–	**–**	–
Shareholders' portfolio investments:[2]				
– African Life (33%)	**518**	521	**71**	73
– Fixed interest instruments	**49**	573	**52**	50
– Preference shares	**516**	8	**40**	-
– Equities	**1 086**	157	**6**	3
– Properties	**–**	265	**8**	20
– Share trust and subsidiary loans	**510**	567	**42**	48
– Cash and other	**1 908**	1 921	**92**	67
Total shareholders' net assets	**6 196**	5 385	**311**	261

1 The directors' valuations at 30 June 2003 have been restated for comparative purposes to reflect the transfer of the investment in Discovery from Momentum to FirstRand.

2 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.

Administration expenses / Total administration expenses for the Group amounted to R1 482 million, an increase of 4% over the 2003 expenses. The following table provides a breakdown of the expenses per business unit:

R million	2004	2003	% change
Administration expenses			
Insurance operations	**1 172**	1 097	7
Asset management operations	**310**	322	(4)
Total administration expenses	**1 482**	1 419	4

Excluding the impact of increased expenses at Momentum International, the insurance operations increased expenses by only 4.6%. The Group is targeting a real reduction of 15% in expenses in the insurance operations by 2007, as part of an overall productivity and efficiency project.

Capital management / 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. In order to achieve this objective, the following changes were made to the portfolio during the year:

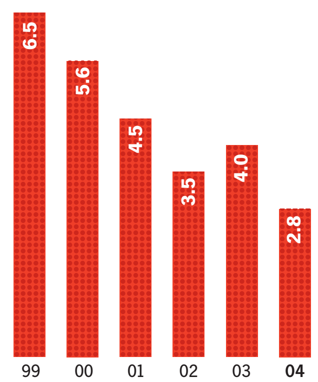
- the property investments were sold;
- a portion of the cash backing CAR was invested in variable rate preference shares issued by two of the large banks, which provide an effective after tax yield; and
- the equity exposure of the portfolio was increased.

The headline return on capital (ROC) amounted to 24.3% for the year to 30 June 2004, in excess of the FirstRand Group target of the weighted average cost of capital plus 10%, which currently equates to 22%. The ROC is calculated as the headline earnings divided by the average shareholders' funds for the year, taking into account the R740 million proceeds on the sale of Discovery from 1 July 2003.

The excess of assets over liabilities of Momentum Group Limited was R4 696 million at 30 June 2004 (2003: R4 032 million after the restatement to take account of the transfer of Discovery to FirstRand). This figure excludes the cumulative revaluation of strategic investments, as required by the Financial Services Board (FSB) valuation requirements that came into effect on 1 August 2003. These FSB requirements state that unlisted investments must be shown at tangible net asset value as opposed to directors' valuation when determining the level of capital adequacy.

The capital adequacy requirement (CAR) of R2 245 million was covered 2.1 times (2003: 2.0 times) by the excess of assets over liabilities.

The following graph illustrates how effective the capital management programme has been in reducing the CAR as percentage of liabilities to policyholders since 1999:



CAR as % of policyholder liabilities

Dividend policy / The FirstRand Group policy is that dividends be sourced from the Insurance and Banking groups in proportion to their contribution to the overall FirstRand Group earnings, based on a dividend cover of 2.5 times.

Results of the embedded value calculation / The embedded value of Momentum Group increased by 10% from R8 784 million at 30 June 2003 to R9 666 million at 30 June 2004. The embedded value profit for the year ended 30 June 2004 totalled R1 455 million, which represents a return of 16.6% on the adjusted opening embedded value.

The transfer of the investment in Discovery from Momentum to FirstRand reduced the embedded value by R1 099 million at 1 July 2003 (representing the market value of Discovery at that date, less the proceeds received of R740 million, being the net asset value of Momentum's investment in Discovery at that date), which has been reflected separately in the movement in embedded value for the year.

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

R million	2004	2003
Embedded value		
Directors' valuation of shareholders' net assets	**6 196**	5 385
Net value of in-force insurance business	**3 470**	3 399
Value of in-force insurance business	**4 096**	3 846
Opportunity cost of capital adequacy requirements	**(626)**	(447)
Embedded value	**9 666**	8 784

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

R million	2004	2003	% change
Value of new business			
Value of new business	**326**	290	12
Less: Opportunity cost of capital	**(38)**	(17)	>(100)
Value of new business	**288**	273	5

The increase in the embedded value of new business is due to the increased volumes of the more profitable Myriad risk product against the traditional risk products, and an increased proportion of retirement annuity business, which generates higher profit margins.

The embedded value of new business written represents a margin of 17.3% of the annualised new business premiums (new recurring plus 10% of single premiums), compared with 16.5% for the prior year.

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

R million	2004
Analysis of movement in embedded value	
Embedded value at 30 June 2003	**10 002**
Less: Impact of sale of Discovery	**(1 099)**
Market value of Discovery	**(1 839)**
Proceeds received for Discovery	**740**
Less: Increased opportunity cost of capital[1]	**(119)**
Adjusted embedded value at 1 July 2003	**8 784**
Embedded value profit	**1 455**
Factors related to operations:	**864**
Value of new business	**288**
Expected return on new business	**18**
Expected return on existing business	**478**
Experience assumption changes	**17**
Operating experience variations	**63**
Factors related to market conditions:	**591**
Investment return on shareholders' net assets	**777**
Economic assumption changes	**(29)**
Changes in opportunity cost of capital	**(179)**
Investment variations	**22**
***Less:* Dividends paid**	**(573)**
Embedded value at 30 June 2004	**9 666**

1 The replacement of an equity investment (Discovery) with cash has increased the opportunity cost of capital relating to the adjusted embedded value at 1 July 2003.

The report on the embedded value, detailing the methodology and assumptions made in calculating the embedded value of Momentum Group is reflected on pages 275 to 279 of this annual report.

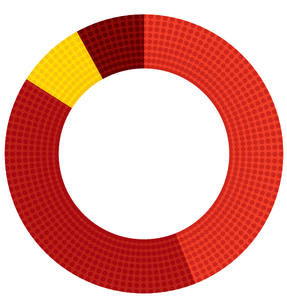
Group assets under management or administration / The Momentum Group managed or administered total assets of R204.2 billion at 30 June 2004 compared with R184.5 billion at 30 June 2003, an increase of 11%. This increase is mainly due to the strong performance from investment markets, specifically during the first half of the financial year. The following table provides an analysis of the assets managed or administered by Group companies:

R billion	2004	2003	% change
Assets under management or administration			
On-balance sheet assets	**100.0**	90.0	11
Segregated third party funds	**80.7**	74.3	9
Unit trust funds managed	**16.0**	14.4	11
Assets under management	**196.7**	178.7	10
Linked product assets under administration[1]	**7.5**	5.8	29
Total assets under management or administration	**204.2**	184.5	11

1 Excludes business written by the Momentum Group'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 R15.5 billion (2003: R12.6 billion).

The following pie chart represents a breakdown of the Group assets under management or administration, between the various classes of business:

Components of Group assets under management or administration



New business inflows / New business inflows for the year totalled R28.7 billion, an increase of 25% compared with the corresponding figure in the prior year. New recurring premium business increased by a healthy 16%, mainly due to a significant improvement in new recurring employee benefits business. The significant increase in linked product sales, as well as stronger local unit trust sales, substantially offset the decline in individual life single premiums. The decline in corporate policy lump sums was due to a few large transactions included in the comparative figure. A breakdown of the new business inflows is provided in the table below:

R million	2004	2003	% change
New business			
Annualised recurring premiums[1]	**998**	859	16
Individual life	**784**	737	6
Employee benefits	**214**	122	75
Lump sum inflows	**17 741**	17 307	3
Individual life inflows	**2 454**	3 284	(25)
Corporate policy inflows	**587**	2 308	(75)
Employee benefits inflows	**2 997**	3 242	(8)
Linked product inflows – local[2]	**2 631**	1 446	82
Linked product inflows – offshore – Momentum International	**1 975**	1 276	55
Unit trust inflows – local	**5 644**	4 175	35
Unit trust inflows – offshore – Ashburton	**1 453**	1 576	(8)
Segregated third party inflows	**9 995**	4 730	>100
Total new business inflows	**28 734**	22 896	25
Annualised new business inflows[3]	**3 772**	3 063	23

1 Excludes automatic premium increases.

2 Includes inflows relating to products on the life insurance balance sheet totalling R1 690 million (2003: R1 033 million).

3 Represents annualised new 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 R33.2 billion, an increase of 23%. The following table provides a summary of these inflows:

R million	2004	2003	% change
Funds received from clients			
Recurring premium income	**5 162**	4 680	10
Individual life	**3 592**	3 286	9
Employee benefits	**1 555**	1 379	13
Corporate policy inflows	**15**	15	–
Lump sum inflows	**17 741**	17 307	3
Individual life inflows[1]	**2 454**	3 284	(25)
Corporate policy inflows	**587**	2 308	(75)
Employee benefits inflows	**2 997**	3 242	(8)
Linked product inflows – local	**2 631**	1 446	82
Linked product inflows – offshore			
– Momentum International	**1 975**	1 276	55
Unit trust inflows – local	**5 644**	4 175	35
Unit trust inflows – offshore			
– Ashburton	**1 453**	1 576	(8)
Segregated third party inflows	**10 268**	4 897	>100
Total funds received from clients	**33 171**	**26 884**	**23**

1 Single premiums exclude funds retained through the extension of the original policy term, amounting to R1 243 million (2003: R615 million).

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

The following represents a reconciliation between the total funds received in the previous table, and total premium income per note 3 to the annual financial statements:

R million	2004	2003
Total funds received	**33 171**	26 884
Less: Off-balance sheet inflows	**(20 281)**	(12 337)
Linked product sales	**(2 916)**	(1 689)
Unit trust sales – local	**(5 644)**	(4 175)
Unit trust sales – offshore – Ashburton	**(1 453)**	(1 576)
Segregated third party inflows	**(10 268)**	(4 897)
Add: Transfers from off-balance sheet funds	**452**	586
Less: AC 133 adjustments[1]	**(6 721)**	(8 018)
Total premium income per financial statements	**6 621**	**7 115**

1 Represents the premium income relating to investment contracts which is not recognised as revenue.

Payments to clients / Payments to clients increased by 22% to R32.4 billion. The main reason for the increase was the large outflow of segregated third party funds at RMBAM, where a small number of large clients withdrew specialist bond mandates. On a positive note, the containment of linked product and unit trust outflows was particularly pleasing. The total outflows to clients are shown in the following table:

R million	2004	2003	% change
Payments to clients			
Individual life	**5 629**	5 226	8
Corporate policies	**1 147**	1 334	(14)
Employee benefits	**4 733**	4 343	9
Linked products – local[1]	**1 578**	1 746	(10)
Linked products – offshore			
– Momentum International	**234**	262	(11)
Unit trusts – local	**3 841**	4 266	(10)
Unit trusts – offshore – Ashburton	**1 472**	1 128	30
Segregated third party funds	**13 810**	8 252	67
Total payments to clients	**32 444**	**26 557**	**22**

1 Includes outflows relating to products on the life insurance balance sheet amounting to R1 029 million (2003: R945 million).

The following represents a reconciliation between the total payments to clients in the previous table, and total policyholder benefits per note 5 to the annual financial statements:

R million	2004	2003
Total payments to clients	**32 444**	26 557
Less: Off-balance sheet payments	**(19 906)**	(14 709)
Linked products	**(783)**	(1 063)
Unit trusts – local	**(3 841)**	(4 266)
Unit trusts – offshore – Ashburton	**(1 472)**	(1 128)
Segregated third party funds	**(13 810)**	(8 252)
Add: Transfers to off-balance sheet funds	**698**	638
Less: AC 133 adjustments	**(6 579)**	(6 506)
Total policyholder benefits per financial statements	**6 657**	**5 980**

Net flow of funds / The net flow of funds from clients more than doubled to R727 million for the year. It is encouraging that the linked products and unit trust areas managed to improve their net flow of funds significantly.

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:

R million	2004	2003	% change
Net flow of funds			
Individual life	**417**	1 344	(69)
Corporate policies	**(545)**	989	>(100)
Employee benefits	**(181)**	278	>(100)
Linked products – local	**1 053**	(300)	>100
Linked products – offshore			
– Momentum International	**1 741**	1 014	72
Unit trusts – local	**1 803**	(91)	>100
Unit trusts – offshore – Ashburton	**(19)**	448	>(100)
Segregated third party funds	**(3 542)**	(3 355)	(6)
Total net flow of funds	**727**	**327**	**>100**

It is pleasing that the net cash inflow during the second six months of the year amounted to R3.9 billion, compared with a net outflow of R3.2 billion during the first six months.

Risk management

Risk management philosophy / The board embraces the principles of King II. The Momentum Group's philosophy on risk recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound business practice.

Responsibility for risk management / Operational risk differs throughout the Group, corresponding to the operational differences between business units. Operational responsibility for risk management lies with the management and employees of each profit centre or subsidiary, considering their particular circumstances. Profit centre management has clear responsibility and accountability for ongoing identification, assessment and understanding of risks facing their business, and for carrying out procedures to monitor the risks and limit them to acceptable levels, based on cost benefit analysis.

Structure and approach / The audit committee is of the opinion that the assurance management (internal audit) and the risk management functions should be separated, with the role of each being:

- Risk management's role is to assist management with the identification and evaluation of actual and potential risk areas as they pertain to a company as a total entity, followed by a process of either termination, transfer, acceptance or mitigation of each risk. Risks are uncertain future events that could influence the achievement of an entity's objectives.
- Assurance management is an independent, objective assurance and consulting activity designed to add value and improve a company's operations. It helps a company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Although the roles differ, the two functions are closely aligned through the use of a common risk framework, following a risk based audit approach and reporting based on the same view of the organisation.

All major subsidiary companies have established their own audit committees which report into the Momentum Group audit committee.

Risk management / Separate risk committees have been established for Momentum Group Limited, RMB Asset Management, RMB Properties, Futuregrowth and Ashburton. These committees are responsible for the quality, integrity and reliability of the total risk management process. The results of their work are reported and considered by their respective audit committees to whom their boards have delegated responsibility in this regard.

An actuarial committee is also in operation at Momentum Group. The committee has been appointed by the board to ensure that the highly technical actuarial aspects specific to insurance companies are debated and reviewed independently.

A comprehensive system of internal control is established by management, with input from various specialist support functions (including risk management, IT risk management and internal audit), to ensure that risks are mitigated and that the Group's objectives are attained.

We have developed a system of risk management and internal control that builds more robust business operations. The system incorporates mechanisms to deliver:

- a commitment by management to the process;
- a documented system of internal control and risk management;
- a demonstrable system of dynamic risk identification;
- a demonstrable system of risk mitigation activities;
- a system of documented risk communications; and
- an alignment of assurance of efforts to the risk profile.

A formal risk management charter governs the risk management activities and sets out responsibilities in this regard. The Charter has been approved by the risk committee of Momentum Group.

Assurance management / The audit committees oversee the activities of the various assurance management functions in the Group and the head of internal audit has unrestricted access to the chairpersons of these audit committees.

Although the current structures of the various companies in the Group differ, they all have a dedicated internal audit function that has the respect and co-operation of both the board and their management. Internal auditors have been deployed to each business unit to ensure that value is added through specific knowledge of the specialised business activities being audited.

The function operates in accordance with the Standards of the Institute of Internal Auditors and an internal audit charter formally sets out the purpose, authority and responsibility of the internal audit activity.

As an effective assurance management function it provides the following:

- review of systems and operations to assess the extent to which organisational objectives are achieved and the adequacy of controls over activities leading to such achievement;
- evaluate the relevance, reliability and integrity of management and financial information;
- appraise utilisation of resources with regard to economy, efficiency and effectiveness;
- assess the means of safeguarding assets and verify their existence;
- ascertain the extent of compliance with established policies, procedures and instructions;
- recommend and assist management to implement improvements in procedures and systems to prevent waste, extravagance and fraud;
- advise and assist management to implement appropriate systems of control and other accounting and operational matters in a consulting capacity; and
- draw attention to any failure to take remedial action and carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by the audit committee or under special circumstances by senior management.

An audit plan is compiled annually and approved by the audit committee. The plan indicates the extent of audit work and is based on risk assessments as well as issues highlighted by the audit committee and senior management.

Assurance management will express an opinion as to the effectiveness of management's controls to identify and manage risks affecting the various business units on a process level.

Any operational errors or deficiencies that will have a significant business impact, due to the materiality thereof will be directly reported to executive management and/or the appropriate committees. Corrective actions taken by management are monitored through business risk forums.

The assurance management function coordinates with other internal (including the actuarial function) and external providers of assurance to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

Management of specific risks

Strategic business risks / Strategic business risks are classified in terms of external and internal risks. External risks include (but are not limited to) the following categories: Regulatory, Competitors, Industry, Alliance Groups and HIV/Aids.

Internal risks include (but are not limited to) the following categories: Organisational Structure, Business Portfolio, Alignment, Trademark/Brand name, Client Service, Intermediary Service and Product Innovation.

These strategic business risks are managed by the various executive committees in the business units.

Operational risks / Operational risk is defined as "direct or indirect loss resulting from inadequate or failed internal processes, people or technology". Operational risks include (but are not limited to) the following categories:

Process/Systems risk / Automated systems have been put in place to monitor critical transactions and pro-actively flag potential high risks. These risks are then investigated and followed-up by the assurance management teams.

Information security / The risk of a loss of confidentiality, integrity or availability of information.

Security mechanisms have been implemented to safeguard the organisation against malicious code such as viruses and worms. Intrusion detection systems enable the monitoring of unauthorised activity on the network.

No significant losses or service breaks due to information security breaches or deficiencies were experienced during the period under review.

Business continuity / Appropriate business continuation measures have been implemented for key activities. Furthermore, disaster recovery plans are tested annually.

Compliance risk / The risk of non-compliance with statutory requirements including regulations imposed by the FSB.

Compliance risk is managed through a combination of training, monitoring and service activities to provide assurance that the various regulations are identified, understood and effectively managed.

Legal risk / The risk embedded in the contractual arrangements with clients and counterparties, including the clarity and enforceability of contracts, the discharge of contractual obligations, the capacity to contract and the communication of changes is overseen by the legal divisions in the business units.

Underwriting risk / The risk that the actual exposure to mortality and morbidity will exceed the best estimates of the statutory valuator.

The statutory actuary performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality risks above a set retention limit are reinsured. All applications for mortality or morbidity cover are evaluated against strict underwriting criteria, and are accompanied by compulsory HIV testing in the case of mortality cover.

Fraud risk / One of the main operational risks to which the Group is exposed, relates to fraud and theft.

Group Forensic Services provide fraud prevention, detection and investigation services to support business unit management in meeting their objectives of minimising fraud risk. The team comprises three full-time investigators, who liaise closely with client service staff to identify fraudulent policyholder claims relating to death and disability. Proactive training of client service staff takes place to ensure that fraudulent claims are identified and investigated timeously. The forensic investigation team also advises on improvements to internal control systems.

Market risk / Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, irrespective of whether those changes were caused by circumstances particular to the Group itself, or to the investment market in general.

One of the main focus areas within the Group is to maximise returns for policyholders by stock selection based on market timing. Where specific contractual guarantees have been provided to policyholders, these are protected against market fluctuations by investing in assets matching the liability profile.

Currency risk / Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of currency exposure within the Group results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The majority of these assets are backing linked policyholders' liabilities, in other words the full currency risk is passed to the policyholder.

Interest rate risk / Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The most significant concentration of interest rate risk in the Group resides with the immediate annuity portfolios, where a guaranteed annuity is provided to an annuitant. This guaranteed annuity is matched with an appropriate asset profile, with the overall liability profile being matched on a weekly basis to minimise the interest rate mismatching risk. Use is made of the interest rate hedging expertise of Rand Merchant Bank and Futuregrowth to manage the interest rate and cash flow matching of the annuity portfolio.

Liquidity risk / Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts.

All policyholder funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the policy contract. The majority of assets invested in are listed financial instruments that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice.

Credit risk / Credit risk refers to the risk of loss arising from the obligor's or issuer's inability to service its debt obligations.

Momentum invests in a diversified pool of top rated debt securities and closely monitors the risk of default arising from an obligor's or issuer's inability to service its debt obligations.

These assets are carried at fair values based upon current market prices that are closely aligned to the nature and term of the debt security.

Momentum Group manages its portfolio credit risk using a multi-dimensional approach. Initially the creditworthiness of the company is assessed in accordance with our risk acceptance criteria. Pricing and provisioning is determined using the counterparty's "expected default frequency" and "recovery rate" in the event of default. In order to achieve appropriate diversification, limits are scrutinised at industry sector level, the number of single obligor exposures within rating categories and the weighted average rating of the portfolio. All counterparties are assigned a 'rating' using a conservative internal rating model. The credit portfolio is made up of 157 counterparties, which is spread across 23 different industry sectors.

The Momentum Group has an internal credit risk function that performs ongoing management of the credit portfolio, which in turn is overseen by the Group credit committee of the Momentum Group.

Concluding remarks / The capital management programme will remain a priority in the next financial year with the objective to further enhance the return on capital. The Momentum Group is also continuously reviewing opportunities to identify potential strategic investments which would assist Momentum to increase its footprint in the financial services market. Examples of this are the two transactions that were recently concluded post 30 June 2004 with the acquisition of 50% of mCubed Holdings' Multimanagement business as well as the acquisition of 50% in Sovereign Health, a medical scheme administrator, both subject to Competition Commission approval.

FJC Truter
Chief Financial Officer
Momentum Group

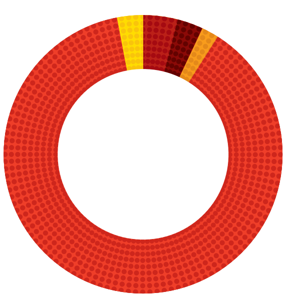
Sandton
13 September 2004

Value-added statement / for the year ended 30 June

	2004		2003	
	R million	%	R million	%
Value-added				
Premium income on insurance contracts	**6 621**		7 115	
Premium income on investment contracts	**6 721**		8 096	
Fees for asset manager services rendered	**1 280**		1 064	
Investment and other operating income	**8 704**		3 734	
Commissions paid to agents and brokers	**(876)**		(781)	
Payments to suppliers of material and services	**(509)**		(876)	
Value-added by insurance and asset management services	**21 941**		18 352	
To employees				
Salaries, wages and other benefits	**916**	**4.2**	721	4.0
To providers of capital				
Dividends paid to shareholders	**573**	**2.6**	228	1.2
To government	**439**	**2.0**	643	3.5
Normal taxation	**140**		334	
Value-added tax	**115**		100	
Retirement fund taxation	**93**		109	
Capital gains tax	**72**		63	
Other	**19**		37	
To policyholders				
Policyholder claims and benefits	**19 372**	**88.3**	16 390	89.3
Insurance contracts	**6 657**		5 980	
Investment contracts	**6 579**		6 572	
Adjustment to liabilities under investment and insurance contracts	**6 136**		3 838	
To expansion and growth	**641**	**2.9**	370	2.0
Retained income	**492**		388	
Depreciation	**57**		64	
Deferred taxation	**92**		(82)	
	21 941	**100.0**	18 352	100.0

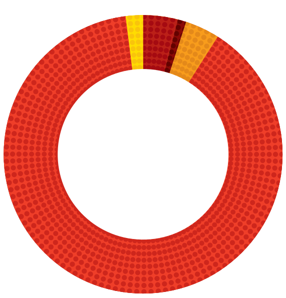
2004

To employees	4%
To providers of capital	3%
To government	2%
To policyholders	88%
To expansion and growth	3%



2003

To employees	4%
To providers of capital	1%
To government	4%
To policyholders	89%
To expansion and growth	2%



Directors' responsibility statement

The directors of Momentum Group Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of Momentum Group Limited and its subsidiary and associated companies (Momentum Group) at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed, suitable accounting policies have been applied and reasonable estimates have been made. The board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Group's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 227.

The directors have reviewed the Momentum Group's budget and cash flows for the year to 30 June 2005. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the Momentum Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The financial statements for the year ended 30 June 2004, which appear on pages 228 to 274, have been approved by the board of directors and are signed on its behalf by:

LL Dippenaar
Chairman

HP Meyer
Managing director

Sandton
13 September 2004

Report of the independent auditors

To the directors of FirstRand Limited / We have audited the annual financial statements of Momentum Group Limited and its subsidiary and associate companies (Momentum Group), set out on pages 228 to 274 for the year ended 30 June 2004. These financial statements are the responsibility of the directors of Momentum Group Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope / We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting policies used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

The comparative information disclosed in the financial statements has been restated to exclude the financial position and results of Discovery Holdings Limited, as these are separately disclosed elsewhere in the FirstRand Group financial statements. In all other material respects, Statements of Generally Accepted Accounting Practice in South Africa have been complied with.

Audit opinion / In our opinion, the financial statements fairly present, in all material respects, the financial position of the Momentum Group at 30 June 2004, and the results of its operations and cash flows for the year then ended in accordance with the previous paragraph and the basis of presentation set out in note 1 of the accounting policies.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
13 September 2004

Statement of actuarial values of assets and liabilities / as at 30 June 2004

R million	Notes	2004	2003 Restated	2003 Published
Total assets	2	**96 624**	87 715	90 167
Assets as per company balance sheet		**96 827**	87 820	87 850
Revaluation of strategic investments				2 317
FSB's valuation requirements		**(203)**	(105)	
Total liabilities	4	**91 928**	83 683	83 683
Actuarial value of policyholder liabilities		**81 604**	76 071	76 071
Current and other liabilities as per company balance sheet		**10 324**	7 612	7 612
Surplus	5	**4 696**	4 032	6 484
Capital adequacy requirements	6	**2 245**	1 988	3 072
Ratio of surplus to capital adequacy requirements		**2.1**	2.0	2.1

Note: The restated surplus at 30 June 2003 represents the surplus after allowing for the transfer of Discovery to FirstRand Limited, the restructuring of the shareholders' portfolio and the new valuation requirements of the FSB in respect of assets.

Certification of financial position

I hereby certify that:

- the valuation of Momentum Group Limited as at 30 June 2004, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Notes;
- the statutory actuary's report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note PGN103 and, read together with the annual financial statements, fairly presents the financial position of the Company; and
- the Company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

NAS Kruger
BCom FFA FASSA
Statutory Actuary of Momentum Group Limited

Centurion
13 September 2004

Notes to the statement of actuarial values of assets and liabilites / as at 30 June 2004

1. Introduction / This statement of actuarial values of assets and liabilities provides a description of the actuarial valuation methods and assumptions used for the financial soundness valuation of Momentum Group Limited ("Momentum").

2. Value of assets / The value of assets represents the assets per the company balance sheet of Momentum, adjusted for the FSB's new valuation requirements for subsidiaries and associate companies.

3. Valuation assumption / This section describes the best-estimate valuation assumptions used for purposes of the financial soundness valuation of the policyholder liabilities. The first-tier margins set out in the professional guidance note PGN104 of the Actuarial Society of South Africa, as well as certain second-tier margins described below, were added to the best-estimate assumptions for purposes of the liability valuation.

Investment return / The investment return assumption of 11.5% per annum before tax (2003: 11.0% per annum) was derived from the yields on South African government stocks as at 30 June 2004 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return, by adding the following premiums/(discounts) to the yield of 10.5% per annum (2003: 10.1% per annum) derived as described above:

	% premium/(discount)	
	2004	2003
Equities	**2.0**	2.0
Properties	**1.0**	1.0
Government stocks	**0.0**	0.0
Other fixed interest stocks	**0.5**	0.5
Cash	**(2.0)**	(2.0)

Discretionary bonuses / Future additions of bonuses to with-profit policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and taxation.

Expense inflation rate / The assumed future expense inflation assumption of 7.5% per annum (2003: 7.0% per annum) was determined based on an assumed long-term differential of 4.0% per annum relative to the assumed future investment return assumption of 11.5% per annum (2003: 11.0% per annum).

Expenses / The maintenance expense assumptions were based on the results of internal expense investigations that covered the financial year ended 30 June 2004, as well as the expense budgets for the financial year ending 30 June 2005. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Mortality, morbidity and discontinuance rates / The assumptions used regarding future mortality, morbidity and discontinuance rates were consistent with the results of recent internal experience investigations, each of which covered four or more years within the period 1997 to 2003, adjusted for anticipated changes in experience where appropriate. The impact of the assumption changes following the investigations concluded over the past year is shown later in the report.

Allowance was made for the expected impact of AIDS using models developed by the Actuarial Society of South Africa, adjusted for Momentum's practice and policy design.

Second-tier margins / Momentum holds second-tier margins where the prescribed margins do not constitute sufficiently prudent allowance for possible adverse experience, and to recognise profits in line with product design and company practice. The main second-tier margins allowed for in the valuation are as follows:

- additional bonus stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing smoothed-bonus liabilities. These bonus stabilisation reserves are in addition to the policyholder bonus stabilisation reserves described later, and are not earmarked for distribution to policyholders in the normal course of events;
- investment stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing fixed liabilities;
- for the closed Lifegro portfolio, appropriate reserves are held to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take-over agreement;
- the cost-of-capital charges levied against smoothed-bonus portfolios are not capitalised, but are recognised as and when they are levied;
- experience stabilisation reserves are held to serve as a buffer against fluctuations in demographic experience; and
- reserves are created on structured transactions to recognise profits appropriately over the term of the transactions.

Tax / Allowance was made for future tax based on the four-fund tax dispensation and for Capital Gains Tax on policyholders' funds at full face value.

4. Liability valuation methodology / The actuarial valuation of the policy liabilities was determined using the financial soundness valuation method in accordance with the guidelines of the Actuarial Society of South Africa. Assets and policy liabilities have been valued using methods and assumptions that are consistent with each other.

Notes to the statement of actuarial values of assets and liabilites / as at 30 June 2004

The result of the valuation methodology and assumptions is that profits are released appropriately over the term of each policy to avoid the premature recognition of profits that may give rise to losses in future years.

Guarantees and potential losses / Liabilities include provisions to meet maturity, mortality and disability guarantees and to meet losses in respect of expected lapses and surrenders. A separate reserve is held for minimum investment guarantees on maturity, and it is calculated using stochastic modelling techniques in accordance with professional guidance note PGN110 of the Actuarial Society of South Africa.

Individual smoothed bonus and market-related business / Liabilities for individual smoothed bonus and market-related business are set equal to the policies' fund accounts plus the difference between the present value of projected future risk benefits and maintenance expenses and the present value of projected future risk premiums and other charges. Allowance is made for future growth in fund accounts at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and taxation.

Policyholder bonus stabilisation reserves / Smoothed bonus liabilities are adjusted by policyholder bonus stabilisation reserves. The policyholder bonus stabilisation reserves for the closed Lifegro portfolio and Southern Pre-84 Segregated portfolio are set equal to the policyholders' full future entitlement to the assets in these portfolios. The policyholder bonus stabilisation reserves of the remaining smooth-bonus portfolios consist of accrued investment surpluses/(shortfalls) in these portfolios. The policyholder bonus stabilisation reserves were positive in aggregate as at 30 June 2004.

Individual and group linked business / Liabilities for linked business are set equal to the fair value of the underlying assets.

Immediate annuities and pensioner outsourcing business / Liabilities for immediate annuities and pensioner outsourcing business are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at 30 June 2004.

Group risk business / The liabilities for Permanent Health Insurance (and other annuity type) claimants and funeral paid-up benefits are calculated using a prospective cash flow method. Other Group risk liabilities are valued using appropriate percentages of premiums derived from past claims run-off patterns.

Guaranteed endowments / The liabilities of endowments with guaranteed maturity values are calculated as the present value of the maturity values and future maintenance expenses using the yields to maturity implied by the fair value of the underlying matching assets adjusted to allow for tax.

Conventional policies / The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums. It is assumed that the current bonus rates would be maintained in future.

5. Reconciliation of surplus / The change in Momentum's surplus for the year ended 30 June 2004 can be analysed as follows:

R million	2004	2003
Surplus at beginning of the year	**6 484**	6 164
AC 133 adjustment to opening balance	**–**	(14)
Restructuring of shareholders' net assets	**(1 099)**	
FSB's valuation requirements	**(1 353)**	
Surplus at beginning of the year after adjustments	**4 032**	6 150
Surplus at end of the year	**4 696**	6 484
Increase in surplus over the year	**664**	334

The increase in surplus is due to the following factors:

R million	Note	2004
Operating profit (after tax)		**767**
Investment income on surplus assets (after tax)	5.1	**311**
Reconciling items to attributable earnings	5.2	**91**
Attributable earnings (after tax)		**1 169**
Capital appreciation on surplus assets	5.3	**62**
Changes in valuation assumptions	5.4	**6**
Dividends		**(573)**
Total change in surplus		**664**

5.1 Investment income on the surplus assets comprises interest, dividends and net rental income, after provision for taxation.

5.2 The reconciling items to attributable earnings are as follows:

	R million
• Profit on sale of available for sale assets	15
• Profit on sale of Discovery	24
• Profit on sale of business to Lekana	83
• Goodwill amortised	(31)
Total	91

5.3 Capital appreciation on surplus includes unrealised capital appreciation.

5.4 Overall, the changes in the valuation basis increased the surplus by R6 million. The changes in basis is made up of the following items:

- the reserve for minimum maturity guarantees was reduced, resulting in an increase in surplus of R20 million;
- the mortality assumptions for female annuitants were revised, based on the results of an internal investigation. The change in the annuitant mortality assumptions decreased the surplus by R108 million;
- the termination assumptions of policies were revised following the results of an internal investigation, resulting in a reduction of R30 million in the surplus;
- changes in the assumptions and methodology used to calculate risk and expense reserves for Momentum Collective Benefits increased the surplus by R65 million;
- the combined impact of the change in the economic assumptions increased the surplus by R21 million; and
- the combined impact of miscellaneous items and methodology changes increased the surplus by R38 million.

The combined impact of the aforementioned changes in the valuation basis is summarised below:

	R million
Minimum maturity guarantees	20
Mortality assumptions on annuities	(108)
Termination assumptions	(30)
Momentum Collective Benefits reserves	65
Economic assumptions	21
Miscellaneous items	38
Total	6

6. Capital adequacy requirements / Capital adequacy requirements are necessary to provide a cushion against the impact of possible adverse deviations in actual future experience from that assumed in the financial soundness valuation. The capital adequacy requirements, which were determined in accordance with the professional guidance note PGN104 of the Actuarial Society of South Africa, were calculated as R2 245 million (2003 restated: R1 988 million). The surplus is sufficient to cover the capital adequacy requirements 2.1 times (2003 restated: 2.0 times).

The ordinary capital adequacy requirements (OCAR) exceeded the termination capital adequacy requirements (TCAR) and thus the capital adequacy requirements have been based on the OCAR.

For purposes of grossing up the intermediate ordinary capital adequacy requirements (IOCAR) to determine the OCAR, it was assumed that assets backing the capital adequacy requirements are invested in a portfolio consisting of 20% equities and 80% cash or near cash instruments.

In accordance with professional guidance note PGN110 of the Actuarial Society of South Africa, allowance has also been made in the capital adequacy requirement for the potential detrimental impact of minimum investment guarantees on smoothed-bonus and market-related individual life policies.

The main contributor to the capital adequacy requirement is the investment resilience component. In determining the investment resilience capital adequacy requirement, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed-interest securities commensurate with a 3% increase in fixed-interest yields would occur immediately. Where an assumed decrease of 3% in fixed interest yields resulted in an increase in CAR, the increase has been taken into account.

Notes to the statement of actuarial values of assets and liabilites / as at 30 June 2004 / *continued*

In determining the capital adequacy requirements, allowance was made for the anticipated management action that will reduce the financial impact of the assumed adverse circumstances. The most important management actions assumed were the following:

- Bonus rates on smooth bonus policies would be reduced by up to 5% per annum below the investment return net of tax and charges on the relevant portfolios over the ensuing three years, to counteract the effect of the decline in market values mentioned above.
- The capital adequacy requirements reflect the release of certain second-tier margins as a buffer against the potential impact of the adverse scenarios envisaged.

The impact of the above management actions on CAR is shown below:

	R million
CAR before management action	3 655
Impact of management action:	(1 676)
Reduction in future bonuses	(576)
Offsetting second-tier margins	(1 100)
CAR after management action	1 979
Pro-rata share of CAR of African Life	266
CAR as at 30 June 2004	2 245

The Momentum Group board has approved the management actions assumed in the CAR calculation, and I am satisfied that these actions would be taken if the adverse scenarios were to materialise.

Group accounting policies

The principal accounting policies below are consistently applied in all material respects.

1. Basis of presentation / The Momentum Group prepares its audited consolidated financial statements on a going-concern basis using the historical cost basis, except for:

- financial assets classified as available-for-sale and valued at fair value;
- derivative financial instruments valued at fair value;
- financial assets and liabilities elected to be carried at fair value;
- investment properties valued at fair value; and
- policyholder liabilities under insurance contracts which are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa.

Financial assets and liabilities classified as originated loans are carried at amortised cost.

Effective 1 July 2003, the Momentum Group's interest in Discovery was transferred to FirstRand Limited, resulting in Discovery being consolidated at the FirstRand Group level for the financial year to 30 June 2004. Momentum's comparative figures have been adjusted to remove Discovery, as the transfer of Discovery should not be viewed as a discontinued operation from a FirstRand perspective. It also affords a more meaningful comparison with the current year numbers. The R740 million proceeds on sale of Discovery is treated as a capital injection as at 1 July 2003. Momentum's consolidated financial statements therefore represent a segmental analysis of the insurance and asset management operations of the FirstRand Group, excluding the insurance and health operations of the Discovery Group. Discovery's results and financial position as at 30 June 2004, including comparative figures, are disclosed as a separate section to the FirstRand annual report.

The consolidated financial statements of Momentum Group conform to Statements of Generally Accepted Accounting Practice in South Africa, with the exception of the exclusion of Discovery from the comparative figures.

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. Where necessary and permitted, the Momentum Group adjusts comparative figures for changes in accounting policies. The effect of the changes in accounting policy on the financial statements of the Momentum Group is set out in note 25 below.

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

AC 140 – Business combinations became effective in respect of business combinations affected on or after 31 March 2004. The statement contains detailed transitional provisions as set out in note 25.1 below.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. Consolidation / The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Momentum Group, directly or indirectly, has a long-term interest and the power to exercise control over the operations for its own benefit. The Momentum Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

The Momentum Group consolidates a special purpose entity ("SPE") when the substance of the relationship between the Momentum Group and the SPE indicates that the Momentum Group controls the SPE.

The Momentum Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the Momentum Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Momentum Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Momentum Group companies.

3. Associated companies / Associated companies are companies in which the Momentum Group holds a long-term equity interest of between 20% and 50%, and over which it has the ability to exercise significant influence, but does not control.

The Momentum Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective dates of acquisition to the effective dates of disposal. The Momentum Group eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Momentum Group's share of earnings of associated companies. The Momentum Group's reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Momentum Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company.

The Momentum Group discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking. The Momentum Group increases the carrying amount of investments with its share of the associate's income when equity accounting is resumed.

4. Financial instruments / Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associated companies, policy loans, property and equipment, deferred taxation, taxation payable, intangible assets, investment properties and policyholder liabilities under insurance contracts.

The Momentum Group classifies all investments held to meet policyholder liabilities, with the exception of policy loans and certain held-to-maturity preference shares, as held at fair value. These investments are initially recognised at cost, including transaction cost, and subsequently valued at fair value, with fair value movements reflected in the income statement. Policy loans are carried at amortised cost. Investments in the shareholders' portfolio, with the exception of loans to the share trusts and certain held-to-maturity preference shares, are classified as available-for-sale assets, with changes in fair value recognised directly in equity. When these assets are sold, the realised profit is reflected in the income statement, but it is excluded from headline earnings. The loans to the share trusts are classified as originated loans and are carried at amortised cost.

Listed equity investments and unit trust investments are carried at fair value using quoted market and repurchase prices respectively. Unlisted investments are carried at fair value using directors' valuations, based on accepted valuation methodologies. These methodologies include percentage of assets under management and price to earnings ratios.

The Momentum Group classifies all policyholder contracts that transfer significant insurance risk as insurance contracts. Significant insurance risk exists if there is a plausible scenario in which an event affecting the policyholder or other beneficiary will cause a significant change in the present value of the Momentum Group's net cash flows arising from that contract. Insurance risk is insignificant if the occurrence of the insured event would require the insurer to make a payment of a trivial amount. These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts". Reserves and capital requirements in respect of guaranteed minimum benefits payable at maturity of policy contracts on the books of Momentum have been determined using a stochastic investment return model, as per PGN110 issued by the Actuarial Society of South Africa.

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. These contracts are disclosed on the balance sheet as "Policyholder liabilities under investment contracts". The premium income and benefit payments relating to these investment contracts have been excluded from the income statement and accounted for directly against the liability. The fair value adjustment to investment contracts and the fees earned from these products have been disclosed separately in the income statement.

5. Revenue and expense recognition

5.1 Premium income / The Momentum Group reflects premium income relating to insurance business net of reinsurance premiums. Premiums on investment contracts are excluded from the income statement.

All individual life and employee benefits premiums are accounted for when they become due and payable.

5.2 Investment income / Investment income comprises interest, dividends and net rental income.

The Momentum Group recognises dividends on the "last day to trade" for listed shares, and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest and other investment income are accounted for on an accrual basis.

5.3 Fees for asset manager services rendered / The Momentum Group recognises fees for asset manager services rendered on an accrual basis when the service is rendered.

5.4 Policyholder benefits / The Momentum Group shows policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

5.5 Life insurance operating profits / The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104.

The operating surpluses arising from life insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the policyholder liabilities.

Gains or losses arising from the fair valuation of shareholders' assets designated as "available-for-sale" are accounted for directly to equity.

5.6 Commission / Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

5.7 Administration expenses / Administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

6. Foreign currency translation

6.1 General / The Momentum Group presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Momentum Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

6.2 Independent entities / Assets and liabilities of foreign subsidiary companies regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year end. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

6.3 Integral operations / Non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Momentum Group's operations, are translated into South African Rand at historical rates, with monetary assets and liabilities translated at rates of exchange ruling at year end. Resultant gains and losses are recognised in the income statement.

6.4 Other / For both independent entities and integral operations, the Momentum Group translates capital and reserves at historical rates. Income statement items are translated at the weighted average rate for the year.

The Momentum Group converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary financial assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

7. Borrowing costs / The Momentum Group capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed as incurred.

8. Direct and indirect taxation / Direct tax includes South African and foreign jurisdiction corporate tax payable, as well as Secondary Tax on Companies and Capital Gains Tax.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and regional services levies.

Indirect taxes are disclosed separately from direct tax in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction the Momentum Group operates in.

Taxation in respect of the South African life insurance operations is determined using the four-fund method applicable to life insurance companies.

9. Recognition of assets, liabilities and provisions

9.1 Assets / The Momentum Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets / The Momentum Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Momentum Group's control.

9.3 Liabilities and provisions / The Momentum Group recognises liabilities, including provisions when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

The Momentum Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

9.4 Contingent liabilities / The Momentum Group recognises a contingent liability where:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Momentum Group; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

10. Derecognition of assets and liabilities / The Momentum Group derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. Offsetting financial instruments / The Momentum Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off;
- there is an intention to settle on a net basis or to realise the asset; and settle the liability simultaneously;
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability are denominated in the same currency.

12. Cash and cash equivalents / In the cash flow statement, cash and cash equivalents comprise:

- cash on hand;
- money at call and short notice; and
- balances with banks.

13. Impairments / The Momentum Group reviews property and equipment, goodwill and intangible assets for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

14. Property and equipment / The Momentum Group carries property and equipment at cost less accumulated depreciation.

It depreciates property and equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	50 years
Freehold property	50 years
Computer equipment	3 years
Furniture and fittings	3 years
Motor vehicles	5 years
Office equipment	3 years

The Momentum Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded as income on disposal.

15. Investment properties / The Momentum Group classifies investment properties as properties held to earn rental income and/or for capital appreciation. It carries investment properties at fair value based on valuations by professional valuators. Valuations are carried out annually. Fair value movements are taken to the income statement in the year in which they arise. When investment properties become owner occupied, the Momentum Group reclassifies it to property and equipment and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

The Momentum Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

16. Accounting for leases – where a group company is the lessee / The Momentum Group classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. The Momentum Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar owned fixed assets.

The Momentum Group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

The Momentum Group recognises as an expense, in the period in which termination takes place, any penalty payment to the lessor for early termination of an operating lease.

17. Accounting for leases – where a group company is the lessor

17.1 Finance leases / The Momentum Group recognises under debentures and other loans, assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

17.2 Operating leases / The Momentum Group includes properties leased out under operating leases under investment properties in the balance sheet. It does not depreciate these investment properties. Rental income is recognised when due in terms of the lease contract.

18. Intangible assets

18.1 Goodwill / Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Momentum Group's share of the net assets of the acquired subsidiary at the date of acquisition.

18.1.1 Goodwill arising from business combinations before 31 March 2004 / The Momentum Group capitalises goodwill and amortises it on a straight-line basis over the period of expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the Momentum Group's share of the net assets acquired over the cost of acquisition. The Momentum Group presents negative goodwill in the same balance sheet classification as goodwill.

The Momentum Group recognises in the income statement negative goodwill that relates to expectations of future losses and expenses that are identified in its plan for the acquisition, and can be measured reliably, but which do not represent identifiable liabilities, when the future losses and expenses are recognised. It recognises any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

18.1.2 Goodwill arising from business combinations after 31 March 2004 / Goodwill that arises in a business combination on or after 31 March 2004 is not amortised. An annual impairment test is performed and any impairment calculated is expensed to the income statement.

Impairment tests are performed on all cash generating units to which goodwill can be allocated. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows generated by other groups of assets. Where it is possible to allocate goodwill to a cash generating unit, a bottom-up test is performed by comparing the recoverable amount of the cash-generating unit under review to its carrying amount (including the carrying amount of the allocated goodwill, if any) and recognising any impairment loss. If, in performing the bottom-up test, the Momentum Group could not allocate the carrying amount of goodwill on a reasonable and consistent basis to the cash-generating unit under review, the Momentum Group also performs a top-down test to identify the smallest cash-generating unit that includes the cash-generating unit under review and to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis (the 'larger' cash-generating unit). The Momentum Group compares the recoverable amount of the larger cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit;
- then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset can not be reduced below the highest of:

- its net selling price (if determinable);
- its value in use (if determinable); and
- zero.

Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Momentum Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

18.2 Computer software development costs / The Momentum Group generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Momentum Group exceeding the costs incurred for more than one accounting period, the Momentum Group capitalises such costs and recognise them as an intangible asset.

The Momentum Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on a yearly basis. Carrying value is written down to the estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

18.3 Other intangible assets / The Momentum Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts. It charges costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

19. Deferred taxation / The Momentum Group calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Momentum Group recognises deferred tax assets if the directors of Momentum Group Limited consider it probable that future taxable income will be available against which the unused tax losses can be used.

Temporary differences arise primarily from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and other post retirement benefits and tax losses carried forward.

20. Employee benefits

20.1 Post-employment benefits / The Momentum Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Momentum Group companies, taking account of the recommendations of independent actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Momentum Group employees. Actuaries perform annual valuations.

The Momentum Group expenses service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are written off immediately in the case of retired employees.

20.2 Post-retirement medical benefits / In terms of certain employment contracts, the Momentum Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. AC 116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Momentum Group recognises all expenses for post-retirement medical benefits, as well as all investment income of the Fund, in the income statement.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Actuaries perform annual valuations.

20.3 Termination benefits / The Momentum Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

20.4 Leave pay provision / The Momentum Group recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses / Actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. A portion of the actuarial gains or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

The Momentum Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

20.6 Pension fund surplus / The Momentum Group converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1995. At that point, an actuarial surplus was converted into a realised surplus. It recognises all income and expenditure with regard to the pension fund surplus in the income statement.

The South African Government promulgated new pension fund legislation with effect from December 2001 which, inter alia, sets out laws for the fair division of pension fund surpluses. The regulations governing the implementation of this legislation have not yet been introduced and considerable uncertainty exists about the form these regulations will take. Consequently, the Momentum Group believes it prudent to impair the pension fund asset created on the balance sheet.

21. Related party transactions / All related party transactions are at arm's length and conducted in the ordinary course of business.

In accordance with the requirements of AC 126 – Related party disclosure, transactions with related parties of the Momentum Group that eliminate on consolidation are not disclosed.

22. Segment reporting / The Momentum Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"); or
- products or services within a particular economic environment ("geographical segment"), subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of the aggregate of all the segments, are reported separately.

23. Fiduciary activities / The Momentum Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

24. Scrip lending / The Momentum Group enters into scrip lending transactions which are subject to repurchase agreements, and as such the loan agreement is recorded at the same value as the underlying asset and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Group's accounting policy relating to equities, as set out under investments above.

The Momentum Group accounts for dividends received on scrip out on loan as well as fees received for scrip lending transactions as investment income in the income statement.

25. Changes in accounting policy

25.1 Business combinations / AC 140 – Business Combinations is effective in respect of business combinations where the agreement date is on or after 31 March 2004.

The statement stipulates various changes in respect to the accounting for business combinations, including:

- only allowing the use of the "purchase" method of accounting for business combinations;
- disallowing the future amortisation of goodwill, and instead introducing a yearly impairment test thereof;
- introducing rules for the allocation of impaired goodwill;
- amending and refining the process for determination of goodwill at acquisition; and
- the mandatory recognition of negative goodwill in income in the year that it arises.

AC 140 should be applied prospectively from the first annual reporting period commencing on or after 31 March 2004 in respect of goodwill arising on business combinations on or after this date. All other requirements of the statement must be applied with effect from 1 April 2004.

However, the transitional provisions to AC 140 require that in respect of goodwill arising from a business combination prior to 31 March 2004, with effect from the beginning of the first annual reporting period commencing after this date (i.e. 1 July 2004 for the Momentum Group), an entity must:

- discontinue the amortisation of goodwill through the income statement;
- eliminate the carrying amount of amortised goodwill with a corresponding reduction in the carrying amount of goodwill; and
- perform an annual impairment test on goodwill, with any impairments expensed against income in the year incurred.

Similarly, the carrying amount of negative goodwill arising from a business combination before 31 March 2004 must be written back to opening retained income at the beginning of the first annual reporting period commencing on or after 31 March 2004.

25.2 Consolidation of share incentive schemes / In line with the evolving acceptable industry practice regarding the interpretation of AC 132 – Consolidated financial statements and accounting for investments in associates, together with AC 412 – Consolidation – special purpose vehicles, the Momentum Group has changed its accounting policy to consolidate its share incentive schemes with effect from the current financial year. Refer to note 27 in the annual financial statements for the financial effect of this change in accounting policy.

Income statement / for the year ended 30 June

R million	Notes	2004	2003
Group operating profit after tax		**739**	366
Revenue	2	**7 901**	8 179
Net premium income	3	**6 621**	7 115
Fees for asset manager services rendered		**1 280**	1 064
Investment income attributable to policyholders	4	**5 045**	4 904
Policyholder benefits	5	**(6 657)**	(5 980)
Administration expenses	6	**(1 482)**	(1 419)
Impairment of goodwill	15	**–**	(242)
Commissions		**(876)**	(781)
Fair value adjustment to policyholder liabilities under investment contracts	22	**(3 137)**	(1 483)
Realised and unrealised investment surpluses/(deficits)		**3 371**	(1 450)
Direct taxation	8	**(362)**	(386)
Indirect taxation	8	**(134)**	(137)
Transfer to policyholder liabilities under insurance contracts	21	**(2 857)**	(831)
Earnings attributable to outside shareholders		**(73)**	(8)
Income on the shareholders' portfolio		**326**	250
Investment income attributable to shareholders	4	**346**	288
Profit on sale of available for sale assets		**15**	–
Taxation on investment income	8	**(35)**	(38)
Earnings attributable to ordinary shareholders	7, 9	**1 065**	616

Balance sheet / as at 30 June

R million	Notes	2004	2003
ASSETS			
Cash and cash equivalents		**14 495**	15 258
Government and public authority stocks		**12 941**	12 466
– available-for-sale		**497**	44
– at elected fair value		**12 444**	12 422
Debentures and other loans		**8 481**	10 529
– available-for-sale		**523**	556
– at elected fair value		**7 958**	9 973
Policy loans		**554**	581
Equity investments	10	**41 599**	33 476
– held-to-maturity		**749**	681
– available-for-sale		**1 313**	1 120
– at elected fair value		**39 537**	31 675
Derivative assets – held for trading	25	**11 070**	7 504
Investments in associated companies	11	**605**	536
Investment properties	12	**3 648**	2 753
Investment assets		**93 393**	83 103
Loans and receivables	13	**5 682**	6 162
Taxation		**174**	-
Deferred taxation	14	**55**	44
Intangible assets	15	**230**	321
Property and equipment	16	**416**	391
Total assets		**99 950**	90 021
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Current liabilities	17	**3 962**	3 759
Provisions	18	**159**	99
Taxation		**–**	294
Derivative liabilities – held for trading	25	**6 356**	3 554
Deferred taxation	14	**304**	198
Retirement benefit liabilities	19	**291**	289
Long-term liabilities	20	**2 498**	2 408
Policyholder liabilities		**81 580**	76 016
Policyholder liabilities under insurance contracts	21	**42 207**	39 674
Policyholder liabilities under investment contracts	22	**39 373**	36 342
Total liabilities		**95 150**	86 617
Outside shareholders' interest		**21**	23
SHAREHOLDERS' FUNDS			
Share capital and share premium	23	**1 041**	1 041
Reserves	24	**3 738**	2 340
Total shareholders' funds		**4 779**	3 381
Total liabilities and shareholders' funds		**99 950**	90 021

Cash flow statement / for the year ended 30 June

R million	Notes	**2004**	2003
Cash flows from operating activities			
Cash generated by operations	32	**823**	112
Working capital changes	33	**683**	(1 018)
		1 506	(906)
Dividends received		**1 102**	566
Net interest received		**3 698**	4 086
Taxation paid	34	**(907)**	(387)
Dividends paid	35	**(573)**	(228)
Net cash inflow from operating activities		**4 826**	3 131
Cash flows from investment activities			
Investment activities			
Government and public authority stocks		**(1 041)**	(1 299)
Debentures and other loans		**1 413**	(2 567)
Policy loans		**27**	(1)
Equity investments		**(5 196)**	3 150
Derivative instruments		**(764)**	(746)
Property investments		**(778)**	161
Proceeds on disposal of Discovery Holdings	36	**740**	–
Net purchase of property and equipment		**(82)**	(21)
Net cash outflow from investment activities		**(5 681)**	(1 323)
Cash flows from financing activities			
Proceeds from increase in long-term liabilities		**92**	394
Net cash inflow from financing activities		**92**	394
Net (decrease)/increase in cash and cash equivalents		**(763)**	2 202
Cash and cash equivalents at beginning of the year		**15 258**	13 056
Cash and cash equivalents at end of the year		**14 495**	15 258

Statement of changes in equity / for the year ended 30 June

R million	Share capital (Note 23)	Share premium (Note 23)	Retained earnings (Note 24)	Non-distributable reserves (Note 24)	Total shareholders' funds
Balance at 1 July 2002					
As previously stated	9	1 032	2 360	185	3 586
Change in accounting policy					
– Consolidate share trusts	–	–	(58)	(2)	(60)
Exclusion of Discovery from Momentum's comparatives	–	–	(426)	(61)	(487)
Restated balance at 1 July 2002	**9**	**1 032**	**1 876**	**122**	**3 039**
AC 133 adjustments	–	–	(13)	–	(13)
Currency translation differences	–	–	–	22	22
Revaluation of investment assets	–	–	–	(51)	(51)
Movement in other reserves	–	–	–	(4)	(4)
Earnings attributable to shareholders	–	–	616	–	616
Final dividend – 3 September 2002	–	–	(203)	–	(203)
Interim dividend – 19 February 2003	–	–	(25)	–	(25)
Balance at 30 June 2003	**9**	**1 032**	**2 251**	**89**	**3 381**
Balance at 1 July 2003	**9**	**1 032**	**2 251**	**89**	**3 381**
Currency translation differences	**–**	**–**	**–**	**34**	**34**
Revaluation of investment assets	**–**	**–**	**–**	**150**	**150**
Movement in other reserves	**–**	**–**	**–**	**(3)**	**(3)**
Profit on sale of available-for-sale assets transferred to the income statement	**–**	**–**	**–**	**(15)**	**(15)**
Proceeds on sale of Discovery	**–**	**–**	**740**	**–**	**740**
Earnings attributable to shareholders	**–**	**–**	**1 065**	**–**	**1 065**
Final dividend – 16 September 2003	**–**	**–**	**(389)**	**–**	**(389)**
Interim dividend – 2 March 2004	**–**	**–**	**(184)**	**–**	**(184)**
Balance at 30 June 2004	**9**	**1 032**	**3 483**	**255**	**4 779**

R million	2004	2003
1. Accounting policies		
The accounting policies of the Group are set out on pages 233 to 239.		
2. Revenue		
Revenue comprises fee income plus premium income on insurance contracts. Fee income generated by investment business and the asset management operations is disclosed as fees for asset manager services rendered, whilst premium income received on insurance contracts is disclosed as net premium income.		
3. Premium income		
Individual life	**5 219**	5 898
Single premiums	**679**	1 410
Recurring premiums	**3 544**	3 286
Annuities	**996**	1 202
Employee benefits	**1 402**	1 217
Single premiums and investment lump sums	**616**	330
Recurring premiums	**786**	887
Total premium income	**6 621**	7 115
Funds retained through the extension of the policy term amounted to R388 million (2003: R538 million). These funds are not included in the individual life single premium income figures above.		
4. Investment income		
Investment income earned in respect of:		
Dividends – listed shares	**601**	411
Dividends – unlisted shares	**465**	127
Net rental income from properties	**384**	260
Interest	**3 698**	4 086
Fees, investment charges and other income	**166**	229
Income from associates	**77**	79
– Dividends received	**36**	28
– Equity accounted earnings	**41**	51
Total investment income	**5 391**	5 192
Disclosed as follows:		
Investment income attributable to policyholders	**5 045**	4 904
Investment income on the shareholders' portfolio	**346**	288

R million	2004	2003
5. Policyholder benefits		
Individual life business		
Benefits in respect of individual life policies	**4 517**	3 824
Death	**570**	549
Disability	**88**	83
Maturities	**2 530**	1 735
Surrenders	**1 329**	1 457
Lump sum annuities	**1 224**	1 121
Annuities paid	**1 205**	1 089
Commutations	**19**	32
Total benefits paid in respect of individual life business	**5 741**	4 945
Employee benefits business		
Benefits in respect of risk business		
Death	**424**	416
Disability	**208**	271
Maturities	**2**	37
Scheme terminations and member withdrawals	**143**	150
Annuities	**139**	161
Total benefits paid in respect of employee benefits business	**916**	1 035
Total benefits paid	**6 657**	5 980

R million	2004	2003
6. Administration expenses		
Net income after tax is stated after charging the following:		
Auditors' remuneration		
Audit fees – current year	**8**	5
– underprovision prior year	**–**	1
Fees for other services	**1**	1
	9	7
Professional fees		
Actuarial	**1**	1
Technical and other	**35**	50
	36	51
Depreciation		
Leased assets		
Land and buildings	**5**	7
Computer equipment	**7**	4
Own assets		
Land and buildings	**2**	3
Computer equipment	**18**	32
Office equipment	**7**	2
Furniture and fittings	**18**	15
Motor vehicles	**–**	1
	57	64
Operating lease charges		
Land and buildings	**35**	42
Computer and office equipment	**13**	15
Motor vehicles	**1**	1
	49	58
Total of minimum lease payments under non-cancellable operating leases		
Payable within:		
One year	**15**	17
Between one and five years	**55**	56
Later than five years	**38**	67
	108	140
Staff costs		
Salaries, wages and allowances	**795**	614
Contribution to pension and other staff funds	**90**	85
Social security levies	**4**	5
Other	**27**	17
	916	721

R million	2004	2003
7. Earnings attributable to shareholders		
Attributable earnings basis		
Earnings attributable to ordinary shareholders amounted to R1 065 million (2003: R616 million).		
Headline earnings basis		
The calculation of headline earnings is based on earnings attributable to ordinary shareholders adjusted for items of a non-trading nature.		
Headline earnings reconciliation		
Attributable earnings	**1 065**	616
Add: Goodwill amortised	**31**	90
Add: Goodwill impaired	**–**	242
Less: Profit on disposal of available-for-sale assets	**(15)**	–
Less: Profit on sale of property and equipment	**–**	(1)
Headline earnings	**1 081**	947
Insurance operations	**595**	561
Asset management operations	**175**	125
Group operating profit after tax	**770**	686
Investment income on the shareholders' portfolio	**311**	261
Headline earnings	**1 081**	947

R million	2004	2003
8. Taxation		
Direct taxation attributable to life and asset management operations	**362**	386
Indirect taxation attributable to life and asset management operations	**134**	137
Direct taxation attributable to investment income on the shareholders' portfolio	**35**	38
Total taxation	**531**	561
Charge for the year		
SA normal taxation	**134**	345
Current taxation	**140**	334
Current year	**342**	458
Adjustment for prior years	**(202)**	(124)
Deferred taxation	**(6)**	11
Current year	**(13)**	(37)
Adjustment for prior years	**7**	48
SA Capital Gains Taxation	**170**	(30)
Current taxation	**72**	63
Deferred taxation	**98**	(93)
Retirement fund taxation	**93**	109
Stamp duty	**2**	18
Value-added tax	**115**	100
Other taxes and levies	**17**	19
Total taxation	**531**	561
Total direct shareholders' taxation	**261**	279
Total direct policyholders' taxation	**136**	145
Total indirect taxation	**134**	137
Total taxation	**531**	561
Shareholders' taxation rate reconciliation		
Effective rate of taxation (Total direct shareholders' taxation/earnings before taxation)	**19.7**	31.2
Shareholders' taxation has been affected by:		
Non-taxable income	**5.8**	5.2
Disallowable expenses	**(1.1)**	(11.1)
Prior year adjustments	**3.0**	–
Special transfers	**2.7**	8.0
Other permanent differences	**(0.1)**	(3.3)
Standard rate of taxation	**30.0**	30.0

Current taxation is determined by applying the four-fund method of taxation applicable to life insurers. Other taxes and levies consist of skills development levies, Regional Services Council levies and Financial Services Board levies.

R million	Insurance operations	Asset management operations	Total
9. Segmental analysis			
Primary segments (business)			
30 June 2004			
Revenue	7 303	598	7 901
Net premium income	6 621	–	6 621
Fees for asset manager services rendered	682	598	1 280
Investment income	5 373	18	5 391
Policyholder benefits	(6 657)	–	(6 657)
Administration expenses	(1 172)	(310)	(1 482)
Commissions	(795)	(81)	(876)
Fair value adjustment to policyholder liabilities under investment contracts	(3 137)	–	(3 137)
Realised and unrealised investment surpluses	3 399	(13)	3 386
Income before taxation	4 314	212	4 526
Taxation	(467)	(64)	(531)
Net income after taxation before transfer to policyholder liabilities under insurance contracts	3 847	148	3 995
Transfer to policyholder liabilities under insurance contracts	(2 857)	–	(2 857)
Net income after taxation	990	148	1 138
Earnings attributable to outside shareholders	(69)	(4)	(73)
Earnings attributable to ordinary shareholders	921	144	1 065
Goodwill amortised	–	31	31
Profit on sale of available for sale assets	(15)	–	(15)
Headline earnings	906	175	1 081
Liabilities	94 400	771	95 171
Assets	99 028	922	99 950

R million	Insurance operations	Asset management operations	Total
9. Segmental analysis *(continued)*			
Primary segments (business)			
30 June 2003			
Revenue	7 565	614	8 179
Net premium income	7 115	–	7 115
Fees for asset manager services rendered	450	614	1 064
Investment income	5 211	(19)	5 192
Policyholder benefits	(5 980)	–	(5 980)
Administration expenses	(1 097)	(322)	(1 419)
Impairment of goodwill	–	(242)	(242)
Commissions	(704)	(77)	(781)
Fair value adjustment to policyholder liabilities under investment contracts	(1 483)	–	(1 483)
Realised and unrealised investment surpluses	(1 375)	(75)	(1 450)
Income before taxation	2 137	(121)	2 016
Taxation	(513)	(48)	(561)
Net income/(loss) after taxation before transfer to policyholder liabilities under insurance contracts	1 624	(169)	1 455
Transfer to policyholder liabilities under insurance contracts	(831)	–	(831)
Net income/(loss) after taxation	793	(169)	624
Earnings attributable to outside shareholders	(1)	(7)	(8)
Earnings attributable to ordinary shareholders	792	(176)	616
Goodwill amortised	30	60	90
Goodwill impaired	–	242	242
Profit on sale of assets	–	(1)	(1)
Headline earnings	822	125	947
Liabilities	84 978	1 662	86 640
Assets	88 292	1 729	90 021

R million	South Africa	Europe	Total
9. Segmental analysis *(continued)*			
Secondary segments (geographical)			
30 June 2004			
Revenue	7 557	344	7 901
Net premium income	6 621	–	6 621
Fees for asset manager services rendered	936	344	1 280
Investment income	5 401	(10)	5 391
Policyholder benefits	(6 657)	–	(6 657)
Administration expenses	(1 286)	(196)	(1 482)
Commissions	(795)	(81)	(876)
Fair value adjustment to policyholder liabilities under investment contracts	(3 137)	–	(3 137)
Realised and unrealised investment surpluses	3 419	(33)	3 386
Income before taxation	4 502	24	4 526
Taxation	(517)	(14)	(531)
Net income after taxation before transfer to policyholder liabilities under insurance contracts	3 985	10	3 995
Transfer to policyholder liabilities under insurance contracts	(2 857)	–	(2 857)
Net income after taxation	1 128	10	1 138
Earnings attributable to outside shareholders	(69)	(4)	(73)
Earnings attributable to ordinary shareholders	1 059	6	1 065
Goodwill amortised	–	31	31
Profit on sale of available for sale assets	(15)	–	(15)
Headline earnings	1 044	37	1 081
Liabilities	94 481	690	95 171
Assets	99 382	568	99 950

R million	South Africa	Europe	Total
9. Segmental analysis *(continued)*			
Secondary segments (geographical)			
30 June 2003			
Revenue	7 853	326	8 179
Net premium income	7 115	–	7 115
Fees for asset manager services rendered	738	326	1 064
Investment income	5 201	(9)	5 192
Policyholder benefits	(5 980)	–	(5 980)
Administration expenses	(1 234)	(185)	(1 419)
Impairment of goodwill	–	(242)	(242)
Commissions	(704)	(77)	(781)
Fair value adjustment to policyholder liabilities under investment contracts	(1 483)	–	(1 483)
Realised and unrealised investment surpluses	(1 372)	(78)	(1 450)
Income before taxation	2 281	(265)	2 016
Taxation	(548)	(13)	(561)
Net income/(loss) after taxation before transfer to policyholder liabilities under insurance contracts	1 733	(278)	1 455
Transfer to policyholder liabilities under insurance contracts	(831)	–	(831)
Net income/(loss) after taxation	902	(278)	624
Earnings attributable to outside shareholders	–	(8)	(8)
Earnings attributable to ordinary shareholders	902	(286)	616
Goodwill amortised	30	60	90
Goodwill impaired	–	242	242
Profit on sale of assets	–	(1)	(1)
Headline earnings	932	15	947
Liabilities	85 838	802	86 640
Assets	89 386	635	90 021

R million	2004	2003
10. Equity investments		
Listed – at market value	**36 442**	30 215
Unlisted – at directors' valuation	**5 157**	3 261
	41 599	33 476
The ten largest equity holdings of Momentum Group comprise the following (in alphabetical order):		
ABSA Group, Anglo American plc, FirstRand, Imperial Holdings, Liberty Group, MTN Group, Remgro, RMB Holdings, Standard Bank, Tiger Brands		
Investments in listed shares were distributed as follows	**%**	%
Mining	**10**	11
Gold	**1**	2
Financial	**23**	22
Industrial	**20**	16
Overseas instruments	**20**	23
Unit trusts	**22**	20
Other	**4**	6
	100	100

R million	2004	2003
11. Investments in associated companies		
African Life Assurance Company Limited	**596**	531
Futuregrowth Asset Management (Pty) Limited	**9**	5
	605	536

African Life Assurance Company Limited (African Life) is a listed long-term insurance company. Momentum Group Limited holds directly 33.4% (2003: 33.4%) of the issued share capital of African Life in its shareholders' portfolio. The market value of this investment as at 30 June 2004 was R518 million (2003: R521 million). The earnings attributable to ordinary shareholders for the year ended 31 March 2004 were R171 million (2003: R57 million).

Futuregrowth Asset Management (Pty) Limited provides investment and asset management services to local and international clients. FirstRand Asset Management (Pty) Limited (FRAM) holds 40% (2003: 40%) of the issued share capital of Futuregrowth Asset Management (Pty) Limited. The earnings attributable to ordinary shareholders for the year ended 30 June 2004 amounted to R16 million (2003: R13 million). The directors' valuation of FRAM's 40% shareholding of Futuregrowth Asset Management (Pty) Limited is R27 million (2003: R33 million).

R million	African Life	Futuregrowth Asset Management
11. Investments in associated companies *(continued)*		
The assets and liabilities of Momentum Group's investments in associated companies are summarised below:		
2004		
Assets		
Investments	**13 109**	**10**
Current assets	**960**	**26**
Intangible assets	**81**	**–**
Property and equipment	**116**	**1**
Total assets	**14 266**	**37**
Liabilities and shareholders' funds		
Current liabilities	**287**	**14**
Deferred taxation	**193**	**–**
Long-term liabilities	**26**	**–**
Policyholder liabilities	**11 754**	**–**
Outside shareholders' interest	**394**	**–**
Shareholders' funds	**1 612**	**23**
Total liabilities and shareholders' funds	**14 266**	**37**
2003		
Assets		
Investments	11 908	13
Current assets	920	30
Intangible assets	53	–
Property and equipment	115	1
Total assets	12 996	44
Liabilities and shareholders' funds		
Current liabilities	389	29
Deferred taxation	160	–
Policyholder liabilities	10 496	–
Outside shareholders' interest	360	–
Shareholders' funds	1 591	15
Total liabilities and shareholders' funds	12 996	44

R million	2004	2003
12. Investment properties		
Completed investment properties		
Market value at the beginning of the year	**2 753**	2 904
Additions		
Acquisitions	**971**	108
Capitalised subsequent expenditure	**57**	–
Disposals	**(250)**	(206)
Net gain/(loss) from fair value adjustments	**117**	(53)
Market value at the end of the year	**3 648**	2 753
Investment properties can be split as follows:		
Office buildings	**2 228**	1 737
Shopping malls	**905**	687
Industrial buildings	**401**	225
Vacant land	**29**	39
Listed property equities	**81**	64
Other	**4**	1
	3 648	2 753

Investment properties are acquired for letting to external tenants with the intention to generate future rental income. Properties are independently valued on the basis of determining the open market value of each property on a six-monthly basis. The latest revaluation was done as at 30 June 2004.

The carrying amount of unlet or vacant investment properties as at 30 June 2004 was R29 million (2003: R39 million). Emira, Momentum's listed property fund, has entered in purchase agreements for properties to the value of R81 million. Schedules of freehold property and equity investments are open for inspection at the offices of the various group companies in terms of the provisions of the Companies' Act, 1973.

R million	2004	2003
13. Loans and receivables		
Accrued investment income	**4 141**	3 608
Discovery Holdings	**–**	876
Unsettled trades	**586**	470
Premium debtors	**220**	254
Properties held for resale	**114**	118
Trade debtors	**105**	113
Prepayments	**7**	99
Other debtors	**509**	622
Deferred expenditure	**–**	2
	5 682	6 162

All the loans and receivables above are current assets.

R million	2004	2003
14. Deferred taxation		
Balance at beginning of year	**(154)**	(236)
Charge for the year	**(95)**	82
Relating to current year	**(88)**	163
Relating to prior years	**(7)**	(81)
Balance at the end of the year	**(249)**	(154)
Deferred taxation asset	**55**	44
Deferred taxation liability	**(304)**	(198)
	(249)	(154)

Deferred taxation comprises:	Opening balance	(Debit)/credit to the income statement	Debit to non–distributable reserves	Closing balance
Capital Gains Tax on unrealised investment surpluses	(197)	(103)	(3)	(303)
Provisions	40	11	–	51
Taxation losses	–	2	–	2
Other	3	(2)	–	1
	(154)	(92)	(3)	(249)

R million	2004	2003
15. Intangible assets		
Goodwill	**223**	321
Deferred acquisition cost asset	**7**	–
	230	321
Goodwill		
Gross amount	**869**	936
Less: Accumulated amortisation	**(646)**	(615)
Carrying amount at the end of the year	**223**	321
Gross amount at the beginning of the year	**936**	1 001
Exchange differences	**(52)**	(144)
Acquisitions	**–**	69
Consolidation of share trusts	**16**	10
Goodwill realised with change in accounting policy	**(31)**	–
Gross amount at the end of the year	**869**	936
Accumulated amortisation at the beginning of the year	**615**	283
Amortisation charge	**31**	90
Impairment of goodwill	**–**	242
Accumulated amortisation at the end of the year	**646**	615
Deferred acquisition cost asset		
Cost – capitalised expenditure	**7**	–
Less: Accumulated amortisation	**–**	–
Carrying amount at the end of the year	**7**	–

R million	2004 Cost	2004 Accumulated depreciation	2004 Net book value	2003 Cost	2003 Accumulated depreciation	2003 Net book value
16. Property and equipment						
Leased assets						
Land and buildings	**318**	**(27)**	**291**	319	(21)	298
Computer equipment	**34**	**(11)**	**23**	14	(4)	10
Total leased assets	**352**	**(38)**	**314**	333	(25)	308
Owned assets						
Land and buildings	**14**	**(6)**	**8**	5	(5)	–
Computer equipment	**273**	**(253)**	**20**	282	(256)	26
Office equipment	**18**	**(15)**	**3**	9	(9)	–
Furniture and fittings	**157**	**(87)**	**70**	161	(105)	56
Motor vehicles	**5**	**(4)**	**1**	5	(4)	1
Total owned assets	**467**	**(365)**	**102**	462	(379)	83
Total property and equipment	**819**	**(403)**	**416**	795	(404)	391

Movement in property and equipment – cost	Total	Land and buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles
Cost at the beginning of the year	795	324	296	9	161	5
Foreign currency adjustments	(4)	–	(2)	(1)	(1)	–
Additions	100	8	35	10	46	1
Disposals	(72)	–	(22)	–	(49)	(1)
Cost at the end of the year	819	332	307	18	157	5

Movement in property and equipment – accumulated depreciation	Total	Land and buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles
Balance at the beginning of the year	404	26	260	9	105	4
Foreign currency adjustments	(4)	–	(2)	(1)	(1)	–
Depreciation charge for the year	57	7	25	7	18	–
Disposals	(54)	–	(19)	–	(35)	–
Balance at the end of the year	403	33	264	15	87	4

R million	**2004**	2003
17. Current liabilities		
Unsettled trades	**2 289**	2 032
Accrued benefit payments	**565**	625
Creditors	**1 108**	1 102
	3 962	3 759

R million	Balance at beginning of year	Additional provision	Utilisation of provision	Unutilised amounts reversed	Balance at end of year
18. Provisions					
2004					
Provision for leave pay	**13**	**9**	**–**	**–**	**22**
Provision for bonuses	**38**	**52**	**(37)**	**–**	**53**
Provision for auditors' remuneration	**5**	**6**	**(6)**	**–**	**5**
Other	**43**	**50**	**(12)**	**(2)**	**79**
	99	**117**	**(55)**	**(2)**	**159**

	Balance at beginning of year	Additional provision	Utilisation of provision	Unutilised amounts reversed	Effect of change in discount rate	Balance at end of year
2003						
Provision for leave pay	14	–	(1)	–	–	13
Provision for bonuses	18	37	(24)	–	7	38
Provision for auditors' remuneration	5	8	(8)	–	–	5
Provision for credit exposure	15	–	–	(15)	–	–
Other	33	19	(2)	(1)	(6)	43
	85	64	(35)	(16)	1	99

R million	2004	2003
19. Retirement benefit liabilities		
Post-retirement medical aid liability	**291**	289

Post-retirement medical aid liability

In certain instances, the Group provides for medical aid contributions beyond the date of normal retirement. The present value of expected future medical aid contributions relating to existing pensioners has been determined and the liability provided. The present value of expected future medical aid contributions relating to current employees is charged against expenditure over the service period of such employees.

The post retirement medical aid liability is valued once a year. The latest valuation was done as at 30 June 2004. The actuaries have stated that the plan is in a sound financial position.

R million	2004	2003
Present value of unfunded liability at the beginning of the year	**289**	313
Other movements	**(22)**	(37)
Current service cost	**2**	2
Net actuarial loss recognised in the year	**14**	5
Interest cost	**27**	27
Benefits paid	**(19)**	(21)
Present value of unfunded liability at the end of the year	**291**	289
The principal actuarial assumptions are:		
Discount rate	**10.00%**	10.25%
Long-term increase in health costs	**8.00%**	8.25%
Number of employees who selected early retirement	**None**	None

19. Retirement benefit liabilities *(continued)*

Staff pension funds

All full-time employees in the Momentum Group are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act. Both the Momentum Life Pension Fund and Southern Staff Pension Fund are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of the Momentum Life Pension Fund and Southern Staff Pension Fund were as at 1 July 2002 and 1 April 2002 respectively, and both funds were found to be in a sound financial position. The recommended employer contribution rate to the Momentum Life Pension Fund is 10% of pensionable salaries in order to meet the ongoing accrual of benefits. From 1 April 2000, all full-time employees who were members of the Southern Staff Pension Fund joined the FirstRand Insurance Group Pension Fund, a defined contribution sheme.

Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the funds.

The assets of these schemes are held in administered trust funds separated from the Group's assets. For the Southern Staff Pension Fund assets consist primarily of inflation-linked securities, listed shares and fixed income securities. For the Momentum Life Pension Fund, the scheme assets consist primarily of inflation-linked securities.

R million	**2004**	2003
Defined benefit pension fund liability		
Present value of funded liability	**(695)**	(723)
Fair value of plan assets	**702**	736
	7	13
Unrecognised actuarial gains	**31**	55
Present value of net funded liability	**38**	68
Surplus not recognised[1]	**(38)**	(68)
Defined benefit pension fund liability recognised in the balance sheet	**–**	–
The amounts recognised in the income statement are as follows:		
Current service cost	**(1)**	–
Past service cost	**(15)**	–
Interest cost	**(91)**	(72)
Expected return on plan assets	**93**	81
Net actuarial loss recognised in the year	**(16)**	(31)
Contributions paid	**–**	–
Movement for the year	**(30)**	(22)
Surplus not recognised	**30**	22
Total included in staff costs	**–**	–
Movement in liability		
Present value at the beginning of the year	**68**	90
Movement for the year as above	**(30)**	(22)
Present value at the end of the year	**38**	68
The principal actuarial assumptions are:		
Discount rate	**10.00%**	10.00%
Expected return on plan assets	**10.25%**	10.25%
Future salary increases	**6.00%**	6.25%
Net interest rate used to value pensions, allowing for pension increases	**3.00%**	4.00%
Number of employees who selected early retirement	**None**	None

1 *No asset in respect of the surplus was recognised on the balance sheet of Momentum Group, as the Registrar of Pension Funds still needs to approve the apportionment of the surplus in terms of the Pension Fund Second Amendment Act, 39 of 2001.*

R million	2004	2003
20. Long-term liabilities		
Capitalised lease commitments	**318**	319
Debt component of compulsorily convertible debentures	**191**	223
Loan to fund subsidiary shares acquired	**–**	510
Property finance loans	**846**	621
FirstRand Bank Limited	**403**	699
Outside participatory interest holders – Emira Property Fund	**696**	–
Other long-term loans	**44**	36
	2 498	2 408

The debentures are convertible into 3% non-redeemable non-cumulative preference shares of the Company at the option of the debenture holders at any time after 30 June 2008. Any debentures not converted by 30 June 2021 will be compulsorily converted on that date. The debentures bear interest, payable six monthly in arrears, at an effective rate of 18.3% per annum.

The capitalised lease commitments are secured by assets with a net book value of R314 million (2003: R308 million) as disclosed in note 16 to these financial statements. The lease commitments are repayable in monthly instalments at an effective interest rate of 13.2% per annum.

Total of minimum lease payments (R million)	
Payable within:	
One year	59
Between one and five years	250
Later than five years	243
	552

Present value of minimum lease payments (R million)	
Payable within:	
One year	54
Between one and five years	172
Later than five years	104
	330

The total short-term portion of long-term liabilities amounted to R82 million (2003: R43 million).

R million	2004	2003
21. Policyholder liabilities under insurance contracts		
The movements in the policyholder liabilities under insurance contracts for the year were as follows:		
Balance at beginning of year	**39 674**	73 269
Reclassification to policyholder liabilities under investment contracts	**(324)**	(34 186)
AC 133 adjustments against opening balance	**–**	(240)
Transfer from income statement	**2 857**	831
Balance at end of year	**42 207**	39 674
	%	%
Actuarial liabilities under unmatured policies comprise the following:		
Linked (market related) business		
Individual life	**32.7**	31.3
Smoothed-bonus business		
Individual life	**21.6**	21.5
With-profits reversionary bonus business	**4.6**	4.7
Non-profit business		
Individual life	**9.9**	11.3
Employee benefits	**4.9**	4.1
Annuity business	**26.3**	27.1
	100.0	100.0
The above percentages are based on the actuarial valuations of Momentum Group Limited at 30 June 2004 and 30 June 2003.		
22. Policyholder liabilities under investment contracts		
Balance at beginning of year	**36 342**	–
Reclassification from policyholder liabilities under insurance contracts as at 1 July 2002	**–**	34 186
Reclassification from policyholder liabilities under insurance contracts in the current year	**324**	–
AC 133 adjustments against opening balance	**–**	(485)
Movement for the year	**2 707**	2 641
Net premium income on investment contracts	**6 721**	8 018
Policyholder benefits on investment contracts	**(6 579)**	(6 494)
Fees for asset manager services rendered	**(572)**	(366)
Fair value adjustment to liabilities under investment contracts	**3 137**	1 483
	39 373	36 342

R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
22. Policyholder liabilities under investment contracts *(continued)*					
The maturity profile of policyholder liabilities under investment contracts as at 30 June 2004 are set out below:					
Linked (market related) business					
Individual life	**22 270**	**3 323**	**10 371**	**2 015**	**6 561**
Employee benefits	**11 724**	**3 082**	**4 378**	**2 397**	**1 867**
Smoothed-bonus business					
Individual life	**479**	**8**	**332**	**53**	**86**
Employee benefits	**3 880**	**1 047**	**1 488**	**815**	**530**
Annuity business	**1 020**	**56**	**489**	**43**	**432**
Policyholder liabilities under investment contracts	**39 373**	**7 516**	**17 058**	**5 323**	**9 476**

R million	2004	2003
23. Share capital and share premium		
The Company's authorised and issued share capital and share premium are made up as follows:		
Share capital		
Authorised		
225 000 000 ordinary shares of 5 cents each	**11**	11
1 special class A share of 5 cents	**–**	–
Issued		
189 695 508 ordinary shares of 5 cents each	**9**	9
1 special class A share of 5 cents	**–**	–
The unissued shares are under the control of the directors until the conclusion of the next annual general meeting.		
Share premium	**1 032**	1 032
Share capital and share premium	**1 041**	1 041

R million	2004	2003
24. Reserves		
Retained earnings		
Retained earnings at beginning of the year	**2 251**	1 876
AC 133 adjustments to opening balance	**–**	(13)
Earnings attributable to ordinary shareholders	**1 065**	616
Proceeds on sale of Discovery	**740**	–
Dividend for the year	**(573)**	(228)
Retained earnings at end of the year	**3 483**	2 251
Non-distributable reserves		
Revaluation of investment assets	**155**	20
Currency translation reserve	**106**	72
Other	**(6)**	(3)
Total non-distributable reserves	**255**	89
Total reserves	**3 738**	2 340
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	**89**	122
Revaluation of investment assets	**135**	(51)
Currency translation reserve	**34**	22
Other	**(3)**	(4)
Total non-distributable reserves	**255**	89

25. Financial instruments

Fair values

The carrying amounts of all assets backing policyholder liabilities (with the exception of policy loans and certain held-to-maturity preference shares) reflect the fair values of the assets concerned. Similarly, the actuarial valuation of policyholder liabilities under investment contracts represents the fair value of the contractual liability under unmatured policies.

Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders, with the exception of certain held-to-maturity preference shares and the share trust loans.

Derivative instruments

The Group makes use of derivative instruments in order to achieve the following:

- exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets; and
- in order to provide a hedge against a known liability.

Under no circumstances are derivative contracts entered into purely for speculative purposes.

The Group's asset managers have been mandated to enter into derivative contracts on an agency basis, with agreed internal controls being instituted to ensure adherence to exposure limits. These controls include the regular monitoring of sensitivity analyses designed to measure the behaviour and exposure to derivative instruments under conditions of market stress.

R million	2004	2003
25. Financial instruments *(continued)*		
Derivative assets		
Interest-bearing instruments		
Over the counter	**5 596**	1 995
Term to maturity less than 1 year	**1 152**	304
Term to maturity between 1 and 5 years	**493**	489
Term to maturity longer than 5 years	**3 951**	1 202
Equity instruments		
Over the counter	**5 474**	5 509
Term to maturity less than 1 year	**2 180**	1 392
Term to maturity between 1 and 5 years	**3 294**	4 095
Term to maturity longer than 5 years	**–**	22
	11 070	7 504
Derivative liabilities		
Interest-bearing instruments		
Over the counter	**4 696**	2 464
Term to maturity less than 1 year	**1 833**	1 681
Term to maturity between 1 and 5 years	**1 558**	223
Term to maturity longer than 5 years	**1 305**	560
Equity instruments		
Over the counter	**1 660**	1 090
Term to maturity less than 1 year	**998**	321
Term to maturity between 1 and 5 years	**662**	769
	6 356	3 554

R million	Future contracts	Options	Swaps	Credit derivatives	Forward rate agreements	Total
25. Financial instruments *(continued)*						
30 June 2004						
Absolute value						
The notional amounts of derivative instruments outstanding at 30 June 2004 are set out below:						
Currency	–	42	–	–	–	42
Equity	51	5 799	–	882	–	6 732
Bonds	–	43	10 126	387	–	10 556
Forward rate agreements	–	–	–	–	1	1
	51	5 884	10 126	1 269	1	17 331
Fair value						
The fair value of derivative instruments outstanding at 30 June 2004 is set out below:						
Assets						
Currency	–	43	–	–	–	43
Equity	248	4 623	–	603	–	5 474
Bonds	–	44	5 121	387	–	5 552
Forward rate agreements	–	–	–	–	1	1
	248	4 710	5 121	990	1	11 070
Liabilities						
Equity	73	1 298	–	289	–	1 660
Bonds	–	–	4 696	–	–	4 696
	73	1 298	4 696	289	–	6 356

R million	Future contracts	Options	Swaps	Credit derivatives	Total
30 June 2003					
Absolute value					
The notional amounts of derivative instruments outstanding at 30 June 2003 are set out below:					
Currency	–	50	–	–	50
Equity	79	7 203	–	2	7 284
Bonds	–	47	3 811	170	4 028
	79	7 300	3 811	172	11 362
Fair value					
The fair value of derivative instruments outstanding at 30 June 2003 is set out below:					
Assets					
Currency	–	49	–	–	49
Equity	229	5 279	–	1	5 509
Bonds	–	46	1 730	170	1 946
	229	5 374	1 730	171	7 504
Liabilities					
Equity	52	1 038	–	–	1 090
Bonds	–	–	2 464	–	2 464
	52	1 038	2 464	–	3 554

25. Financial instruments *(continued)*

Risk management and capital adequacy

The risk and assurance management function is responsible to ensure that material financial risks related to transactions in financial instruments are mitigated by adequate controls and compliance with Group policies. The currency risk, interest rate risk, market risk, credit risk, liquidity risk and underwriting risk to which the Momentum Group is exposed, are discussed in the Chief Financial Officer's report set out on pages 216 to 224.

Currency risk

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Momentum Group, are included in the Group balance sheet:

R million	GBP	US$	Total
Shareholders' assets and liabilities as at 30 June 2004			
Assets			
Cash and cash equivalents	**31**	**20**	**51**
Debentures and other loans	**29**	**–**	**29**
Equity investments	**43**	**104**	**147**
Investment assets	**103**	**124**	**227**
Loans and receivables	**63**	**31**	**94**
Intangible assets	**7**	**223**	**230**
Property and equipment	**17**	**–**	**17**
Total assets	**190**	**378**	**568**
Liabilities			
Current liabilities	**151**	**22**	**173**
Taxation	**7**	**2**	**9**
Long-term liabilities	**45**	**463**	**508**
Total liabilities	**203**	**487**	**690**
Shareholders' assets and liabilities as at 30 June 2003			
Assets			
Cash and cash equivalents	45	39	84
Debentures and other loans	48	–	48
Equity investments	24	98	122
Investment assets	117	137	254
Loans and receivables	55	29	84
Intangible assets	–	290	290
Property and equipment	7	–	7
Total assets	179	456	635
Liabilities			
Current liabilities	84	59	143
Taxation	6	1	7
Long-term liabilities	37	615	652
Total liabilities	127	675	802

R million	Total	Maturity date: Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
25. Financial instruments *(continued)*					
Interest rate risk					
The following assets will be affected by changes in market interest rates:					
2004					
Assets backing policyholder liabilities:					
Cash and cash equivalents	**12 162**	**9 362**	**2 748**	**52**	**–**
Government and public authority stocks	**12 452**	**1 428**	**2 871**	**1 304**	**6 849**
Debentures and other loans *	**7 957**	**2 017**	**4 240**	**1 259**	**441**
	32 571	**12 807**	**9 859**	**2 615**	**7 290**

* Included in debentures and other loans is the following lease debtor (R million):	
Lease payments receivable	637
Less: unearned finance charges	(52)
Net lease debtor	585
Total of minimum lease payments (R million)	
Receivable within:	
One year	604
Between one and five years	33
	637
Present value of minimum lease payments (R million)	
Receivable within:	
One year	559
Between one and five years	26
	585

R million	Total	Maturity date: Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Shareholder assets:					
Cash and cash equivalents	**2 333**	**2 226**	**83**	**9**	**15**
Government and public authority stocks	**489**	**447**	**42**	**–**	**–**
Debentures and other loans	**524**	**30**	**46**	**–**	**448**
	3 346	**2 703**	**171**	**9**	**463**

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R24 million

R million	Total	Maturity date: Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
25. Financial instruments *(continued)*					
2003					
Assets backing policyholder liabilities:					
Cash and cash equivalents	13 586	13 110	234	213	29
Government and public authority stocks	12 423	393	2 413	4 017	5 600
Debentures and other loans*	9 827	1 815	5 672	1 781	559
	35 836	15 318	8 319	6 011	6 188

* Included in debentures and other loans is the following lease debtor (R million):	
Lease payments receivable	1 326
Less: unearned finance charges	(197)
Net lease debtor	1 129
Total of minimum lease payments (R million)	
Receivable within:	
One year	689
Between one and five years	637
	1 326
Present value of minimum lease payments (R million)	
Receivable within:	
One year	641
Between one and five years	488
	1 129

R million	Total	Maturity date: Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Shareholder assets:					
Cash and cash equivalents	1 672	1 672	–	–	–
Government and public authority stocks	43	1	8	16	18
Debentures and other loans	702	–	206	49	447
	2 417	1 673	214	65	465

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R17 million

26. Scrip lending arrangements

The Group has mandated its asset managers to enter into scrip lending arrangements on its behalf. The market value of scrip out on loan is monitored on a daily basis. No significant exposure to credit risk, liquidity risk or cash flow risk has resulted from the scrip lending activities of the Group.

Because any scrip out on loan is subject to a repurchase agreement, the loan agreement is recorded at the same value as the underlying scrip and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Group's accounting policy relating to the specific class of asset.

Fees earned from scrip lending and dividends received on scrip out on loan are accounted for under investment income.

R million	2004	2003
26. Scrip lending arrangements *(continued)*		
The following table represents details of the equities on loan at 30 June:		
Market value	**1 951**	875
Value of collateral	**2 420**	1 289
– cash	**1 359**	398
– bonds & money market	**716**	688
– equities	**345**	203
Collateral cover %	**124%**	147%
27. Change in accounting policy		
Momentum Group changed its accounting policy for the year ended 30 June 2004 to consolidate share trusts for the first time.		
The effect of the change in accounting policy has been:		
– A reduction of retained income as at 30 June 2002 of R58 million, including the effect of Discovery's consolidation of its share trust.		
– A (reduction)/increase of net profit after tax (excluding the effect of Discovery's consolidation of its share trust) as set out below:		
Net profit before tax	**(18)**	2
Tax	**–**	–
Net profit after tax	**(18)**	2
Earnings attributable to outside shareholders	**2**	(1)
Earnings attributable to ordinary shareholders	**(16)**	1

28. Related parties

Holding company

The holding company of Momentum Group Limited is FirstRand Limited, which in turn has two major shareholders being Remgro Limited and RMB Holdings Limited. The most significant related parties of Momentum Group Limited are FirstRand Bank Holdings Limited, Discovery Holdings Limited, FirstRand Asset Management (Pty) Limited, Momentum MultiManagers (Pty) Limited, Momentum Wealth (Pty) Limited, Momentum Property Investments (Pty) Limited, Momentum Collective Investments (Pty) Limited, Lekana Employee Benefit Solutions (Pty) Limited and Momentum Ability (Pty) Limited. Subsidiaries and associated companies of these companies are also related parties, as well as African Life, an associated company of Momentum Group Limited.

Property leases

Certain Group companies have entered into property lease agreements with Momentum Group's property management subsidiary, RMB Properties (Pty) Limited. These leases are based on market related terms and conditions.

Assets under management

FirstRand Asset Management (Pty) Limited, a subsidiary of Momentum Group Limited, has been mandated to manage assets on behalf of certain related parties of the Group. The total assets under management on behalf of related parties amounted to R61 792 million at 30 June 2004 (2003: R56 713 million).

Distribution of products

Momentum Distribution Services ("MDS"), a division of Momentum Group Limited, distributes the products of Momentum Wealth (Pty) Limited in addition to those of Momentum Group Limited.

In the previous year, MDS also earned fees on the distribution of Discovery Health products, but this distribution agreement has been terminated with effect from 1 July 2003. Fees received from these related parties for the distribution of products for the year ended 30 June 2004 amounted to R8 million (2003: R60 million).

29. Contingencies and commitments

No material capital commitments existed at 30 June 2004 other than disclosed in the notes above and no material claims had been instituted against Momentum Group Limited or any of its subsidiaries.

Commitments under derivative instruments

Option contracts, financial futures contracts and interest rate swap agreements have been entered into in the normal course of business in order to achieve the required hedging of policyholder liabilities. In terms of the Group's accounting policies, these instruments are stated at fair value or, where not listed, at valuation. Both realised and unrealised profits and losses are included in the income statement and subsequently transferred to or from policyholder liabilities under insurance contracts.

30. Post balance sheet events

There were no material post balance sheet events.

31. Comparative figures

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

(a) As explained in note 27, Momentum Group adopted an accounting policy to consolidate share trusts for the first time.

(b) A change in the interpretation of AC 133 regarding the disclosure of investment income, realised and unrealised investment surpluses, commissions and taxation on investment contracts led to a restatement of comparatives in the income statement. Previously these items were excluded from the income statement. This year it has been included in the income statement, with a separate line for the fair value adjustment to liabilities under investment contracts. In addition to this, fees earned on investment contracts were disclosed in the prior year as policy fees on investment contracts, net of commissions paid. This year it is disclosed as fees for asset manager services rendered, gross of commissions paid, added to the fees earned by Momentum's asset management and multimanager activities. The split of assets and liabilities according to the classes as prescribed in AC 133 has been done on the face of the balance sheet.

(c) Momentum Group Limited's investment in Discovery Holdings was sold to FirstRand Limited, effective 1 July 2003. To afford a more meaningful comparison with the current year's results, the comparative figures of Discovery Holdings have been excluded from these financial statements. Therefore, these financial statements represent the financial results of Momentum, a segment of FirstRand, and not a separate statutory set of financial statements.

31. Comparative figures *(continued)*

Summarised below is the difference between the income statement and balance sheet as originally reported at 30 June 2003 and the restated amounts:

	30 June 2003 Original	30 June 2003 Restated	Difference	Reason
Income statement				
Group operating profit after tax	604	366	(238)	Refer to (a) and (c) above
Revenue	10 705	8 179	(2 526)	
Net premium income	10 527	7 115	(3 412)	Refer to (c) above
Fees for asset manager services rendered	178	1 064	886	Refer to (b) above
Investment income attributable to policyholders	3 399	4 904	1 505	Refer to (b) and (c) above
Policyholder benefits	(7 312)	(5 980)	1 332	Refer to (c) above
Administration expenses	(3 084)	(1 419)	1 665	Refer to (c) above
Impairment of goodwill	(242)	(242)	–	
Commissions	(1 043)	(781)	262	Refer to (b) and (c) above
Fair value adjustment to policyholder liabilities under investment contracts	–	(1 483)	(1 483)	Refer to (b) above
Realised and unrealised investment deficits	(764)	(1 450)	(686)	Refer to (a), (b) and (c) above
Direct taxation	(468)	(386)	82	Refer to (b) and (c) above
Indirect taxation	(125)	(137)	(12)	Refer to (b) and (c) above
Transfer to policyholder liabilities under insurance contracts	(324)	(831)	(507)	Refer to (b) and (c) above
Earnings attributable to outside shareholders	(138)	(8)	130	Refer to (a) and (c) above
Income on the shareholders' portfolio	250	250	–	
Investment income attributable to shareholders	288	288	–	
Taxation on investment income	(38)	(38)	–	
Earnings attributable to ordinary shareholders	854	616	(238)	Refer to (a) and (c) above

	30 June 2003 Original	30 June 2003 Restated	Difference	Reason
31. Comparative figures *(continued)*				
Balance sheet				
ASSETS				
Cash and cash equivalents	16 727	15 258	(1 469)	Refer to (c) above
Government and public authority stocks	12 574	12 466	(108)	Refer to (c) above
– available-for-sale		44	44	Refer to (b) and (c) above
– at elected fair value		12 422	12 422	Refer to (b) and (c) above
Debentures and other loans	10 759	10 529	(230)	Refer to (c) above
– available-for-sale		556	556	Refer to (b) and (c) above
– at elected fair value		9 973	9 973	Refer to (b) and (c) above
Policy loans	581	581	–	
Equity investments	33 924	33 476	(448)	Refer to (a) and (c) above
– held to maturity		681	681	Refer to (b) above
– available-for-sale		1 120	1 120	Refer to (b) and (c) above
– at elected fair value		31 675	31 675	Refer to (b) and (c) above
Derivative assets – held for trading	7 504	7 504	–	
Investments in associated companies	543	536	(7)	Refer to (c) above
Investment properties	2 753	2 753	–	
Investment assets	85 365	83 103	(2 262)	
Loans and receivables	5 494	6 162	668	Refer to (c) above
Deferred taxation	50	44	(6)	Refer to (c) above
Intangible assets	356	321	(35)	Refer to (c) above
Property and equipment	613	391	(222)	Refer to (c) above
Total assets	91 878	90 021	(1 857)	
LIABILITIES AND SHAREHOLDERS' FUNDS				
LIABILITIES				
Current liabilities	4 244	3 759	(485)	Refer to (c) above
Provisions	116	99	(17)	Refer to (c) above
Taxation	337	294	(43)	Refer to (c) above
Derivative liabilities – held for trading	3 554	3 554	–	
Deferred taxation	223	198	(25)	Refer to (c) above
Retirement benefit liabilities	289	289	–	
Long-term liabilities	2 705	2 408	(297)	Refer to (c) above
Policyholder liabilities	75 676	76 016	340	Refer to (c) above
Policyholder liabilities under insurance contracts	38 964	39 674	710	Refer to (c) above
Policyholder liabilities under investment contracts	36 712	36 342	(370)	Refer to (c) above
Total liabilities	87 144	86 617	(527)	
Outside shareholders' interest	606	23	(583)	Refer to (a) and (c) above
SHAREHOLDERS' FUNDS				
Share capital and share premium	1 041	1 041	–	
Reserves	3 087	2 340	(747)	Refer to (a) and (c) above
Total shareholders' funds	4 128	3 381	(747)	
Total liabilities and shareholders' funds	91 878	90 021	(1 857)	

R million	2004	2003
32. Cash generated by operations		
Income after taxation	**1 138**	624
Earnings attributable to outside shareholders	**(73)**	(8)
Earnings attributable to ordinary shareholders	**1 065**	616
Adjustments for non-cash items and taxation:		
Non-cash changes in long-term investment values	**(1 843)**	321
Dividends received	**(1 102)**	(566)
Net interest received	**(3 698)**	(4 086)
Transfer to policyholder liabilities under insurance contracts and other non-cash items	**5 870**	3 266
Taxation	**531**	561
Cash generated by operations	**823**	112
33. Working capital changes		
Net decrease in loans and receivables	**480**	754
Net increase/(decrease) in current liabilities	**203**	(1 772)
Net working capital changes	**683**	(1 018)
34. Taxation paid		
Balance at beginning of the year	**(294)**	(38)
Taxation charged for the year in the income statement	**(439)**	(643)
Balance at end of the year	**(174)**	294
Taxation paid	**(907)**	(387)
35. Dividends paid		
Final dividend declared on:		
– 16 September 2003 in respect of the year ended 30 June 2003	**(389)**	–
– 3 September 2002 in respect of the year ended 30 June 2002	**–**	(203)
Interim dividend declared on:		
– 2 March 2004 in respect of the period ended 31 December 2003	**(184)**	–
– 19 February 2003 in respect of the period ended 31 December 2002	**–**	(25)
Dividends paid	**(573)**	(228)

36. Proceeds on disposal of Discovery Holdings

Effective 1 July 2003, Momentum Group Limited's investment in Discovery Holdings was sold to FirstRand Limited for R740 million. As a result of the fact that Discovery was excluded from Momentum's comparative figures, the full proceeds on sale of Discovery were treated as a capital injection in Momentum as at 1 July 2003.

	Investment by holding company							
	Effective % holding		Amounts owing by/(to) subsidiaries		Group carrying amount		Directors' valuation (including loan account)	
	2004 %	2003 %	**2004 R million**	2003 R million	**2004 R million**	2003 R million	**2004 R million**	2003 R million
37. Analysis of significant investments in subsidiaries and associates								
Subsidiaries (directly held):								
Listed								
Emira Property Fund	**56**	–	**–**	–	**885**	–	**830**	–
Unlisted								
Southern Life Special Investments (Pty) Limited	**100**	100	**(339)**	(278)	**932**	782	**593**	504
Momentum Property Investments (Pty) Limited	**100**	100	**81**	1 011	**324**	265	**405**	1 276
Momentum Life Assurers Limited	**100**	100	**(36)**	(36)	**36**	36	**–**	–
Momentum Wealth (Pty) Limited	**100**	100	**38**	89	**39**	35	**77**	124
Southern Life Healthcare Holdings (Pty) Limited	**100**	100	**247**	247	**(242)**	(242)	**5**	5
Community Property Holdings Limited	**100**	100	**233**	210	**3**	3	**236**	213
Momentum Collective Investments (Pty) Limited	**100**	100	**5**	6	**19**	16	**24**	22
Momentum Ability Limited	**100**	100	**–**	–	**13**	12	**13**	12
FirstLife Assurance (Pty) Limited	**100**	–	**5**	–	**3**	–	**8**	–
Lekana Employee Benefit Solutions (Pty) Limited	**70**	–	**63**	–	**32**	–	**95**	–
Momentum International Multimanagers (Pty) Limited	**73**	73	**10**	6	**9**	4	**35**	36
FirstRand Asset Management (Pty) Limited	**100**	100	**294**	338	**(172)**	(256)	**1 479**	1 337
			601	1 593	**1 881**	655	**3 800**	3 529
Associates:								
Listed								
African Life Assurance Company Limited	**33**	33	**–**	–	**596**	531	**518**	521
			–	–	**596**	531	**518**	521

Embedded value of Momentum Group

This section of the annual report sets out the embedded value and the value of new insurance business of Momentum Group Limited (Momentum Group).

Definition of embedded value / An embedded value is an estimate of the economic value of the company, excluding any goodwill that may be attributed to the value of future new business.

The embedded value is defined as:

- the shareholders' net assets (adjusted to reflect the directors' valuations of subsidiaries and associates, as reflected in note 37 to the annual financial statements);
- plus the value of in-force insurance business less the opportunity cost of holding the capital adequacy requirements in respect of the in-force insurance business.

The value of the in-force insurance business is calculated as the present value of the projected stream of future after-tax profits of the insurance business in-force at the calculation date. The opportunity cost of holding capital adequacy requirements reflects the fact that the expected long-term investment return on the assets backing the capital adequacy requirements is less than the return assumed to be required by the shareholders, as reflected by the risk discount rate.

Embedded value results

R million	**30 June 2004**	30 June 2003 (pro forma)	30 June 2003 (published)
Shareholders' net assets[1]	**6 196**	5 385	6 484
Value of in-force insurance business	**3 470**	3 399	3 518
– Value of in-force insurance business[2]	**4 096**	3 846	3 846
– Opportunity cost of capital adequacy requirements	**(626)**	(447)	(328)
Embedded value	**9 666**	8 784	10 002

1 The directors' valuations of Momentum MultiManagers (73%), FirstRand Asset Management (100%) and African Life (33%) form part of the shareholders' net assets as reflected above. More details regarding the directors' valuations of the subsidiaries and associate companies are disclosed in note 37 on page 274 of the annual financial statements.

2 The value of in-force business includes R618 million in respect of employee benefit business and R3 478 million in respect of Individual Life business.

Value of new business / The value of new business is a measure of the value added to the company as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected stream of future after-tax profits of the new insurance business sold during the financial year, after allowing for initial expenses. The value of new business is also appropriately reduced by the opportunity cost of holding the capital adequacy requirements for new business.

Value of new business

R million	**30 June 2004**	30 June 2003
Value of new business:	**326**	290
– Individual life	**278**	242
– Collective benefits	**36**	29
– Lekana Employee Benefits	**12**	19
Opportunity cost of capital adequacy requirements	**(38)**	(17)
Value of new business	**288**	273
Notional premiums[1]	**1 667**	1 657
Margin %	**17.3**	16.5

1 Notional premiums are defined as annualised recurring premiums plus 10% of single premiums.

Value of new business as a percentage of notional premiums

R million	Value of new business	Notional premiums	Margin %
Value of new business	326	1 667	19.6
– Individual life	278	1 519	18.3
– Collective benefits	36	135	26.7
– Lekana Employee Benefits	12	13	92.3
Opportunity cost of capital adequacy requirements	(38)		(2.3)
Value of new business net of cost of CAR	288	1 667	17.3

Reconciliation of new business inflows / The following table provides a reconciliation between the total new business table shown in the notes to the annual financial statements, and the new business inflows used in the calculation of the value of new business.

New business inflows

R million	Annualised recurring premiums	Lump sum inflows
Total new business inflows	998	27 736
Less items not valued:		
– Employee benefit premium income (investment only business)		(2 521)
– Linked product inflows – Momentum International		(1 975)
– Unit trust sales		(7 097)
– Segregated third party inflows		(9 995)
– Policy alterations and other		(364)
Add additional item valued:		
– Term extensions on maturing policies		903
New business inflows included in value of new business	998	6 687

Embedded value profits / Embedded value profits represent the change in embedded value over the year, adjusted for any capital raised and dividends paid. The embedded value profits for the twelve months ended 30 June 2004 are set out below.

R million			
Embedded value at 30 June 2003			**10 002**
Less: Impact of sale of Discovery			(1 099)
Market value of Discovery		(1 839)	
Proceeds received for Discovery		740	
Less: Increased opportunity cost of capital			(119)
Adjusted embedded value at 1 July 2003			**8 784**
Embedded value profit			**1 455**
Factors related to operations:		864	
– Value of new business	288		
– Expected return on new business	18		
– Expected return on existing business	478		
– Operating experience variations	63		
– Experience assumption changes	17		
Factors related to market conditions:		591	
– Investment return on shareholders' net assets	777		
– Investment variations	22		
– Economic assumption changes	(29)		
– Changes in opportunity cost of capital	(179)		
Less: Dividends paid			(573)
Embedded value at 30 June 2004			**9 666**

The value of new business comprises the economic value of the new business written during the year, determined at the point of sale.

The expected return on new business is determined by applying the current year's risk discount rate to the value of new business for half a year and subtracting the unwind of the expected cost of the capital adequacy requirements in respect of new business over the year.

The expected return on existing business is determined by applying the previous year's risk discount rate to the value of in-force business at the beginning of the year and subtracting the unwind of the expected cost of the capital adequacy requirements over the year.

The operating experience variations represent the positive impact of differences between the actual experience and the assumptions used in the embedded value calculations. The operating variance of R63 million includes the following positive variations:

- R37 million from Individual Life business, which includes R31 million from favourable mortality experience, negative R32 million in respect of unfavourable terminations experience, negative R7 million in respect of unfavourable experience on premium indexation and R45 million in respect of financial structures;
- R13 million from risk experience on Momentum Collective Benefits business; and
- R13 million in respect of miscellaneous items.

The impact of the experience assumption changes of R17 million consisted mainly of the following:

- in respect of individual life and annuity business, a negative impact of R123 million. This amount included negative R103 million from changes to mortality assumptions on annuities, negative R66 million from changes in termination assumptions and positive R46 million from methodology changes;
- in respect of Collective Benefits, a positive impact of R91 million, consisting of R59 million from demographic and expense assumption changes and R32 million from methodology changes;
- a decrease in the maturity guarantee reserve, which had a positive impact of R20 million; and
- a positive impact of R29 million in respect of other items.

Investment return on shareholders' net assets comprises investment income and capital appreciation.

The investment variations item represents the impact of the higher investment returns on the policyholder portfolios compared with the returns assumed in the embedded value calculation.

The increase in the opportunity cost of capital resulted from a larger proportion of the assets backing the capital adequacy requirements being invested in cash and variable rate preference shares, as well as the reduction in yields on these assets over the year.

Sensitivity to the risk discount rate / The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future insurance profits of Momentum Group. The sensitivity of the embedded value and the value of new business to changes in the risk discount rate, is illustrated below:

Value of in-force

	Risk discount rate		
R million	12.1%	13.1%	14.1%
Value of in-force insurance business	4 317	4 096	3 905
Opportunity cost of capital	(517)	(626)	(722)
Value of in-force insurance business	3 800	3 470	3 183

Value of new business

	Risk discount rate		
R million	12.1%	13.1%	14.1%
Value of new business	352	326	306
Opportunity cost of capital	(30)	(38)	(45)
Value of in-force insurance business	322	288	261

Assumptions / The embedded value calculations comply with the Actuarial Society of South Africa's Professional Guidance Note PGN107. The same best-estimate assumptions were used for the embedded value calculations and the financial soundness valuation of Momentum Group. The main assumptions used in the embedded value calculations are described below:

Economic assumptions / The economic assumptions used were as follows:

%	**30 June 2004**	30 June 2003
Risk discount rate	**13.1**	12.6
Investment returns (before tax)	**11.5**	11.0
Expense inflation rate	**7.5**	7.0

The investment return assumption of 11.5% per annum (2003: 11.0% per annum) was derived from the yields on South African government stocks at 30 June 2004 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return by adding the following premiums/(discounts) to the yield of 10.5% per annum (2003: 10.1% per annum) derived as described above:

	% premium/(discount)	
	30 June 2004	30 June 2003
Equities	**2.0**	2.0
Properties	**1.0**	1.0
Government stocks	**0.0**	0.0
Other fixed interest stocks	**0.5**	0.5
Cash	**(2.0)**	(2.0)

The assumed future expense inflation assumption of 7.5% per annum (2003: 7.0% per annum) was determined based on an assumed long-term differential of 4.0% relative to the assumed future investment return assumption of 11.5% per annum (2003: 11.0% per annum).

The calculation of the opportunity cost of holding the capital adequacy requirements assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 20% equities, 45% variable rate preference shares and 35% cash or near cash.

Mortality, morbidity and discontinuance rates / The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent experience investigations. Allowance was made for the expected impact of AIDS using models developed by the Actuarial Society of South Africa, adjusted for Momentum's practice and policy design.

Expenses / The maintenance expense assumptions were based on the results of internal expense investigations that covered the financial year ended 30 June 2004, as well as the expense budgets for the financial year ending 30 June 2005. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Premium indexation arrangements / The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business, by using an expected take-up rate based on the results of recent experience investigations. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on the new business written during the financial year ended 30 June 2004.

Directors' valuations / The directors' valuation of FirstRand Asset Management (100%) as at 30 June 2004 excludes the value of any profits derived by managing assets on the balance sheet of Momentum Group. The value of asset management profits in respect of assets on the balance sheet of Momentum Group was included in the value of in-force insurance business and the value of new business.

The directors' valuation of African Life was equated to Momentum Group's share (33%) of the market value of African Life as at 30 June 2004.

The directors' valuations are disclosed in note 37 of the annual report.

Reserving bases / It was assumed that the current bases of calculating the policyholder liabilities would continue unchanged in future.

Surrender and paid-up bases / It was assumed that the current surrender and paid-up bases and practices would be maintained in future.

Tax / Allowance was made for future tax based on the four-fund tax dispensation and for Capital Gains Tax at face value in the policyholders' portfolios. No allowance was made for Capital Gains Tax on strategic shareholders' assets, as these are not held with the intention of ultimate disposal.

The opportunity cost of holding the capital adequacy requirements was based on projected after tax returns on the assets backing the capital adequacy requirements.

Allowance was made for Secondary Tax on Companies on future dividends ultimately payable to shareholders at a rate of 3% per annum of expected future profits. The STC assumption is based on the expected future cash dividends according to the dividend policy of Momentum Group taking into account expected future STC credits.

Sensitivities / This section illustrates the effect of different assumptions, other than in respect of the risk discount rate, on the value of in-force insurance business and the value of new business. For each sensitivity illustrated, all other assumptions have been left unchanged.

Value of in-force insurance business

R million	Value of in-force business	Change	% change
Base value of in-force insurance business	3 470		
Renewal expenses increase by 10%	3 292	(178)	(5.1)
Expense inflation increases from 7.5% to 8.5%	3 386	(84)	(2.4)
Policy discontinuance rates increase by 10%	3 377	(93)	(2.7)
Mortality experience deteriorates by 10%	2 961	(509)	(14.7)
Investment returns reduce from 11.5% to 10.5%	3 123	(347)	(10.0)

Value of new business

R million	Value of new business	Change	% change
Base value of new business	288		
Renewal expenses increase by 10%	262	(26)	(9.0)
Expense inflation increases from 7.5% to 8.5%	284	(4)	(1.4)
Policy discontinuance rates increase by 10%	261	(27)	(9.4)
Mortality experience deteriorates by 10%	212	(76)	(26.4)
Investment returns reduce from 11.5% to 10.5%	299	11	3.8
New business expenses increase by 10%	267	(21)	(7.3)
New business volumes drop by 20%	186	(102)	(35.4)

The tables show the impact of deteriorations in experience. The effect of equivalent improvements in experience would be to increase the embedded values by an amount approximately equal to the decreases shown above.

No allowance was made for compensating management actions, except for employee benefits risk benefits where it is assumed that the deterioration in mortality experience will be countered by a corresponding increase in premiums after a delay of one year, and for a reduction in bonuses consistent with the reduction in investment returns.

The above sensitivities are shown net of the cost of capital, which moves broadly in line with the value of in-force business to the changes in key assumptions shown.

Review by the independent actuaries / Deloitte have reviewed the methodology and assumptions underlying the calculation of the embedded value and the value of new insurance business. They are satisfied that, based on the information supplied to them by Momentum Group, the methodology and assumptions are appropriate for the purpose of including the embedded value in this report, that these have been determined in accordance with generally accepted actuarial principles and in accordance with guidance note PGN107 of the Actuarial Society of South Africa, that the approach has been applied consistently across the different business units and that the methodology and assumptions have been applied consistently over the year.

Glossary of terms

Embedded value / Embedded value equals the net asset value of the company, plus the present value of the projected stream of future after-tax profits on in-force insurance contracts, less the cost of capital at risk.

Capital Adequacy Requirement (CAR) / This is the minimum amount of capital an insurer is required to hold, as determined by the Registrar of Insurance.

CAR cover / The CAR cover refers to the multiple by which an insurer's free assets exceed its CAR, expressed as a ratio of free assets to CAR.

Financial Soundness Valuation / Methodology intended to provide a prudently realistic picture of the overall financial position of the long-term insurer, allowing explicitly for actual premiums that will be received and future experience that may be expected in respect of interest rates, expenses, mortality, morbidity and other relevant factors.

First-tier margins / Prescribed margins to introduce a minimum degree of prudence in the actuarial valuation basis, to allow for possible adverse deviations in the rendering of services and the exposure to risks during the expected future "lifetime" of insurance contracts on the books of the insurer.

Second-tier margins / Discretionary margins included in cases where the statutory actuary believes that the prescribed (first-tier) margins are insufficient to allow for future contingencies and the risk of adverse experience.

Four-fund tax dispensation / Long-term insurers are taxed in terms of the four-funds trustee principle as set out in the Income Tax Act. The four-funds are the untaxed policyholder fund, the individual policyholder fund, the company policyholder fund and the corporate fund.

Administration

Momentum Group Limited
(Registration No 1904/002186/06)

Registered office
Momentum
268 West Avenue
Centurion
0157

Postal address
PO Box 7400
Centurion
0046

Telephone
National (012) 671 8911
International +27 12 671 8911

Telefax
National (012) 671 8209
International +27 12 671 8209

Website
www.momentum.co.za

Company secretary
Francois Jooste

Statutory actuary
Nicolaas Kruger

Auditors
PricewaterhouseCoopers Inc
2 Eglin Road
Sunninghill
2157

health

The Discovery Group produced **excellent growth** in operating profit of 102%. This was driven by strong organic growth and increased efficiencies across all of Discovery's businesses

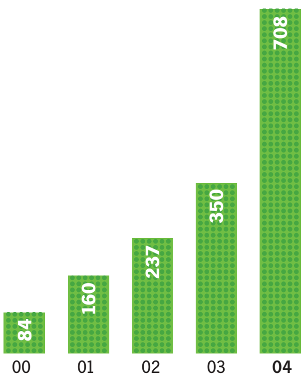
DISCOVERY GROUP / Annual report 2004

Discovery Group annual report 2004

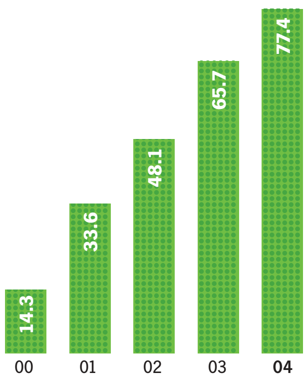
Contents

Financial highlights

Operating profit	+102% to R708 million
New business annualised premium income	R3.2 billion
Discovery Life profit	+138%
Discovery Health profit	+40%
Destiny Health Illinois business turns profitable	
Joint venture with Prudential launched in UK	
Diluted HEPS before abnormal items	+18% to 77.4c



Operating profit (R million)



Diluted headline earnings per share before abnormal items (cents)

Five-year review of the statement of gross inflows under management /

for the year ended 30 June

R million	2000	2001	2002	2003	**2004**	Compound growth %
Gross inflows under management	3 559	5 494	7 739	10 946	**14 345**	42
Less: Collected on behalf of third parties	1 310	2 117	3 877	7 190	**10 647**	69
Less: Money Market contributions	221	559	357	–	**–**	–
Gross income of Group	2 028	2 818	3 505	3 756	**3 698**	16
Key ratios						
Return on average equity (%)	21	30	38	39	**24**	
Return on average assets (%)	5	8	11	13	**11**	
Debt to equity ratio (%)	–	–	–	26	**13**	
Capital adequacy requirement cover	1.9	1.6	1.3	2.5	**2.2**	
Exchange rates						
Rand/US$						
– Closing	6.77	8.07	10.31	7.56	**6.18**	
– Average	6.40	7.42	9.19	8.89	**6.77**	
Rand/£						
– Closing	10.26	11.35	15.75	12.47	**11.20**	
– Average	9.88	10.81	14.81	14.12	**11.83**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	378 285	388 417	390 411	391 714	**504 051**	
– End of period (000's)	384 979	386 026	390 625	397 800	**532 416**	
Price-earnings ratio (times)	67.5	30.9	12.0	8.6	**16.1**	
Share price (cents per share):						
– High	1 310	1 300	1 140	900	**1 425**	
– Low	745	1 000	640	590	**695**	
– Closing	1 125	1 090	720	745	**1 283**	
Market capitalisation (Rm)	4 331	4 207	2 812	2 815	**6 585**	

Five-year review of the income statement / for the year ended 30 June

R million	2000	2001	2002	2003	**2004**	Compound growth %
Gross income of Group	2 028	2 818	3 505	3 756	**3 698**	16
Outward reinsurance premiums	(144)	(252)	(211)	(342)	**(293)**	19
Net income	1 884	2 566	3 294	3 414	**3 405**	16
Policyholder benefits	(1 331)	(1 679)	(1 948)	(1 646)	**(1 078)**	(5)
Recoveries from reinsurers	123	206	226	280	**237**	18
Net policyholder benefits	(1 208)	(1 473)	(1 722)	(1 366)	**(841)**	(9)
Commissions	(115)	(87)	(276)	(438)	**(576)**	50
Operating and administration expenses	(363)	(747)	(1 096)	(1 437)	**(1 495)**	42
Vitality benefits	(44)	(132)	(167)	(227)	**(314)**	63
Transfer to liabilities under investment contracts	(24)	(14)	24	–	**–**	
Transfer (to)/from assets/liabilities under insurance contracts	(46)	47	180	404	**529**	
Profit from operations	84	160	237	350	**708**	70
Local operations	117	224	347	519	**842**	64
Foreign operations	(33)	(64)	(110)	(169)	**(134)**	42
Investment income	37	59	85	123	**124**	35
Realised and unrealised gains and losses	60	51	45	(77)	**68**	3
Fair value adjustment to liabilities under investment contracts	(59)	(54)	(49)	64	**(71)**	5
Financing costs	–	–	(1)	(25)	**(47)**	
Foreign exchange loss – unrealised	–	–	–	(17)	**(62)**	
Profit before abnormal items and taxation	122	216	317	418	**720**	56
Abnormal items	–	–	64	120	**–**	
Profit before taxation	122	216	381	538	**720**	56
Taxation	(61)	(80)	(142)	(182)	**(299)**	49
– Operating profit	(61)	(80)	(123)	(146)	**(299)**	49
– Abnormal items	–	–	(19)	(36)	**–**	
Profit after taxation	61	136	239	356	**421**	62
Minority share of loss	–	1	–	6	**(3)**	
Net profit attributable to ordinary shareholders	61	137	239	362	**418**	62
Basic earnings per share before abnormal items (cents)						
– undiluted	16.0	35.1	50.0	71.0	**83.0**	51
– diluted	16.7	35.3	49.1	67.3	**79.7**	48
Basic earnings per share (cents)						
– undiluted	16.0	35.1	61.4	92.5	**83.0**	51
– diluted	16.7	35.3	59.8	86.8	**79.7**	48
Headline earnings per share before abnormal items (cents)						
– undiluted	13.6	33.4	49.0	69.3	**80.5**	56
– diluted	14.3	33.6	48.1	65.7	**77.4**	53
Headline earnings per share (cents)						
– undiluted	13.6	33.4	60.4	90.8	**80.5**	56
– diluted	14.3	33.6	58.8	85.2	**77.4**	53
Weighted number of shares in issue (000's)	378 285	388 417	390 411	391 714	**504 051**	
Diluted weighted number of shares (000's)	391 541	400 381	416 264	432 123	**536 025**	

Five-year review of the balance sheet / at 30 June

R million	2000	2001	2002	2003	**2004**	Compound growth %
ASSETS						
Cash and cash equivalents	347	507	459	1 469	**998**	
Government and public authority stocks						
– available-for-sale	28	22	42	54	**130**	
– at fair value through profit and loss	30	38	33	54	**52**	
Equity investments						
– available-for-sale	152	149	201	217	**602**	
– at fair value through profit and loss	425	443	475	224	**251**	
Investment in associate	2	13	4	4	**2**	
Investment assets	984	1 172	1 214	2 022	**2 035**	
Loans and receivables	185	596	507	291	**430**	
Deferred taxation	–	77	17	7	**10**	
Assets arising from insurance contracts	–	83	345	772	**1 318**	
Intangible assets	26	14	32	36	**38**	
Equipment	103	140	193	221	**201**	
Total assets	1 298	2 082	2 308	3 349	**4 032**	33
LIABILITIES AND SHAREHOLDERS' FUNDS						
LIABILITIES						
Current liabilities	256	557	569	547	**578**	
Provisions	2	11	9	16	**22**	
Taxation	3	213	39	44	**43**	
Deferred taxation	11	–	43	26	**128**	
Liabilities arising from insurance contracts	135	171	141	9	**6**	
Liabilities arising from reinsurance contracts	–	–	–	16	**36**	
Financial liabilities	485	554	579	1 527	**716**	
– Investment contracts at fair value through profit and loss	485	554	579	370	**400**	
– Borrowings at amortised cost	–	–	–	1 157	**316**	
Total liabilities	892	1 506	1 380	2 185	**1 529**	14
Outside shareholders' interest	1	67	184	67	**67**	
SHAREHOLDERS' FUNDS						
Share capital and share premium	423	424	427	429	**1 276**	
Reserves	(18)	85	317	668	**1 160**	
Total shareholders' funds	405	509	744	1 097	**2 436**	
Total liabilities and shareholders' funds	1 298	2 082	2 308	3 349	**4 032**	

Board of directors and board committees of Discovery Holdings Limited

LAURIE DIPPENAAR (55) / MCom, CA(SA) / Chairman of Discovery Holdings, Chief Executive Officer of FirstRand, Director of FirstRand Bank Holdings, Director of RMB Holdings

BRIAN BRINK (52) / BSc (Med), MBBCh, DA(SA) / appointed 19 February 2004, Non-executive director of Discovery Holdings

JOHAN BURGER (45) / BCom (Hons), CA(SA) / Non-executive director of Discovery Holdings, Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

JUDY DLAMINI (45) / MBChB, MBA, Diploma in Occupational Health / Non-executive director of Discovery Holdings

ADRIAN GORE (40) / BSc (Hons), FFA, ASA, MAAA, FASSA / Chief Executive Officer of Discovery Holdings

MONTY HILKOWITZ (64) / FIA / Non-executive director of Discovery Holdings

NEVILLE KOOPOWITZ (40) / BCom, CFP / Managing Director of Vitality, Marketing Director of Discovery

HERSCHEL MAYERS (44) / BSc (Hons), FIA, FASSA / Managing Director of Discovery Life

JOHN ROBERTSON (56) / BCom, CTA, CA(SA), HDipTax / Chief Operating Officer of Discovery

BARRY SWARTZBERG (39) / BSc, FFA, ASA, FASSA, CFP / Managing Director of Discovery Health

STEWART WHYTE (42) / Chief Operating Officer of Destiny Health

SINDI ZILWA (37) / BCompt(Hons), CTA, CA(SA), Advanced Taxation Certificate, Certified Financial Planner (IFP-SA), Advanced Diploma in Financial Planning (UOFS) / Non-executive Director of Discovery Holdings

The following director served on the board during the year and resigned on the date indicated below:

Blignault Gouws – 5 December 2003

Audit committee

JP Burger (Chairman)
AH Arnott
SV Zilwa

Remuneration committee

LL Dippenaar (Chairman)
NJ Dlamini
M Olivier

Actuarial committee

A Rayner (Chairman)
RD Williams

Executive committee

A Gore (Chairman)
NS Koopowitz
HP Mayers
JM Robertson
B Swartzberg
R Farber
HD Kallner
K Kropman
S Matisonn
K Mayet
A Pollard
K Rabson
J van Rooyen

Discovery Holdings Limited is a majority-owned subsidiary of FirstRand Limited, listed in the insurance sector of the JSE Securities Exchange South Africa. The consolidated figures in this report include the operations of Discovery Health, Discovery Life, Vitality Healthstyle and the Destiny Group of companies. All operations take place within 100%-owned subsidiaries, with the exception of the Destiny Group of companies in which Discovery Holdings Limited has a 98% interest (with management owning the balance). Discovery Life has issued 1 500 000 preference shares to management.

Basis of preparation / The attached annual financial statements relate to the Discovery Holdings Group of companies ("Discovery"). In order to facilitate a better understanding of Discovery's results, the results have been provided on a segmental basis on page 315. The segments into which Discovery has been divided are:

Health South Africa / The provision of administration and risk management services to Discovery Health Medical Scheme and several smaller closed schemes.

Health United States of America / The provision and administration of health insurance products to employer groups and individuals in the United States of America.

Life / The provision of risk-only life assurance products in the South African market.

Vitality / The provision of health and lifestyle benefits with selected partners to medical scheme members and Discovery Life policyholders. This includes the results from offering KeyClub benefits to KeyCare members.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of Discovery, as this is the basis on which the Group's affairs are managed.

Accounting policies / The accounting policies applied are in accordance with South African Statements of Generally Accepted Accounting Practice. These accounting policies are consistent with those of the prior year.

Share-based payments / The new accounting statement AC 139 on share-based payments (equivalent to IFRS 2) was issued in June 2004. This statement is effective for all financial years commencing after 1 January 2005. The transitional provisions of this statement require that an expense is raised for all share-based payments and options issued after 7 November 2002.

If this statement had been applied from 1993, the initial founding date of Discovery, the following amounts would have been expensed in the income statement of the Group:

R million	Total
Year ended 30 June 2004	42
Year ended 30 June 2003	41
1993 to 30 June 2002	47
	130

The Discovery Life preference shares would be treated as a share-based payment in terms of AC 139 and have been included in the above table.

Only Destiny Health has issued options subsequent to 7 November 2002. Upon future application of the statement only to these options, less than R1 million will be expensed in respect of the years ended 30 June 2004 and 30 June 2003.

Review of Group results / Discovery continued to produce strong, consistent earnings growth. Headline earnings before abnormal items increased by 49% to R405 million for the year ended 30 June 2004. 134 615 385 additional shares were issued on 28 July 2003 raising R875 million in capital. These additional shares resulted in an increase in the weighted average number of shares in issue of 29%. Of the capital raised, R300 million was invested in equity investments. Unrealised gains on available-for-sale investments of R55 million for the year have been taken directly to reserves and are not included in earnings.

In the year to 30 June 2004, the Group incurred a foreign exchange loss of R62 million on the Rand denominated borrowings made by Destiny Health. This loss was caused by the exceptional strengthening of the Rand against the dollar from R7.56/US$1 to R6.18/US$1 over the twelve month period. The Group has benefited from the stronger Rand in the translation of Destiny's losses.

In the last six months of the financial year, the Group incurred costs of R28 million towards the establishment of its joint venture with Prudential Assurance Company Limited to provide health insurance in the United Kingdom. Even though we are confident that this investment will yield profits far in excess of these costs once operational, the Group has continued to adopt the policy of expensing set-up costs of new operations.

Five-year review / The five-year review of key financial indicators is set out on page 284. What is particularly pleasing to note is that profit from operations has increased by a compound growth of 70% per annum since 2000 from R84 million to R708 million due to the strong growth in all of Discovery's operations.

Gross inflows under management, which in our belief is the most appropriate measure of our scale of operations, has shown compound growth of 42% per annum. This is pleasingly driven by growth in all business areas.

Group operating results / The following table shows the main components of the increase in Group headline earnings for the year:

Earnings source

R million	June 2004	June 2003	% Change
SA Health operations	**522**	372	40
Vitality operations	**50**	33	52
Life operations	**271**	114	138
Destiny operations	**(106)**	(169)	(37)
UK set-up costs	**(28)**	–	–
Holdings	**(1)**	–	–
Group operating profit	**708**	350	102

A detailed segmental income statement is provided in note 12 to the annual financial statements, including information regarding the cash generated by operations per segment.

Investment income on the shareholders' assets / The investment income earned on shareholders' assets increased by 10% to R121 million. This increase is due to the higher cash balance in the shareholders' portfolio arising from the clawback rights issue undertaken in July 2003. The R875 million raised in the clawback issue was utilised as follows:

- R28 million was utilised by the Group to settle expenses relating to the capital raising;
- R300 million was invested in an equity portfolio by Discovery Life during October 2003;
- R350 million was retained by Discovery Life in cash to fund future new business;
- R185 million was invested in Destiny Health to finance the joint ventures entered into with Guardian Life Assurance Company of America and with Tufts Health Plan of Boston, Massachusetts; and
- the balance of R12 million was utilised to settle operational costs.

Capital management / Discovery follows the philosophy of investing the Group's capital in business projects that offer strong organic growth in earnings and maximise the return on capital over the long term.

Of the Group entities, Discovery Life Limited and Destiny Health Insurance Company Inc. ("DHIC") are regulated and have minimum capital requirements.

The excess of assets over liabilities of Discovery Life was R1 970 million (2003: R1 641 million) at 30 June 2004. The capital adequacy requirements (CAR) of R883 million (2003: R669 million) were covered 2.23 times (2003: 2.45 times) by this excess.

In line with the philosophy of investing capital efficiently, Discovery Life has embarked on a programme of reinsurance. More information on this reinsurance is contained in the section headed "Reinsurance programme" later on in this report.

DHIC is required to hold capital equal to one quarter of its annualised premium income. As at 30 June 2004, DHIC held approximately US$14 million for this purpose. These capital requirements have grown in line with the growth in the premium income of DHIC. Following the implementation of Destiny's alliance with Guardian Life Insurance Company of America ("Guardian"), new business will increasingly be written on the Guardian licence, reducing the capital requirements going forward.

Financial Services Board Directive 145 / In June 2004, the Financial Services Board issued draft directive 145 regarding the treatment of negative reserves. This directive provides more appropriate principles for the determination of the Termination Capital Adequacy Requirement (TCAR) relating to negative reserves. The directors believe that the application of this directive will more appropriately represent the financial soundness of Discovery Life and intend to apply it in the statutory returns going forward.

Following the application of this directive, the statutory capital adequacy requirements of Discovery Life will decrease to R64 million, and the qualifying excess of assets over liabilities will decrease to R653 million. This will result in a capital adequacy cover of 10.1 times.

Dividend policy / As Discovery is in a growth phase of its operations, the directors have recommended that no dividend be paid at this time.

Embedded value / The embedded value of Discovery, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business less an allowance for the cost of capital, was R6.9 billion at 30 June 2004 (2003: R4.9 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the consolidated balance sheet on page 307.

The analysis of the main components of the Group embedded value is set out on page 337.

Discovery's embedded value increased by 40% to R6 876 million in the year ended 30 June 2004. The main drivers behind this increase were the issue of R875 million of new share capital and R637 million of new business written.

The embedded value of new business is set out in the following table:

Embedded value of new business for the year ended 30 June

R million	**2004**	2003	% change
Health and Vitality			
Gross profit from new business at point of sale	**155**	238	
Cost of capital	**–**	(3)	
Net profit from new business at point of sale	**155**	235	(34)
Life			
Gross profit from new business at point of sale	**583**	494	
Cost of capital	**(131)**	(76)	
Net profit from new business at point of sale	**452**	418	8
Destiny Health			
Gross profit from new business at point of sale	**36**	41	
Cost of capital	**(6)**	(24)	
Net profit from new business at point of sale	**30**	17	76

The composition of the embedded value profit and the methodology and assumptions made in calculating the embedded value of Discovery are reflected on pages 338 and 340 respectively of this annual report.

Reconciliation of embedded value earnings / The movement in the embedded value in the year under review can be reconciled to the accounting earnings of the Group as follows:

R million	**Embedded value**	**Change in value of in-force**	**Cost of capital**	**Impact on income statement**	**Statement of changes in equity**
Total profit from new business at point of sale	**637**	774	(137)	–	–
Profit from existing business					
– Expected return	**534**	16	10	508	–
– Changes in methodology and assumptions	**(361)**	(218)	(60)	(83)	–
– Experience variances	**197**	239	12	(54)	–
Adjustment for minority interest in Destiny Health	**(4)**	6	(2)	(3)	(5)
Adjustment for Guardian profit share in Destiny Health	**(8)**	(8)	–	–	–
Foreign exchange rate movements	**(67)**	(28)	5	(61)	17
Interest on loan capital	**(41)**	–	–	(41)	–
Return on shareholders' funds	**207**	–	–	152	55
	1 094	781	(172)	418	67

Discovery Life preference shares / Upon the commencement of the life insurance business, Discovery Life issued preference shares to the management team. The terms of such preference shares are intended to achieve the result that the individuals (who subscribed for the preference shares) will be placed in the same financial position after the expiry of three, four and five years respectively had they subscribed for ordinary shares in Discovery Life at the date that the life business commenced operations. The redemption value of these shares is thus determined as 15% of the shareholder value created by the life business.

The preference shares are redeemable over three years, commencing with the end of the financial year ended 30 June 2004. Upon redemption, the preference shareholders are required to invest the amount received in a fresh issue of Discovery shares.

The first tranche of 33% of the preference shares was redeemable on 30 June 2004. By agreement with all the preference shareholders, this tranche will be redeemed on 31 August 2004 at a premium of R108.44 per share. The preference shareholders will subscribe for 4 270 530 ordinary shares in Discovery Holdings at a price of R12.57 per share, being the weighted average price for the 30 days ended 30 June 2004.

It is anticipated that a total of approximately 12.8 million Discovery shares will be issued in the redemption of the three tranches. These shares have been included in the calculation of the fully diluted earnings per share of the Group.

Foreign exchange losses / Destiny Health has a loan from RMB International (Dublin) Limited of R315 million. This loan has been guaranteed by Discovery Holdings Limited and Discovery Health (Pty) Limited. The loan was denominated in South African Rand, as the directors believed that there was a real possibility that all or part of the loan would be repaid from South African resources. Destiny Health's cash flow requirements and the movement in the Rand dollar exchange rate is being constantly monitored to determine whether it is appropriate to convert this into a US dollar loan.

Destiny Alliances / During the financial year ended 30 June 2004, Destiny commenced writing business with its two alliance partners, Guardian and Tufts. These alliances are structured such that Destiny and its partners are each paid an administration and distribution charge related to the services performed. The balance of any profit, including the risk portion is shared between the partners.

Reinsurance programme / Discovery carefully monitors the insurance risks inherent in its insurance businesses. Where these risks can be shared with third parties on commercially beneficial terms, Discovery enters into reinsurance contracts.

Health South Africa / The Discovery Health Medical Scheme and the closed schemes that Discovery Health administers retain the insurance risks relating to medical expenses. Prior to 31 December 2003, Discovery shared in these risks through quota share and stop loss reinsurance agreements. These contracts were not renewed in 2004 and Discovery currently has no exposure to health claims in South Africa.

Life South Africa / Discovery Life actively manages the exposure to the risks inherent in the writing of life insurance business. The largest risk faced by Discovery Life is the risk that policyholders cancel their contracts and the company is not able to recover the significant upfront costs invested in writing these contracts.

To reduce its exposure to the risk of a large number of lapses, Discovery Life has entered into various reinsurance agreements with international reinsurers. As a result of these contracts, Discovery Life had reinsurance in place for the lapse risk arising on approximately 40% of its business in force at 1 July 2004.

With effect from 1 July 2004, a quota share agreement was entered into, effectively reinsuring 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a fixed period of approximately six years. Discovery Life earned R200 million in terms of this contract in July 2004.

Health United States / Prior to the launch of the Guardian and Tufts alliances, Destiny wrote health insurance for its own account. In order to reduce the exposure to adverse claims experience on the small number of lives covered, Destiny made use of quota share insurance from Clarendon.

With the launch of the alliances, Destiny shares the risk profit and losses with its alliance partners. Furthermore, the people who have been insured through these alliances have had better claims experience than the pre-alliance members. As a result, it is considered that it is not necessary to obtain quota share reinsurance on the portion of the risks borne by Destiny.

Destiny makes use of individual excess of loss insurance to cover any individual claims over US$250 000 per life insured. Destiny has continued to use this cover for its portion of risks borne from the Guardian and Tufts alliances.

PruHealth joint venture / Discovery has established a joint venture ("JV") in the United Kingdom ("UK") with Prudential Assurance Company Limited ("Prudential"). Prudential is a wholly-owned subsidiary of Prudential plc, and a major financial services group in the UK. The JV will provide private medical insurance products in the UK and will be named Prudential Health ("PruHealth").

Discovery's share of the projected capital required by this JV is £35 million. The capital required will be injected over a period of time and Discovery anticipates that it will be able to meet this capital requirement from existing cash resources and future cash flows.

Discovery will expense its share of set-up costs and start-up losses of the JV, notwithstanding the long-term benefits anticipated from this venture. Set-up costs of R28 million were incurred in the current financial year.

Balance sheet / The short-term loan of R875 million owing to FirstRand Limited as at 30 June 2003 that arose in terms of the clawback offer was repaid by the issue of 134 615 385 new Discovery shares. These shares were listed on the JSE on 28 July 2003.

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

The increase in the assets under insurance contracts of R546 million is as a result of the significant increase in profitable new business written by Discovery Life.

Investments have increased due to the investment of an additional R300 million into equity portfolios during October 2003 coupled with the strong performance of the equity markets.

Cash and cash equivalents at 30 June 2004 is R998 million. Included in the cash and cash equivalents is R92 million of cash held by Destiny Health Insurance Company as part of its statutory capital.

Value-added statement / for the year ended 30 June

	2004		2003	
	R million	%	R million	%
Value-added				
Net income of Group	**3 402**		3 420	
Investment income	**121**		110	
Financing costs	**(47)**		(25)	
Foreign exchange loss – unrealised	**(62)**		(17)	
Commissions paid	**(576)**		(438)	
Payments to suppliers of material and services	**(1 039)**		(1 064)	
	1 799		1 986	
Value allocated				
To employees				
Salaries, wages and other benefits	**587**	**33**	442	22
To government	**289**	**16**	242	12
Normal taxation	**215**		180	
Value-added tax	**62**		43	
Capital gains tax	**2**		(4)	
Other	**10**		23	
To policyholders	**312**	**17**	842	43
Policyholder claims	**841**		1 246	
Transfer from assets/liabilities arising from insurance contracts	**(529)**		(404)	
Retention for expansion and growth	**611**	**34**	460	23
Retained income	**418**		362	
Depreciation	**111**		94	
Deferred taxation	**82**		4	
	1 799	**100**	1 986	100

2004

To employees 33%
To government 16%
To policyholders 17%
To expansion and growth 34%

2003

To employees 22%
To government 12%
To policyholders 42%
To expansion and growth 23%

Directors' responsibility statement

Directors' responsibility to the members of Discovery Holdings Limited and its subsidiaries ("Discovery")

The directors of Discovery are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying annual financial statements, South African Statements of Generally Accepted Accounting Practice have been used and reasonable estimates have been made. The annual financial statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2005. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going-concern basis has therefore been adopted in preparing the annual financial statements.

The directors are responsible for Discovery's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery maintains internal financial controls to provide assurance regarding:

- safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of annual financial statements.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery's external auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their unqualified report appears on page 295.

The annual financial statements of Discovery for the year ended 30 June 2004, which appear on pages 296 to 334 and 344 to 351, have been approved by the board of directors on 26 August 2004 and are signed on its behalf by:

A Gore
Chief Executive Officer

JM Robertson
Director

Certificate by the company secretary

It is hereby certified that, in terms of section 268G(d) of the Companies Act, 1973, as amended, the Company has for the year ended 30 June 2004 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary

Report of the independent auditors

To the members of Discovery Holdings Limited / We have audited the annual financial statements and Group annual financial statements of Discovery Holdings Limited and its subsidiaries set out on pages 296 to 334 and 344 to 351 for the year ended 30 June 2004. These annual financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

Scope / We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion / In our opinion, the annual financial statements and Group annual financial statements fairly present, in all material respects, the financial position of the Company and the Group at 30 June 2004 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the South African Companies Act.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Johannesburg
26 August 2004

Statement of actuarial values of assets and liabilities of Discovery Life Limited

R million	2004	2003
Assets under insurance contracts	**1 317**	772
Other assets	**1 521**	1 660
Total assets per balance sheet of Discovery Life Limited	**2 838**	2 432
Less: Intangible assets and prepaid expenses (Schedule 3)	**8**	3
	2 830	2 429
Less: Liabilities	**860**	788
Actuarial value of policy liabilities	**442**	380
Current liabilities	**311**	318
Non-current liabilities	**107**	90
Excess of assets over liabilities	**1 970**	1 641
Represented by:		
Shareholders' funds	**855**	855
Balance of excess	**1 115**	786
	1 970	1 641
Capital adequacy requirement (CAR)	**883**	669
Ratio of excess assets to CAR	**2.23**	2.45
Analysis of change in excess assets		
Excess assets at end of reporting period	**1 970**	1 641
Excess assets at beginning of reporting period	**1 641**	699
Change in excess assets over the reporting period	**329**	942
The change in the excess assets is due to the following factors:		
Investment income on excess assets (net of tax)	**54**	50
Capital gains (realised and unrealised) on excess assets	**68**	(30)
Total investment return on excess assets	**122**	20
Operating profit before taxation from insurance business	**413**	409
Change in valuation basis	**(78)**	(137)
Change in business model (increase in reserve due to experience variances)	**46**	96
Taxation provision on insurance business	**(137)**	(96)
Financing costs	**(32)**	–
Increase in Schedule 3 adjustment	**(5)**	–
Total earnings	**329**	292
Capital raised	**–**	650
Dividends paid	**–**	–
Total change in excess assets	**329**	942

Notes to the statement of actuarial values of assets and liabilities of Discovery Life Limited

The statement of actuarial values of assets and liabilities is in respect of the statutory financial statements of Discovery Life Limited (“Discovery Life”). The segmental information in the Group annual financial statements splits the statutory accounts of the various subsidiaries into Discovery’s product lines and therefore is not directly comparable to the statutory financial statements.

1. Financial soundness valuation basis / The valuation was conducted on the financial soundness basis in accordance with guidelines issued by the Actuarial Society of South Africa, in particular PGN 103 and PGN 104. In performing this valuation, the assets and liabilities of Discovery Life were valued on consistent bases.

2. Valuation of assets / Assets have been taken at the balance sheet value as per Discovery Life’s accounting policies which are consistent with the accounting policies of the Group. Net assets were adjusted in terms of Schedule 3 of the Long-term Insurance Act 52 of 1998.

3. Valuation of policy liabilities / The liabilities were valued using best-estimate assumptions with the addition of margins prescribed by the Financial Services Board and outlined in PGN 104. All assumptions used were based on an analysis of past experience and expected future experience. The most recent experience investigation was at 30 June 2004.

3.1 Linked investment products / For linked products, the market value of units allocated to policyholders was reserved.

3.2 Health insurance / All health reinsurance arrangements between the Discovery Health Medical Scheme and Discovery Life were not renewed with effect from 1 January 2004. Therefore, this valuation only allows for the run-off of health insurance liabilities.

For health insurance benefits an allowance for outstanding claims, including incurred but not yet reported claims, was calculated using the chain ladder method adjusted for seasonal trends. The allowance was included in current liabilities.

3.3 Life product / The valuation model is continuously updated to incorporate new product developments.

The best estimate assumptions relating to future mortality, morbidity and withdrawal rates were based on the market experience of similar products and compared for reasonability to standard tables and experience since inception of the life product. The mortality assumed includes an estimate of the future effect of HIV/AIDS.

The best estimate assumption relating to maintenance expenses was based on an expense investigation and allowance was made for the expected increase in maintenance expenses at 5.5% p.a.

Future investment returns were set at 9.5% based on the average interest rate, weighted by discounted cash flows. The discount rate was set at the same rate. Future tax and tax relief were allowed for at rates and on bases applicable to Section 29A of the Income Tax Act 58 of 1962 as applicable at the valuation date. Capital gains tax will have a negligible effect on investment return as assets backing liabilities are not subject to capital gains tax.

The prescribed margins were added to the best estimate assumptions. Second-tier margins were added so that the profit emerging from the business is recognised over the duration of the policies. If these second-tier margins were released, they would increase the net asset value of Discovery Life, but correspondingly increase the capital adequacy required.

Automatic future premium and benefit increases on individual policies were not taken into account in calculating the liabilities.

For policies with the sum insured linked to investment or currency indices, the real growth rate above CPI was assumed to be 4.5% p.a., and it was assumed that a percentage of policyholders delink from the chosen index each year.

For Group business an IBNR reserve of two monthly premiums was established, plus a claims in payment reserve. Provisions were also established for unpaid claims on individual business.

4. Change in valuation basis / The valuation method was adjusted to reflect changes in products and operating conditions. Actuarial assumptions were adjusted from the prior year's basis in respect of the following items:

a) Lapse rates were adjusted in line with anticipated experience.

b) Mortality and morbidity rates were adjusted in line with anticipated experience.

c) Renewal expense assumptions were increased in line with experience investigations.

Notes to the statement of actuarial values of assets and liabilities of Discovery Life Limited / *continued*

For existing business at 30 June 2003, the total increase in reserves at 30 June 2004 due to the above items was R78 million.

5. Reconciliation of excess assets / The changes in excess assets in this statement reconciles to the net income published in the financial statements as follows:

R million	2004
Net income per income statement	279
Less: Unrealised loss on investments	55
Less: Increase in intangible assets and prepaid expenses written off	(5)
Increase in excess assets per Actuary's Statement	329

6. Capital adequacy requirement / The capital adequacy requirement (CAR) is the additional amount required, over and above the actuarial liabilities, to enable Discovery Life to meet material deviations in the main parameters affecting the life assurer's business. The capital adequacy requirement was calculated according to the guidelines issued by the Actuarial Society of South Africa. The main assumptions were:

- non-linked liabilities and the CAR are invested in cash; and
- no offsetting management actions have been assumed in calculating the CAR.

The Termination CAR exceeds the Ordinary CAR and the Minimum CAR, and thus the CAR has been raised on the Termination CAR.

7. Statutory reporting basis / In accordance with Draft Directive 145 of the Financial Services Board, for the purposes of statutory reserve reporting, negative policyholder reserves will be set to zero. The Termination CAR will therefore fall away and the CAR will be raised on the Ordinary CAR. As a result the excess of assets over liabilities will reduce to R653 million, the Ordinary CAR will be R64 million and the CAR cover will be 10.1.

8. Report by the valuator / I hereby certify that:

- The valuation and the Statutory Actuary's Report of Discovery Life Limited have been prepared in accordance with the applicable Actuarial Society of South Africa Professional Guidance Notes. These notes require that reasonable provision is made for future outgo and income, generally based on the assumption that current conditions will apply. Provision is therefore not made for all possible contingencies.
- I have accepted that the Financial Statements comply with the requirements of the Companies Act and South African Statements of Generally Accepted Accounting Practice. The Statutory Actuary's report, read together with the Annual Financial Statements, fairly represents the financial position of the Company.
- The Company is financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

RD Williams

Statutory Actuary, Fellow of the Institute of Actuaries

26 August 2004

Directors' report / for the year ended 30 June

The directors present their fifth annual report, which forms part of the audited financial statements of the Company and of the Group for the year ended 30 June 2004.

Nature of business / Discovery Holdings Limited ("the Company") is listed in the insurance sector of the JSE Securities Exchange South Africa and is the holding company of:

- Discovery Life Limited ("Discovery Life");
- Discovery Health (Proprietary) Limited ("Discovery Health");
- Vitality Healthstyle (Proprietary) Limited ("Vitality");
- Vitality Healthstyle Travel (Proprietary) Limited (ceased trading effective 1 February 2004);
- Discovery Nominees (Proprietary) Limited (dormant);
- Destiny Health Inc. ("Destiny Health"), which is incorporated in the United States of America;
- Discovery Insurance Intermediary Services Limited, which is incorporated in England and Wales (did not trade in current year); and
- Discovery Offshore Holdings Limited, which is incorporated in England and Wales (did not trade in current year).

Discovery Holdings and its subsidiaries are referred to herein as "Discovery". The subsidiaries are wholly owned with the exception of Destiny Health in which Discovery has a 98% interest.

Discovery Life is a long-term insurer in South Africa. Discovery Life offers a suite of risk benefit products to the individual and group life markets. Discovery Life, until January 2004, offered reinsurance of medical scheme risks. Discovery Health is a specialised administrator offering various services to medical schemes, Discovery Life and Destiny Health. Vitality offers a rewards programme incentivising its members to lead healthy lives and rewarding lifestyles. Destiny Health offers health insurance in the state of Illinois in the United States of America.

Discovery announced its UK joint venture in April 2004 with Prudential Assurance Company Limited heralding its entry into the UK private health insurance market. Set-up costs of R28 million were incurred in the current financial year.

General review / The financial position and results are reflected on pages 296 to 334 and 344 to 351. The Group's attributable share of profits and losses from subsidiary companies for the year ended 30 June is set out below:

R million	2004	2003
Aggregate profits after taxation from local subsidiaries	648	542
Loss from Destiny Health net of minority share of loss	(202)	(180)
UK set-up costs	(28)	–
	418	362

Share capital / The authorised share capital is 1 000 000 000 ordinary shares of 0.1 cent per share. The issued share capital of the Company at 30 June 2004 was 532 415 681 ordinary shares of 0.1 cent per share.

On 28 July 2003, 134 615 385 shares were issued and listed on the JSE pursuant to the rights offer which closed on 25 July 2003.

The share incentive trust holds 3.6% of the share capital of the Company for the benefit of trust participants.

Shareholders will be requested at the forthcoming annual general meeting of shareholders to place the unissued shares under the control of the directors until the next annual general meeting.

Discovery Life has issued 1 500 000 preference shares to certain directors and employees at a par value of 1 cent per share. These shares are redeemable as set out in note 25.2 of the financial statements.

Dividends / No dividends have been declared in the current year.

Directorate and secretary / Details of the directors, their emoluments, participation in share incentive schemes and interests in the company are reflected on pages 349 to 351. Dr BA Brink was appointed as a director on 19 February 2004 and Mr RB Gouws resigned as a director effective 5 December 2003.

Messrs JP Burger, LL Dippenaar, B Swartzberg and BA Brink retire by rotation at the forthcoming annual general meeting of shareholders and are eligible and available for re-election.

Mr MJ Botha continues in office as company secretary. His details are reflected on page 352.

Directors' interests in contracts / No material contracts involving directors' interests were entered into in the current year. All of the executive directors have signed restraints of trade which prevent them from competing with Discovery for one year after their employment with Discovery ends. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

Subsidiaries and associates / Details of the company's associate and subsidiaries are set out in note 1 to Discovery Holdings Limited's Company financial statements. During the year under review, no changes were made to the memorandum and articles of association of any of the subsidiary companies.

Borrowing powers / The directors may exercise all the powers of the Company to borrow money. In terms of the articles of association, the borrowing powers of the Company are unlimited. In terms of the Long-term Insurance Act, 1998, Discovery Life may not encumber its assets or directly or indirectly borrow.

Auditors / PricewaterhouseCoopers Inc. will continue in office in accordance with section 270(2) of the Companies Act, 1973.

Holding company / FirstRand Limited holds an interest of 63.31% (2003: 62.05%) in the issued ordinary share capital of the Company.

Events after balance sheet date / With effect from 1 July 2004, a quota share agreement was entered into, effectively reinsuring 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a fixed period of approximately six years. Discovery Life earned R200 million in terms of this contract in July 2004.

Accounting policies

Discovery adopts the following accounting policies in preparing its consolidated financial statements.

1. Basis of presentation / Discovery prepares its audited consolidated financial statements on a going concern basis using the historical cost basis, except for:

- financial assets and liabilities where it adopts the fair value basis of accounting. These financial assets and liabilities include financial assets classified as available-for-sale; derivative financial instruments; and financial assets and liabilities classified as held at fair value through profit and loss; and
- financial assets and liabilities classified as originated loans which are carried at amortised cost.

The consolidated financial statements are prepared in accordance with and comply with South African Statements of Generally Accepted Accounting Practice.

The principal accounting policies are consistent in all material respects with those adopted in the previous year. Changes in the presentation of prior year numbers to conform with current year presentation are set out in note 32 below.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. Consolidation / The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which Discovery, directly or indirectly, has a long-term interest and the power to exercise control over the operations for its own benefit. Discovery considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

Discovery consolidates a special purpose entity ("SPE") when the substance of the relationship between Discovery and the SPE indicates that Discovery controls the SPE.

Discovery uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which Discovery acquires effective control. Consolidation is discontinued from the effective date of disposal. Discovery recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Discovery companies.

The subsidiaries are accounted for at cost in the Company annual financial statements.

3. Associated companies / Associated companies are companies in which Discovery holds a long-term equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control.

Discovery includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective dates of acquisition to the effective dates of disposal. Discovery eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include Discovery's share of earnings of associated companies. Discovery's reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in associated companies.

Discovery carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any unamortised excess or deficit of the purchase price over the fair value of the attributable assets of the associated company at date of acquisition.

Discovery discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

Discovery increases the carrying amount of investments with its share of the associated company's income when equity accounting is resumed.

The most recent audited financial statements of the associate companies have been taken into account. If the most recent available audited financial statements are for an accounting period which ended more than six months prior to the Group's year end, then the most recently published financial information of the associate company is utilised.

4. Joint ventures / Discovery accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method Discovery includes its share of a joint venture's individual income or expense, assets and liabilities and cash flows in the relevant components of its financial statements.

5. Gross inflows under management / Gross inflows under management include all life premiums, Vitality contributions and benefit sales, medical scheme contributions, money market contributions, pre-funding contributions and administration fees.

6. Income and expense recognition

6.1 Gross income / Gross income of the Group includes premium income, administration fees, fees on investment contracts and Vitality contributions and benefit sales.

6.1.1 Premium income / Individual life premiums, group life premiums and reinsurance premiums are accounted for when they become due and payable. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for related direct insurance.

6.1.2 Administration fees / Administration fees are accounted for on the accrual basis.

6.1.3 Fees on investment contracts / Discovery recognises policy fees on investment contracts on an accrual basis when the service is rendered.

6.1.4 Vitality contributions and benefit sales / Vitality contributions and benefit sales are accounted for on the accrual basis.

6.2 Policyholder benefits / Discovery accounts for policyholder benefit payments and related reinsurance recoveries when claims are intimated.

6.3 Commission / Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

6.4 Operating and administration expenses / Operating and administration expenses include administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

6.5 Investment income / Investment income comprises interest and dividends. Discovery accounts for dividends as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares. Dividend income includes shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

Interest and other investment income are accounted for on an accrual basis.

6.6 Financing costs / Financing costs are expensed when incurred.

7. Foreign currency translation

7.1 General / Discovery presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Discovery entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

7.2 Independent entities / Assets and liabilities of foreign subsidiary companies, regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year end. Capital and reserves are translated at historical rates and income statement items are translated at the average rate for the year. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

7.3 Other / Discovery converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

Discovery recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the hedging reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, Discovery transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

8. Taxation / Taxation includes South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which Discovery operates.

9. Recognition of assets, liabilities and provisions

9.1 Assets / Discovery recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets / Discovery discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within Discovery's control.

9.3 Liabilities and provisions / Discovery recognises liabilities, including provisions when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

9.4 Contingent liabilities / Discovery discloses a contingent liability where:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- it has a present obligation that arises from past events but is not recognised because;
  - it is not probable that an outflow of resources will be required to settle an obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

10. Derecognition of assets and liabilities / Discovery derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. Offsetting financial instruments / Discovery offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off;
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability is denominated in the same currency.

12. Cash and cash equivalents / In the cash flow statement, cash and cash equivalents comprise:

- cash on hand;
- money at call and short notice; and
- balances with banks.

13. Financial instruments / Financial instruments carried on the balance sheet include all financial assets and liabilities, including derivative instruments, but exclude investments in subsidiary and associated companies, deferred taxation, intangible assets, equipment, provisions, taxation, assets/liabilities arising from insurance contracts and reinsurance contracts.

Discovery classifies all investments held to meet policyholder liabilities that do not transfer significant insurance risk, as held at fair value through profit and loss. These investments are initially recognised at cost, including transaction cost, and subsequently valued at fair value, with fair value movements reflected in the income statement. Investments in the shareholders' portfolio, with the exception of loans receivable, are classified as available-for-sale assets with changes in fair value recognised directly in equity. Listed equity investments and unit trust investments are carried at fair value. Fair values are based on regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the balance sheet date. Unlisted investments are carried at fair value using directors' valuations based on accepted valuation methodologies.

Loans receivable are classified as originated loans and are carried at amortised cost. Loans receivable are written down only where, in the opinion of the directors, there is an impairment. Where a loan receivable is impaired, the impairment is recognised in the income statement in the period in which it is identified.

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. These contracts are disclosed on the balance sheet as "Investment contracts at fair value through profit and loss". The premium income and benefit payments in respect of these investment contracts, have been excluded from the income statement and accounted for directly against the liability. Fees earned from these products are included in gross income of the Group.

14. Assets/liabilities arising from insurance/reinsurance contracts / Discovery classifies all policyholder contracts that transfer significant risk as insurance contracts. These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN 104 issued by the Actuarial Society of South Africa and are reflected as "Assets/liabilities arising from insurance/reinsurance contracts".

15. Equipment / Discovery carries equipment at cost less accumulated depreciation.

It depreciates equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	Shorter of estimated life or period of lease
Computer equipment	3 years
Furniture and fittings	6 years
Motor vehicles	4 years
Office equipment	5 years
Computer software packages	3 years

Discovery impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in income on disposal.

16. Accounting for leases / Discovery classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The equipment acquired is depreciated over the useful life of the asset, on a basis consistent with similar owned fixed assets.

Discovery classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

17. Goodwill / Goodwill represents the excess of the cost of an acquisition over the attributable fair value of Discovery's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on associated companies is included in the carrying value of the associated company.

Goodwill that arises in a business combination on or after 31 March 2004 is not amortised. An annual impairment test is performed and any impairment calculated is expensed to the income statement.

Impairment tests are performed on all cash generating units to which goodwill can be allocated. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows generated by other groups of assets. Where it is possible to allocate goodwill to a cash generating unit, a bottom-up test is performed by comparing the recoverable amount of the cash-generating unit under review to its carrying amount (including the carrying amount of the allocated goodwill, if any) and recognising any impairment loss. If, in performing the bottom-up test, Discovery could not allocate the carrying amount of goodwill on a reasonable and consistent basis to the cash-generating unit under review, Discovery also performs a top-down test to identify the smallest cash-generating unit that includes the cash-generating unit under review and to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis (the 'larger' cash-generating unit). Discovery compares the recoverable amount of the larger cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit;
- then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset can not be reduced below the highest of:

- its net selling price (if determinable);
- its value in use (if determinable); and
- zero.

Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of Discovery's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

18. Intangible assets

18.1 Computer software development costs / Where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for Discovery exceeding the costs incurred for more than one accounting period, Discovery capitalises such costs and recognises them as an intangible asset.

Discovery carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

18.2 Other intangible assets / Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts. It charges costs incurred on trademarks, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

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

19. Deferred taxation / Discovery calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery Holdings Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of equipment, revaluation of certain financial assets and liabilities and tax losses carried forward.

20. Deferred income / Income received in advance in respect of contracts for which future expenditure will be incurred, is recognised over the estimated period of the contract.

21. Employee benefits

21.1 Post-employment benefits / Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees.

Contributions to these funds are expensed as incurred.

21.2 Post-retirement medical benefits / Discovery has no liability for the post-retirement medical benefits of employees.

21.3 Termination benefits / Discovery recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

21.4 Leave pay provision / Discovery recognises in full employees' rights to annual leave entitlement in respect of past service.

21.5 Employee share options / Share options are granted to eligible employees. No compensation cost or obligation is recognised in the financial statements other than through the calculation of diluted earnings per share. When the options are exercised, share capital and share premium are increased by the proceeds received for the par value and premium, net of transaction costs, respectively.

22. Related party transactions / All related party transactions are at arm's length and incurred in the ordinary course of business.

In accordance with the requirements of AC 126 – Related party disclosure, transactions with related parties of Discovery that eliminate on consolidation are not disclosed.

23. Segment reporting / Discovery defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment") or
- products or services within a particular economic environment ("geographical segment"), subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

24. Scrip lending / Equities under scrip lending arrangements are reflected in the balance sheet of the Group as investments. Scrip lending arrangements are entered into only with companies in the FirstRand Group. Scrip lending fees received are included in the income statement as investment income.

Statement of gross inflows under management / for the year ended 30 June

R million	Notes	2004	2003
Gross inflows under management	12	**14 345**	10 946
Less: Collected on behalf of third parties		**10 647**	7 190
Gross income of Group		**3 698**	3 756

Income statement / for the year ended 30 June

R million	Notes	2004	2003
Gross income of Group		**3 698**	3 756
Outward reinsurance premiums		**(293)**	(342)
Net income	3	**3 405**	3 414
Policyholder benefits		**(1 078)**	(1 646)
Recoveries from reinsurers		**237**	280
Net policyholder benefits	4	**(841)**	(1 366)
Commissions		**(576)**	(438)
Operating and administration expenses	5	**(1 495)**	(1 437)
Vitality benefits		**(314)**	(227)
Transfer from assets/liabilities arising from insurance contracts	17	**529**	404
Profit from operations		**708**	350
Local operations		**842**	519
Foreign operations		**(134)**	(169)
Investment income	6	**124**	123
Realised and unrealised investment gains and losses		**68**	(77)
Fair value adjustment to liabilities arising from investment contracts	22	**(71)**	64
Financing costs	7	**(47)**	(25)
Foreign exchange loss – unrealised	8	**(62)**	(17)
Profit before abnormal items and taxation		**720**	418
Abnormal items	9	**–**	120
Profit before taxation		**720**	538
Taxation	10	**(299)**	(182)
– Operating profit		**(299)**	(146)
– Abnormal items		**–**	(36)
Profit after taxation		**421**	356
Minority share of loss		**(3)**	6
Net profit attributable to ordinary shareholders		**418**	362
Basic earnings per share before abnormal items (cents)	11		
– undiluted		**83.0**	71.0
– diluted		**79.7**	67.3
Basic earnings per share (cents)	11		
– undiluted		**83.0**	92.5
– diluted		**79.7**	86.8
Headline earnings per share before abnormal items (cents)	11		
– undiluted		**80.5**	69.3
– diluted		**77.4**	65.7
Headline earnings per share (cents)	11		
– undiluted		**80.5**	90.8
– diluted		**77.4**	85.2
Weighted number of shares in issue (000's)		**504 051**	391 714
Diluted weighted number of shares (000's)		**536 025**	432 123

Balance sheet / at 30 June

R million	Notes	**2004**	2003
ASSETS			
Cash and cash equivalents		**998**	1 469
Government and public authority stocks			
– available-for-sale		**130**	54
– at fair value through profit and loss		**52**	54
Equity investments	13		
– available-for-sale		**602**	217
– at fair value through profit and loss		**251**	224
Investment in associate	14	**2**	4
Investment assets		**2 035**	2 022
Loans and receivables	15	**430**	291
Deferred taxation	16	**10**	7
Assets arising from insurance contracts	17	**1 318**	772
Intangible assets	18	**38**	36
Equipment	19	**201**	221
Total assets		**4 032**	3 349
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Current liabilities	20	**578**	547
Provisions	21	**22**	16
Taxation		**43**	44
Deferred taxation	16	**128**	26
Liabilities arising from insurance contracts	17	**6**	9
Liabilities arising from reinsurance contracts	17	**36**	16
Financial liabilities		**716**	1 527
– Investment contracts at fair value through profit and loss	22	**400**	370
– Borrowings at amortised cost	23	**316**	1 157
Total liabilities		**1 529**	2 185
Outside shareholders' interest	24	**67**	67
SHAREHOLDERS' FUNDS			
Share capital and share premium	25	**1 276**	429
Reserves	26	**1 160**	668
Total shareholders' funds		**2 436**	1 097
Total liabilities and shareholders' funds		**4 032**	3 349

Cash flow statement / for the year ended 30 June

R million	Notes	2004	2003
Cash flow from operating activities		**92**	210
Cash generated by operations	33.1	**337**	143
Working capital changes	33.2	**(119)**	158
		218	301
Dividends received		**14**	6
Interest received		**88**	107
Interest paid		**(14)**	(24)
Taxation paid	33.3	**(214)**	(180)
Cash flow from investing activities		**(504)**	(202)
Investment purchases	33.4	**(565)**	(104)
Proceeds on disposal of investments	33.5	**176**	56
Increase in investment in associate		**–**	(2)
Proceeds on disposal of equipment		**–**	15
Purchase of equipment		**(93)**	(138)
Purchase of intangible assets		**(26)**	(23)
Decrease/(increase) in loans receivable		**4**	(6)
Cash flow from financing activities		**(39)**	1 017
Proceeds from shares issued	33.6	**878**	225
Share issue costs written off against share capital		**(30)**	–
Dividends paid to Destiny Health preference shareholders		**(2)**	(13)
Minority share buy-back		**(9)**	–
Redemption of preference shares		**–**	(334)
Increase in borrowings	33.7	**–**	263
Repayment of short-term loan		**(876)**	–
Proceeds from short-term loan		**–**	876
Net (decrease)/increase in cash and cash equivalents		**(451)**	1 025
Cash and cash equivalents at beginning of year		**1 469**	458
Effects of exchange rate changes on cash and cash equivalents		**(20)**	(14)
Cash and cash equivalents at end of year	33.8	**998**	1 469

Statement of changes in equity / for the year ended 30 June

R million	Share capital	Share premium	Retained earnings	Non-distributable reserves	Total
	(note 25)	(note 25)	(note 26)	(note 26)	
30 June 2003					
Balance at 1 July 2002	1	426	301	16	744
Implementation of AC 133 (note 15)	–	–	(17)	–	(17)
Net profit for the period	–	–	362	–	362
Dividends paid to Destiny Health preference shareholders	–	–	(12)	–	(12)
Unrealised losses on investments	–	–	–	(28)	(28)
Realised gains on investments transferred to income statement	–	–	–	(7)	(7)
Revaluation of forward exchange contract	–	–	–	(14)	(14)
Translation of foreign subsidiary	–	–	–	67	67
Issue of capital	*	2	–	–	2
Balance at 30 June 2003	1	428	634	34	1 097
30 June 2004					
Balance at 1 July 2003	**1**	**428**	**634**	**34**	**1 097**
Issue of capital	*	**877**	**–**	**–**	**877**
Share issue expenses	**–**	**(30)**	**–**	**–**	**(30)**
Net profit for the period	**–**	**–**	**418**	**–**	**418**
Dividends paid to Destiny Health preference shareholders	**–**	**–**	**(1)**	**–**	**(1)**
Realised loss on minority share buy-back	**–**	**–**	**(5)**	**–**	**(5)**
Unrealised gains on investments	**–**	**–**	**–**	**69**	**69**
Realised gains on investments transferred to income statement	**–**	**–**	**–**	**(14)**	**(14)**
Revaluation of forward exchange contract	**–**	**–**	**–**	**8**	**8**
Translation of foreign subsidiary	**–**	**–**	**–**	**17**	**17**
Balance at 30 June 2004	**1**	**1 275**	**1 046**	**114**	**2 436**

** Amount is less than R500 000*

R million	2004	2003
1. Accounting policies		
The accounting policies of the Group are set out on pages 300 to 305.		
2. Turnover		
Turnover is a concept not relevant to the business of insurance. Refer to accounting policy note 6.1 for gross income.		
3. Net income		
Health	**2 304**	2 717
Recurring premium and administration fee income	**2 438**	2 970
Outward reinsurance premiums	**(134)**	(253)
Individual life	**639**	346
Recurring premiums	**753**	412
Outward reinsurance premiums	**(114)**	(66)
Vitality	**402**	310
Contributions	**296**	235
Benefit sales	**106**	75
Group life	**60**	41
Recurring premiums	**105**	64
Outward reinsurance premiums	**(45)**	(23)
	3 405	3 414
Gross income of Group	**3 698**	3 756
Outward reinsurance premiums	**(293)**	(342)
Net income	**3 405**	3 414
4. Net policyholder benefits		
Health	**644**	1 264
Gross claims	**798**	1 509
Less: Reinsurance recoveries	**(154)**	(245)
Individual life	**170**	94
Death	**153**	67
Disability	**72**	52
Less: Reinsurance recoveries	**(55)**	(25)
Group life	**27**	8
Death	**46**	16
Disability	**9**	2
Less: Reinsurance recoveries	**(28)**	(10)
	841	1 366
Policyholder benefits	**1 078**	1 646
Recoveries from reinsurers	**(237)**	(280)
Net policyholder benefits	**841**	1 366

R million	2004	2003
5. Operating and administration expenses		
Operating and administration expenses include the following:		
Auditors' remuneration		
Audit fees – current year	**5**	6
Fees for other services	**2**	2
	7	8
Professional fees		
Actuarial fees	**9**	6
Technical and other	**74**	53
	83	59
Depreciation on equipment (note 19)		
Furniture and fittings	**15**	12
Office equipment	**9**	11
Computer equipment	**48**	45
Computer software packages	**35**	25
Motor vehicles	**1**	–
Leasehold improvements	**3**	1
	111	94
Amortisation of intangible assets (note 18)		
Software development	**23**	19
Profit on disposal of fixed assets	**–**	(3)
Repairs and maintenance expenditure		
Computer repairs and maintenance	**12**	15
Furniture and equipment maintenance	**2**	2
Office repairs and maintenance	**6**	6
Software maintenance	**27**	18
	47	41
Operating lease charges		
Land and buildings	**52**	41
Computer and office equipment	**68**	43
	120	84
Bad debts	**11**	–
Bad debts recovered	**(1)**	(5)
Foreign exchange (gains)/losses	**(1)**	3
Equity accounted loss of associated company	**4**	2
Staff costs		
Salaries, wages and allowances	**567**	425
Defined contribution provident fund contributions	**20**	17
Social security levies	**2**	1
Other	**23**	10
	612	453

R million	2004	2003
6. Investment income		
Investment income on shareholder assets and assets held for insurance contracts:	**107**	103
Interest	**95**	98
Dividends	**14**	6
Investment charges and other income	**(2)**	(1)
Investment income on assets held to back liabilities arising from investment contracts:	**17**	20
Interest	**9**	13
Dividends	**8**	7
	124	123
7. Financing costs		
Interest expense:		
On short-term advances	**14**	24
On non-current liabilities	**33**	1
	47	25
8. Foreign exchange loss – unrealised		
Foreign exchange loss on borrowings	**62**	17
The exchange loss arises on the loan entered into by Destiny with RMB International (Dublin) Limited. Refer note 23.2.		
9. Abnormal items		
Release of reserves	**–**	120
Taxation	**–**	(36)
Abnormal item after taxation	**–**	84

The expectation that the quota share reinsurance offered to DHMS would not continue in the long-term, resulted in the release of the health insurance durational and AIDS reserves of R120 million in the prior year.

R million	2004	2003
10. Taxation		
Charge for the year		
South African normal taxation	**297**	148
Current tax	**215**	144
Current year	**200**	144
Adjustment to prior years	**15**	–
Deferred tax	**82**	4
Current year	**82**	22
Adjustment to prior years	**–**	(18)
South African capital gains taxation	**2**	(4)
Current tax	**2**	1
Deferred tax	**–**	(5)
Stamp duty	**–**	2
	299	146
Tax – abnormal items (note 9)	**–**	36
Total taxation	**299**	182
	%	%
Shareholders' taxation rate reconciliation		
Effective taxation rate	**41.5**	33.9
Destiny Health losses	**(8.3)**	(10.4)
Prudential Health losses	**(0.7)**	–
Capital profits and dividend income	**1.1**	0.4
Change in prior year estimate	**(2.1)**	4.2
Stamp duty	**–**	(0.1)
Disallowed expenditure	**(1.0)**	–
Other permanent differences	**(0.5)**	2.0
Standard rate of taxation	**30.0**	30.0

Current taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers. Discovery Life has estimated STC credits of R4 million available for set-off against STC arising from future dividend payments.

Destiny Health has tax losses of US$55 million (2003: US$37 million) to carry forward against future taxable income. These tax losses have not been recognised in the financial statements and are available for set-off against future taxable profits.

R million	2004	2003
11. Earnings per share		
Basic earnings per share and basic earnings per share before abnormal items is based on earnings as follows:		
Basic earnings	**418**	362
Adjusted for abnormal items after taxation (note 9)	**–**	(84)
Basic earnings before abnormal items	**418**	278
Headline earnings per share and headline earnings per share before abnormal items is based on earnings as follows:		
Net profit attributable to ordinary shareholders	**418**	362
Adjusted for realised profit on available-for-sale financial instruments net of capital gains tax	**(13)**	(7)
Headline earnings	**405**	355
Adjusted for abnormal items after taxation	**–**	(84)
Headline earnings before abnormal items	**405**	271
Undiluted		
The calculation is based on 504 050 711 (2003: 391 714 277) weighted average ordinary shares in issue during the year ended 30 June 2004. The number of shares in issue prior to the rights issue has been adjusted to account for the bonus element inherent in the rights issue taking place at less than fair value.		
Diluted		
The weighted average ordinary shares in issue is adjusted for the subscription by the “A” cumulative redeemable preference shareholders of that number of ordinary shares that equates to the redemption value of their preference shares (note 25.2) and for the shares issued from the share incentive trust which have not been delivered to participants.		
The diluted weighted average ordinary shares are calculated as follows:		
Weighted average ordinary shares in issue as per earnings per share calculation	**504 050 711**	391 714 277
Subscription by “A” cumulative redeemable preference shareholders	**12 845 782**	20 484 540
Shares issued from share incentive trust	**19 128 265**	19 924 009
	536 024 758	432 122 826

The calculation is based on earnings as for the basic and headline undiluted earnings per share calculations with the addition of investment income after tax of R9 million (2003: R13 million) on the proceeds from shares delivered to participants.

12. Segment information

12.1 Primary segments (business)

The business segments of Discovery are Health, Life and Vitality.

R million	Health – South Africa	Health – United States of America	Health – United Kingdom	Life	Vitality	Holdings	Total
30 June 2004							
New business annualised premium income	**2 122**	**494**	**–**	**554**	**62**	**–**	**3 232**
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 – unrealised							**(62)**
Profit before abnormal items and taxation							**720**
Cash flow statement							
Cash generated by operations	**655**	**(103)**	**(28)**	**(248)**	**62**	**(1)**	**337**
Cash flow from financing activities	**–**	**(12)**	**–**	**–**	**–**	**(27)**	**(39)**
30 June 2003							
New business annualised premium income	2 284	378	–	423	63	–	3 148
Gross inflows under management	9 732	428	–	476	310	–	10 946
Income statement							
Gross income of Group	2 638	332	–	476	310	–	3 756
Outward reinsurance premiums	(133)	(119)	–	(90)	–	–	(342)
Net policyholder benefits	(1 115)	(149)	–	(102)	–	–	(1 366)
Commissions	–	(31)	–	(390)	(17)	–	(438)
Operating and administration expenses	(1 018)	(202)	–	(184)	(260)	–	(1 664)
Transfer from assets/liabilities arising from insurance contracts	–	–	–	346	–	–	346
	372	(169)	–	56	33	–	292
Return on assets arising from insurance contracts	–	–	–	58	–	–	58
Profit from operations	372	(169)	–	114	33	–	350
Investment income and realised profits							110
Financing costs							(25)
Foreign exchange loss – unrealised							(17)
Profit before abnormal items and taxation							418
Cash flow statement							
Cash generated by operations	453	(84)	–	(266)	40	–	143
Cash flow from financing activities	–	139	–	–	–	878	1 017

As the business segments utilise common premises, equipment and systems, it is not considered meaningful to allocate these assets and liabilities by business segment nor to provide cash flow information from investing activities or from working capital changes in this manner.

R million	South Africa	United States of America	United Kingdom	Total
12. Segment information *(continued)*				
12.2 Secondary segments (geographical)				
Health insurance business is conducted in South Africa and the United States of America and is to commence in the United Kingdom. All other activities are conducted in South Africa.				
30 June 2004				
New business annualised premium income	**2 738**	**494**	**–**	**3 232**
Gross inflows under management	**13 811**	**534**	**–**	**14 345**
Income statement				
Gross income of Group	**3 318**	**380**	**–**	**3 698**
Outward reinsurance premiums	**(203)**	**(90)**	**–**	**(293)**
Net policyholder benefits	**(673)**	**(168)**	**–**	**(841)**
Commissions	**(537)**	**(39)**	**–**	**(576)**
Operating and administration expenses	**(1 592)**	**(189)**	**(28)**	**(1 809)**
Transfer from assets/liabilities arising from insurance contracts	**431**	**–**	**–**	**431**
	744	**(106)**	**(28)**	**610**
Return on assets arising from insurance contracts	**98**	**–**	**–**	**98**
Profit from operations	**842**	**(106)**	**(28)**	**708**
Investment income				**121**
Financing costs				**(47)**
Foreign exchange loss – unrealised				**(62)**
Profit before abnormal items and taxation				**720**
Cash flow statement				
Cash flow from operating activities	**196**	**(76)**	**(28)**	**92**
Cash flow from investing activities	**(415)**	**(89)**	**–**	**(504)**
Cash flow from financing activities	**(27)**	**(12)**	**–**	**(39)**
Balance sheet				
Segment assets	**3 794**	**238**	**–**	**4 032**
Segment liabilities	**1 049**	**480**	**–**	**1 529**
30 June 2003				
New business annualised premium income	2 770	378	–	3 148
Gross inflows under management	10 518	428	–	10 946
Income statement				
Gross income of Group	3 424	332	–	3 756
Outward reinsurance premiums	(223)	(119)	–	(342)
Net policyholder benefits	(1 217)	(149)	–	(1 366)
Commissions	(407)	(31)	–	(438)
Operating and administration expenses	(1 462)	(202)	–	(1 664)
Transfer from assets/liabilities arising from insurance contracts	346	–	–	346
	461	(169)	–	292
Return on assets arising from insurance contracts	58	–	–	58
Profit from operations	519	(169)	–	350
Investment income				110
Financing costs				(25)
Foreign exchange loss – unrealised				(17)
Profit before abnormal items and taxation				418
Cash flow statement				
Cash flow from operating activities	266	(56)	–	210
Cash flow from investing activities	(193)	(9)	–	(202)
Cash flow from financing activities	878	139	–	1 017
Balance sheet				
Segment assets	3 157	192	–	3 349
Segment liabilities	1 759	426	–	2 185

R million	2004	2003
13. Equity investments		
Listed at market value		
– available-for-sale	**552**	168
– at fair value through profit and loss	**244**	215
Foreign unit trusts		
– available-for-sale	**50**	49
– at fair value through profit and loss	**7**	–
Local unit trusts		
– at fair value through profit and loss	**–**	9
	853	441
Equity investments		
– available-for-sale	**602**	217
– at fair value through profit and loss	**251**	224
	853	441

The ten largest equity holdings comprise the following (in alphabetical order):

ABSA Group Limited, Anglo American plc, FirstRand Limited, Imperial Holdings Limited, MTN Group Limited, Remgro Limited, RMB Holdings Limited, Sanlam Limited, Standard Bank Group Limited, Tiger Brands Limited

Investments in listed equities were distributed as follows:

	%	%
Financial	**36**	32
Mining	**10**	12
Telecommunications services	**8**	5
Food producers and processors	**7**	8
General industrial	**6**	5
Basic industries	**5**	4
General retailers	**5**	4
Overseas instruments	**4**	8
Unit trusts	**7**	13
Other	**12**	9
	100	100

14. Investment in associate

Discovery has an investment in an associate company Healthbridge (Proprietary) Limited ("Healthbridge"), a provider of electronic commerce communication infrastructure. The investment consists of 300 shares of R1 each representing 30% of the issued ordinary share capital (2003: 30%).

R million	2004	2003
Unlisted shares at cost	*	*
Loans	23	23
Share of post-acquisition deficit	(19)	(19)
Impairment of loan	(2)	–
Carrying value	2	4
Directors' valuation	2	4

* *Unlisted shares at cost are R300 and are held by the Company.*

Summarised financial information of associate company at 30 June:

	Healthbridge	
	2004	2003
Balance sheet		
Non-current assets	1	2
Current assets	12	10
Non-current liabilities	(69)	(69)
Current liabilities	(7)	(7)
Equity	(63)	(64)
Income statement		
Gross income	41	28
Net profit/(loss) for the 12 months ended 30 June	1	(7)
Accumulated deficit at 30 June	(63)	(64)

Healthbridge prepares its financial statements to 30 September. As the most recent audited financial statements of Healthbridge are for a period ended more than six months before the Company's year end, unaudited results covering the period from its financial year end have been used in determining the loss attributable to Discovery.

The cash flow requirements of Healthbridge are funded by the three main shareholders, Discovery Holdings Limited, Dimension Data Holdings Limited and Medscheme Holdings (Proprietary) Limited.

Discovery's share of the accumulated deficit of Healthbridge of R19 million has been accounted for as the loan has been subordinated. This share of the accumulated deficit is included in operating and administration expenses. A further impairment has been raised to reduce the carrying amount of the investment to the net realisable value based on the net asset value of Healthbridge.

R million	2004	2003
15. Loans and receivables		
15.1 Current		
Discovery Health Medical Scheme	**197**	52
Reinsurance debtors	**67**	54
Premium debtors	**39**	27
Franchise loans	**–**	4
Commission debtors	**13**	10
Prepayments	**9**	38
Closed scheme debtors	**5**	8
Other debtors	**61**	51
	391	244
Provision for doubtful accounts	**(38)**	(27)
	353	217
15.2 Non-current		
Deposits held by reinsurer	**66**	84
Less: Fair value adjustment	**–**	(24)
Add: Interest received	**7**	6
	73	66
Other	**4**	8
	77	74
Total loans and receivables	**430**	291
16. Deferred taxation		
Balance at beginning of year	**(19)**	(25)
Implementation of AC 133	**–**	7
Income statement charge	**(82)**	1
Capital gains taxation on market value adjustments:		
– Shareholders	**(13)**	(1)
– Financial assets held at fair value through profit and loss	**(4)**	(1)
Balance at end of year	**(118)**	(19)
Deferred taxation is made up as follows:		
Deferred tax asset	**10**	7
Deferred tax liability	**(128)**	(26)
	(118)	(19)

R million	Opening balance	Charge for the year	Closing balance
Deferred taxation comprises:			
Difference between wear and tear and depreciation	(14)	(1)	(15)
Provisions	5	2	7
Capital gains tax	(1)	(17)	(18)
Other deductible temporary differences			
– Prepayments	(11)	5	(6)
– Other	–	(2)	(2)
Value of Company policyholder fund liabilities in excess of assets	2	1	3
Difference between accounting and tax balances arising from insurance contracts	–	(87)	(87)
	(19)	(99)	(118)

R million	2004	2003
17. Assets and liabilities arising from insurance contracts		
The movements in balances arising from insurance contracts during the year were as follows:		
Assets arising from insurance contracts		
Individual life		
Balance at the beginning of the year	**772**	345
Transfer to income statement	**546**	427
Balance at the end of the year	**1 318**	772
Liabilities arising from insurance contracts		
Group life		
Balance at the beginning of the year	**(9)**	(2)
Transfer to/(from) income statement	**3**	(7)
Balance at the end of the year	**(6)**	(9)
Liabilities arising from reinsurance contracts		
Individual life		
Balance at the beginning of the year	**(16)**	–
Transfer from income statement	**(20)**	(16)
Balance at the end of the year	**(36)**	(16)
18. Intangible assets		
Systems development		
Year ended 30 June		
Opening carrying amount	**36**	32
Foreign exchange differences		
– Cost	**(1)**	(1)
– Accumulated amortisation	**–**	1
Additions	**26**	23
Amortisation charge	**(23)**	(19)
Closing carrying amount	**38**	36
At 30 June		
Cost	**110**	85
Accumulated amortisation	**(72)**	(49)
Carrying amount	**38**	36

R million	Furniture and fittings	Office equipment	Computer equipment	Computer software packages	Motor vehicles	Leasehold improve-ments	Total
19. Equipment							
Year ended 30 June 2003							
Opening carrying amount	52	26	75	34	–	5	192
Foreign exchange differences							
– Cost	(2)	(1)	(3)	–	–	(1)	(7)
– Depreciation	1	1	2	–	–	–	4
Additions	19	2	68	44	1	4	138
Disposals							
– Cost	–	–	(17)	–	–	–	(17)
– Accumulated depreciation	–	–	5	–	–	–	5
Depreciation charge	(12)	(11)	(45)	(25)	–	(1)	(94)
Closing carrying amount	58	17	85	53	1	7	221
At 30 June 2003							
Cost	81	59	221	120	2	9	492
Accumulated depreciation	(23)	(42)	(136)	(67)	(1)	(2)	(271)
Carrying amount	58	17	85	53	1	7	221
Year ended 30 June 2004							
Opening carrying amount	**58**	**17**	**85**	**53**	**1**	**7**	**221**
Foreign exchange differences							
– Cost	**(1)**	**(1)**	**(2)**	**–**	**–**	**–**	**(4)**
– Depreciation	**–**	**1**	**1**	**–**	**–**	**–**	**2**
Additions	**16**	**3**	**20**	**48**	**3**	**3**	**93**
Disposals							
– Cost	**–**	**–**	**(1)**	**–**	**–**	**(1)**	**(2)**
– Accumulated depreciation	**–**	**–**	**1**	**–**	**–**	**1**	**2**
Depreciation charge	**(15)**	**(9)**	**(48)**	**(35)**	**(1)**	**(3)**	**(111)**
Closing carrying amount	**58**	**11**	**56**	**66**	**3**	**7**	**201**
At 30 June 2004							
Cost	**96**	**61**	**238**	**168**	**5**	**11**	**579**
Accumulated depreciation	**(38)**	**(50)**	**(182)**	**(102)**	**(2)**	**(4)**	**(378)**
Carrying amount	**58**	**11**	**56**	**66**	**3**	**7**	**201**

R million	2004	2003
20. Current liabilities		
Payables and accrued liabilities	**182**	122
Outstanding claims	**177**	235
Deferred income	**54**	59
Reinsurance payable	**43**	40
Personal medical funds	**32**	17
Payroll creditors	**21**	7
Value-added tax	**13**	7
Forward exchange contract liability	**6***	14
Other creditors	**50**	46
	578	547
**The forward exchange contract has been entered into to hedge Discovery's initial investment into PruHealth. (Refer to note 27 for further details.)*		
21. Provisions		
Provision for leave pay		
At 1 July	**16**	9
Charged to income statement	**6**	7
At 30 June	**22**	16
22. Financial liabilities – investment contracts at fair value through profit and loss		
The movements during the year were as follows:		
Balance at the beginning of the year	**370**	579
Premium income	**29**	30
Policyholder benefits	**(60)**	(172)
Fees on policyholder funds	**(6)**	(2)
Capital gains tax	**(4)**	(1)
Fair value adjustment to liabilities arising from investment contracts	**71**	(64)
Balance at the end of the year	**400**	370

R million	2004	2003
23. Borrowings at amortised cost		
23.1 Current		
FirstRand Limited – ultimate holding company	**–**	876
	–	876
In the prior year, Discovery proceeded with a rights offer to raise R875 million (the 2003 balance includes accrued interest payable of R1 million) through the issue of 134 615 385 new Discovery shares. FirstRand Limited ("FirstRand") undertook to pay the subscription price for the new Discovery shares. Discovery shareholders then had the right to acquire their pro rata portion of the new Discovery shares. The clawback offer closed on 25 July 2003. As the new Discovery shares were only issued after 30 June 2003 and listed on the JSE on 28 July 2003, the total subscription price of the shares was reflected in the balance sheet at 30 June 2003 as a short-term loan owing to FirstRand.		
23.2 Non-current		
Loan from RMB International (Dublin) Limited	**315**	280
Other	**1**	1
	316	281
Total borrowings at amortised cost	**316**	1 157

On 20 June 2003 Destiny Health entered into a subordinated convertible loan agreement with RMB International (Dublin) Limited ("RMBI"), in the amount of R279 million (the "loan amount"). The loan carries an interest rate of 11.85% per annum compounded monthly on the loan amount and on accrued but unpaid interest. The loan matures on 30 June 2008, and requires deferred interest payments which commence on 30 June 2006 and semi-annually thereafter through to 30 June 2008. The loan is guaranteed by Discovery Holdings Limited and Discovery Health (Proprietary) Limited ("the guarantors"). At Destiny's sole option, the loan may be settled in full on the maturity date in cash or by issuing shares of its common stock. Where the loan amount is converted into common stock, the loan outstanding must be repaid by the guarantors. Upon repayment, the Destiny stock must be delivered by RMBI to Discovery Holdings or its nominee.

In terms of the guarantee document the more significant terms requiring the prior written consent of RMBI are the following:

- The companies in the Discovery Group may not encumber present or future revenues or assets or sell, lease, transfer or otherwise dispose of any material part of their revenues or assets.
- The Discovery Group will not incur any additional indebtedness in excess of R150 million.
- Net unencumbered cash or cash equivalents in the form of permitted investments, including government debt securities and other investments guaranteed by the government with maturity of less than 90 days, of at least the loan outstanding will be held by the Discovery Group.

Subsequent to the year end, RMBI advanced a further US$3.8 million in terms of the above facility.

R million	2004	2003
24. Outside shareholders' interest in Destiny Health		
At 1 July	**67**	184
Preference shares issued during the year	**–**	217
Ordinary shares issued to outside shareholders	**2**	6
Buy-back of ordinary shares from outside shareholders	**(5)**	(1)
Redemption of preference shares	**–**	(334)
Share of translation reserve	**–**	1
Share of loss of Destiny Health	**3**	(6)
At 30 June	**67**	67
Outside shareholders' interest comprises:		
Preference shares	**67**	67
Ordinary shares	**3**	6
Share of translation reserve	**1**	1
Share of loss of Destiny Health	**(4)**	(7)
	67	67

Destiny Health issued the following Series A preference shares on 12 December 2000:

- 3 million preference shares issued to Hannover Life Reassurance Africa Ltd at US$1 per share;
- 6 million preference shares issued to Hannover Life Reassurance (Ireland) Limited at US$1 per share.

No voting rights are attached to these shares. An annual dividend is payable at a rate of 1.5% per annum.

Destiny Health has the right to redeem the preference shares or to convert such shares at its option into ordinary shares after three years following initial issuance. Each share of Series A preference shares is convertible into one ordinary share. To the extent that the shares are not converted or redeemed after a three-year period, Destiny Health must convert into ordinary shares or redeem the preference shares after five years following the initial issuance.

The preference shares rank prior to ordinary shares upon liquidation.

	Number of shares	Ordinary shares R million	Share premium R million	Total R million
25. Share capital and share premium				
25.1 Ordinary share capital and share premium				
At 1 July 2002	390 625 296	1	543	544
Issued during the year:				
– Share incentive trust	7 175 000	*	52	52
At 30 June 2003 – Company share capital	397 800 296	1	595	596
Consolidation of share incentive trust	(19 924 009)	*	(167)	(167)
At 30 June 2003 – Group share capital	377 876 287	1	428	429
At 1 July 2003	397 800 296	1	595	596
Issued during the year:				
– Rights offer	134 615 385	*	875	875
Share issue expenses		–	(30)	(30)
At 30 June 2004 – Company share capital	532 415 681	1	1 440	1 441
Consolidation of share incentive trust	(19 128 265)	*	(165)	(165)
At 30 June 2004 – Group share capital	**513 287 416**	**1**	**1 275**	**1 276**

** Amount is less than R500 000*

The total authorised number of ordinary shares is 1 000 000 000 ordinary shares of 0.1 cents.

The unissued share capital is under the control of the directors of the company until the forthcoming annual general meeting of shareholders.

25.2 Preference share capital

In June 2001, Discovery Life issued 1 500 000 "A" cumulative redeemable preference shares of 1 cent each to certain directors and employees. The total authorised number of preference shares is 1 500 000 of 1 cent each.

The shares are redeemable at the option of the preference shareholders as follows:

- 33% of the preference shares on 30 June 2004;
- 33% of the preference shares on 30 June 2005; and
- 34% of the preference shares on 30 June 2006.

Preference shares not redeemed on an aforementioned date, may only be redeemed the following year. All preference shares shall be compulsorily redeemed on 30 June 2006. The valuation is related to 15% of the shareholder value generated by the new life business.

On redemption date, the preference shareholders are obliged to invest the full amount of cash received from Discovery Life in Discovery Holdings ordinary shares. Discovery Holdings is, in turn, obliged to invest an equivalent amount in new ordinary shares of Discovery Life.

The first tranche of 33% of the preference shares were redeemable on 30 June 2004. By agreement with all the preference shareholders, this tranche will be redeemed on 31 August 2004 at a premium of R108.44 per share. The preference shareholders will subscribe for 4 270 530 ordinary shares in Discovery Holdings at a price of R12.57 per share, being the weighted average price for the 30 days ended 30 June 2004.

"A" cumulative redeemable preference shareholders shall not be entitled to receive any dividends.

The "A" cumulative preference shares rank ahead of the ordinary shares in the event of a liquidation.

Shares	2004	2003
25. Share capital and share premium *(continued)*		
25.3 Discovery Holdings share incentive trust		
Number of ordinary shares allocated at the beginning of the year	**19 924 009**	13 787 422
Number of ordinary shares issued during the year	**–**	7 175 000
Number of ordinary shares delivered to participants during the year	**(795 744)**	(1 038 413)
Number of ordinary shares allocated at the end of the year	**19 128 265**	19 924 009

The Discovery Holdings share incentive scheme is a "deferred implementation" incentive scheme. Options are exercised at the market share price ruling on the date the options are allocated and must be exercised on that date. Shares offered to participants are issued to the trust on the same date.

Of the shares offered at option date, delivery may only be taken by the participant two, three, four and five years after the option is exercised at a rate of 25% per annum. Any shares not taken delivery of by the end of the fifth year from the date the option is exercised, must be delivered to the participant. No payment is required from the participant until delivery of the shares is taken. Payment for the shares must be made before delivery of the shares can be taken. The trust has not offered loans to participants. All staff are eligible to participate in the share incentive scheme.

R million		
26. Reserves		
Retained earnings		
Retained earnings at the beginning of the year	**634**	301
AC 133 adjustments to opening balance	**–**	(17)
Earnings attributable to ordinary shareholders	**418**	362
Dividends paid to Destiny Health preference shareholders	**(1)**	(12)
Realised loss on minority share buy-back	**(5)**	–
Retained earnings at the end of the year	**1 046**	634
Non-distributable reserves		
Investment reserve	**51**	(4)
Currency translation reserve	**69**	52
Hedging reserve	**(6)**	(14)
Total non-distributable reserves	**114**	34
Total reserves	**1 160**	668
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	**34**	16
Unrealised gains/(losses) on investments	**69**	(28)
Realised gains on investments transferred to income statement	**(14)**	(7)
Currency translation reserve	**17**	67
Revaluation of forward exchange contracts	**8**	(14)
Balance at the end of the year	**114**	34

27. Financial instruments

Risks from financial instruments held by the Group

The main risks arising from Discovery's financial instruments and transactions are foreign currency risk, investment/liquidity risk, credit risk, interest rate risk and market risk. The board of directors reviews the compliance with Discovery's stated policies.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Destiny Health conducts all its transactions in US dollars. Offshore assets are held by policyholder and shareholder portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The Group manages short-term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges. At year end a forward exchange contract was hedging Discovery's future investment of £10 million into PruHealth to finance the joint venture entered into with Prudential Assurance Company Limited. This investment will be made in the forthcoming financial year once all the terms of the contract have been met. The risk hedged is an exchange loss due to an unfavourable movement in the exchange rate between the Rand and the Pound. At year end the loss on the cash flow hedge, reflected in the statement of changes in equity, amounted to R6 million.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Discovery, are included in the Group balance sheet:

R million	Rand	£	US$	Euro	Total
30 June 2004					
Insurance and investment contracts					
Assets					
Cash and cash equivalents	280	–	–	–	280
Investments at fair value through profit and loss:					
– Government and public authority stocks	38	–	14	–	52
– Equity investments	225	3	14	9	251
Investment assets	543	3	28	9	583
Liabilities					
Outstanding claims	146	–	31	–	177
Liabilities arising from insurance contracts	6	–	–	–	6
Financial liabilities					
– Investment contracts at fair value through profit and loss	400	–	–	–	400
Total liabilities	552	–	31	–	583
Shareholders					
Assets					
Cash and cash equivalents	624	–	94	–	718
Investments available-for-sale:					
– Government and public authority stocks	35	–	95	–	130
– Equity investments	539	2	10	51	602
Investment in associate company	2	–	–	–	2
Investment assets	1 200	2	199	51	1 452
Loans and receivables	382	–	48	–	430
Deferred taxation	10	–	–	–	10
Assets arising from insurance contracts	1 318	–	–	–	1 318
Intangible assets	37	–	1	–	38
Equipment	195	–	6	–	201
Total assets	3 142	2	254	51	3 449

R million	Rand	£	US$	Euro	Total
27. Financial instruments *(continued)*					
Shareholders *(continued)*					
Equity and liabilities					
Current liabilities	269	–	132	–	401
Provisions	22	–	–	–	22
Taxation	43	–	–	–	43
Deferred taxation	128	–	–	–	128
Liabilities arising from reinsurance contracts	36	–	–	–	36
Borrowings at amortised cost	315	–	1	–	316
Total liabilities	813	–	133	–	946
Outside shareholders' interest	–	–	67	–	67
Share capital and share premium	1 276	–	–	–	1 276
Reserves/(losses)	1 699	–	(539)	–	1 160
Total equity and liabilities	3 788	–	(339)	–	3 449
30 June 2003					
Insurance and investment contracts					
Assets					
Cash and cash equivalents	294	2	40	–	336
Investments at fair value through profit and loss:					
– Government and utility stocks	39	–	15	–	54
– Equity investments	204	–	20	–	224
Investment assets	537	2	75	–	614
Liabilities					
Outstanding claims	202	–	33	–	235
Liabilities arising from insurance contracts	9	–	–	–	9
Financial liabilities					
– Investment contracts at fair value through profit and loss	370	–	–	–	370
Total liabilities	581	–	33	–	614
Shareholders					
Assets					
Cash and cash equivalents	1 057	–	76	–	1 133
Investments available-for-sale:					
– Government and utility stocks	31	–	23	–	54
– Equity investments	154	–	14	49	217
Investment in associate company	4	–	–	–	4
Investment assets	1 246	–	113	49	1 408
Loans and receivables	233	–	58	–	291
Deferred taxation	7	–	–	–	7
Assets arising from insurance contracts	772	–	–	–	772
Intangible assets	34	–	2	–	36
Equipment	211	–	10	–	221
Total assets	2 503	–	183	49	2 735
Equity and liabilities					
Current liabilities	205	–	107	–	312
Provisions	16	–	–	–	16
Taxation	44	–	–	–	44
Deferred taxation	26	–	–	–	26
Liabilities arising from reinsurance contracts	16	–	–	–	16
Borrowings at amortised cost	1 156	–	1	–	1 157
Total liabilities	1 463	–	108	–	1 571
Outside shareholders' interest	–	–	67	–	67
Share capital and share premium	429	–	–	–	429
Reserves/(losses)	1 012	–	(344)	–	668
Total equity and liabilities	2 904	–	(169)	–	2 735

27. Financial instruments *(continued)*

Investment/liquidity risk

Liquidity risk is the risk that Discovery will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts.

Discovery is required to ensure that its investment return on assets is sufficient to cover policyholders' benefits and that the maturity of the assets and liabilities are matched. Discovery has an actuarial committee which determines the nature and spread of investments required to meet the liabilities, taking into account the prudential requirements set by the regulatory authorities.

Credit risk

Credit risk is the risk that a counter party to a financial instrument will default on their obligation to Discovery, thereby causing financial loss.

Discovery does not have a significant concentration of credit risk. The risk of cash and cash equivalents is managed through dealings with the major banks. Accounts receivable are spread among a number of medical schemes, customers and geographic areas. An appropriate level of provision is maintained.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in government and utility stocks and money market securities and deposits are managed by professional portfolio managers.

The following assets will be affected by changes in market interest rates:

		Maturity date			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
2004					
Insurance and investment contracts					
Cash and cash equivalents	**280**	**280**	**–**	**–**	**–**
Government and public authority stocks	**52**	**14**	**22**	**14**	**2**
	332	**294**	**22**	**14**	**2**
Shareholders					
Cash and cash equivalents	**718**	**718**	**–**	**–**	**–**
Government and public authority stocks	**130**	**95**	**12**	**21**	**2**
	848	**813**	**12**	**21**	**2**
2003					
Insurance and investment contracts					
Cash and cash equivalents	336	336	–	–	–
Government and public authority stocks	54	14	20	16	4
	390	350	20	16	4
Shareholders					
Cash and cash equivalents	1 133	1 133	–	–	–
Government and public authority stocks	54	23	16	12	3
	1 187	1 156	16	12	3

27. Financial instruments *(continued)*

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

All market securities are managed by institutional portfolio managers.

Capital adequacy risk

Capital adequacy risk is the risk that there will be insufficient reserves to provide for adverse variations in actual future experience as compared with that which has been assumed in the financial soundness valuation.

Capital adequacy requirements of Discovery Life totalling R883 million (2003: R669 million) were covered 2.2 times at 30 June 2004 (2003: 2.45 times).

Underwriting risk

Underwriting risk is the risk that the actual exposure to mortality and morbidity risks will exceed the best estimate of the statutory valuator.

The statutory valuator performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality and morbidity risks above a set retention limit are reinsured. All applications for mortality and morbidity cover are evaluated against strict underwriting criteria and are accompanied by compulsory HIV testing, in the case of cover above set limits.

28. Related parties

Major shareholder

The major shareholder of Discovery Holdings Limited is FirstRand Limited which is incorporated in South Africa.

Transactions with share trusts

Interest-free loans to share trusts amounted to R165 million at 30 June 2004 (2003: R167 million).

Transactions with directors

Directors' emoluments are detailed below and on page 349. Transactions with directors are entered into in the normal course of business.

R million	**2004**	2003
Directors' emoluments paid		
Executive directors		
Salaries, pension and medical aid contributions	**14.0**	11.9
Non-executive directors		
Fees for services as directors	**0.5**	0.2
	14.5	12.1
Less: paid by subsidiaries	**(14.5)**	(12.1)
Paid by holding company	**–**	–
Loans to directors – SD Whyte		
Balance at the beginning of the year	**–**	0.8
Interest	**–**	0.1
Loan repayments	**–**	(0.9)
Balance at the end of the year	**–**	–

28. Related parties *(continued)*

Transactions with entities in the Group

FirstRand Limited

The clawback offer to Discovery shareholders was fully underwritten by FirstRand who subscribed for the 134 615 385 new Discovery shares on 27 June 2003. Discovery shareholders then had the right to acquire the pro rata portion of the new Discovery shares. Discovery paid FirstRand an underwriting fee of R11 million for this service. In addition, interest of R9 million was paid by Discovery to compensate FirstRand for the time value of money factor in respect of the period from date of subscription to the closing date of the clawback offer. The time value of money factor was calculated based on a rate of JIBAR plus 0.5%.

First National Bank, a division of FirstRand Bank Limited

Discovery has certain bank accounts with First National Bank. All bank charges and interest are calculated on an arm's length basis. Funds held at First National Bank at 30 June 2004 totalled R73 million (2003: R155 million).

Discovery Health administers call accounts on behalf of First National Bank. These call accounts comprise funds deposited by Discovery Health's clients to be used for (but not limited to) payment of their daily medical expenses not covered by DHMS and the managed closed medical schemes. These call accounts amounted to R218 million at year end (2003: R316 million). These call accounts are neither assets nor liabilities of Discovery as it acts solely as administrator.

Rand Merchant Bank, a division of FirstRand Bank Limited

Discovery has certain call accounts with Rand Merchant Bank. All bank charges and interest are calculated on an arm's length basis. Funds held at Rand Merchant Bank at 30 June 2004 totalled R1 million (2003: R489 million).

Previously, Discovery had entered into a scrip lending arrangement with Rand Merchant Bank. Exposure to credit risk, liquidity risk and cash flow risk resulting from the scrip lending arrangements is limited as the arrangements are with a major banking group.

Fees earned from scrip lending in the prior year amounted to R0.3 million. The value of the equities on loan at 30 June 2004 is nil (2003: R9 million).

Discovery paid fees of R15 million to FirstRand Bank Limited, acting through Rand Merchant Bank Corporate Finance, for a variety of services including advice on Discovery's capital raising.

Momentum Distribution Services, a division of Momentum Group Limited

In the prior year, Discovery reimbursed Momentum Distribution Services for distribution expenses on an arm's length basis in respect of new business sold. The amount totalled R60 million during 2003.

Rand Merchant Bank International (Dublin) Limited ("RMBI")

On 20 June 2003, RMBI loaned Destiny Health R279 million (refer to note 23.2). Interest charged during the year totalled R33 million (2003: R1 million).

RMB Asset Management (Proprietary) Limited

Discovery utilises RMB Asset Management to manage its investment portfolios. Investment management commission percentages are fixed on an arm's length basis. Discovery paid RMB Asset Management fees of R2 million (2003: R2 million). The total assets under management amounted to R1 023 million (2003: R610 million).

Investments held in entities in the Group

Included in Discovery Life's investments held at available-for-sale, are holdings in RMB Holdings Limited of 1 257 870 shares and FirstRand Limited of 2 866 718 shares.

Included in Discovery Life's investments held at fair value through profit and loss, are holdings in RMB Holdings Limited of 529 167 shares and FirstRand Limited of 1 191 732 shares.

Transactions with other related parties

Discovery Health Medical Scheme ("DHMS")

From 1 January 2003 to 31 December 2003, Discovery Life reinsured on a quota share basis 20% of the claims of DHMS which were not payable out of the individual members' savings accounts. For the 2002 calendar year, the applicable percentage was 33%. A stop loss reinsurance agreement was entered into with DHMS for a loss ratio in excess of 102.3% effective 1 January 2002. The quota share and stop loss reinsurance agreements have not been approved by the Council for Medical Schemes for the 2004 calendar year. Reinsurance of the international travel benefit with DHMS was discontinued with effect from 1 March 2003. Quota share and stop loss reinsurance premiums received from DHMS totalled R597 million (2003: R1 277 million). These rates are reviewed by an external actuary and are determined on an arm's length basis.

28. Related parties *(continued)*

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed health care fee respectively. These fees are determined on an arm's length basis and totalled R1 280 million (2003: R1 043 million) net of VAT.

Discovery offers the members of DHMS access to the Vitality programme.

Interest paid to DHMS amounted to R5 million (2003: R4 million).

DHMS owes Discovery R197 million (2003: R52 million) at year end.

Managed medical schemes

Discovery Health administers the following closed medical schemes:

- Anglovaal Group Medical Scheme
- Medisense Medical Scheme
- CSIR Medical Scheme
- IBM (SA) Medical Aid Society
- Southern Sun Group Medical Scheme
- Edcon Medical Aid Scheme
- Retail Medical Scheme
- Quantum Medical Aid Society

Discovery Consulting Services

Discovery has established a network of 24 franchises in order to establish a national footprint for its products. Discovery has paid R121 million (2003: R86 million) in fees to the franchises.

R million	**2004**	2003
29. Capital commitments		
Approved but not contracted for	**172**	170
These capital commitments relate to telecommunication, software packages, software development, leasehold improvements, computer and other equipment. The capital commitments are to be incurred in the forthcoming year and are to be funded from internally generated funds.		
30. Future lease commitments		
Discovery has various operating lease agreements for equipment and offices. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.		
Discovery leases all land and buildings under operating leases. The remaining periods of the leases are from one month to eight years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:		
Due within one year	**63**	55
Due within two to five years	**271**	172
Due after five years	**248**	248
	582	475
Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from one month to three years. The future minimum commitments are as follows:		
Due within one year	**52**	39
Due within two to five years	**40**	24
	92	63

31. Contingencies

There are no contingencies at year end other than the guarantee referred to in note 23.2 and no material claims had been instituted against Discovery Holdings Limited or any of its subsidiaries.

32. Comparative figures

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

- In line with additional accounting standard guidance received during the current year, the provision for reinsurance previously disclosed in financial liabilities has been reclassified in liabilities under reinsurance contracts.
- Money market instruments in the investment portfolios, previously included in investments have been reclassified as cash and cash equivalents.
- Outside shareholders' interest in Destiny Health consisting of preference shares, were converted at R14/US$1 in the prior year and not at historical rates of R7/US$1 in accordance with the Group's accounting policy. Comparative figures have therefore been restated to record the preference shares at historical rates. The effect of this restatement is to increase the currency translation reserve by R60 million and reduce outside shareholders' interest by R60 million.

R million	**2004**	2003
33. Cash flow information		
33.1 Cash generated by operations		
Operating profit before taxation	**720**	538
Adjusted for:		
Transfer from assets/liabilities under insurance contracts	**(529)**	(543)
Depreciation	**111**	94
Amortisation	**23**	19
Profit on disposal of fixed assets	**–**	(3)
Investment income	**(124)**	(123)
Realised and unrealised investment gains and losses	**(68)**	77
Fair value adjustment to liabilities arising from investment contracts	**71**	(64)
Financing costs	**47**	25
Foreign exchange loss – unrealised	**62**	17
Provisions	**16**	20
Deferred income	**(5)**	(2)
Share of post-acquisition deficit in associate	**2**	2
Impairment of loan	**2**	–
Translation differences	**9**	86
	337	143

R million	2004	2003
33. Cash flow information *(continued)*		
33.2 Working capital changes		
(Increase)/decrease in receivables and prepayments	**(137)**	201
Increase/(decrease) in trade and other payables	**18**	(43)
	(119)	158
33.3 Taxation paid		
Balance at beginning of the year	**(44)**	(39)
Taxation charged for the year in the income statement	**(299)**	(182)
Adjustment for movement in deferred taxation	**82**	(1)
Taxation charged for the year to the investment liability	**4**	(2)
Balance at end of the year	**43**	44
	(214)	(180)
33.4 Investment purchases		
Government and public authority stocks	**152**	27
Equity investments	**413**	77
	565	104
33.5 Proceeds on disposal of investments		
Government and public authority stocks	**64**	23
Equity investments	**112**	33
	176	56
33.6 Proceeds for shares issued		
Share capital issued during the year	**875**	7
Shares issued to Discovery Holdings Share Incentive Trust	**–**	(7)
Deferred delivery shares taken up	**2**	2
Proceeds from issue of ordinary shares in Destiny Health	**1**	6
Proceeds from issue of preference shares in Destiny Health	**–**	217
	878	225
33.7 Increase in borrowings		
Balance at the end of the year	**316**	281
Less: Accrued and unpaid interest on loan to Destiny Health	**(33)**	(1)
Less: Foreign exchange loss – unrealised	**(62)**	(17)
Add: Foreign exchange translation	**60**	–
Less: Balance at the beginning of the year	**(281)**	–
Increase in borrowings	**–**	263

33.8 Cash and cash equivalents

Cash and cash equivalents at 30 June 2004 is R998 million (2003: R1 469 million). Included in cash and cash equivalents is R92 million (2003: R80 million) which is held by Destiny Health Insurance Company as part of its statutory capital.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Inc
Reg. no. 1998/012055/21
No 1 Waterhouse Place
Century City 7441
PO Box 2799
Cape Town 8000
Telephone +27 (21) 529 2000
Facsimile +27 (21) 529 3300
www.pwc.com/za

26 August 2004

The Directors
Discovery Holdings Limited
155 West Street
Sandton 2146

Dear Sirs and Mesdames

Embedded Value of Discovery Holdings Limited

The consolidated embedded value of Discovery Holdings Limited ("Discovery") at 30 June 2004, an analysis of the change in this embedded value over the twelve months to 30 June 2004 and the value of one year's new business are set out on pages 337 to 343 of these accounts.

We have reviewed the calculation of Discovery's 30 June 2004 embedded value, the value of one year's new business, the methodology and assumptions underlying those calculations, new models and model changes since the previous year end valuation, and the analysis of change in embedded value. This letter summarises the results of our review.

We are satisfied that the embedded value results in aggregate, and in all material respects for each of Discovery Health, Vitality, Discovery Life and Destiny Health, are reasonable and have been calculated in accordance with the requirements of PGN 107: Embedded Values and Value of New Business. PGN 107 represents best practice guidance issued by the Actuarial Society of South Africa, and relates to long-term insurance business. Similar principles have been used to value business other than long-term insurance business.

We are satisfied that Discovery's analysis of the change in the embedded value over the period 30 June 2003 to 30 June 2004 is a fair representation of operating experience and other variances.

We are satisfied that the assumptions used by Discovery are reasonable for the purposes of the embedded value calculation. The assumptions were based on the most recent experience, and other market benchmarks, available at the time. The Destiny Health business and the recent business ventures with Tufts and Guardian Alliance, are relatively young. There is therefore a lack of credible experience for Destiny Health and for this reason it is difficult to determine future experience assumptions with confidence. Variations in the operating environment and experience over time are normal and are to be expected, and any such variations will impact on the embedded value. However, until this company reaches a more mature state, Destiny Health's future experience is uncertain, and this may result in the embedded value for Destiny Health being comparatively highly variable.

In performing our work, we have relied on information supplied to us by, or on behalf of, Discovery for periods up to 30 June 2004 and on information from other sources. The information included statistical data relating to current and recent operating experience. We have reviewed this information for reasonableness based on our knowledge of the industry but we have not carried out independent checks thereof.

Yours faithfully

Mark Claassen
Fellow of the Institute of Actuaries
Fellow of the Actuarial Society of South Africa

Francois Millard
Fellow of the Institute of Actuaries
Fellow of the Actuarial Society of South Africa

QED Actuaries & Consultants (Pty) Ltd

26 August 2004

The Directors
Discovery Holdings Limited
155 West Street
Sandton
2146

Dear Sirs

QED Actuaries and Consultants (Pty) Ltd ("QED") have reviewed the calculation of the embedded value of Discovery Holdings Limited and subsidiaries ("Discovery") at 30 June 2004. The review includes the analysis of the change in the embedded value over the twelve months to 30 June 2004, and the value of new business written over this period. The results are set out on pages 337 to 343 in this report.

On pages 296 to 298 in this report we have set out the Statement of actuarial values of assets and liabilities in which we certify the assumptions and methodology used to calculate the actuarial liabilities. The embedded value of the long-term insurance business has been calculated based on the valuation set out in this statement, taking into account the professional guidance issued by the Actuarial Society of South Africa (PGN107) with respect to embedded value calculations. We are therefore satisfied with the assumptions and methodology used to calculate the embedded value and with the results produced using Discovery's actuarial systems. Similar principles have been used to value other business not classified as long-term insurance business and we are also satisfied that these results are reasonable and consistent with the embedded value calculated for the long-term insurance business.

We are satisfied that the analysis of the change in the embedded value and the value of new business for the twelve month period to 30 June 2004 are a fair representation.

In reviewing the embedded value we have relied upon certain audited and unaudited information, including the total assets of Discovery shown on page 307 in this report. In addition we have used the risk discount rates as agreed by the Actuarial Committee.

Yours faithfully

R.D. Williams

Statutory Actuary
Fellow of the Institute of Actuaries
Fellow of the Actuarial Society of South Africa

L. Pines

Fellow of the Institute of Actuaries
Fellow of the Actuarial Society of South Africa

Postal Address: PO Box 413313, Craighall 224, South Africa
Physical Address: 55 Sixth Road, Hyde Park, Sandton
Telephone +27(0)11 537-4646 Fax: + 27(0)11 327 3800 Reg. No: 1991/5277/7
**Directors: M. Arnold* B.Sc. FIA (Chairman), R.D. Williams B.Bus.Sc. FIA (Managing),
P.C. Falconer B.Sc. FFA, C.T. Hendriks B.Sc. (Hons) FIA, L.S. Pines B.Sc. FIA, B.W. Reekie* B.Sc. (Hons) FIA * British**

Embedded value statement / for the year ended 30 June

Business model / The figures in this report represent the consolidated embedded value of Discovery Holdings Limited and its subsidiaries ("Discovery"). The embedded value is broken down by product category, as detailed below:

Health and Vitality / The Discovery Health Medical Scheme ("DHMS") insures members for healthcare related expenses. Discovery provides administration, managed care and risk management services to DHMS. Profits emerge from medical scheme administration and managed care services provided by Discovery Health (Pty) Limited ("Discovery Health"). The same services offered to DHMS are offered to other closed schemes through Discovery InHouse.

Vitality offers health and lifestyle benefits with selected partners to medical scheme members and Life policyholders. Vitality creates incentives for members and policyholders to improve their health. KeyClub offers similar benefits to members on the KeyCare plans. Vitality and KeyClub membership is voluntary.

Life / Discovery offers a unique, innovative living assurance product that assists policyholders in maintaining their lifestyle when illness, disability or death threatens.

Destiny Health / Destiny Health Inc. ("Destiny Health") is a health insurer owned by Discovery Holdings and operating in the United States of America. Over the past year, Destiny Health has rolled out joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.

Embedded value calculation / An embedded value can be defined as:

- the value of shareholders' funds; plus
- the value of in-force business less an allowance for cost of capital.

Each of these elements is discussed in more detail below:

1. Shareholders' funds / The Discovery shareholders' funds are the audited values of the assets of Discovery in excess of its liabilities (including policy liabilities determined using the Financial Soundness Valuation ("FSV") method).

It therefore represents the consolidated shareholders' funds of the following companies:

- Discovery Life Limited
- Discovery Health (Pty) Limited
- Vitality Lifestyle (Pty) Limited
- Destiny Health Inc.

2. Value of in-force business less an allowance for the cost of capital / The value of in-force business is calculated as the value of the projected future after-tax profits of the business of Discovery Holdings in-force at the valuation date, discounted at the risk discount rate, less an allowance for the cost of capital. These projections have been performed using best estimate assumptions of future experience.

This value is calculated by making assumptions about the major influences on the profits of Discovery in the future. For the Health, Vitality and Destiny Health products, the future after-tax profit of in-force business represents the value of future profit elements, while the future after-tax profit for the Life product is the release of valuation margins on individual business and the value of future profit elements on group business.

The business of writing life and health insurance requires Discovery Life Limited and Destiny Health to maintain sizeable solvency capital. The cost of capital in respect of the in-force business is calculated to equal the amount of solvency capital at the valuation date, less the discounted value, using the risk discount rate, of the expected annual release of this capital over the projection term, allowing for the return after tax and investment management charges on the expected level of solvency capital.

Embedded value statement

Consolidated embedded value / The consolidated embedded value statement is shown in Table 1 below.

Table 1
Embedded value
at 30 June

R million	**2004**	2003	% change	2003[1] (Illustrative, after capital raising)
Shareholders' funds[2]	**2 436**	1 097		1 944
Value of in-force business before cost of capital	**4 803**	4 021	19	4 021
Cost of capital	**(363)**	(190)		(190)
Discovery Holdings embedded value	**6 876**	**4 928**	**40**	**5 775**
Number of shares (millions)	**513.3**	377.9		513.3
Embedded value per share	**R13.40**	R13.04	3	R11.25
Diluted embedded value per share[3]	**R12.89**	R12.20	6	R10.76

1 In June 2003, Discovery proceeded with a clawback offer to raise R875 million at an issue price of R6.50 per share. The shares were issued and listed on the JSE on 28 July 2003. At 30 June 2003, the capital raised was reflected as a short-term loan owing to FirstRand Limited, but is now included in shareholders' funds. The embedded value at 30 June 2003 has been restated for illustrative purposes to demonstrate the impact of including the capital raised (net of preliminary and share issue expenses) in shareholders' funds, and including the shares issued in the calculation of embedded value per share.

2 Outside shareholders' interest in Destiny Health consisting of preference shares, were converted at R14/US$1 in the prior year and not at historical rates of R7/US$1 in accordance with the Group's accounting policy. Comparative figures have therefore been restated to record the preference shares at historical rates. The effect of this restatement is to increase the currency translation reserve by R60 million and reduce outside shareholders' interest by R60 million.

3 The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the share trust, and by increasing the number of shares by both the number of shares that equate 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.

Shareholders' required return / The shareholders' required return, or risk discount rate, is used to calculate the discounted value of future profits. At 30 June 2004, the following discount rates were used:

Health and Vitality – 12.50% per annum

Life – 12.50% per annum

Destiny Health – 10.00% per annum

It is the policy of Discovery to use an active basis, in other words a basis that changes in line with market movements. Historically, the Health and Vitality products attracted a higher risk discount rate than the Life product to account for the higher risk inherent in these products and operating markets. Due to the reduction in health reinsurance and greater certainty which exists in the Health business, the risk discount rate differential between the Health and Life products has been removed. As shown in Table 6 below this increased the embedded value by R98 million. The lower Destiny Health risk discount rate allows for the lower US interest rates and economic environment.

Value of in-force business / The value of in-force business is shown in Table 2 below:

Table 2

Value of in-force business

at 30 June 2004

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	**3 194**	**–[1]**	**3 194**
Life	**1 447**	**(340)**	**1 107**
Destiny Health[2]	**162**	**(23)**	**139**
Total	**4 803**	**(363)**	**4 440**

1 With effect from 1 January 2004, no allowance has been made for the inclusion in the Health value of in-force of any reinsurance contracts and the cost of capital associated with such contracts.

2 Figures for Destiny Health reflect Discovery's 98.1% shareholding in Destiny Health at 30 June 2004.

at 30 June 2003

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	3 007	(17)	2 990
Life	901	(145)	756
Destiny Health	113	(28)	85
Total	4 021	(190)	3 831

Embedded value earnings / The change in embedded value from one year to the next represents the embedded value earnings for Discovery, adjusted for changes to the shareholders' funds.

Table 3

Embedded value earnings

for the year ended 30 June

R million	2004	2003
Embedded value at end of period	**6 876**	4 928
Embedded value at beginning of period	**4 928**	3 321
Increase in embedded value	**1 948**	1 607
Net issue of capital	**(847)**	(2)
Dividends paid to Destiny Health preference shareholders	**1**	12
Implementation of new accounting standards	**–**	17
Revaluation of forward exchange contract[1]	**(8)**	14
Embedded value earnings	**1 094**	1 648

1 This adjustment relates to cash flow hedges taken out to reduce exposure to currency risk on capital inflows to Destiny Health in July 2003 and capital inflows to PruHealth in September 2004.

Components of embedded value earnings / The components of the embedded value earnings are explained below.

Table 4

Components of embedded value earnings

for the year ended 30 June

R million	2004	2003	% change
Total profit from new business (at point of sale)	**637**	670	(5)
Profit from existing business			
• Expected return	**534**	500	
• Change in methodology and assumptions	**(361)**	(0)	
• Experience variances	**197**	380	
Adjustment for minority interest in Destiny Health	**(4)**	(2)	
Adjustment for Guardian profit share in Destiny Health[1]	**(8)**	–	
Foreign exchange rate movements[2]	**(67)**	45	
Interest on loan capital	**(41)**	–	
Return on shareholders' funds	**207**	55	
Embedded value earnings	**1 094**	1 648	

1 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's pre-alliance business once the business written by Guardian reaches 23 500 beneficiaries. It is expected that this will occur in June 2007. Based on Guardian's progress at 30 June 2004 towards achieving this target, the value attributed to Destiny's pre-alliance business from 30 June 2007 has been reduced by 6.8% in the embedded value calculation.

2 The impact of foreign exchange rate movements was previously shown as an experience variance. The item includes a R62 million unrealised foreign exchange loss during 2004, arising on a R279 million loan entered into by Destiny Health with RMB International (Dublin) Limited.

Profit from new business / The value of one year of new business is determined at the point of sale as the projected future after-tax profits of the business sold during the year, less an allowance for cost of capital and discounted at the risk discount rate.

In calculating the value of new business, Health and Destiny Health new business is defined as members of new employer groups joining Discovery, irrespective of the size of the employer, and includes additions to first year business. Vitality new business includes all new members joining Vitality over the period. For Life, new business is defined as new policies written.

Table 5

Embedded value of new business

for the year ended 30 June

R million	2004	2003	% change
Health and Vitality			
Gross profit from new business at point of sale	**155**	238	
Cost of capital	**–**	(3)	
Net profit from new business at point of sale	**155**	235	(34)
New business annualised premium income[1]	**1 259**	1 834	(31)
Life			
Gross profit from new business at point of sale	**583**	494	
Cost of capital	**(131)**	(76)	
Net profit from new business at point of sale	**452**	418	8
New business annualised premium income[2]	**406**	355	14
Annualised profit margin[3]	**13.3**	13.1	
Destiny Health			
Gross profit from new business at point of sale	**36**	41	
Cost of capital	**(6)**	(24)	
Net profit from new business at point of sale	**30**	17	76
New business annualised premium income[4]	**378**	356	6
New business annualised premium income (US$ million)	**56**	40	40

1 The Health 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 2004 – outside of the valuation period. The total Health and Vitality new business annualised premium income written over the period was R2 184 million (June 2003: R2 347 million).

Members joining existing employer groups have added R226 million to the Health product value of in-force over the past year. This is shown as part of the lapse experience variance.

2 Life new business annualised premium income of R406 million shown above is net of automatic premium increases and positive policy alterations in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R80 million and positive policy alterations of R68 million was R554 million.

3 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 the Life product 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, 111.4% (June 2003: 117.9%), would overstate the annualised profit margin.

4 The Destiny Health 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 2004 – outside of the valuation period. The total Destiny Health new business annualised premium income written over the period was R494 million (June 2003: R378 million).

Expected return / The risk discount rate is the return investors would have expected to earn on the previous year's value of in-force business. This amount is reflected as the expected return of R534 million.

Change in methodology and assumptions / The assumptions used in the embedded value are changed using an active basis to realistically reflect changes in Discovery's operating conditions. 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 year's changes are described in detail in the table below (for previous periods refer to previous embedded value statements).

The following table shows the impact of the change in methodology and assumptions:

Table 6

Methodology and assumption changes

for the year ended 30 June

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes[1]	(109)	(14)	(104)	(227)
Premium escalations	–	3	(26)	(23)
Lapses	51	(24)	(73)	(46)
Risk discount rate	98	–	–	98
Economic assumptions	–	7	(13)	(6)
Expenses	(10)	27	(36)	(19)
Mortality and morbidity	–	9	120	129
Ancillary services fee[2]	(144)	–	–	(144)
Margins	–	–	(52)	(52)
Tax[3]	(53)	–	–	(53)
Other	2	(20)	–	(18)
Total	(165)	(12)	(184)	(361)

1 The Health and Vitality modelling change relates to a refinement of the model used to value the Discovery InHouse (Custom) schemes.

The Life modelling changes consist mainly of an increase in the cost of capital of R74 million due to changes in the method of projecting the Capital Adequacy Requirement over the lifetime of the portfolio.

2 Members of Discovery Health Medical Scheme will not be charged an ancillary services fee with effect from 1 January 2005.

3 The tax assumption change reflects a higher average VAT rate modelled.

Experience variances / The embedded value is based on a series of assumptions about the future. To the extent that actual experience differs from these assumptions, then the actual profits will differ from those expected. The experience variance items approximately quantify this difference.

The table below gives a breakdown of the main experience variances for the year ended 30 June 2004:

Table 7

Experience variances

for the year ended 30 June

R million	Health and Vitality	Destiny Health	Life	PruHealth	Total
Renewal expenses	(14)	(9)	(6)	–	(29)
Joint venture expenses	–	(35)	–	(28)	(63)
Administration fee increase	(21)	–	–	–	(21)
Extended modelling term[1]	133	11	2	–	146
Lapses	94	(24)	(53)	–	17
Contribution increase	1	(7)	23	–	17
Policy alterations	24	(2)	100	–	122
Mortality and morbidity	–	(12)	26	–	14
Health quota share reinsurance[2]	5	–	(13)	–	(8)
Life reinsurance[3]	–	–	1	–	1
Other	17	(4)	(12)	–	1
Total	239	(82)	68	(28)	197

1 The projection term for Health, Vitality, Destiny Health and group life at 30 June 2004 has not been changed from that used at 30 June 2003. Thus, an experience variance arises because the total term of the in-force business is effectively increased by 12 months.

2 The 10% Health quota share reinsurance treaty for 2004 which was previously modelled has not been modelled in the 30 June 2004 calculation. The Life product cost of capital has increased due to the manner in which the cost of capital was previously shared between the Life and Health products.

3 During the past financial year, Discovery Life entered into reinsurance agreements to protect against future lapses. The effect of these agreements is included in the reinsurance variance. With effect from 1 July 2004 a quota share agreement was entered into, effectively reinsuring 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a fixed period of approximately six years. Discovery Life earned R200 million in terms of this contract in July 2004. The terms of the quota share agreement are such that the agreement will have a negligible impact on the embedded value and was not included in the embedded value at 30 June 2004.

Return on shareholders' funds / The return on shareholders' funds of R207 million represents the investment return earned on shareholders' funds after tax and investment management charges. Shareholders' funds include the Life Product's negative reserve.

Embedded value assumptions / The principal assumptions used in the calculation of the value of in-force business and the value of new business are set out below. These assumptions represent a best estimate view of the future:

General

- It is assumed that the South African 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.
- The investment return assumption was determined with reference to the cashflow-weighted average risk free yield curve. Other economic assumptions were set relative to this yield.
- The current policy of Discovery is not to declare dividends and therefore no allowance has been made for secondary tax on companies.

Health and Vitality

- The embedded value term has been set at ten years for Health and Vitality.
- The Health administration and managed care fees are assumed to increase at the expense inflation rate for the full projection term.
- Lapse assumptions are based on the results of recent experience investigations. Negative turnover on employer groups is not modelled as lapses.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

Life

- Mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.
- The embedded value projection term for group business has been set at ten years.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

Destiny Health

- The embedded value projection term has been set at ten years.
- Based on the projected utilisation of Destiny Health's assessed tax loss to date, it is assumed that no income tax will be payable over the projection term.
- The morbidity assumptions are based on the results of recent experience investigations.
- The lapse assumptions are based on the results of recent experience investigations as well as future expectations regarding scheme renewals. The lapse rates assumed depend on the member's underwriting cohort.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.
- The value of in-force business for Destiny Health was converted into Rands using the year end exchange rate of R6.18 per US$.

Table 8

Embedded value assumptions

at 30 June

%	**2004**	2003
Risk discount rate		
– Health and Vitality	**12.5**	13.5
– Life product	**12.5**	12.5
– Destiny Health	**10.0**	10.0
Medical inflation		
South Africa	**8.5**	8.5
United States	**Current levels reducing to 12.5 over the projection period**	Current levels reducing to 11.5 over the projection period
Expense inflation		
South Africa	**5.5**	5.5
United States	**5.0**	6.0
Pre-tax investment return		
South Africa – Cash	**8.0**	8.0
– Bonds	**9.5**	9.5
– Equity	**11.5**	11.5
United States – Bonds	**2.0**	2.0
Income tax rate		
– South Africa	**30.0**	30.0
– United States Federal Tax Rate[1]	**34.0**	34.0

1 Various additional State taxes also apply.

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 2004 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.

Table 10

Embedded value sensitivities

at 30 June 2004

		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	2 436	3 194	–	162	(23)	1 447	(340)	**6 876**	
Impact of:									
Risk discount rate +1%	2 436	3 083	–	154	(25)	1 337	(407)	**6 578**	(4)
Risk discount rate –1%	2 436	3 313	–	170	(21)	1 577	(262)	**7 213**	5
Investment return ––1%[1]	2 436	3 193	–	161	(26)	1 403	(339)	**6 828**	(1)
Lapses +10%	2 436	3 125	–	152	(22)	1 337	(317)	**6 711**	(2)
Renewal expenses +10%	2 436	2 776	–	119	(23)	1 419	(339)	**6 388**	(7)
Life Mortality and Morbidity +10%	2 436	3 194	–	162	(23)	1 161	(338)	**6 592**	(4)
Health, Vitality and Destiny Health:									
Term +1 year	2 436	3 346	–	178	(25)	1 447	(340)	**7 042**	2

1 For the Life Product, 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.

Table 11

Value of new business sensitivities

at 30 June 2004

	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	155	–	36	(6)	583	(131)	**637**	
Impact of:								
Risk discount rate +1%	145	–	32	(7)	540	(157)	**553**	(13)
Risk discount rate –1%	166	–	41	(6)	634	(101)	**734**	15
Investment return –1%[1]	155	–	36	(7)	578	(131)	**631**	(1)
Lapses +10%	148	–	31	(6)	531	(122)	**582**	(9)
Renewal expenses +10%	112	–	9	(6)	572	(131)	**556**	(13)
Life Mortality and Morbidity +10%	155	–	36	(6)	490	(130)	**545**	(14)
Health, Vitality and Destiny Health: Term +1 year	167	–	45	(7)	583	(131)	**657**	3
Acquisition expenses +10%	141	–	30	(6)	563	(131)	**597**	(6)

1 For the Life Product, both investment return and inflation assumptions that it was reduced by 1%.

Discovery Holdings Limited

Income statement / for the year ended 30 June

R million	2004	2003
Operating and administration expenses	**(1)**	–
Investment income	**1**	1
Financing costs	**(8)**	(1)
Reversal of impairment against loan to the share incentive trust	**11**	–
Fair value adjustment to the loan to share incentive trust	**15**	(15)
Net profit/(loss)	**18**	(15)

Balance sheet / at 30 June

R million	Notes	2004	2003
ASSETS			
Cash and cash equivalents		**1**	226
Investments in subsidiaries and associates	1	**1 269**	1 084
		1 270	1 310
Loan to share incentive trust	2	**151**	128
Total assets		**1 421**	1 438
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Current liabilities	3	**8**	20
Borrowings at amortised cost	4	**–**	876
Total liabilities		**8**	896
Shareholders' funds			
Share capital and share premium	5	**1 441**	596
Reserves		**(28)**	(54)
Total shareholders' funds		**1 413**	542
Total liabilities and shareholders' funds		**1 421**	1 438

Cash flow statement / for the year ended 30 June

R million	Notes	2004	2003
Cash flow from operating activities		**(12)**	4
Cash utilised by operations	6.1	**(1)**	–
Working capital changes	6.2	**(4)**	4
Interest received		**1**	1
Interest paid		**(8)**	(1)
Cash flow from investing activities		**(182)**	(656)
Increase in investment in subsidiary	6.3	**(185)**	(650)
Decrease/(increase) in loan to share incentive trust	6.4	**3**	(6)
Cash flow from financing activities		**(31)**	878
Proceeds from shares issued	6.5	**875**	2
Repayment of short-term loan		**(876)**	–
Share issue expenses		**(30)**	–
Proceeds from short-term loan		**–**	876
Net increase in cash and cash equivalents		**(225)**	226
Cash and cash equivalents at beginning of year		**226**	–
Cash and cash equivalents at end of year		**1**	226

Statement of changes in equity / for the year ended 30 June

R million	Share capital	Share premium	Retained earnings	Hedging reserve	Total
30 June 2003					
Balance at 1 July 2002	1	543	(11)	–	533
Implementation of AC 133 – fair value adjustment to loan receivable to share incentive trust	–	–	(14)	–	(14)
Net loss for the year	–	–	(15)	–	(15)
Revaluation of forward exchange contract	–	–	–	(14)	(14)
Issue of capital	*	52	–	–	52
Balance at 30 June 2003	1	595	(40)	(14)	542
30 June 2004					
Balance at 1 July 2003	**1**	**595**	**(40)**	**(14)**	**542**
Issue of capital	*****	**875**	**–**	**–**	**875**
Share issue expenses	**–**	**(30)**	**–**	**–**	**(30)**
Net loss for the year	**–**	**–**	**18**	**–**	**18**
Revaluation of forward exchange contract	**–**	**–**	**–**	**8**	**8**
Balance at 30 June 2004	**1**	**1 440**	**(22)**	**(6)**	**1 413**

** Amount is less than R500 000*

	Issued ordinary capital R million		Effective percentage holding %		Shares at cost R million		Amounts owing to subsidiary *** R million	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
1. Investments in subsidiaries and associates								
1.1 Investments in subsidiaries								
Discovery Life Limited	**855**	855	**100**	100	**1 041**	1 041	**2**	6
Discovery Health (Proprietary) Limited	*****	*	**100**	100	*****	*	**–**	–
Vitality Healthstyle (Proprietary) Limited	*****	*	**100**	100	*****	*	**–**	–
Vitality Healthstyle Travel (Proprietary) Limited	******	**	**100**	100	******	**	**–**	–
Destiny Health Inc.[1]	**230**	49	**98**	91	**228**	43	**–**	–
Discovery Nominees (Proprietary) Limited	******	**	**100**	100	******	**	**–**	–
Discovery Offshore Holdings Limited[2]	******	–	**100**	–	******	–	**–**	–
Discovery Insurance Intermediary Services Limited[2]	******	–	**100**	–	******	–	**–**	–
					1 269	1 084	**2**	6

** Issued ordinary capital and shares at cost are R1 000.*

*** Issued ordinary capital and shares at cost are R1.*

**** The amounts owing to a subsidiary are included in the balance sheet with current liabilities.*

1 Incorporated in the United States of America.

2 Incorporated in England and Wales.

Loans from subsidiaries are unsecured, interest free with no fixed dates for repayment.

1.2 Investment in associate

Discovery has an investment in an associate company Healthbridge (Proprietary) Limited ("Healthbridge"), a provider of electronic commerce communication infrastructure. The investment consists of 300 shares of R1 each representing 30% of the issued ordinary share capital (2003: 30%). For more information refer to Group note 14.

R million	**2004**	2003
2. Loan to share incentive trust		
Loan to share incentive trust	**165**	167
Less: Impairment of loan	**–**	(11)
Less: Fair value adjustments	**(14)**	(28)
	151	128

R million	2004	2003
3. Current liabilities		
Loan from subsidiary	**2**	6
Forward exchange contract liability (Group note 20)	**6**	14
	8	20

The forward exchange contract has been entered into to hedge Discovery's initial investment into PruHealth (Group note 27).

R million	2004	2003
4. Borrowings at amortised cost		
FirstRand Limited – ultimate holding company	**–**	876
	–	876

	Number of shares	Ordinary shares R million	Share premium R million	Total R million
5. Share capital and share premium				
At 1 July 2002	390 625 296	1	543	544
Issued during the year:				
– Share incentive trust	7 175 000	*	52	52
At 30 June 2003	397 800 296	1	595	596
At 1 July 2003	397 800 296	1	595	596
Issued during the year:				
– Rights offer	134 615 385	*	875	875
Share issue expenses		–	(30)	(30)
At 30 June 2004	**532 415 681**	**1**	**1 440**	**1 441**

* *Amount is less than R500 000*

The total authorised number of ordinary shares is 1 000 000 000 ordinary shares of 0.1 cents.

The unissued share capital is under the control of the directors of the Company until the forthcoming annual general meeting of shareholders.

R million	2004	2003
6. Cash flow information		
6.1 Cash utilised by operations		
Profit/(loss) attributable to ordinary shareholders	**18**	(15)
Adjusted for:		
Interest received	**(1)**	(1)
Interest paid	**8**	1
Reversal of impairment against loan to the share incentive trust	**(11)**	–
Fair value adjustment against loan to share incentive trust	**(15)**	15
	(1)	–

R million	2004	2003
6. Cash flow information continued		
6.2 Working capital changes		
(Decrease)/increase in loan from subsidiaries	**(4)**	4
6.3 Increase in investment in subsidiary		
Balance at the beginning of the year	**1 084**	434
Balance at the end of the year	**(1 269)**	(1 084)
	(185)	(650)
6.4 Decrease/(increase) in loan to share incentive trust		
Balance at the beginning of the year	**128**	100
Shares issued to the trust	**–**	51
Provision against loan to share incentive trust	**26**	(29)
Balance at the end of the year	**(151)**	(128)
	3	(6)
6.5 Proceeds for shares issued		
Share capital issued during the year	**875**	2

7. Guarantee

On 20 June 2003 Destiny Health entered into a subordinated convertible loan agreement with RMB International (Dublin) Limited ("RMBI"), in the amount of R279 million (the "loan amount"). The loan carries an interest rate of 11.85% per annum compounded monthly on the loan amount and on accrued but unpaid interest. The loan matures on 30 June 2008, and requires deferred interest payments which commence on 30 June 2006 and semi-annually thereafter through to 30 June 2008. The loan is guaranteed by Discovery Holdings Limited and Discovery Health (Proprietary) Limited ("the guarantors"). At Destiny's sole option, the loan may be settled in full on the maturity date in cash or by issuing shares of its common stock. Where the loan amount is converted into common stock, the loan outstanding must be repaid by the guarantors. Upon repayment, the Destiny stock must be delivered by RMBI to Discovery Holdings or its nominee.

In terms of the guarantee document the more significant terms requiring the prior written consent of RMBI are the following:

- The companies in the Discovery Group may not encumber present or future revenues or assets or sell, lease, transfer or otherwise dispose of any material part of their revenues or assets.
- The Discovery Group will not incur any additional indebtedness in excess of R150 million.
- Net unencumbered cash or cash equivalents in the form of permitted investments, including government debt securities and other investments guaranteed by the government with maturity of less than 90 days, of at least the loan outstanding will be held by the Discovery Group.

Subsequent to the year end, RMBI advanced a further US$3.8 million in terms of the above facility.

Directorate

Remuneration and fees R'000	Services as directors	Cash package[1]	Other benefits[2]	Performance related[3]	**Total 2004**	Total 2003
Payments to directors during the year for services rendered are as follows:						
Executive						
A Gore		**1 384**	**206**	**777**	**2 367**	1 965
NS Koopowitz		**1 609**	**125**	**937**	**2 671**	2 598
HP Mayers		**1 476**	**258**	**890**	**2 624**	2 384
JM Robertson		**977**	**189**	**583**	**1 749**	1 418
B Swartzberg		**1 121**	**151**	**640**	**1 912**	1 644
SD Whyte		**2 116**	**131**	**458**	**2 705**	1 879
Sub-total	**–**	**8 683**	**1 060**	**4 285**	**14 028**	11 888
Non-executive						
Dr BA Brink[4]	**36**				**36**	–
JP Burger[5]	**98**				**98**	–
LL Dippenaar[5]	**84**				**84**	–
Dr NJ Dlamini	**72**				**72**	28
RB Gouws	**64**				**64**	124
MI Hilkowitz	**65**				**65**	21
SR Maharaj	**–**				**–**	21
SV Zilwa	**66**				**66**	21
Sub-total	**485**	**–**	**–**	**–**	**485**	215
Total	**485**	**8 683**	**1 060**	**4 285**	**14 513**	12 103
Less: Paid by subsidiaries	**(485)**	**(8 683)**	**(1 060)**	**(4 285)**	**(14 513)**	(12 103)
Paid by holding company	**–**	**–**	**–**	**–**	**–**	–

1 "Cash package" includes travel and other allowances.

2 "Other benefits" comprises provident fund and medical aid contributions.

3 "Performance related" payments are in respect of the year ended 30 June 2004, a portion of which will only be paid in September 2004.

4 Directors' fees for services rendered by Dr BA Brink are paid to Anglo American plc.

5 Directors' fees for services rendered by JP Burger and LL Dippenaar are paid to FirstRand Limited.

The executive directors participate in group share incentive schemes. Their participation is subject to the approval of the Discovery remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

Discovery Life preference shares

During the 2001 financial year, Discovery Life issued 1 500 000 preference shares to employees at a par value of 1 cent per share. These shares are redeemable as set out in note 25.2 of the financial statements.

Of the total number of preference shares issued, the following were issued to directors:

NS Koopowitz	175 000
HP Mayers	750 000
JM Robertson	30 000

Share options

The current interests of executive directors in share incentive schemes, together with benefits from redemptions, are as follows:

Discovery shares Share option scheme	Opening balance	Strike price cents	Strike date	Taken up this year	Benefit derived R	Closing balance
A Gore	350 000	1 083	31/05/2005	–	–	350 000
	100 000	780	01/03/2007	–	–	100 000
	200 000	720	01/09/2007	–	–	200 000
NS Koopowitz	350 000	1 083	31/05/2005	–	–	350 000
	500 000	780	01/03/2007	–	–	500 000
	150 000	720	01/09/2007	–	–	150 000
HP Mayers	100 000	780	01/03/2007	–	–	100 000
	100 000	720	01/09/2007	–	–	100 000
JM Robertson	350 000	1 083	31/05/2005	–	–	350 000
	100 000	780	01/03/2007	–	–	100 000
	200 000	720	01/09/2007	–	–	200 000
B Swartzberg	350 000	1 083	31/05/2005	–	–	350 000
	100 000	780	01/03/2007	–	–	100 000
	200 000	720	01/09/2007	–	–	200 000
SD Whyte	350 000	1 083	31/05/2005	–	–	350 000
	100 000	780	01/03/2007	–	–	100 000
	200 000	720	01/09/2007	–	–	200 000

Destiny shares Stock option plan	Opening balance	Strike price US$	Strike date	Taken up this year	Benefit derived US$	Closing balance
SD Whyte	60 000	2.00	01/11/2006	–	–	60 000
	20 000	2.00	01/03/2007	–	–	20 000
	80 000	2.11	16/09/2007	–	–	80 000

Directors' interests

According to the Register of Directors' interest, maintained by Discovery in accordance with the provisions of section 140A of the Companies Act, directors of Discovery have disclosed the following interest in the ordinary shares of the company at 30 June 2004.

	Direct beneficial	Indirect beneficial	**Total 2004**	Total 2003
A Gore	1 366 079	49 820 744	**51 186 823**	39 945 641
NS Koopowitz	61 062	621 080	**682 142**	983 665
HP Mayers	94 753	–	**94 753**	70 796
JM Robertson	103 700	4 489 727	**4 593 427**	3 432 029
B Swartzberg	4 789 155	18 854 719	**23 643 874**	17 703 134
SD Whyte	2 859 056	–	**2 859 056**	2 547 113
LL Dippenaar	159 938	405 535	**565 473**	422 500
Dr BA Brink	6 692	–	**6 692**	–
	9 440 435	74 191 805	**83 632 240**	65 104 878

NS Koopowitz holds 573 913 options to buy Discovery Holdings shares at a strike price of R10.00 on 30 September 2005.

Administration

Discovery Holdings Limited
(Registration number 1999/007789/06)
Share code: DSY
ISIN: ZAE000022331

Registered office
155 West Street, Sandton

Postal address
PO Box 786722, Sandton, 2146

Telephone (011) 529 2888
Fax (011) 539 2958
e-mail: AskTheCFO@discovery.co.za

Secretary
MJ Botha

Auditors
PricewaterhouseCoopers Incorporated

Statutory valuator
RD Williams

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street, Johannesburg 2001

PO Box 61051, Marshalltown 2017

Sponsors (In terms of JSE Listings Requirements)
RMB Corporate Finance, 1 Merchant Place, Cnr Fredman Drive and Rivonia Road, Sandton 2196

FIRSTRAND

shareholders' information

annual general meeting

will take place at 09:00 on 22 November 2004 in the auditorium, 18th Floor, 1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton

Shareholders' information 2004

Contents

Analysis of shareholders / at 30 June 2004

		Shares held (000's)	%
Shareholders holding more than 5%			
RMB Holdings Limited		1 787 630	32.64
Financial Securities Limited (Remgro)		520 717	9.51
Public Investment Commissioner		508 502	9.29
Sub-total		2 816 849	51.44
Other		2 659 526	48.56
Total		5 476 375	100.00
Shareholder type			
Corporates		2 450 131	44.74
Pension funds		1 441 382	26.32
Individuals		633 616	11.57
Unit trusts		404 705	7.39
Insurance companies		400 870	7.32
Other managed funds		145 671	2.66
Total		5 476 375	100.00
	Number of shareholders	Shares held (000's)	%
Public and non-public shareholders			
Public	26 049	2 913 447	53.20
Non-public			
– Corporates (Remgro and RMBH)	2	2 308 347	42.15
– Share trusts	1	249 725	4.56
– Directors and associates	8	4 856	0.09
Total	26 060	5 476 375	100.00
		Shares held (000's)	%
Geographic ownership			
South Africa		4 982 406	90.98
International		493 969	9.02
Total		5 476 375	100.00

Performance on the JSE Securities Exchange South Africa / 30 June

	2004	2003
Number of shares in issue (000's)	**5 476 375**	5 460 321
Market prices (cents per share):		
Closing	**1 019**	764
High	**1 049**	815
Low	**725**	597
Weighted average	**877**	710
Closing price/net asset value per share	**2.33**	1.87
Closing price/headline earnings	**9.23**	8.50
Volume of shares traded (millions)	**2 256**	1 986
Value of shares traded (R millions)	**19 701.36**	14 086.21
Market capitalisation (R billions)	**55.80**	41.71

Shareholders' diary

Reporting

Financial year end	30 June
Announcement of results for 2004	14 September 2004
Annual report posted by	29 October 2004
Annual general meeting	22 November 2004

Dividends

Final for 2004

– Declared	13 September 2004
– Last day to trade cum-dividend	15 October 2004
– First day to trade ex-dividend	18 October 2004
– Payment date	25 October 2004

Interim for 2005

– Declared	February 2005
– Payable	March 2005

Administration

FirstRand Limited

(Registration No 1966/010753/06)

Share code: FSR ISIN code ZAE0000 14973 ("FSR")

Company secretary

AH Arnott BCom, CA (SA)

Registered office

17th floor, 1 Merchant Place, Cnr Fredman Drive and Rivonia Road, Sandton 2196

Postal address

PO Box 786273, Sandton 2146

Telephone

National (011) 282 1808

International +27 11 282 1808

Telefax

National (011) 282 8088

International +27 11 282 8088

Website

www.firstrand.co.za

Sponsor (In terms of JSE Listings Requirements)

RMB (A division of FirstRand Bank) Corporate Finance

1 Merchant Place, Cnr Fredman Drive and Rivonia Road, Sandton 2196

Telephone

National (011) 282 1075

International +27 11 282 1075

Telefax

National (011) 282 8215

International +27 11 282 8215

Statutory valuator of Momentum Group Limited

NAS Kruger, BCom, FFA, FASSA

Statutory valuation of Discovery Holdings Limited

RD Williams, FIA, FASSA

Auditors

PricewaterhouseCoopers Incorporated

2 Eglin Road, Sunninghill 2157

Transfer secretaries – South Africa

Computershare Investor Services 2004 (Pty) Limited

70 Marshall Street, Johannesburg 2001

Postal address

PO Box 61051, Marshalltown 2107

Telephone

National (011) 370 5000

International +27 11 370 5000

Telefax

National (011) 688 5221

International +27 11 688 5221

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Limited

Shop No 12, Kaiserkrone Centre, Post Street Mall, Windhoek

Postal address

PO Box 2401, Windhoek, Namibia

Telephone

International +264 61227647

Telefax

International +264 61248531

Notice of annual general meeting

FirstRand Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: FSR
ISIN: ZAE000014973
("FirstRand" or "the Company")

Notice is hereby given that the seventh annual general meeting of FirstRand Limited will be held in the auditorium, 18th Floor, 1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton on Monday, 22 November 2004 at 09:00 to, if approved, pass the following resolutions with or without modification:

1. Ordinary resolution number 1

Approval of annual financial statements

Resolved that the audited annual financial statements of the Company and the Group for the year ended 30 June 2004 be accepted and approved.

2. Ordinary resolution number 2

Election of directors

To appoint directors in the positions of the under-mentioned directors who retire in terms of the Company's Articles of Association and who, being eligible, offer themselves for re-election:

2.1 Denis Martin Falck (58)

Non-executive
Date of appointment: February 2001

Educational qualifications

- CA (SA)

Directorships

- Remgro
- RMB Holdings
- FirstRand Bank Holdings

Member

- Directors' affairs and governance committee

2.2 Gerrit Thomas Ferreira (56)

Non-executive Chairman
Date of appointment: May 1998

Educational qualifications

- BCom, Hons B (B&A), MBA

Directorships

- RMB Holdings – non-executive chairman
- FirstRand Bank Holdings – chairman
- Momentum Group
- Glenrand MIB
- VenFin

Member

- Directors' affairs and governance committee
- Remuneration committee

2.3 Benjamin James van der Ross (57)

Independent Non-executive
Date of appointment: May 1998

Educational qualifications

- Dip Law (UCT)

Directorships

- RMB Asset Management – chairman
- Momentum Group
- FirstRand Banking Group
- Nasionale Pers
- Pick 'n Pay
- Bonatla Property Holdings – chairman
- Lewis Stores

Member

- Directors' affairs and governance committee
- Financial sector charter compliance committee – chairman
- Audit committee
- Remuneration committee

2.4 Frederik van Zyl Slabbert (64)

Independent Non-executive
Date of appointment: November 2001

Educational qualifications

- BS, BA Hons (cum laude), MA (cum laude), DPhil

Directorships

- Metro Cash 'n Carry – chairman
- CTP Caxton – chairman
- Adcorp – chairman

Member

- Directors' affairs and governance committee

2.5 Robert Albert Williams (63)

Independent Non-executive
Date of appointment: May 1998

Educational qualifications

- BA, LLB

Directorships

- FirstRand Bank Holdings
- Tiger Brands – chairman
- Illovo Sugar – chairman
- Mutual & Federal Assurance Company
- Nampak
- Oceana Group

Member

- Directors' affairs and governance committee
- Remuneration committee

2.6 Nolulamo Nobambiswano Gwagwa (45)

Independent Non-executive

Date of appointment: 25 February 2004

Educational qualifications

BA (Fort Hare), MTRP (Natal), MSc (London), PhD (London)

Directorships

- ACSA
- SA Post Office
- Development Bank of South Africa

Member

- Directors' affairs and governance committee
- Financial Sector Charter Compliance committee

2.7 Gugu Moloi (36)

Independent Non-executive

Date of appointment: 25 February 2004

Educational qualifications

- BA (Law), MA (Town and Regional Planning), Diploma (General Management)

Directorships

- Umgeni Water
- KwaZulu-Natal University Council
- Financial and Fiscal Commission

Member

- Directors' affairs and governance committee

3. Ordinary resolution number 3

Approval of directors' remuneration for the year to June 2004

Resolved that the joint remuneration of the directors as reflected in page 108 to the financial statements be approved.

4. Ordinary resolution number 4

Approval of directors' fees for the year to June 2005

Resolved that the fees of the directors as reflected below be approved for the year to June 2005.

FirstRand board	*Per annum*
Chairman	R1 345 000
Director	R107 500
Audit committee	
Chairman	R64 500
Member	R32 250
Remuneration committee	
Chairman	R64 500
Member	R32 250
Directors' affairs and governance committee	
Chairman	R21 500
Member	R10 750
Financial Sector Charter Compliance committee	
Chairman	R21 500
Member	R10 750
Ad hoc meetings (in exceptional circumstances)	R2 000 per hour

5. Ordinary resolution number 5

Approval of re-appointment of auditors

Resolved that PricewaterhouseCoopers Inc be re-appointed as auditors of the Company until the next annual general meeting.

6. Ordinary resolution number 6

Approval of auditors' remuneration

Resolved that the directors fix and pay the auditors' remuneration for the year ended 30 June 2004.

7. Ordinary resolution number 7

Place unissued shares under the control of the directors

Resolved that all the unissued shares in the Company be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that they be and are hereby authorised to allot and issue shares in the Company upon such terms and conditions as the directors in their sole discretion deem fit, subject to the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), the Articles of Association of the Company and the JSE Securities Exchange South Africa ("JSE") Listings Requirements.

8. Ordinary resolution number 8

General issue of shares for cash

Resolved that the board of directors of the Company be hereby authorised, by way of a renewable general authority, to issue equity shares in the authorised but unissued share capital of the Company for cash as and when they in their discretion deem fit, subject to the Companies Act and the Listings Requirements of the JSE, when applicable, and the following limitations, namely that:

- this authority shall be valid until the Company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- the equity shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- the equity shares must be issued to public shareholders as defined by the JSE Listings Requirements and not related parties;
- the equity shares which are the subject of the issue for cash may not exceed 10% in the aggregate in any one financial year of the number of equity shares in issue of that class;
- a maximum discount at which the equity shares may be issued is 10% of the weighted average traded price of the Company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the Company; and
- a paid press announcement giving full details, including the impact on net asset value and earning per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements.

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders present or represented by proxy.

9. Special resolution number 1

Authority to repurchase company shares

Resolved that in terms of the company's articles of association, the company's directors be hereby authorised, by way of a general authority, to repurchase issued shares in the company or to permit a subsidiary of the company to purchase shares in the company, as and when deemed appropriate, subject to the following initiatives:

- that this authority shall be valid until the company's next annual general meeting provided that it shall not extend beyond fifteen (15) months from the date of this annual general meeting;
- that any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or agreement between the company and the counterparty;
- that a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the company or its subsidiaries have repurchased in aggregate 3% of the initial number of shares in issue, as at the time that the general authority was granted, and for each 3% in aggregate of the initial number of shares which is acquired thereafter;
- that a general repurchase may not in the aggregate in any one financial year exceed 10% of the number of shares in the company's issued share capital at the time this authority is given provided that a subsidiary of the company may not hold at any one time more than 10% of the number of issued shares of the company;
- that no repurchases will be effected during a prohibited period;
- that at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
- that the company may only undertake a repurchase of securities if, after such repurchase the spread requirements of the company comply with the JSE Listings Requirements;
- that, in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted be 10% above the weighted average traded price of the shares as determined over the five (5) days prior to the date of repurchase;
- the sponsor to the company provides a letter to the JSE on the adequacy of working capital in terms of section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE; and
- that such repurchase shall be subject to the Companies Act and the applicable provisions of the JSE Listings Requirements.

The board has no immediate intention to use this authority to repurchase company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

Having considered the effect in the event that the maximum allowed repurchase is effected, the directors are of the opinion that:

- the company and the group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of the annual general meeting;
- the assets of the company and the group will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the notice of the annual general meeting. The assets and liabilities have been recognised and measured for this purpose in accordance with the accounting policies used in the latest audited annual group financial statements;

- the company's and the group's ordinary share capital and reserves will, after such payment, be sufficient to meet their needs for a period of 12 months following the date of the annual general meeting; and
- the company and the group will, after such payment, have sufficient working capital to meet their needs for a period of 12 months following the date of the annual general meeting.

Reason for and effect of the special resolution number 1

The reason for and the effect of the special resolution is to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company.

For purposes of considering the special resolution and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the annual report, in which this notice of annual general meeting is included, at the places indicated:

- Directors and management - refer pages 54 to 59 of this report;
- Major shareholders - refer page 355 of this report;
- No material changes to report on;
- Directors' interest in securities - refer page 107 of this report;
- Share capital of the company - refer page 87 of this report;
- The directors, whose names are set out on pages 54 to 57 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable queries in this regard; and
- Litigation – Save as reported in note 28 to the financial statements of the FirstRand Banking Group on page 188, there are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the company is aware) which may have or have had in the previous 12 months, a material effect on the group's financial position.

10. Special resolution number 2

Approval to replace Articles of Association

Special Resolution

Approval to replace Articles of Association

Resolved that in terms of Section 62 of the Companies Act the existing Articles of Association of the Company be abrogated and replaced in their entirety with the new Articles of Association which have been tabled at this meeting and signed by the chairman of this meeting for purposes of identification.

Reason for and effect of the special resolution number 2

The reason for this special resolution is to consolidate certain amendments made to the existing Articles of Association of the Company and to provide the Company with updated Articles of Association which deal with beneficial holders of securities, a register of disclosures, electronic enablement (including the receipt of proxies and the sending of notices by or through electronic medium and the conducting of general meetings and directors' meetings by means of conference facility or electronic medium), the payment of dividends by electronic transfer and the rounding up or down of any fractions which may otherwise be included in the holdings of shareholders, thereby resulting in no fractional entitlements. The effect of this Special Resolution is to abrogate the existing Articles of Association of the Company and to replace them in their entirety with new Articles of Association.

The new Articles of Association are available for inspection by shareholders at the Company's registered office, 17th Floor, 1 Merchant Place, cnr Fredman Drive and Rivonia Road, Sandton, 2146.

By order of the board of directors.

AH Arnott
BCom, CA (SA)

Company Secretary
29 October 2004

Explanatory notes to the notice of the annual general meeting

1. A member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.
2. Every member present in person or by proxy and entitled to vote at the annual general meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the Company shall have one vote.
3. Dematerialised members registered in their own names are members who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic sub-register of members in their own names.

Instructions on signing and lodging the proxy form:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid the completed proxy forms must be forwarded to reach the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5221 or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 61248531 to be received by no later than 09:30 on Thursday, 18 November 2004. Proxy forms must only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

FIRSTRAND

Proxy form

FirstRand Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: FSR ISIN: ZAE000014973
("FirstRand" or "the Company")

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the meeting.

For completion by the aforesaid registered members who hold ordinary shares of the Company and who are unable to attend the 2004 Annual General Meeting of the Company to be held in the auditorium, 18th Floor, 1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton on Monday, 22 November 2004 at 09:00 ("the annual general meeting").

I/We,

Of (address)

Being the holder/s of

ordinary shares in the Company, hereby appoint (see instruction overleaf)

1. or, failing him/her

2. or, failing him/her

3. the chairperson of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company and at any adjournment thereof, as follows (see instruction overleaf).

	Insert an "X" or the number of votes exercisable (one vote per ordinary share)		
	In favour of	**Against**	**Abstain**
Ordinary resolution number 1 Approval of annual financial statements			
Ordinary resolution number 2 Election of directors by way of single resolution:			
2.1 Denis Martin Falck			
2.2 Gerrit Thomas Ferreira			
2.3 Benjamin James van der Ross			
2.4 Frederik van Zyl Slabbert			
2.5 Robert Albert Williams			
2.6 Nolulamo Nobambiswano Gwagwa			
2.7 Gugu Moloi			
Ordinary resolution number 3 Approval of directors' remuneration for the year to June 2004			
Ordinary resolution number 4 Approval of directors' fees for the year to June 2005			
Ordinary resolution number 5 Approval of re-appointment of auditors			
Ordinary resolution number 6 Approval of auditors' remuneration			
Ordinary resolution number 7 Place unissued shares under the control of directors			
Ordinary resolution number 8 General issue of shares for cash			
Special resolution number 1 Authority to repurchase company shares			
Special resolution number 2 Approval to replace Articles of Association			

Signed at on 2004

Signature/s

Assisted by
(where applicable)