integrated
financial services

unaudited results
for the six months ended 31 December 2004

FIRSTRAND

Contents

FIRSTRAND

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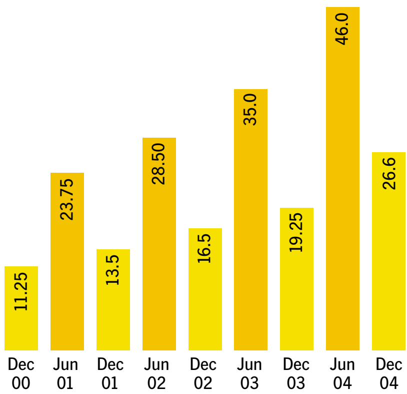
*A booklet containing supplementary information on the Banking Group is available from our website or on request from the company secretary's office

» introduction

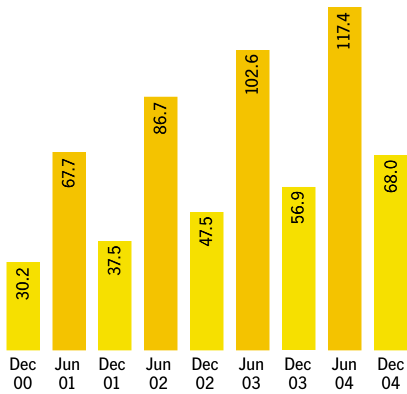
This report covers the financial results of FirstRand Limited ("FirstRand"), its wholly-owned subsidiaries FirstRand Bank Holdings Limited ("the Banking Group") and Momentum Group Limited ("Momentum"), and its 65.7% subsidiary Discovery Holdings Limited ("Discovery"). Comprehensive reports relating to these subsidiaries are included in this circular and should be read in conjunction with this report.

Financial Highlights



Dividends per share (cents)
Compound annual growth: 24.0%

Six months ended 31 December
Twelve months ended 30 June



Headline earnings excluding currency translation losses (cents)
Compound annual growth: 22.5%

Six months ended 31 December
Twelve months ended 30 June

Unaudited – six months ended 31 December 2004	% change
Headline earnings	+23
Diluted headline earnings per share	+21
Dividend per ordinary share	+38

Statement of headline earnings and dividends

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
FirstRand Banking Group	**2 831**	2 308	22.7	4 760
Momentum Group	**592**	502	17.9	1 081
Discovery Group	**126**	88	43.2	265
FirstRand Limited	**(116)**	(108)		(274)
Sub-total	**3 433**	2 790	23.0	5 832
Consolidation of share trusts	**(78)**	(54)		(105)
Headline earnings	**3 355**	2 736	22.6	5 727
Headline earnings	**3 355**	2 736	22.6	5 727
Add: Currency translation losses on integrated foreign operations				
– Banking Group	**215**	216		370
Headline earnings excluding foreign translation losses	**3 570**	2 952	20.9	6 097
Return on average equity (based on headline earnings) %	**26.9**	25.3		25.6
Earnings per share (cents)				
– Basic	**71.2**	52.3	36.1	109.3
– Diluted	**69.6**	51.3	35.7	107.7
Headline earnings per share (cents)				
– Basic	**63.9**	52.7	21.3	110.3
– Diluted	**62.6**	51.7	21.1	107.7
Headline earnings excluding currency translation losses per share (cents)				
– Basic	**68.0**	56.9	19.5	117.4
– Diluted	**66.6**	55.8	19.4	114.7
Dividend per share (cents):				
– Interim	**26.60**	19.25	38.4	19.25
– Final	**–**	–	–	26.75
Total	**26.60**	19.25	38.4	46.00
Dividends declared (R'million)	**1 456.7**	1 051	38.6	2 516
Number of shares in issue (before elimination of treasury shares) (million):	**5 476.4**	5 460.3		5 476.4
Weighted average number of shares in issue (million)	**5 248.3**	5 190.1		5 192.1
Dilutive weighted average number of shares in issue (million)	**5 362.7**	5 292.2		5 317.1

Headline earnings reconciliation

R million	2004	2003	% change	2004
FirstRand Banking Group	**3 201**	2 303	39.0	4 712
Momentum Group	**593**	484	22.5	1 065
Discovery Group	**135**	88	53.4	274
Goodwill amortised – intergroup	**–**	3	>100.0	5
	3 929	2 878	36.5	6 056
FirstRand Limited	**(116)**	(108)		(275)
Attributable earnings before consolidation of share trust	**3 813**	2 770	37.7	5 781
Consolidation of share trust	**(78)**	(54)		(105)
Attributable earnings	**3 735**	2 716	37.5	5 676
Adjusted for:				
Goodwill	**5**	20		58
Profit on sale of subsidiaries	**(396)**	–		–
(Profit)/Loss on sale of fixed assets	**(1)**	–		92
Profit/(Loss) on sale of available-for-sale assets	**12**	–		(99)
Headline earnings	**3 355**	2 736	22.6	5 727
Headline earnings	**3 355**	2 736	22.6	5 727
Attributable to non-cumulative non-redeemable preference shareholders	**31**	–	–	–
Attributable to ordinary shareholders	**3 324**	2 736	21.5	5 727

Balance sheet

R million	Unaudited At 31 December 2004	Unaudited At 31 December 2003	Audited At 30 June 2004
Assets			
FirstRand Banking Group	**284 313**	270 673	277 326
Cash and short-term funds	**24 195**	23 249	25 104
Investment securities and other investments	**46 871**	42 546	36 131
Financial instruments held for trading	**22 438**	16 260	9 660
Investment securities	**24 433**	26 286	26 471
– originated	**784**	300	–
– held to maturity	**419**	2 004	957
– available-for-sale	**16 211**	23 982	16 867
– at elected fair value	**7 019**	–	8 647
Advances	**206 194**	202 109	208 874
– originated	**155 688**	139 226	141 627
– held to maturity	**9 174**	7 760	8 971
– available-for-sale	**1 733**	9 085	4 499
– trading	**39 599**	46 038	53 777
Commodities	**1 164**	374	702
Non-recourse investments	**5 889**	2 395	6 515
Momentum and Discovery	**91 168**	82 659	82 654
Funds on deposit	**14 613**	13 749	15 149
Government and public authority stocks	**13 859**	12 170	13 123
– available-for-sale	**129**	50	627
– at elected fair value	**13 730**	12 120	12 496
Debentures and other loans	**7 643**	10 760	8 110
– available-for-sale	**99**	96	75
– at elected fair value	**7 544**	10 664	8 035
Policy loans originated	**577**	629	554
Equity investments	**50 976**	42 244	42 070
– held to maturity	**786**	714	749
– available-for-sale	**1 879**	2 433	1 665
– at elected fair value	**48 311**	39 097	39 656
Investment properties	**3 500**	3 107	3 648
Loans and receivables	**8 355**	9 128	8 865
Investments in associated companies	**2 981**	2 493	2 815
Derivative instruments	**56 349**	42 938	45 485
– qualifying for hedging	**884**	9 772	4 798
– trading	**55 465**	33 166	40 687
Prepayment	**248**	–	174
Deferred taxation asset	**829**	1 124	983
Assets arising from insurance contracts	**1 780**	1 054	1 403
Intangible assets	**805**	552	660
Property and equipment	**3 868**	4 376	4 456
Total assets	**450 696**	414 997	424 821
Liabilities and shareholders' equity			
Deposits and current accounts	**230 077**	231 652	219 061
Non-recourse deposits	**5 889**	2 395	6 515
Current liabilities	**14 434**	17 052	14 052
Provisions	**1 290**	1 079	1 345
Taxation	**976**	985	1 414
Derivative instruments	**46 505**	41 275	40 783
– qualifying for hedging	**523**	11 251	4 606
– trading	**45 982**	30 024	36 177
Short trading positions	**16 786**	6 136	23 286
Deferred taxation liability	**2 269**	1 877	2 155
Post-retirement medical liability	**1 435**	1 315	1 402
Debentures and long-term liabilities	**7 321**	5 961	7 104
Policyholder liabilities	**92 608**	80 912	81 969
Policyholder liabilities under insurance contracts	**47 708**	42 496	42 337
Policyholder liabilities under investment contracts	**44 900**	38 416	39 632
Total liabilities	**419 590**	390 639	399 086
Outside shareholders' interests	**2 044**	1 811	1 823
Shareholder's equity	**29 062**	22 547	23 912
Ordinary share capital and reserves	**26 087**	22 547	23 912
Ordinary share capital and share premium	**6 268**	6 601	6 767
Reserves	**19 819**	15 946	17 145
Non-redeemable non-cumulative preference share capital and premium	**2 975**	–	–
Total liabilities and shareholders' equity	**450 696**	414 997	424 821

Summarised cash flow statement

	Unaudited Six months ended 31 December		Audited Year ended 30 June
R million	**2004**	2003	2004
Cash (outflow)/inflow to operations	**(1 214)**	6 999	16 312
Working capital changes	**891**	(5 782)	(11 844)
Cash (outflow)/inflow from operations	**(323)**	1 217	4 468
Taxation paid	**(1 527)**	(1 882)	(2 482)
Dividends paid	**(1 387)**	(1 010)	(1 956)
Net cash (outflow)/inflow from operating activities	**(3 237)**	(1 675)	30
Net cash outflow from investment activities	**(7 658)**	(8 248)	(7 966)
Net cash inflow from financing activities	**9 450**	1 833	3 101
Net decrease in cash and cash equivalents	**(1 445)**	(8 090)	(4 835)
Cash and cash equivalents at beginning of year	**40 253**	45 088	45 088
Cash and cash equivalents at end of year	**38 808**	36 998	40 253

Assets under management

	Actual Unaudited At 31 December	Actual Unaudited At 31 December		Audited At 30 June
R million	**2004**	2003	% change	2004
Group				
On balance sheet	**450 696**	414 997	8.6	424 821
Off balance sheet	**127 142**	101 466	25.3	104 218
Total assets under management or administration	**577 838**	516 463	11.9	529 039

Statement of changes in equity

R million	Non-cumulative Preference share capital	Non-redeemable Preference share premium	Share capital	Share premium	Retained earnings	Non-distributable reserves	Total shareholders' funds
Balance at 1 July 2004	–	–	52	6 715	15 105	2 040	23 912
Issue of share capital	30	2 970	–	–	–	–	3 000
Share issue expenses	–	(25)	–	–	–	–	(25)
Reduction in share capital	–†	–	–	(1)	–	–	(1)
Movement in revaluation reserves	–	–	–	–	–	699	699
Currency translation differences	–	–	–	–	–	(393)	(393)
Movement in other reserves	–	–	–	–	–	(5)	(5)
Earnings attributable to shareholders	–	–	–	–	3 813	–	3 813
Realised loss on minority share buy-back	–	–	–	–	–	–	–
Dividends	–	–	–	–	(1 387)	–	(1 387)
Reserves arising from acquisition of subsidiaries	–	–	–	–	–	19	19
Transfer (to)/from reserves	–	–	–	–	(101)	101	–
Consolidation of share trust	–	–	0	(498)	(78)*	6	(570)
Balance at 31 December 2004	**30**	**2 945**	**52**	**6 216**	**17 352**	**2 467**	**29 062**
Balance as at 31 December 2003	–	–	55	8 432	13 431	2 498	24 416
Consolidation of share trusts	–	–	(3)	(1 883)	(54)*	71	(1 869)
Restated balance as at 31 December 2003	–	–	52	6 549	13 377	2 569	22 547

* *On the face of the income statement, dividends received on treasury shares have been offset against earnings attributable to shareholders.*
† *Less than R500 000.*

Financial performance

The FirstRand group of companies ("FirstRand" or "the Group") produced excellent results, showing 21% growth in fully diluted headline earnings per share for the period under review.

These results were achieved in a favourable economic environment, which provided strong organic growth opportunities, particularly for the Banking Group. This was evident in the high levels of new business growth at Rand Merchant Bank ("RMB"), WesBank and First National Bank ("FNB") and resulted in headline earnings growth for the Banking Group of 23% to R2.8 billion. The sustained lower interest rate environment continued to result in a margin squeeze, however increased new business and improved credit quality partially offset this impact.

Momentum's headline earnings increased by a healthy 18% to R592 million for the six months ended 31 December 2004, with earnings attributable increasing by 23%. These results were driven by strong new business inflows, significant growth in assets under management and a focus on expense efficiencies.

Discovery delivered an excellent performance over the six months under review with FirstRand's share of its headline earnings growing by 43% to R126 million. This performance reflects strong growth in all Discovery's businesses, with new business Annual Premium Income (API) increasing by 32% over the comparative period and continued expense efficiencies.

The Group's performance in summary is:

	Unaudited Six months ended 31 December			Audited Year ended 30 June
cents	**2004**	2003	% change	2004
Headline earnings: Attributable to shareholders	**3 355**	2 736	22.6	5 727
– Ordinary shareholders	**3 324**	2 736	21.5	5 727
– Non-cumulative non-redeemable preference shareholders	**31**	–	>100.0	–

	Unaudited Six months ended 31 December			Audited Year ended 30 June
cents	**2004**	2003	% change	2004
Earnings per share ("EPS")				
Basic	**71.2**	52.3	36.1	109.3
Diluted	**69.6**	51.3	35.7	107.7
Headline earnings per share ("HEPS")				
Basic	**63.9**	52.7	21.3	110.3
Diluted	**62.6**	51.7	21.1	107.7
Dividend per share				
Interim	**26.60**	19.25	38.4	19.25

The reconciliation between diluted EPS and diluted HEPS is reflected below:

	Unaudited six months ended 31 December		
cents	**2004**	2003	% change
Earning per share	**71.2**	52.3	36.1
Adjusted for:			
– Dilution effect on share schemes	**1.6**	1.0	
Diluted earnings per share	**69.6**	51.3	35.7
Adjusted for:			
– Sale of subsidiary (Ansbacher)	**(7.4)**		
– Other (Refer to headline earnings reconciliation)	**0.4**	0.4	
Diluted headline earnings per share	**62.6**	51.7	21.1

The relative contributions to headline earnings by the various operating companies were:

Contribution to headline earnings

	Unaudited six months ended 31 December	
percent	**2004**	2003
FirstRand Banking Group	**79.8**	79.6
Momentum	**16.7**	17.3
Discovery	**3.5**	3.1
Total	**100**	100

Operating environment

The six month period ended 31 December 2004 was characterised by accelerated growth in the South African economy, a further strengthening of the Rand, a continued reduction in inflation, a slight decline in domestic interest rates, strong growth in the demand for commodities, especially from China, and a significant improvement in the equity markets.

The Rand strengthened by a further 9.1% to a level of R5.62:US$1 at 31 December 2004, primarily on the back of exogenous factors such as continued US Dollar weakness and strong demand for commodities. This assisted in the continued decline in CPIX inflation, from 5.0% at 30 June 2004 to 4.3% at 31 December 2004, well within the South African Reserve Bank's targeted range of 3% – 6%.

Following the aggressive interest rate cuts during the last six months of 2003, with the prime rate reducing by 400 basis points during this period to 11.5% at 31 December 2003, interest rates remained stable until August 2004, when the prime rate was reduced by a further 50 basis points. The South African economy continued to gain momentum, achieving an annualised growth rate of 5.7% during the third quarter of 2004 and 4% during the fourth quarter. This was to a large extent as a result of strong growth in domestic household expenditure, especially in the retail, motor and building sectors of the economy. All of these factors were positive for banking, particularly the increase in credit demand. On the negative side, the continued strong Rand hampered export-related industries.

Local equity markets were buoyant which had a positive impact on the Group's equity related businesses. During the six months ended 31 December 2004, the JSE ALSI 40 index increased by 24%.

Sales of linked investment products, unit trusts and living annuities benefited from the improved equity markets. Conversely, the lower interest rates impacted negatively on sales of guaranteed annuities and guaranteed endowment products, and the stronger Rand resulted in very low demand for offshore products.

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

Strategic issues

Disposal of Ansbacher

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

The proceeds of the sale consisted of two amounts. The initial consideration was based on the net asset value of Ansbacher at the completion date plus a premium of £7.5 million (R91.1 million). A deferred consideration (the residual premium of £7.5 million) will be based on the performance of certain of Ansbacher's developing businesses during the 2005 and 2006 calendar years. The transaction became effective on 1 November 2004 and the net proceeds received were £91.1 million. FirstRand earned a total compound rate of return of 11.6% (in Rand) over the period from its investment in Ansbacher in 1992 to the date of disposal. Refer to page 23 for further details regarding the profit on the sale of Ansbacher.

Brand alignment

In October 2004, the retail, corporate and wealth clusters were dismantled and FNB Corporate and FNB Retail were merged under one FNB management team.

This resulted in the merger of the business and medium corporate segments, which were previously separately housed in FNB Retail (business segment) and FNB Corporate (medium corporate segment).

The management of large corporate relationships, previously serviced by FNB Corporate, moved to RMB, with the transactional business of large corporate clients outsourced to FNB. The RMB brand has been leveraged into the top end of the corporate segment, providing value-add advisory and structuring skills to the large corporate customer base. RMB Private Bank (previously part of the wealth cluster) now forms part of FNB, focusing on the top end of the retail sector.

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

This adjustment to the structure reinforces and strengthens the Group's segment focus, and allows 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 the same markets, has been eliminated.

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

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

The BEE transaction comprises two components. Four broad-based BEE groups, Kagiso Trust, Mineworkers Investment Trust ("MIT"), WDB Trust and the FirstRand Empowerment Foundation (a newly created FirstRand BEE entity, with a mandate for broad-based transformation), will hold a 6.5% interest in FirstRand. This will be held through the FirstRand Empowerment Trust, a trust created for the purposes of this transaction. FirstRand's black South African staff and non-executive directors will have a beneficial interest of 3.5% in FirstRand.

To implement the BEE transaction, approximately 7.6% of FirstRand's issued ordinary shares will be procured from shareholders. This will be done through a scheme of arrangement (in terms of section 311 of the Companies Act) between FirstRand and its ordinary shareholders. In terms of the scheme a total of 418.3 million shares will be procured on a pro rata basis from existing ordinary shareholders, (7.6 FirstRand shares will be acquired for every 100 FirstRand shares held by a FirstRand shareholder) at a price of R12.28 per share. These shares will be ex-dividend of the interim dividend declared on 1 March 2005.

The FirstRand Empowerment Trust has secured third party funding to acquire its 6.5% interest in FirstRand. FirstRand will fund the 3.5% staff BEE component through the available resources of its subsidiary FirstRand Bank.

In addition, to provide sufficient security to the third party funders and for the transaction to be viable with limited further involvement from FirstRand, the Group will issue approximately 119.5 million FirstRand ordinary shares to the FirstRand Empowerment Trust at par value. This aspect of the BEE transaction will lead to a dilution of approximately 2.1% for FirstRand shareholders. The total cost to shareholders of the FirstRand BEE transaction is 3.15% of the market capitalisation calculated at a share price of R12.28.

The Group is committed to transformation in South Africa and specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black South Africans, with a specific focus on the lower income groups. The Group selected its BEE partners because they share FirstRand's objectives of enhancing broad-based BEE by addressing the needs of a wide constituency. In addition, the BEE partners have excellent reputations, successful track records and long standing relations with FirstRand and with each other.

The Group expects to implement the transaction in May 2005.

Overview of results

Banking Group

The Banking Group produced excellent results during the six month period under review, benefiting from strong performances from RMB, FNB and WesBank.

The Banking Group achieved growth in headline earnings of 23% (including translation losses) and 21% (excluding translation losses) for the six month period under review.

Non-interest revenue grew by a significant 37%, benefiting from strong growth in transactional income from FNB and WesBank as well as strong performances from all RMB's business units.

Bad debts and non-performing loans have remained at historically low levels.

The lower interest rate environment reduced endowment income and continues to place pressure on interest margins, especially on the liability side of the book. The negative effect of lower rates was to some extent offset by the volume impact of absolute year-on-year growth in advances and deposits together with endowment hedges put in place by the Banking Group to mitigate against the expected effects of the lower interest rates.

Growth in operating expenditure was 14.9%, however this must be viewed in the context of significant new business costs incurred due to growth at RMB and WesBank. WesBank and RMB have shown continued improvement in their efficiency ratios.

Home loans, instalment finance and card advances showed exceptional growth of 20%, 30% and 24% respectively. However, a significant 20% year-on-year decline in corporate advances, together with a R13 billion decrease in trading advances in RMB, limited absolute balance sheet growth.

Retail deposits continued to benefit from the continued high demand for shorter-dated investment products in the lower rate environment. However, corporate deposit growth remained relatively slow at 6%, mainly driven through growth in the medium corporate market.

The sale of Ansbacher impacted negatively on advances and deposit growth during the period under review.

Rand Merchant Bank ("RMB")

RMB produced another set of excellent results with profit before tax increasing to R813 million, 36% ahead of the comparative period.

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

BEE activity, such as advisory mandates, underwriting, senior and mezzanine debt financing and private equity, provided good deal flow to many of RMB's divisions, particularly Corporate Finance and Structured Finance. Private Equity benefited from the realisation of an off-shore investment and despite this sale the unrealised profits in the Private Equity division increased to in excess of R1.01 billion.

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

WesBank

WesBank produced an excellent six month performance, achieving profit before tax of R636 million, an increase of 33% over the comparative period.

Gross advances grew by R12.8 billion when compared to the prior period, representing an increase of 29.6%. R1.5 billion of this growth related to the acquisition of the Barloworld Equipment Finance book.

New business production totalled R18.7 billion, compared to R14.5 billion for the comparative period representing an increase of 28.6%. Continued buoyancy in the retail vehicle market, coupled with the existing low interest rate environment, contributed to this high growth.

The charge for bad debts, as a percentage of advances, was 0.6% which is consistent with the comparative period, and reflects the favourable current economic conditions. Non-performing loans also remained consistent with the prior year, at 0.8% of advances.

Non-interest revenue grew by 43%, reflecting the increased new business volumes and higher penetration of WesBank's insurance products. Non-interest expenditure grew in line with the increased volumes, but the continued drive for efficiencies and the improved benefits of scale resulted in a cost to income ratio to 48% (December 2003 – 50%).

First National Bank (FNB)

FNB produced excellent results, growing profit before tax by 22% to R2.2 billion.

FNB's consumer banking activities performed particularly well, with strong asset growth from card and home loans advances. Non-interest revenue grew 18%, due to growth in new clients and increased economic activity. Retail deposits continued to show satisfactory growth, in line with overall market growth.

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

FNB HomeLoans performed exceptionally well, producing new business growth of 90%. Despite continued run-off from the acquired NBS and Saambou books, total advances grew by 20%.

The FNB Card division also experienced a strong six months, with advances increasing by 24%. Cardholder turnover increased by 25%, reflecting both increased number of customers and increased spend per customer.

FNB's commercial activities, consisting of the mid-corporate, business and agricultural segments, produced strong results. Despite continuing margin pressure, good asset and liability growth resulted in an 8% increase in net interest income. Non-interest income showed excellent growth of 25%, driven by an increase in new customers and increased transactional volumes through all of the commercial sub-segments, and general growth in economic activity. It is anticipated that the commercial segment will be a future growth engine for FNB.

FNB's large corporate segment continues to be negatively affected by a further reduction in advances as a result of the large corporates directly accessing the capital markets and by increased margin pressure. This resulted in net interest income being marginally down. Non-interest income showed a slight increase but this should be viewed against once-off profits from the disposal of certain retail exposures in the comparative period. Excluding the effect of these once-off profits, non-interest income increased by 18%.

Overall FNB's operating expenses increased by 14% over the prior year, however excluding expenses relating to new business costs at HomeLoans and the Discovery Card launch, the increase is limited to 12%. Expenses in the second half of the financial year are expected to be lower than during the first half.

With regard to bad debts, FNB continues to benefit from the improved credit environment, however not to the same extent as in the previous comparative period.

African subsidiaries

The African subsidiaries achieved profit before tax of 13% (in local currency) during the period under review. However, the continued strengthening of the Rand limited growth to 6% in Rand terms.

FNB Namibia increased pre-tax profits by 11%. A significant portion of this growth was due to an excellent performance from the insurance operations, driven by strong growth in in-force policies of 17%. The growth in policies is a result of exceptional cross-selling within the FNB Namibia group. Strong advances growth of 20% was offset by continued margin squeeze.

Due to the strength of the Rand, FNB Botswana's profit before tax grew only 6% in Rand terms (15% in Pula terms). Non-interest revenue grew 23%, mainly due to increased transaction volumes by new customer accounts growth and increased turnover from card merchants. Advances grew marginally due to slow economic conditions.

FNB Swaziland continued to experience a depressed economy and margins remained under pressure. Non-interest revenue increased by a healthy 14%, mainly due to growth in new customers.

Insurance

OUTsurance

OUTsurance achieved excellent results for the six months ended 31 December 2004. Gross premium income amounted to R881 million, a 32% increase compared to the previous period and driven by strong organic growth in both the personal and business lines. Headline earnings increased by 44% to R131.5 million.

Expenses as a percentage of net premium income decreased from 18% to 16.6%, which compares to an industry average of 26%.

OUTsurance continues to reap significant benefits from collaboration with FirstRand and 27% of its premium income is generated from other businesses in the Group.

First Link

First Link increased profit before tax by 48%, reflecting particularly good growth in brokerage income and commercial lines which increased 21% and 28% respectively. Operating income grew strongly, up 35%, reflecting continued momentum in First Link's new business drive.

Momentum Group ("Momentum")

Momentum increased headline earnings by a healthy 18% to R592 million for the six months ended 31 December 2004.

The embedded value of the Momentum Group increased by 16% between 30 June 2004 and December 2004. In addition, the embedded value profit for the period represents an annualised return of 42% on the opening embedded value.

The annualised headline return on equity for the six months under review amounted to 25%, up from 24% for the year ended 30 June 2004. The excellent annualised return on embedded value was driven by strong growth in both the shareholders' portfolio and value of the in-force insurance business.

Insurance operations

The insurance operations increased operating profit by 15%, with the operating profit generated by the local insurance operations increasing by an excellent 26%. These results were driven by strong new business inflows and a focus on expense efficiencies. The international operations showed a loss of R38 million due to inefficiencies in the retail investment business and segregation costs incurred in the disengagement of Ansbacher. This division will be integrated into the administration operation of Momentum in South Africa.

Total insurance operations marketing and administration expenses reflected a 7% increase over the comparative period. The local operations contained the expense increase to 2%, and the Group is on track to achieve its stated objective of a real reduction in unit costs of 15% by 2007.

Asset management operations

The asset management operations generated an increase in headline earnings of 19%. The local asset management operations produced excellent results with headline earnings increasing by 36%. This performance resulted from an inflow of funds, improved local equity markets and RMB Asset Management's continued excellent investment performance. The international asset management operations showed a decrease in profits in Rand terms, due to the strengthening of the Rand. However, these results remained virtually unchanged in foreign currency terms.

Discovery

Discovery produced an excellent performance, reflecting a combination of strong organic growth and increased efficiencies across all its businesses. This performance translated into a 26% increase in operating profits to R330 million (2003: R262 million).

Discovery Health produced a good performance, with operating profits increasing by 15%, as a result of improved efficiencies and new business growth. Discovery Health's strong performance is reflected in 9% growth in membership numbers to 1.640 million lives as at 31 December 2004.

Discovery Life exceeded expectations, further consolidating its leadership position within the pure risk assurance market and increasing operating profits by 82% to R191 million (2003: R105 million). This exceptional performance resulted from significant new business growth, with the number of policyholders increasing by 53% to 206 675.

Vitality's decrease in profit to R9 million was largely driven by marketing and set-up costs relating to the Discovery Credit Card.

Destiny Health's operating losses reduced by 51% to R31 million and the business turned profitable on a monthly basis. This is attributable to the strengthening of the Rand against the US Dollar, achievement of efficiencies in cost control as well as growth in lives covered to 44 618 (2003: 24 698). Destiny benefited from a 66% increase in membership numbers during the period under review, primarily as a result of a 70% increase in new business to US$73 million (2003: US$43 million).

Prudential Health incurred start-up losses of R80 million for the six month period under review. At 31 December 2004 PruHealth insured 1 360 lives.

Capital management

The Group actively manages its capital base to enhance shareholder value through its capital management framework. Capital is allocated to FirstRand Group business units on an economic risk assumed basis, founded on Basel II principles. The investment strategy and targeted capital adequacy ratios of the operating subsidiaries are dealt with in the sections of this circular that deal with their results.

During the period under review the Group issued R3.0 billion listed non-redeemable, non-cumulative preference shares at a coupon of 68% of FNB Prime Prevailing rate. This resulted in a further reduction of the weighted average cost of capital. The resultant surplus of approximately R4.4 billion, combined with the release of £91.1 million following the sale of Ansbacher, will be applied in the following manner;

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

The Group currently generates capital in excess of its organic growth requirements, hence the decision to reduce the dividend cover at the June 2004 year end from 2.85 times to 2.5 times. The dividend cover for the current period is dealt with below.

Banking Group

The Banking Group invests its capital in interest bearing instruments to achieve a desired interest return and risk profile. The lower interest rate environment resulted in reduced returns, however this was partially offset by higher capital levels and benefits derived from hedging strategies.

Momentum

The investment income earned on shareholders' assets increased by 23% to R186 million. The main reason for this strong performance was the increase in equity accounted earnings of African Life from R32 million to R60 million.

FirstRand

The costs incurred by FirstRand increased to R116 million as reflected below:

R'million	31 December **2004**	31 December 2003
Operating profit/(losses)	**2**	(11)
STC and taxation	**(67)**	(27)
Redeemable preference share dividends	**(51)**	(70)
Total	**(116)**	(108)

The increased costs result from higher STC due to increased dividend payments.

In addition, in terms of Statements of Generally Accepted Accounting Practice in South Africa, the Group is precluded from accruing for R31 million relating to the R3.0 billion non-cumulative non-redeemable preference shares, which had the effect of overstating headline earnings by R31 million, for the period under review.

Odd-lot offer

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

Dividends

Non-cumulative non-redeemable preference shares

The first non-redeemable non-cumulative FirstRand "B" preference share ("preference shares") dividend, in the amount of 228 cents per preference share was paid on 28 February 2005.

Ordinary shareholder dividend

The proposed interim dividend amounts to 26.60 cents representing an increase of 38%. The dividend cover was reduced to 2.5 times at the year end to June 2004 and this level of cover has been maintained for the period under review. The Group continues to generate capital in excess of organic growth requirements and will continue to review, on an annual basis, the level of dividend cover.

The dividend policy is based on sustainable earnings growth. The Group's headline earnings includes certain volatile items such as translation gains and AC 133 adjustments. These are excluded from the dividend calculation.

Prospects

Interest rates are expected to remain at current levels for the remainder of the financial year and whilst this will result in continued margin pressure for the Banking Group during the second half, it is also expected to positively impact on credit demand and consumer spending.

Significant management time and effort has been focused on the Banking Group's African strategy which has included assessing the existing operations and increased synergies with FNB's South African activities. The Group is also actively evaluating a number of other medium-term growth opportunities in Africa.

The disposal of Ansbacher was completed during the first half of the current financial year. As previously indicated, this has freed up significant capital for deployment in more profitable operations.

Although the equity market performance over the six months ended 31 December 2004 is unlikely to be repeated in the second half of the financial year, Momentum remains positive regarding the impact of its innovative new investment product on new business volumes and on continued efficiency improvements, both locally and internationally. The real benefit of the off-shore efficiency improvements will only be reaped in the following financial year.

FirstRand is confident that, barring any unforeseen external shocks and in the context of the current strong economic growth, the existing strategies of the business units and divisions of the Group, and the diversified income streams generated from a premium portfolio of businesses, the Group is well positioned to achieve its stated objective of 10% real growth.

Corporate Governance

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

Share-based expenses

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

The FirstRand Group conducted an exercise to establish the expenditure that would have been recognised had it applied the standard in the year ended 30 June 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.

Accounting policies

FirstRand prepares its consolidated unaudited interim 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 assets and liabilities;
- financial assets and liabilities at elected fair value; and
- short trading positions.

The consolidated financial statements conform to Statements and Interpretations of Generally Accepted Accounting Practice in South Africa. The principal accounting policies are consistent in all material respects with those adopted in the previous period.

Impact on EPS

	Half year	Half year	
	2004	2003	% growth
Diluted headline earnings per share (cents)	**62.60**	51.70	21.1
Impact of expensing share based payments (cents)	**0.03**	0.03	
Diluted headline earnings per share (cents)	**62.57**	51.67	21.1

for and on behalf of the board

GT Ferreira
Chairman

LL Dippenaar
Chief Executive Officer

Sandton
1 March 2005

Interim dividend declaration

Notice is hereby given that an interim dividend of 26.60 cents per ordinary share has been declared on 1 March 2005 in respect of the six months ended 31 December 2004. The last day to trade in these shares will be Wednesday, 16 March 2005 and the first day to trade ex-dividend will be Thursday, 17 March 2005. The record date will be Thursday, 24 March 2005 and the payment date Tuesday 29 March 2005.

Please note that no FirstRand share certificates may be dematerialised or rematerialised between Thursday, 17 March 2005 and Thursday, 24 March 2005, both days inclusive.

AH Arnott / Company Secretary

1 March 2005

Directors

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

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Sponsor

(in terms of JSE requirements)

Rand Merchant Bank
(a division of FirstRand Bank)

Corporate Finance
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Sandton 2196

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Postal address

PO Box 61051, Marshalltown 2107
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Telefax: +27 11 688 5221

Transfer secretaries – Namibia

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Windhoek

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Telefax: +264 61248531

Restatement of prior year numbers

Comparative figures

Balance sheet item	As restated	As originally stated	Difference	Reason
– Investment securities available-for-sale	23 982	23 811	171	Consolidation of share trusts
Advances				
– originated	139 226	144 207	(4 981)	Consolidation of share trusts
				The restatement is due to the net of the following:
Equity investments	42 244	42 234	10	Equity instruments (+) R10 million reclassified as derivative financial instruments
– held to maturity	714	–	–	
– available-for-sale	2 433	–	–	
– at elected fair value	39 097	–	10	
Intangible assets	552	561	(10)	Consolidation of share trusts
Derivative financial instruments	–	10	(10)	Reallocation to equity investments (refer to equity instruments)
– available-for-sale	–	6	(6)	
– at fair value through profit and loss	–	4	(4)	
Loan	–	629	(629)	Reclassification of loans to loans and receivables
Current assets	–	9 382	(9 382)	Reclassification of current assets to loans and receivables
Debentures and other loans	10 760	11 464	(704)	(+) R255 million due to the reclassification of current assets to mortgages, loans and debentures (–) R959 million due to the consolidation of share trusts
Assets arising from insurance companies	1 054	–	1 054	"Assets arising from insurance contracts" disclosed seperately, previously disclosed as part of "Policyholder liabilities under insurance contracts"
Loans and receivables	9 128	–	9 128	The restatement is due to the net of the following: Consolidation of share trusts (+) R240 million (–) R255 million due to the reclassification of current assets to mortgages, loans and debentures (–) R629 million due to the elimination of long-term portion of Outperformance loan Reclassification of current assets to loans and receivables
Deposits and current accounts	196 486	196 506	(20)	The restatement is due to the net of the following: Consolidation of share trusts – elimination of deposit of FirstRand Limited Share Trust
Long-term liabilities	5 841	6 469	(629)	Consolidation of share trust – elimination of long-term portion of Outperformance loan
Policy liabilities under insurance contracts	42 496	41 441	1 054	"Assets arising from insurance contracts" disclosed separately, previously disclosed as part of "Policyholder liabilities under insurance contracts"
Current liabilities	17 052	17 306	(254)	Consolidation of share trusts – elimination of short-term portion of preference shares issued by FirstRand Limited

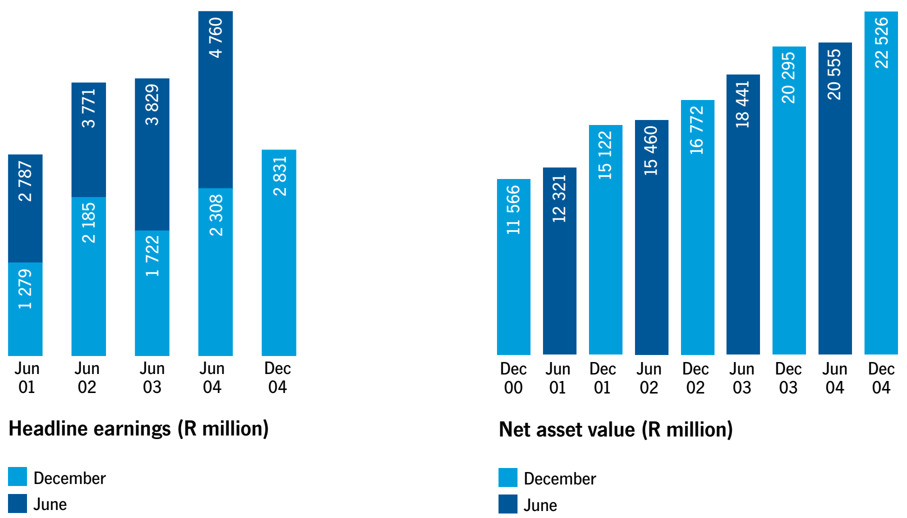
Restatement of prior year numbers continued

Balance sheet item	As restated	As originally stated	Difference	Reason
Provisions	1 079	1 262	(183)	Consolidation of share trusts – elimination of specific provisions
Outside shareholders' interest	1 811	1 959	(148)	The restatement is due to the net of the following: Restatement of R88 million due to consolidation of share trusts R60 million due to the restatement by Discovery of their outside shareholders' interest of Destiny Health
Share capital and share premium	6 601	8 487	(1 886)	Consolidation of share trusts
Distributable reserves	13 337	13 431	(94)	Consolidation of share trusts
Non-distributable reserves	2 569	2 498	71	The restatement is due to the net of the following: Consolidation of share trusts (+) R11 million Discovery outside shareholders' interest of (+) R60 million Refer to "Outside shareholder's interest"

» introduction

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

Financial Highlights



Unaudited – six months ended 31 December 2004	**% change**
Attributable earnings	+39.0
Headline earnings	+22.7
Net asset value growth	+11.0
	%
Return on average equity (including translation losses)	26.3
Return on average equity (excluding translation losses)	28.3
Cost to income ratio (including translation losses)	55.6
Cost to income (excluding translation losses)	54.5

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

Income statement

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
Interest income	**11 835**	11 860	(0.2)	22 412
Interest expenditure	**(7 237)**	(7 192)	0.6	(13 505)
Net interest income before impairment of advances	**4 598**	4 668	(1.5)	8 907
Impairment of advances	**(409)**	(455)	(10.1)	(833)
Net interest income after impairment of advances	**4 189**	4 213	(0.6)	8 074
Non-interest income	**5 334**	3 904	36.6	8 970
Core non-interest revenue	**5 549**	4 120	34.7	9 340
– transactional income	**3 644**	2 927	24.5	6 583
– trading income	**1 155**	878	31.5	2 121
– investment income	**600**	200	>100.0	430
– other non-interest income	**150**	115	30.4	206
Translation losses	**(215)**	(216)	(0.5)	(370)
Net income from operations	**9 523**	8 117	17.3	17 044
Operating expenditure	**(5 738)**	(4 992)	14.9	(10 503)
Income from operations	**3 785**	3 125	21.1	6 541
Share of earnings of associated companies	**385**	214	79.9	585
Income from continuing operations	**4 170**	3 339	24.9	7 126
Profit on sale of discontinuing operations	**396**	–	100.0	–
Profit before indirect taxation	**4 566**	3 339	36.7	7 126
Indirect taxation	**(276)**	(129)	>100.0	(436)
Income before direct taxation	**4 290**	3 210	33.6	6 690
Direct taxation	**(916)**	(768)	19.3	(1 701)
Income after taxation	**3 374**	2 442	38.2	4 989
Earnings attributable to outside shareholders	**(173)**	(139)	24.5	(277)
Earnings attributable to ordinary shareholders	**3 201**	2 303	39.0	4 712

Balance sheet

R million	Unaudited At 31 December 2004	2003	% change	Audited At 30 June 2004
Assets				
Cash and short-term funds	**24 195**	23 249	4.1	25 104
Derivative financial instruments	**41 177**	35 113	17.3	34 415
– qualifying for hedging	**884**	9 772	(91.0)	4 798
– trading	**40 293**	25 341	59.0	29 617
Advances	**208 229**	203 761	2.2	210 414
– originated	**157 723**	140 878	12.0	143 167
– held-to-maturity	**9 174**	7 760	18.2	8 971
– available-for-sale	**1 733**	9 085	(80.9)	4 499
– fair value	**39 599**	46 038	(14.0)	53 777
Investment securities and other investments	**46 747**	42 283	10.6	36 007
Financial instruments held for trading	**22 448**	16 270	38.0	9 670
Investment securities	**24 299**	26 013	(6.6)	26 337
– originated	**784**	300	>100.0	–
– held-to-maturity	**419**	2 004	(79.1)	957
– available-for-sale	**16 077**	17 162	(6.3)	16 733
– elected fair value	**7 019**	6 547	7.2	8 647
Commodities	**1 163**	374	>100.0	702
Non-recourse investments	**5 889**	2 395	>100.0	6 515
Accounts receivable	**2 889**	2 793	3.4	2 796
Investment in associated companies	**2 276**	1 936	17.6	2 208
Property and equipment	**3 286**	3 766	(12.7)	3 839
Deferred taxation assets	**756**	1 080	(30.0)	918
Intangible assets	**443**	307	44.3	451
Assets of insurance operations	**165**	102	61.8	85
Total assets	**337 215**	317 159	6.3	323 454
Liabilities and shareholders' funds				
Liabilities				
Deposits	**236 814**	233 983	1.2	225 886
Deposit and current accounts	**230 925**	231 588	(0.3)	219 371
Non-recourse deposits	**5 889**	2 395	>100.0	6 515
Short trading positions	**16 786**	6 137	>100.0	23 286
Derivative financial instruments	**37 565**	36 545	2.8	34 427
– qualifying for hedging	**523**	11 251	(95.4)	4 606
– trading	**37 042**	25 294	46.4	29 821
Creditors and accruals	**9 343**	11 765	(20.6)	7 715
Provisions	**1 335**	1 120	19.2	1 347
Taxation	**947**	801	18.2	1 351
Post retirement benefit funds liability	**1 138**	1 024	11.1	1 111
Deferred taxation liabilities	**1 396**	1 608	(13.2)	1 723
Long-term liabilities	**5 283**	2 826	86.9	5 078
Liabilities of insurance operations – Policyholder liabilities	**112**	84	33.3	77
Total liabilities	**310 719**	295 893	5.0	302 001
Outside shareholders' interest	**970**	971	(0.1)	898
Shareholders' equity				
Ordinary shares	**106**	106	0.0	106
Share premium	**1 615**	1 632	(1.0)	1 632
Non-distributable reserves	**2 566**	2 932	(12.5)	2 376
Distributable reserves	**18 239**	15 625	16.7	16 441
Ordinary shareholders' equity	**22 526**	20 295	11.0	20 555
Preference share capital	**3 000**	–	100.0	–
Total shareholders' equity	**25 526**	20 295	25.8	20 555
Total liabilities and shareholders' funds	**337 215**	317 159	6.3	323 454
Contingencies and commitments	**22 058**	15 175	45.4	23 443

Executive summary

The Banking Group achieved attributable earnings of R3 201 million (+39.0%) and headline earnings of R2 831 million (+22.7%) for the six month period under review. Excluding translation losses, the Banking Group achieved headline earnings of R3 046 million (+20.7%) during the period under review.

The performance of the Banking Group must be judged in context of the operating environment set out below:

- relative to the comparative period, a significantly lower average domestic interest rate environment, which placed pressure on margins, especially on the liability side of the Banking book;
- an improvement in credit experience, primarily due to the more benign interest rate environment;
- strong growth in consumer credit demand, in particular for asset backed finance;
- continued disintermediation of the corporate advances market;
- low deposit growth in an environment biased towards a demand for shorter-term retail investment products; and
- significant appreciation in the equity markets, together with trending interest rates and foreign exchange markets, which benefited the Banking Group's trading and investment teams.

Attributable earnings were positively impacted by the profit on the sale of Ansbacher of R396 million during the period under review. The size of the profit on the sale was affected by the weakening of the Rand:Pound Sterling exchange rate over the entire period the investment was held by the Banking Group.

Performance against targets

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

Performance measurement	Performance target	Actual achievement Six months ended 31 December **2004**	Year ended 30 June 2004
Return on equity[1] (%)	22.0	**28.3**	26.3
Headline earnings growth[2] (%)	14.1	**22.7**	24.3
Cost to income ratio[3] (%)	55.0 – 57.0	**54.5**	55.8
Non-performing loans percentage[4]	3.0	**1.6**	1.6
Impairment charge as a percentage of average gross advances[5]	0.5 – 0.8	**0.4**	0.4
Net asset value growth[6]	14.1	**11.0**	11.5

Notes:

1. *Calculated as headline earnings excluding currency translation gains or losses as a percentage of average ordinary shareholders' 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. CPIX averaged 4.12% for the six month period ended 31 December 2004.*
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 (based on growth in Ordinary shareholders' equity). CPIX averaged 4.12% for the six month period ended 31 December 2004.*

A detailed analysis of the movement in the capital of the Banking Group during the period under review is set out on page 25 below.

The six months under review

Economic overview

The six month period ended 31 December 2004 was characterised by an acceleration in the growth of the South African economy, a further strengthening of the Rand, continued reduction in inflation, a slight decline in domestic interest rates, strong growth in the international economy, especially in China and Japan, as well as a significant increase in the equity markets.

The Rand strengthened by a further 9.1% to a level of R5.62:US$1 at 31 December 2004, primarily on the back of exogenous factors such as continued US Dollar weakness and strong demand for commodities from countries such as China, which supported the Rand. This assisted in the continued decline in CPIX inflation from 5.0% at 30 June 2004, to 4.3% at 31 December 2004, well within the South African Reserve Bank's targeted range of 3% – 6%.

After the aggressive interest rate cuts during the last six months of 2003, with the prime rate reducing by 4% during this period to 11.5% at 31 December 2003, interest rates remained stable until August 2004, when the prime rate was reduced by a further 0.5%. The South African economy continued to gain momentum, achieving an annualised growth rate of 5.7% during the 3rd quarter of 2004 and 4% during the 4th quarter. This was to a large extent due to strong growth in domestic household expenditure, especially in the retail, motor and building sectors of the economy, assisted by the:

- lower interest rate environment, resulting in higher levels of disposable income;
- willingness of consumers to take on more debt; and
- wealth effect created by significant increases in property and equity prices during the 2004 calendar year.

Financial overview

Financial results at a glance

The Banking Group produced excellent results during the six month period under review, benefiting from excellent performances from RMB, FNB and WesBank.

RMB generated strong performances in its trading, structured finance and private equity related businesses. FNB's results benefited from excellent asset growth in the home loans and card areas, as well as significant growth in transactional income due to increased volumes. WesBank benefited from strong advances growth and increased transactional income due to high new business volumes.

Non-interest revenue grew by a significant 36.6%, benefiting from growth in:

- transactional income (+24.5%), primarily due to increased volumes in FNB and strong deal flow in RMB;
- trading income (+31.5%), benefiting from satisfactory treasury and equity trading results due to improved underlying market conditions; and
- investment income (+>100.0%), assisted by an excellent performance from the private equity businesses in the Banking Group through realisations and a strong performance from equity accounted investee companies.

Bad debts continued to decline further to historically low levels, with the income statement charge reducing by 10.1%, positively impacting on the results.

On the negative side, net interest income before impairment of advances showed a decline of 1.5% year-on-year. The lower interest rate environment reduced endowment income and also placed pressure on interest margins, especially on the liability side of the book. The negative effect of lower rates was to some extent offset by endowment hedges put in place by the Banking Group to mitigate against the expected effects of the lower interest rates, as well as by the growth in the advances book. Operating expenses increased by 14.9%, which must however be seen in context of the significant new business costs incurred due to the exceptional new business growth in the home loans and instalment finance areas of the Banking Group. Both FNB and WesBank achieved year-on-year improvements in their cost to income ratios.

The Banking Group achieved growth of 20%, 30% and 24% respectively in the home loans, instalment finance and card advances areas during the period under review. However, a significant 20% year-on-year decline in corporate advances, together with a R13 billion decrease in trading advances in RMB limited absolute balance sheet growth. The disposal of Ansbacher during the period further negatively affected balance sheet growth. As a result, total asset growth of the Banking Group was limited to 6.3% year-on-year.

Retail deposits continued to benefit from the continued high demand for shorter-dated investment products in the lower interest rate environment. However, corporate deposit growth remained relatively slow at 6%, mainly driven through growth in the medium corporate market. The disposal of Ansbacher during the period under review further depressed deposit growth. As a result, deposits increased by only 1.2% year-on-year.

The ordinary shareholders' equity (net asset value) of the Banking Group grew by 9.6% during the six month period under review, and by 11.0% year-on-year.

A detailed analysis of the movement is set out on page 25.

Reconciliation between earnings attributable to ordinary shareholders and headline earnings

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Earnings attributable to ordinary shareholders	**3 201**	2 303	39.0	4 712
Adjusted for:				
(Profit) on sale of Ansbacher	**(396)**	–	(100.0)	–
(Profit)/Loss on sale of fixed assets	**(1)**	1	(>100.0)	92
Goodwill	**5**	4	25.0	31
Loss/(Profit) on sale of available-for-sale assets	**22**	–	100.0	(75)
Headline earnings	**2 831**	2 308	22.7	4 760

Calculation of headline earnings excluding translation losses

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Headline earnings	**2 831**	2 308	22.7	4 760
Adjusted for:				
Translation losses	**215**	216	(0.5)	370
Headline earnings excluding translation losses	**3 046**	2 524	20.7	5 130

The results above include the effects of AC 133. Detailed information on AC 133 specific adjustments included in these results are set out on page 23 of this report.

Currency translation gains/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 reserves.

On 31 October 2004, Ansbacher (UK) was sold to Qatar National Bank ("QNB"), as detailed on page 23 in this report. The reserves of Ansbacher (an independent operation) were utilised to supplement the capital of the Banking Group's Dublin-based operations (defined as integral at present). This had the effect of increasing the capital attributable to integral operations by an amount of approximately R1 billion, exaggerating the income statement effect of the subsequent strengthening of the Rand against the Dollar.

Unpacking the six months' results

Interest income

Interest rates declined by 0.5% during the first six months of the financial year, after the significant reduction of 4% during the comparative period. On average, rates were 2.4% lower than in the six months ended 31 December 2003. The volume impact of absolute year-on-year growth in advances and deposits, together with the Banking Group's hedging strategies, provided some protection against the decline in margins, although it did not fully compensate therefor. As a result, net interest income before impairment of advances decreased by 1.5% in comparison to the comparative period, although it has improved by 8.5% in comparison to the six month period ended 30 June 2004.

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.

These positive factors were 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 period under review;
- the lower translation rate relating to non-Rand denominated interest income;
- margin-squeeze in the prime-linked asset generators of the Banking Group.

Interest margins

Interest margins experienced an overall decline from 4.7% in the comparative period to 4.4%, although this represents a recovery from the six month period to 30 June 2004 (4.1%).

This can primarily be ascribed to the following:

- the anticipated and partially hedged negative endowment effect on capital and deposits;
- the improved mix arising from an increase in retail advances and a decrease in corporate advances; and
- competitive pressure on some of the asset generators in the Banking Group.

A reconciliation of the interest margin is set out below:

	Unaudited Six months ended 31 December 2004		Unaudited Six months ended 31 December 2003	
R million		Interest margin %		Interest margin %
Interest income	**4 668**	4.7	4 387	4.9
Volume effect (Growth in advances)	**316**	–	507	–
Endowment effect (Deposits)	**(396)**	(0.4)	(156)	(0.1)
Endowment effect (Capital)	**(197)**	(0.1)	(213)	(0.2)
Protection provided by hedges	**428**	0.4	215	0.2
Other	**(221)**	(0.2)	(72)	(0.1)
	4 598	4.4	4 668	4.7

FNB and WesBank in general experienced margin compression on advances during the period under review. Linked-rate advances remained under pressure in the lower interest rate environment with competitive pressure having a further negative impact. The exception was in respect of fixed-rate advances, specifically in the instalment finance environment, which benefited from widening margins in the lower interest rate environment in respect of a portion of this book where a small interest rate mismatch is allowed. This benefit is however reducing as the book matures.

Advances

FNB achieved year-on-year advances growth of 9%, assisted by the lower interest rate environment which stimulated demand for credit.

This was specifically noticeable in the retail credit environment, where the continued low interest rate environment resulted in an increase in disposable income of consumers. This, together with a buoyant residential property market, resulted in pleasing advances growth of 19% in FNB HomeLoans and 22% in FNB Card. New business payouts in the South African home loan book was exceptionally strong, with a 90% growth year-on-year – however, the run-off of the older acquired Saambou and NBS home loan books limited gross advances growth. The home loans area has increased its average new business market share from 16.1% in the comparative period to 16.9% for the period ended 31 December 2004.

WesBank experienced strong new business growth in an environment characterised by record new car sales, with advances increasing by 30% year-on-year.

FNB Africa grew gross advances by 12% in Rand terms. FNB Namibia achieved advances growth of 20%, primarily due to significant growth in home loans and instalment finance advances. FNB Botswana achieved advances growth in excess of 15% in local currency terms, benefiting from increased utilisation of existing facilities by clients. Relatively lacklustre underlying economic conditions negatively affected advances levels in FNB Swaziland, with advances levels declining by more than 20%.

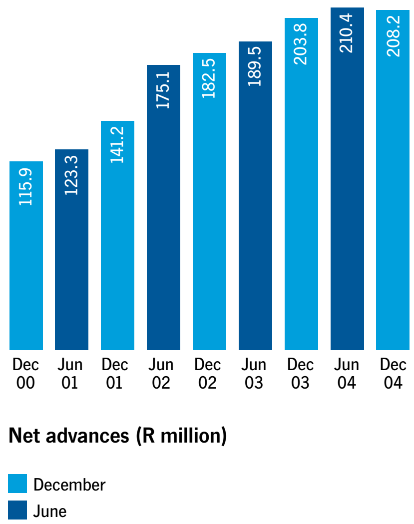
Corporate advances volumes remained under significant pressure, primarily as a result of a lower overall demand for credit due to cash-flush corporates, together with the continued trend by major corporate entities to raise funds utilising their own paper. Overall, corporate advances within FNB declined by 20% year-on-year, with large corporate advances declining by 26% and medium corporate advances recording a 4% year-on-year growth.

The increase in total advances for the Banking Group was negatively impacted by several specific strategies in the period under review:

- Trading advances, or repurchase agreements (reduced by R8.2 billion): these transactions are secured by underlying bonds and are advanced at extremely low margins. The bank has consciously reduced its exposure to these advances over the last six months, switching to more capital efficient instruments.
- Available-for-sale advances – Collateralised Debt Instruments (reduced by R4.5 billion): as indicated in previous reports, the Banking Group is actively reducing its exposure to these instruments. This strategy has been assisted by early redemptions in the US Corporate Bond market.
- Ansbacher advances (reduced by R4.0 billion): as detailed on page 23 in this report, FirstRand successfully exited its investment in Ansbacher. At 31 December 2003, Ansbacher had advances with a value of R4 billion on its balance sheet.

As a result, net advances of the Banking Group increased by 2.2% during the period under review.

Excluding the effect of these strategies, advances increased by 11.3%.



Net advances (R million)

Additional disclosure on the composition and changes in advances is set out on pages 1 and 2 of the supplementary information booklet.

Deposits

The retail component of deposits in FNB grew by 10% year-on-year. Growth was driven by a demand for shorter-dated deposit products in the lower interest rate environment, resulting in strong growth in money market balances (+27%) and current, savings and transmission accounts (+17%). Growth in fixed deposits and other longer-term products was flat year-on-year.

Corporate deposit growth of 6% was mainly driven through growth in the medium corporate market.

Deposit growth within the African operations was buoyant, with FNB Namibia achieving growth in excess of 28%, in part due to significant new investment account openings, and FNB Botswana growing by 14% in local currency terms as a result of a new retail-focused deposit product.

These positive factors were to some extent negated by the disposal of Ansbacher with effect from 31 October 2004. At 31 December 2003, Ansbacher had deposits with a value of R6.8 billion on its balance sheet.

Total deposits increased marginally by 1.2% year-on-year.

Non-performing loans and impairment of advances

Non-performing loans

The credit quality of the Banking Group's core advances book has improved significantly year-on-year and has remained at the same level as at 30 June 2004, as reflected below:

	Unaudited Six months ended 31 December			Audited Year ended 30 June
	2004	2003	% change	2004
NPLs as % of gross advances	**1.6**	2.0	(20.0)	1.6
Gross non-performing loans (Rand million)	**3 358**	4 058	(17.2)	3 389

The existing credit quality of the advances book can be ascribed to the following factors:

- the positive impact of the lower interest rate environment, which has freed up disposable income of lenders resulting in improved servicing levels 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 final workout of certain large non-performing legacy retail advances;
- a significant improvement in the credit experience within the African operations; and
- a further improvement in the emerging market and high-yield international debt markets.

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 an external rating agency National and International rating scales.

The benign credit environment experienced during the past 12 months, and especially during the six month period ended 31 December 2004, is reflected in the average FR rating of the total advances book, which remained at a counterparty rating (which ignores the effect of collateral) of FR 42 at 31 December 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 remained steady at a counterparty rating of FR 44 at 31 December 2004 (zaBBB National scale rating equivalent). On the corporate advances books (RMB and FNB Corporate), the average counterparty credit rating has remained at FR40 (zaBBB National scale rating equivalent).

Impairments of advances

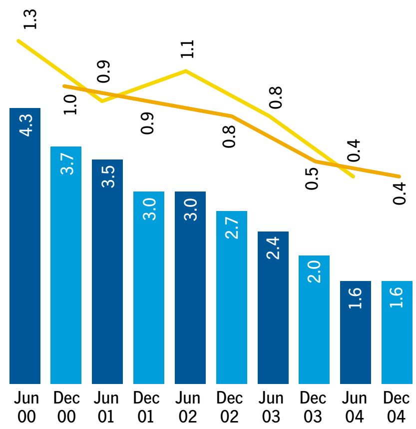
Specific and portfolio impairments reflected in the balance sheet represent a conservative 1.4% of gross advances (2003: 1.6%).

Income statement charge

The income statement charge for impairment of advances reflects a 10.1% decrease relative to the prior period, as reflected below:

	Unaudited Six months ended 31 December			Audited Year ended 30 June
	2004	2003	% change	2004
Impairment charge (Rand million)	**409**	455	(10.1)	833
Impairment charge as a % of average gross advances	**0.4**	0.5	(20.0)	0.4

Specific impairments are calculated on non-performing advances, and have reduced in line with the improvement of non-performing loans of the Banking Group.



Non-performing loans and impairments (%)

Non-interest revenue

Core non-interest revenue (excluding currency translation losses), increased by an excellent 34.7% to R5 549 million (2003: R4 120 million). Total non-interest revenue, including currency translation gains and losses, increased by 36.6% to an amount of R5 334 million (2003: R3 904 million). These results are discussed in more detail below:

Transactional income

Transactional income increased by 24.5%. Banking fee and commission income increased by 19.9%, while knowledge-based fee and commission income increased by 45.5%.

Retail banking fee and commission income grew by a significant 23.3%, primarily as a result of:

- strong growth in transaction volumes as a result of increased consumer spending together with significant growth in volumes in the electronic banking channels;
- growth in client numbers; and
- significant new business growth in the instalment finance and home loans books.

Corporate fee and commission income increased by 21.9%, benefiting from increased transactional volumes from existing clients, especially in electronic banking and merchant acquiring areas, as well as from cash deposit volume growth resulting from increased consumer spending.

Knowledge-based fee income increased by 45.5%. RMB benefited from stronger deal flow in the mergers and acquisitions area as well as strong structured finance deal flows during the period under review. Absolute year-on-year growth was negatively affected by the fact that the comparative numbers included Ansbacher for a full six month period (four months during the period under review).

Trading income

The trading operations of the Banking Group experienced an exceptional period under review. Trading income increased by 31.5% year-on-year, benefiting from trending currency and interest rates and a strong increase in equity markets.

The treasury trading operations of the merchant bank produced an excellent performance, benefiting from the interest rate environment, increased volumes and higher liquidity levels in the market. The equities trading area produced good results from structuring and arbitrage opportunities, as well as a beneficial agricultural trading environment.

Investment income

Investment income increased by more than 100% year-on-year.

Investment income includes gains and losses from realisations in the Banking Group's private equity businesses, in addition to traditional investment business.

The Banking Group's private equity businesses had a very successful period under review, benefiting from strong growth in income from associated companies, increased dividend income from non-associated company private equity investments as well as the successful realisation of an international private equity investment during the six month period under review. Realisation opportunities within the South African market remained subdued. The unrealised profit in the Private Equity portfolio was in excess of R1.01 billion at 31 December 2004, after taking account of the realisation mentioned above (December 2003: R924 million).

Dividend income improved by more than 100% during the period under review, primarily as a result of strong performances of the underlying investments.

Share of income of associated companies

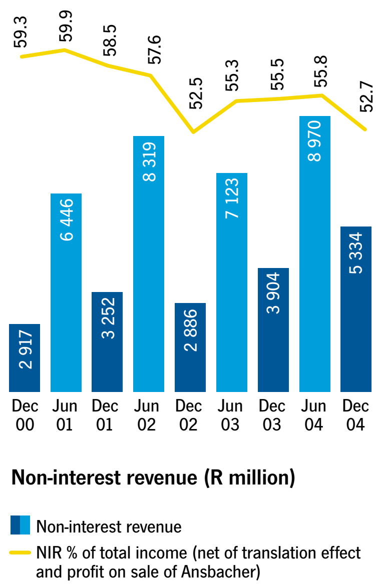
Income from associated companies increased by an exceptional 79.9% to R385 million for the period under review (2003: R214 million).

The Banking Group owns 25.6% of Relyant Retail, which holding arose through a debt for equity swap in 2002. In accordance with South African GAAP, this company is treated as an associate. As a result of concern over the stability of the company, the Banking Group's share of Relyant's profits have been provided for since acquisition. Recent events have led the Banking Group to believe that it will realise the appreciated net asset value of the company. Consequently, previously unrealised income from associates of R78 million has been recognised in the period under review. This represents the Banking Group's share of income from the date of acquisition. Excluding Relyant, the Banking Group's associate income increased by 55% to R331 million.

This 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;
- strong operating performances from the Banking Group's private equity associated companies;
- continued growth in associated finance companies managed by WesBank; and
- improved results from other associate companies within the Banking Group.

The graph below provides an indication of the diversity ratio of income for the Banking Group:



Non-interest revenue (R million)

Operating expenditure

Non-interest expenditure increased by 14.9% year-on-year.

Staff costs increased by 13.7%. This was primarily due to capacity building relating to the significant new business growth in RMB Private Bank and WesBank, and as a result of the annual salary adjustments which occur in August. The benefits flowing from the increased levels of revenue exceeded these costs increases with both FNB and WesBank improving their cost to income ratios.

Other operating costs increased by 18.2%.

Significant expenditure was incurred during the current period on systems enhancements, marketing and other new-business related initiatives. These costs are a direct result or cause of increased volumes in transaction and lending activities. Major increases were incurred in advertising and marketing expenditure (+21.7%), computer expenditure (+31.6%), telecommunications (+20.9%), insurance costs (+57.3%), and third-party mortgage origination costs (+62.0%).

Enhanced cost management will be a focus for the remainder of the financial year.

Indirect taxation

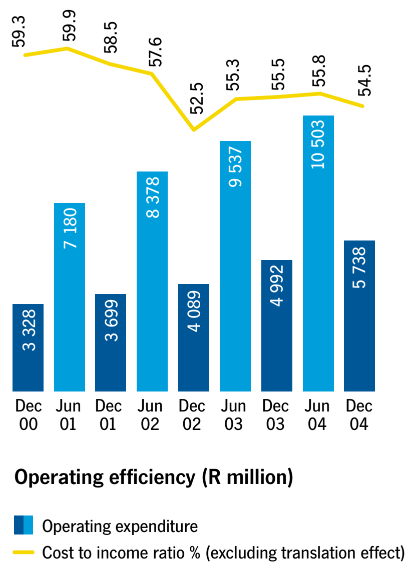
The significant increase year-on-year was due to the first payment of Capital Gains Tax during the six month period ended 31 December 2004, as well as the inclusion in the comparative period of Value Added Tax refunds in terms of the "melting pot" formula.

Cost to income ratio

The cost to income ratio (excluding the effect of currency translation losses) improved from 55.5% at 31 December 2003 to 54.5% for the period under review. Including translation losses, the ratio improved from 56.8% to 55.6%.

The improvement occurred in spite of higher than expected increases in operating costs and a reduction in net interest income, primarily due to the significant increase in non-interest revenue and the increase in 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 (R million)

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.

	Six months ended 31 December		Year ended 30 June
R million	**2004**	2003	2004
Portfolio impairments	**(98)**	(206)	(297)
Loss/(Profit) on sale of available-for-sale assets	**31**	–	(107)
Mark to Market of ineffective hedges	**(38)**	(45)	71
	(105)	(251)	(333)
Tax effect	**32**	75	100
Reduction in headline earnings as a consequence of AC 133	**(73)**	(176)	(233)

Disposal of Ansbacher

FirstRand announced on 1 July 2004 that it had reached agreement with QNB to dispose of all of the issued share capital in the Ansbacher (UK) Group ("Ansbacher") to QNB, at a premium of £7.5 million to the net asset value of the business of Ansbacher and a potential additional premium of £7.5 million depending on the performance of certain business units of Ansbacher ("the disposal"). Final approval for the disposal was received from the various regulatory authorities on 31 October 2004. The disposal became effective on 1 November 2004.

The net profit before tax from the disposal, after taking into account costs directly related to the disposal, amounts to R396 million. FirstRand earned a total compound rate of return of 7.5% (in Pound Sterling terms) and 11.6% (in Rand terms) over the period of its investment in Ansbacher (13 November 2002 to 31 October 2004).

A reconciliation of the profit on disposal of Ansbacher is set out below:

	£ million	R million
Proceeds on disposal	91.1	1 019
Net asset value of Ansbacher at date of sale	(83.6)	(936)
South African GAAP adjustment[1]	(2.2)	(25)
Disposal expenses	(6.7)	(75)
	(1.4)	(17)
Release from Currency translation reserve[2]	–	413
Net (loss)/profit on disposal	(1.4)	396

Notes:

1. *The adjustment is required as Ansbacher had, in terms of existing Statements of Generally Accepted Accounting Practice in the United Kingdom, not adopted AC 133/IAS 39 accounting statement on the recognition and measurement of financial instruments. Ansbacher had certain general credit provisions which did not qualify as a provision in terms of Statements of Generally Accepted Accounting Practice in South Africa ("SA GAAP").*
2. *On the disposal of an foreign subsidiary classified as an "Independent operation" in terms of the requirements of AC 112 of SA GAAP, the accumulated foreign currency translation reserve is released to income.*

Additional information pertaining to the disposal is set out on page 13 of the supplementary information document.

Capital, capital adequacy and return on equity

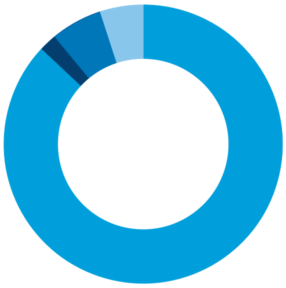
Capital management and return on equity

Optimal capital management is a key driver of the performance of the Banking Group.

Capital is allocated to business units on an economic capital methodology whereby each business unit's capital requirement is calculated using a bottom up approach. The economic capital is calculated based upon principles similar to those contained in the new Basel Accord (Basel II). Economic capital is allocated for credit risk, market risk, investment risk and operational risk.

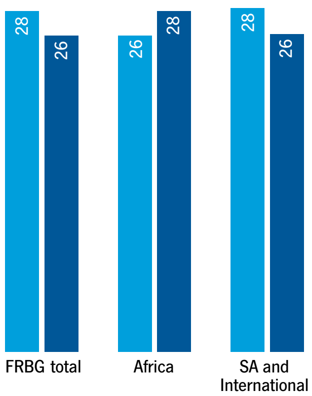
The graph below indicates the allocation of capital per risk type for the Banking Group:

Economic capital analysis by risk type – 31 December 2004



The Banking Group achieved a return on average ordinary shareholders' equity (excluding the impact of translation losses) of 28.3% during the six month period under review.

The graph below provides an analysis of the geographical split of total ROE:



ROE geographical analysis – December 2004 (%)

Additional information on the return on economic capital for the Banking Group is contained on page 14 of the supplementary information document.

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.

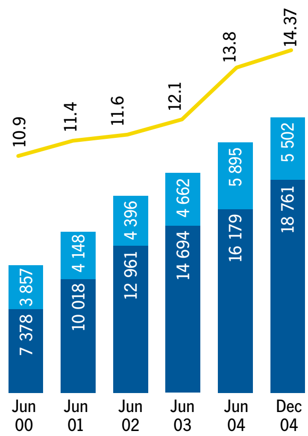
FirstRand Limited issued R3 billion Non-cumulative Non-redeemable preference shares during November 2004. The proceeds of this issue were invested in FirstRand Bank Limited on 31 December 2004.

The consolidated capital adequacy position of all the domestic and international regulated entities in the Banking Group is set out below:

	Unaudited At 31 December %			Audited At 30 June %
R million	**2004**	2003	% change	2004
Tier 1	**11.0**	9.5	+1.5	10.1
– Core equity	**9.2**	9.5	-0.3	10.1
– Perpetual preference capital	**1.8**	–	+1.8	–
Tier 2	**3.4**	3.0	+0.4	3.7
Total capital	**14.4**	12.5	+1.9	13.8
Risk weighted assets (R million)	**168 894**	155 211	+8.8	160 404

The capital adequacy of the domestically regulated FirstRand Bank Limited at 31 December 2004 was 14.3% (December 2003: 10.6%), based on risk weighted assets of R145 974 million (December 2003: R131 336 million).

The diagram below provides a five year overview of the regulatory capital position of the Banking Group:



FRBG regulatory capital position

Actual capital adequacy vs target capital adequacy ratio

	Unaudited At 31 December **2004**	Regulatory ratio	FirstRand target
Total capital adequacy ratio	**14.4%**	10.0%	11.0%

The capital in excess of the target can be deconstructed as follows :

	Unaudited At 31 December **2004**
Regulatory capital adequacy ratio	**10.0%**
Economic buffer held over regulatory capital adequacy ratio	**1.0%**
Banking Group internal target	**11.0%**
Non-Cumulative Non-Redeemable preference shares for BEE transaction	**1.4%**
Dividend payable in March 2005	**0.7%**
Excess capital	**1.3%**
Total capital adequacy ratio	**14.4%**

The excess capital will be utilised for the following strategic initiatives:

- funding the vendor financing portion of FirstRand's black economic empowerment transaction (1.4%) R2.4 billion
- to reduce existing gearing in FirstRand and/or return to shareholders R2.1 billion

Analysis of book capital

Total ordinary shareholder equity and reserves of the Banking Group amounted to R22 526 million as at 31 December 2004 (R20 555 million at 30 June 2004). Total capital amounted to R25 526 million.

A reconciliation of shareholders' equity and reserves balance is set out below:

R million	Shareholders' equity	% change
Balance at 1 July 2004	**20 555**	
Adjustments	**1 971**	9.6
Internally generated – attributable income	**3 201**	15.6
Internally generated – other reserves	**78**	0.3
Dividends paid	**(1 308)**	(6.4)
Balance of ordinary shareholders' equity at 31 December 2004	**22 526**	9.6
Perpetual preference capital raised	**3 000**	14.6
Total shareholders' equity reported at 31 December 2004	**25 526**	24.2

Excluding the impact of the stronger Rand and the resultant currency translation losses during the period under review, net asset value increased by 12.4% during the six month period ended 31 December 2004, as set out below:

R million	Net asset value	% change
Net asset value at 31 December 2004	**22 526**	
Adjusted for:		
Currency translation losses in the income statement	**215**	1.0
Currency translation losses recognised in equity	**359**	1.8
Adjusted net asset value at 31 December 2004	**23 100**	12.4

Accounting policies

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

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

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

The principal accounting policies are consistent in all material respects with those adopted in the previous period.

Contingent liabilities

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.

The Banking Group raises a provision in respect of potential legal or other claims in terms of the requirements of AC 130 – Provisions, contingent liabilities and contingent assets ("AC 130"), where an existing obligation at a specific reporting date exists.

However, where there is a potential liability at a reporting date, the outcome of which will only be confirmed by the occurrence of uncertain future events, the Banking Group does not recognise a liability, but discloses a contingent liability if there is a possibility of future payment.

Consistent with the requirements of AC 130, where the Banking Group deems the likelihood of any future payments to be remote, no liability is recognised and the Banking Group does not disclose a contingent liability.

Prospects

The South African economy has grown at an accelerated rate during the six month period ended 31 December 2004, buoyed by increased consumer spending. Barring any unforeseen external shocks, economic activity is expected to remain strong during the remainder of the financial year.

Since the 50 basis point reduction in rates during August 2004, interest rates have remained stable, and are expected to remain at current levels for the remainder of the financial year. The lower interest rate environment will keep margins under pressure during the six months to June 2005. On the positive side, a continued low and stable rate environment is expected to positively impact on credit demand in a growing economy, and assist in maintaining the current positive credit experience.

Significant management time and effort have been focused on the Banking Group's African strategy which have included assessing the existing operations and increased synergies with FNB's South African activities. The Group is also actively evaluating a number of other medium-term growth opportunities for Africa.

The disposal of Ansbacher was completed during the first half of the current financial year. As previously indicated, this has freed up significant capital for deployment in more profitable operations.

The Banking Group is confident that, barring any unforeseen external shocks, it is well positioned to maintain its long-term historic real return to shareholders during the remainder of the financial year.

On behalf of the directors

GT Ferreira / Chairman

PK Harris / Chief Executive Officer

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

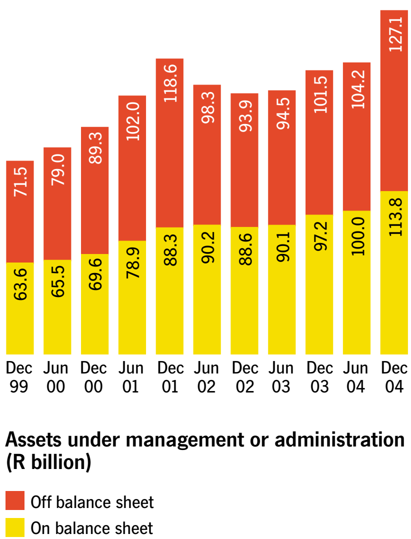
Registered office
1st Floor
4 Merchant Place
1 Fredman Drive
Sandton 2146

momentum

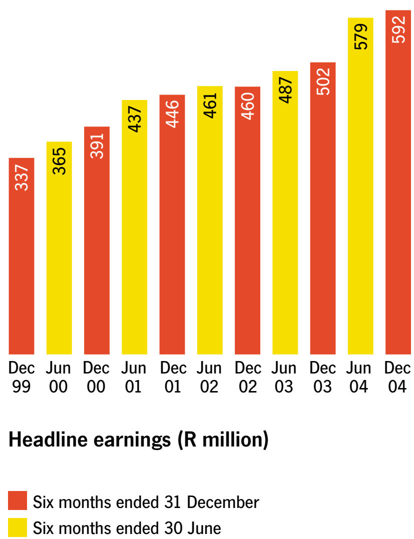
» introduction

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

Financial Highlights



Assets under management or administration (R billion)



Headline earnings (R million)

Unaudited – six months ended 31 December 2004	
Group headline earnings	+18%
Assets under management or administration	R241 billion
Annualised return on embedded value	42%
Annualised return on equity	25%
Value of new business	+31%

Income statement / for the six months ended 31 December

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
Income from operations	**696**	600	16	1 258
Share of income of associated companies	**66**	30	>100	77
Income before direct taxation	**762**	630	21	1 335
Direct taxation[1]	**(165)**	(141)	(17)	(261)
Income after taxation	**597**	489	22	1 074
Earnings attributable to outside shareholders	**(4)**	(5)	20	(9)
Earnings attributable to ordinary shareholders	**593**	484	23	1 065

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

Headline earnings reconciliation

R million	2004	2003	% change	2004
Earnings attributable to ordinary shareholders	**593**	484	23	1 065
Add: Goodwill amortised	**–**	18	(100)	31
Less: Profit on sale of available-for-sale assets	**(1)**	–	–	(15)
Group headline earnings	**592**	502	18	1 081
Group operating profit	**406**	351	16	770
Investment income on shareholders' assets	**186**	151	23	311
Group headline earnings	**592**	502	18	1 081

Balance sheet / as at 31 December

R million	Unaudited at 31 December 2004	Unaudited at 31 December 2003	Audited at 30 June 2004
Assets			
Cash and cash equivalents	**14 563**	13 295	14 495
Government and public authority stocks	**14 074**	12 071	12 941
– available-for-sale	**395**	–	497
– at elected fair value	**13 679**	12 071	12 444
Debentures and other loans	**8 139**	11 233	8 481
– available-for-sale	**672**	642	523
– at elected fair value	**7 467**	10 591	7 958
Policy loans	**577**	629	554
Equity investments	**50 221**	41 772	41 599
– held to maturity	**786**	714	749
– available-for-sale	**1 328**	1 831	1 313
– at elected fair value	**48 107**	39 227	39 537
Derivative assets – held for trading	**15 172**	7 825	11 070
Investments in associated companies	**696**	555	605
Investment properties	**3 500**	3 107	3 648
Investment assets	**106 942**	90 487	93 393
Loans and receivables	**5 915**	6 041	5 682
Taxation	**231**	–	174
Deferred taxation	**50**	44	55
Intangible assets	**251**	268	230
Property and equipment	**399**	385	416
Total assets	**113 788**	97 225	99 950
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	**4 331**	3 559	3 962
Provisions	**115**	82	159
Taxation	**–**	133	–
Derivative liabilities – held for trading	**8 940**	4 730	6 356
Deferred taxation	**611**	254	304
Retirement benefit liabilities	**297**	291	291
Long-term liabilities	**2 165**	3 187	2 498
Policyholder liabilities	**92 104**	80 620	81 580
– Policyholder liabilities under insurance contracts	**47 544**	42 471	42 207
– Policyholder liabilities under investment contracts	**44 560**	38 149	39 373
Total liabilities	**108 563**	92 856	95 150
Outside shareholders' interest	**21**	37	21
Shareholders' funds	**5 204**	4 332	4 779
Share capital and share premium	**1 041**	1 041	1 041
Reserves	**4 163**	3 291	3 738
Total liabilities and shareholders' funds	**113 788**	97 225	99 950

Commentary on results

Introduction

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 (RMBAM), RMB Properties, 87% of Ashburton, 70% of Lekana Employee Benefits Solutions, 40% of Futuregrowth and 34% of African Life, collectively referred to as the Momentum Group (the group).

Operating environment

The operating environment was characterised by buoyant local equity markets, low interest rates and a strong Rand. During the six months ended 31 December 2004, the JSE ALSI 40 index increased by 24%, the prime interest rate reduced by a further 50 basis points to 11%, and the Rand appreciated by 9% against the US Dollar and by 3% against Sterling.

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

The long-term insurance industry continued to experience strong demand for individual risk products during the period, and Momentum's Myriad risk product range proved to be a popular choice.

Net flows into the institutional asset management business also benefited from the strong equity market performance, and from RMBAM's excellent returns relative to its peers.

Group operating results

Group headline earnings increased by a healthy 18% to R592 million for the six months ended 31 December 2004, with earnings attributable to ordinary shareholders increasing by 23% to R593 million.

These results were driven by strong new business inflows, significant growth in assets under management and a focus on expense efficiencies. New business inflows increased by 62%, mainly as a result of excellent linked product, unit trust and segregated third party inflows.

The annualised headline return on equity for the six months was 25%, up from 24% for the year ended 30 June 2004. The annualised return on embedded value was 42%, compared with 17% for the year ended 30 June 2004.

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

Earnings source

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Insurance operations	**299**	261	15	595
– Local	**337**	268	26	623
– Offshore	**(38)**	(7)	>(100)	(28)
Asset management operations	**107**	90	19	175
– Local	**75**	55	36	109
– Offshore	**32**	35	(9)	66
Group operating profit	**406**	351	16	770
Investment income on shareholders' assets	**186**	151	23	311
Group headline earnings	**592**	502	18	1 081

Insurance operations

The insurance operations increased operating profit by 15% to R299 million. The operating profit generated by local insurance operations increased by an excellent 26%, mainly due to strong risk product sales, the growth in equity markets and the focus on expense efficiencies.

The loss of R38 million (2003: R7 million) incurred by Momentum International was mainly due to the operational losses in the retail linked product division, which were exacerbated by the segregation costs incurred when the business was transferred from Ansbacher to a separate legal entity.

A decision has been made to integrate the back-office function of the linked product division of Momentum International with the South African back-office, and to rationalise head-office functions in London, in order to address the losses incurred by this division.

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

Retail new business

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
New annualised recurring premiums	**469**	372	26	784
Total lump sum inflows	**3 881**	3 323	17	7 060
Single premiums	**1 077**	1 266	(15)	2 454
– Single premium endowments	**671**	641	5	1 344
– Immediate annuities	**406**	625	(35)	1 110
Linked product inflows – local	**1 652**	1 131	46	2 631
– Living annuities	**446**	251	78	736
– Other linked products	**1 206**	880	37	1 895
Linked product inflows – offshore[1]	**1 152**	926	24	1 975
Total retail new business	**4 350**	3 695	18	7 844
Annualised retail new business[2]	**857**	704	22	1 490

1. Linked investment products sold by Momentum International in the UK.
2. Represents annualised new recurring premiums plus 10% of all lump sum inflows.

New annualised individual life recurring premium business increased by a pleasing 26% compared to the prior period. The main driver behind this growth was a 38% increase in recurring risk product sales. Recurring investment sales increased by 14%, with Investo retirement annuities and Investo endowment products accounting for the bulk of these sales. Lump sum inflows increased by 17% to R3.9 billion, mainly due to the strong increase in linked product and living annuity sales. The increase of 78% in living annuity sales indicates a significant shift from guaranteed annuities to equity-based annuities.

Subsequent to 31 December 2004, Momentum has launched Investo 4 and the Save Thru Spend initiative. The initial response from the market has been encouraging.

The amalgamation of Momentum's health offering, Pulz, and National Medical Plan has been finalised in the period under review. The attrition of membership during the amalgamation process was greater than forecast. Notwithstanding this fact, the amalgamated scheme, known as Momentum Health, currently has 108 500 beneficiaries. The 2005 benefit structure of Momentum Health was launched in October 2004. The membership of Momentum's loyalty programme, Multiply, has grown to approximately 6 000, and the benefits added during the six month period under review have been received positively.

Momentum Collective Benefits, the provider of risk products to the employee benefits market, managed to grow its profit by pricing accurately for schemes and focusing on savings in marketing and administration expenses.

Asset management operations

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

The asset management operations generated an increase in net profit after tax of 19% to R107 million. These results were positively impacted by fee income on higher assets under management, which resulted from a net inflow of funds and improved local equity market returns.

The stronger Rand resulted in a decrease of 9% in earnings generated by the international asset management operations. In foreign currency terms, the results remained virtually unchanged compared to the same period in the prior year.

It is encouraging that the R5.3 billion in institutional off balance sheet net fund outflows experienced during the same period of the prior financial year, has been turned around to a net inflow of R2.3 billion during the six months ended 31 December 2004.

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

Asset management operations – Funds under management

	31 December	30 June	
R billion	**2004**	2004	% change
Group assets managed on balance sheet	**65.3**	57.2	14
Off balance sheet assets – retail	**18.3**	16.0	14
Off balance sheet assets – institutional	**98.5**	77.0	28
Total funds under management	**182.1**	150.2	21

RMBAM continued to produce excellent investment performance, with its balanced funds being placed 2nd out of 11 managers in the Alexander Forbes Global Large Manager Watch for performance over one year. These funds were ranked 2nd out of nine over three years, and 3rd out of nine over five years.

Investment income on shareholders' assets

The investment income earned on shareholders' assets increased by 23% to R186 million. The main reason for this strong performance was the increase in equity accounted earnings of African Life from R32 million to R60 million.

The directors' valuation of shareholders' net assets at 31 December 2004, as well as the investment income earned on the shareholders' portfolio investments, are set out in the following table:

Shareholders' net assets	Directors' valuation			Investment income earned after tax		
				Six months ended		Year ended
	31 December	31 December	30 June	31 December	31 December	30 June
R million	**2004**	2003	2004	**2004**	2003	2004
Strategic subsidiary investments:[1]						
– Asset management operations	**1 830**	1 428	1 479	**–**	–	–
– Momentum MultiManagers	**35**	40	35	**–**	–	–
– Lekana Employee Benefits Solutions (70%)	**97**	96	95	**–**	–	–
Shareholders' portfolio investments:[1]						
– African Life (34%)	**723**	600	518	**60**	32	71
– Fixed interest instruments	**94**	573	49	**30**	32	52
– Preference shares	**516**	508	516	**12**	12	40
– Equities	**1 145**	147	1 086	**10**	2	6
– Properties	**–**	118	–	**–**	7	8
– Share trust and subsidiary loans	**656**	599	510	**21**	20	42
– Cash and near cash	**1 954**	1 664	1 908	**53**	46	92
Total shareholders' net assets	**7 050**	5 773	6 196	**186**	151	311

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

Momentum's capital management policy is to invest the capital backing the Capital Adequacy Requirement (CAR) in cash or near cash instruments, and to invest the remaining capital in equities. This strategy enables Momentum to maximise its return on capital.

Capital adequacy

The excess of assets over liabilities of Momentum Group Limited, calculated on the statutory valuation bases, was R4 375 million at 31 December 2004. The capital adequacy requirement (CAR) of R2 076 million was covered 2.1 times by the excess of assets over liabilities, in line with the targeted cover range.

After allowing for the impact of a new Financial Services Board (FSB) directive in respect of the treatment of negative policyholder liabilities, as well as the FSB's phased asset valuation requirements in respect of listed insurance subsidiaries, if applied at the beginning of the year, Momentum's pro-forma surplus as at 30 June 2004 amounted to R3 980 million and its pro-forma CAR amounted to R1 979 million, resulting in a pro-forma CAR cover of 2.0 times as at 30 June 2004.

Marketing and administration expenses

Total marketing and administration expenses for the group amounted to R799 million for the six months, an increase of 8% over the expenses for the comparative period. The following table provides a breakdown of the expenses per business unit:

Marketing and administration expenses

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Insurance operations	**632**	590	7	1 172
– Local	**554**	544	2	1 059
– Offshore	**78**	46	70	113
Asset management operations	**167**	153	9	310
– Local	**111**	112	(1)	225
– Offshore	**56**	41	37	85
Total marketing and administration expenses	**799**	743	8	1 482

The local insurance operations contained the increase in expenses to only 2%. The group is on target for a real reduction of 15% in unit costs for the insurance operations by 2007, as part of an overall productivity and efficiency project.

Results of the embedded value calculation

The embedded value of Momentum Group increased by 16% from R9 666 million at 30 June 2004, to R11 249 million at 31 December 2004. The embedded value profit for the six months ended 31 December 2004 was R1 868 million, which represents an annualised return of 42% on the opening embedded value.

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

Embedded value

R million	31 December **2004**	30 June 2004
Directors' valuation of shareholders' net assets	**7 050**	6 196
Net value of in-force insurance business	**4 199**	3 470
Value of in-force insurance business	**4 838**	4 096
Opportunity cost of capital adequacy requirements	**(639)**	(626)
Embedded value	**11 249**	9 666

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 set out in the following table:

Value of new business

	Six months ended 31 December			Year ended 30 June
R million	**2004**	2003	% change	2004
Value of new business	**211**	159	33	326
Less: Opportunity cost of capital	**(19)**	(12)	(58)	(38)
Value of new business	**192**	147	31	288

The increase of 31% in the value of new business can be ascribed to increases in both volumes and margins.

The value of new business written represents a margin of 19.9% of the annualised new business premiums (new recurring plus 10% of single premiums), compared with 19.5% for the comparative period. The improved margin was due to the higher proportion of the more profitable Myriad risk product sales.

The following table provides a reconciliation between the new business table set out later in this results announcement, 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
New business inflows per new business table	582	21 000
Less items not valued:		
Employee benefit premium income (investment only business)		(2 252)
Linked product inflows – offshore		(1 152)
Unit trust inflows – local		(3 796)
Unit trust inflows – offshore		(646)
Segregated third party inflows		(9 835)
Policy alterations and other		(253)
Add additional item valued:		
Term extensions on maturing policies		763
New business inflows included in value of new business	**582**	**3 829**

The following table provides an analysis of the embedded value profit for the six months into its main components:

Analysis of movement in embedded value

R million	**2004**
Embedded value at 30 June 2004	**9 666**
Embedded value profit	**1 868**
Factors related to operations:	**608**
Value of new business	**192**
Expected return on new business	**5**
Expected return on existing business	**256**
Operating experience variations	**133**
Experience assumption changes	**22**
Factors related to market conditions:	**1 260**
Investment return on shareholders' net assets	**834**
Investment variations	**280**
Economic assumption changes	**159**
Changes in opportunity cost of capital	**(13)**
Less: Dividends paid	**(285)**
Embedded value at 31 December 2004	**11 249**

The following table shows the main economic assumptions used in calculating the embedded value at 31 December 2004:

Economic assumptions

Percentage	31 December **2004**	30 June 2004
Risk discount rate	**11.1**	13.1
Investment returns (before tax)	**9.5**	11.5
Expense inflation rate	**5.5**	7.5

The investment return assumption of 9.5% per annum was determined with reference to the market interest rates on South African government stocks at 31 December 2004, taking into account the estimated outstanding term of the in-force policy book. An annualised long-term asset distribution was used to calculate a weighted expected investment return, using the same methodology as at 30 June 2004.

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

A comprehensive embedded value report is available on FirstRand's website at www.firstrand.co.za.

Group assets under management or administration

The Momentum Group managed or administered total assets of R240.9 billion at 31 December 2004 compared with R204.2 billion at 30 June 2004, an increase of 18%. This increase is mainly due to the strong performance from investment markets, and a net inflow of funds of R3.2 billion. The following table provides an analysis of the assets managed or administered by group companies:

Assets under management or administration

R billion	31 December **2004**	30 June 2004	% change
On-balance sheet assets	**113.8**	100.0	14
Segregated third party funds	**100.6**	80.7	25
Unit trust funds managed – local	**10.5**	8.2	28
Unit trust funds managed – offshore	**7.8**	7.8	–
Assets under management	**232.7**	196.7	18
Linked product assets under administration[1]	**8.2**	7.5	9
Total assets under management or administration	**240.9**	204.2	18

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 R18.4 billion (June 2004: R15.5 billion).

New business inflows

New business inflows for the six months totalled R21.6 billion, an increase of 62% compared with the corresponding figure in the prior year. New recurring premium business increased by a healthy 27%, mainly due to an increase of 38% in individual life risk sales and a significant improvement in new recurring employee benefits business. Lump sum inflows increased by 41% as a result of significant increases in employee benefits, linked product and local unit trust inflows. A breakdown of the new business inflows is provided in the following table:

New business

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Annualised recurring premiums[1]	**582**	458	27	998
Individual life	**469**	372	26	784
Employee benefits	**113**	86	31	214
Lump sum inflows	**11 165**	7 916	41	17 741
Individual life inflows	**1 077**	1 266	(15)	2 454
Corporate policy inflows	**323**	476	(32)	587
Employee benefits inflows	**2 519**	1 246	>100	2 997
Linked product inflows – local[2]	**1 652**	1 131	46	2 631
Linked product inflows – offshore	**1 152**	926	24	1 975
Unit trust inflows – local	**3 796**	2 194	73	5 644
Unit trust inflows – offshore	**646**	677	(5)	1 453
Segregated third party inflows	**9 835**	4 987	97	9 995
Total new business inflows	**21 582**	13 361	62	28 734
Annualised new business inflows[3]	**2 682**	1 748	53	3 772

1. Excludes premium increases.

2. Includes inflows relating to products on the life insurance balance sheet totalling R1 000 million (2003: R724 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 R24.1 billion, an increase of 55%. The following table provides a summary of these inflows:

Funds received from clients

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Recurring premium income	**2 910**	2 506	16	5 147
Individual life	**1 927**	1 777	8	3 592
Employee benefits	**983**	729	35	1 555
Lump sum inflows	**11 176**	7 929	41	17 756
Individual life inflows[1]	**1 077**	1 266	(15)	2 454
Corporate policy inflows	**334**	489	(32)	602
Employee benefits inflows	**2 519**	1 246	>100	2 997
Linked product inflows – local	**1 652**	1 131	46	2 631
Linked product inflows – offshore	**1 152**	926	24	1 975
Unit trust inflows – local	**3 796**	2 194	73	5 644
Unit trust inflows – offshore	**646**	677	(5)	1 453
Segregated third party inflows	**9 974**	5 039	98	10 268
Total funds received from clients	**24 060**	15 474	55	33 171

1. Single premiums exclude funds retained through the extension of the original policy term, amounting to R1 295 million (2003: R277 million).

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

Payments to clients

Payments to clients increased by 12% to R20.9 billion. Included in the corporate policy outflows is the maturity of a large corporate policy investment. The main reason for the increase in offshore linked product outflows is the withdrawal of Ansbacher assets following the sale of Ansbacher to Qatar National Bank. The comparative number for segregated third party fund outflows includes the withdrawal of specialist bond mandates by a small number of large clients of RMBAM. The total outflows to clients are shown in the following table:

Payments to clients

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Individual life	**3 402**	2 835	20	5 629
Corporate policies	**1 324**	572	>100	1 147
Employee benefits	**2 469**	1 842	34	4 733
Linked products – local[1]	**925**	749	23	1 578
Linked products – offshore	**1 275**	27	>100	234
Unit trusts – local	**3 082**	1 686	83	3 841
Unit trusts – offshore	**697**	578	21	1 472
Segregated third party funds	**7 678**	10 358	(26)	13 810
Total payments to clients	**20 852**	18 647	12	32 444

1. *Includes outflows relating to products on the life insurance balance sheet amounting to R502 million (2003: R501 million).*

Net flow of funds

The net flow of funds improved from a net outflow of R3.2 billion for the comparative period to a net inflow of R3.2 billion for the six months ended 31 December 2004, mainly due to the comparative number including the withdrawal of institutional specialist bond mandates.

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

Net flow of funds

	Unaudited Six months ended 31 December		Audited Year ended 30 June
R million	**2004**	2003	2004
Individual life	**(398)**	208	417
Corporate policies	**(990)**	(83)	(545)
Employee benefits	**1 033**	133	(181)
Linked products – local[1]	**727**	382	1 053
Linked products – offshore	**(123)**	899	1 741
Unit trusts – local	**714**	508	1 803
Unit trusts – offshore	**(51)**	99	(19)
Segregated third party funds	**2 296**	(5 319)	(3 542)
Total net flow of funds	**3 208**	(3 173)	727

1. *Includes net inflows relating to products on the life insurance balance sheet, amounting to R498 million (2003: R223 million).*

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 2004.

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 must be applied by South African insurers from that date. The principles regarding the classification of policy contracts between insurance and investment contracts have been applied consistently with those applied by the group during the year ended 30 June 2004.

Prospects

It is unlikely that the market performance over the six months ended 31 December 2004 will be repeated in the second half of the financial year. We are positive that our range of innovative products, covering a wide spectrum of financial needs, will assist in growing new business sales volumes. We are also confident that the efficiency improvements will continue. However, the real benefit of these efficiency improvements will only be reaped in the following financial year, as a result of the rationalisation costs that will be incurred at Momentum International during the remainder of the current financial year.

LL Dippenaar / Chairman

HP Meyer / Managing Director

22 February 2005

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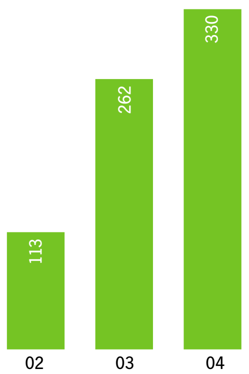
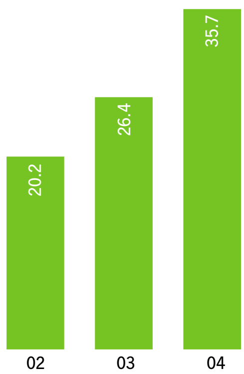
» introduction

This report reflects the operating results and the financial position of Discovery which holds the health and certain related insurance interests of the FirstRand Limited group of companies. Discovery is 65.7% held by FirstRand (2003: 65.6%) and is listed on the JSE Securities Exchange. This report should be read in conjunction with the report on FirstRand Limited and is a summary of Discovery's announcement to shareholders published on 21 February 2005.

Financial Highlights



Operating profit (R million)



Diluted headline earnings per share (cents)

Unaudited – six months ended 31 December 2004	
Headline earnings	+43%
Embedded value	+27% to R8 billion
New business annualised premium income	R2 billion
Gross inflows under management	+21%
Destiny Health achieves overall profitability in January 2005	
Discovery Life signs letter of intent with Prudential to market protection products in UK	

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

Income statement

R million	Group Unaudited Six months ended 31 December 2004	2003	% change	Group Audited Year ended 30 June 2004
Gross income of group	**1 840**	2 021		3 698
Outward reinsurance premiums	**(145)**	(168)		(293)
Net income	**1 695**	1 853		3 405
Policyholder benefits	**(370)**	(796)		(1 078)
Recoveries from reinsurers	**99**	138		237
Net policyholder benefits	**(271)**	(658)		(841)
Commissions	**(363)**	(279)		(576)
Operating and administration expenses	**(837)**	(787)		(1 495)
Vitality benefits	**(190)**	(144)		(314)
Transfer from assets/liabilities arising from insurance contracts	**296**	277		529
Profit from operations	**330**	262	26	708
Local operations	**449**	341		842
Foreign operations	**(119)**	(79)		(134)
Investment income	**85**	70		124
Realised and unrealised investment gains	**82**	52		68
Fair value adjustment to liabilities arising from investment contracts	**(91)**	(60)		(71)
Financing costs	**(23)**	(31)		(47)
Foreign exchange loss – unrealised	**(33)**	(36)		(62)
Profit before taxation	**350**	257	36	720
Taxation	**(144)**	(123)		(299)
Profit after taxation	**206**	134	54	421
Minority share of loss	**–**	1		(3)
Net profit attributable to ordinary shareholders	**206**	135	53	418
Earnings per share (cents)				
– undiluted	**39.7**	27.3	45	83.0
– diluted	**38.5**	26.6	45	79.7
Headline earnings per share (cents)				
– undiluted	**36.7**	27.1	35	80.5
– diluted	**35.7**	26.4	35	77.4
Weighted number of shares in issue (000's)	**518 793**	494 914		504 051
Diluted weighted number of shares (000's)	**549 271**	526 922		536 025
Headline earnings				
Net profit attributable to ordinary shareholders	**206**	135		418
Adjusted for realised profit on available-for-sale financial instruments	**(15)**	(1)		(13)
Headline earnings	**191**	134	43	405

Balance sheet

R million	Group Unaudited at 31 December 2004	Group Audited at 30 June 2004
Assets		
Cash and cash equivalents	**1 186**	998
Government and public authority stocks		
– available-for-sale	**135**	130
– at fair value through profit and loss	**51**	52
Equity investments		
– available-for-sale	**801**	602
– at fair value through profit and loss	**322**	251
Investment in associate	**3**	2
Investment assets	**2 498**	2 035
Loans and receivables	**438**	430
Taxation	**17**	–
Deferred taxation	**10**	10
Assets arising from insurance contracts	**1 615**	1 318
Intangible assets	**42**	38
Equipment	**183**	201
Total assets	**4 803**	4 032
Liabilities and shareholders' funds		
Liabilities		
Current liabilities	**739**	578
Provisions	**23**	22
Taxation	**–**	43
Deferred taxation	**262**	128
Liabilities arising from insurance contracts	**7**	6
Liabilities arising from reinsurance contracts	**34**	36
Financial liabilities	**850**	716
– Investment contracts at fair value through profit and loss	**470**	400
– Borrowings at amortised cost	**380**	316
Total liabilities	**1 915**	1 529
Outside shareholders' interest	**67**	67
Shareholders' funds		
Share capital and share premium	**1 293**	1 276
Reserves	**1 528**	1 160
Total shareholders' funds	**2 821**	2 436
Total liabilities and shareholders' funds	**4 803**	4 032
Net asset value per share (cents)	**542.4**	474.6
Number of shares in issue (000's)	**520 139**	513 287

Segmental information / for the six months ended 31 December

R million	Health South Africa	Health United States of America	Health United Kingdom	Life	Vitality	Total
31 December 2004						
New business annualised premium income	1 175	409	5	332	36	1 957
Income statement						
Gross income	782	237	*	587	234	1 840
Reinsurance	(2)	(3)	–	(140)	–	(145)
Net policyholder benefits	(3)	(171)	*	(97)	–	(271)
Commissions	–	(20)	*	(325)	(18)	(363)
Operating and administration expenses	(528)	(82)	(80)	(130)	(207)	(1 027)
Transfer from assets/liabilities under insurance contracts	–	–	–	232	–	232
	249	(39)	(80)	127	9	266
Return on assets under insurance contracts	–	–	–	64	–	64
Profit/(loss) from operations	249	(39)	(80)	191	9	330
Investment income and realised profits						76
Financing costs						(23)
Foreign exchange loss – unrealised						(33)
Profit before taxation						350
31 December 2003						
New business annualised premium income	935	222	–	279	26	1 462
Income statement						
Gross income	1 287	165	–	384	185	2 021
Reinsurance	(44)	(44)	–	(80)	–	(168)
Net policyholder benefits	(488)	(82)	–	(88)	–	(658)
Commissions	–	(9)	–	(260)	(10)	(279)
Operating and administration expenses	(539)	(109)	–	(128)	(155)	(931)
Transfer from assets/liabilities under insurance contracts	–	–	–	234	–	234
	216	(79)	–	62	20	219
Return on assets under insurance contracts	–	–	–	43	–	43
Profit/(loss) from operations	216	(79)	–	105	20	262
Investment income and realised profits						62
Financing costs						(31)
Foreign exchange loss – unrealised						(36)
Profit before taxation						257

** Amount is less than R500 000.*

Introduction

Discovery's performance over the period was pleasing. Its established businesses generated strong organic growth, while intense focus was applied to Discovery's new businesses, yielding significant progress and creating platforms for future growth.

Despite significant start-up costs associated with PruHealth and the DiscoveryCard, pre-tax profit increased by 36%, with diluted headline earnings per share increasing by 35%. Annualised new business premium income grew by 34% to R1 957 million.

The Discovery business model is based on the concept of engaging consumers in their health, enabling it to provide financial products that are efficient, sustainable and appropriate. It is this simple idea of "making people healthier and protecting their lifestyles" that underpins all of Discovery's businesses. Importantly, this consumerism is a key emerging trend in most markets and Discovery's experience in this regard places it in a uniquely competitive position going forward. The six months under review reflect this competitiveness and the ability to migrate the model to other markets.

Review of group results

Gross inflows under management, excluding reinsurance premiums received from the Discovery Health Medical Scheme ("DHMS"), increased 30% for the six months ended 31 December 2004. Gross inflows under management includes flows of the schemes Discovery administers and business conducted together with its joint venture partners. The increase is pleasingly driven by growth in all business areas, with new business API increasing by a strong 34% to R1 957 million (2003: R1 462 million).

Gross inflows under management

R million	December **2004**	December 2003	% change	June 2004
SA Health operations	**6 884**	5 877	17	12 549
Life operations	**587**	384	53	859
Vitality operations	**234**	185	27	403
Destiny operations	**375**	234	60	554
Gross inflows under management	**8 080**	6 680	21	14 365
Less: collected on behalf of third parties	**(6 219)**	(4 652)		(10 647)
Gross income of group	**1 861**	2 028		3 718
Less: DHMS reinsurance premiums	**–**	(596)		(596)
	1 861	1 432	30	3 122

The following table shows the main components of the increase in group operating profit for the six months:

Earnings source

R million	December **2004**	December 2003	% change
SA Health operations	**249**	216	15
Life operations	**191**	105	82
Vitality operations	**9**	20	(55)
Destiny operations	**(39)**	(79)	51
UK set-up costs	**(80)**	–	–
Group operating profit	**330**	262	26

The operating profit of Discovery is weighted to the second half of the financial year as premium increase anniversaries are on 1 January each year while salary increases occur on 1 July each year. In addition, significant new business is activated effective 1 January each year.

Discovery achieved an increase of 43% in headline earnings. Unrealised gains of R148 million on available-for-sale investments for the period have been taken directly to reserves and are not included in earnings or headline earnings.

In the six months to 31 December 2004, the group incurred a foreign exchange loss of R33 million on the rand denominated borrowings made by Destiny Health. This loss was caused by the strengthening of the Rand against the dollar from R6.18:US$1 to R5.63:US$1 over the six month period.

Discovery Health

Discovery Health's performance was particularly pleasing over the period. Discovery Health is resolutely committed to building a robust and efficient private health care system consistent with Government policy. In this regard, it must balance and align the needs of members and the health care system with its corporate needs.

Its performance over the period demonstrates this ability clearly: Members of the Discovery Health Medical Scheme entered 2005 with the lowest level of medical contribution inflation ever, benefits were increased in key areas, and remuneration for general practitioners and specialists was increased significantly. The Discovery Health Medical Scheme generated a surplus of R1.4 billion over the period, increasing its reserve levels to R3.1 billion, marginally missing the target of 25%. By January 2005, this target of R3.2 billion has now been exceeded.

Discovery Health's size, infrastructure and capabilities positioned it for growth and efficiency. Annualised new business premium income to Discovery Health increased 26% to R1 175 million (2003: R935 million). Membership under administration increased 9% to 1 640 151 lives (2003: 1 505 896 lives). Operating profit increased by 15% to R249 million (2003: R216 million), despite the discontinuation of all reinsurance.

Discovery Life

Discovery Life's performance continues to exceed expectation. Operating profit increased by 82% to R191 million (2003: R105 million), with annualised new business production increasing 19% to R332 million (2003: R279 million). The value of the in-force business increased by 73% to R1 641 million (2003: R946 million). The number of individual policyholders grew by 50% to 150 411 (2003: 100 218). Group lives covered increased to 53 858 (2003: 34 968).

Discovery Life has established a leadership position within the pure risk assurance market. In the period under review it focused on continued innovation and integration with Discovery Health and Vitality. Notably, the quality of business written and the unfolding mortality and morbidity experience significantly exceeded expectation, driving profitability and embedded value.

The integration strategy has proved remarkably successful with 94% of those eligible, opting for the "Integrator" version of the Discovery Life Plan. Early, but strong evidence is beginning to emerge, which illustrates the positive correlation between Vitality membership and better mortality and morbidity experience. This clearly bodes well for future growth and profitability.

Based on Discovery Life's product technology and infrastructure, a letter of intent has been signed with the Prudential Assurance Company Limited, a wholly-owned subsidiary of Prudential plc, for the development and marketing of protection products in the United Kingdom using Discovery's product and administration strengths. The products will be marketed under the Prudential brand, and will be distributed through Prudential's existing sales channels.

Destiny Health

Destiny's performance exceeded expectation. The company had the stated intention of generating an overall profit across all its markets by the end of 2004. This goal was set after Destiny generated a profit in Illinois, its initial market, early in 2004.

To this end, annualised new business increased over the period under review by 84% to R409 million (2003: R222 million). Membership crossed the stated and important target of 50 000 lives and operating losses for the period decreased by 51% to R39 million (2003: R79 million). A maiden operating profit of R1.6 million was generated in January 2005.

Significant progress was made with Destiny's joint venture partners:

- The joint venture with the Guardian Life Insurance Company is performing ahead of expectation. Increasing success is being achieved in the Illinois market and during the period, the company successfully expanded into the Washington DC-Virginia-Maryland market. Early progress in this new market has exceeded expectation.
- While the initial progress in Massachusetts with the Tufts Health Plan was slow, significantly more traction was achieved during the period with new business production more in line with that budgeted.

Overall, Destiny is now well placed in three important markets and is now evaluating a further expansion market for late 2005. A platform for growth has been established with considerable focus now being applied to increase the distribution scale and intensity in these markets.

The performance of the company's products has exceeded expectation and operationally, the company has performed well. The move of back-office functionality to South Africa was accelerated during the period, providing the company with competitive advantage both functionally and in terms of cost. More than 200 people now serve Destiny from South Africa.

PruHealth

During the period, PruHealth was successfully launched into the UK private medical insurance market. The start-up costs amounted to R80 million over the period, in line with the budget set.

By the end of the period under review – three months from its launch – approximately 1 800 lives were covered. Going forward, the company is well positioned for strong growth and significant overall potential:

- The product construct and its Vitality chassis has been received particularly well by press and brokers. Its structure and approach is consistent with UK Government health policy of now focusing on making people healthier.
- Recent research illustrates the success of PruHealth's positioning. The company's brand awareness amongst consumers rivals that of its major competitors, AXA PPP, Standard Life and Norwich Union – reflecting the powerful brand platform provided by the Prudential plc.
- The infrastructure built is significant, utilising the back-office capabilities of Discovery. The platform built is now ready to support significant growth going forward.

The focus in the short term is on building the distribution capabilities so that the significant potential within PruHealth can be realised.

Vitality and Discovery Card

Vitality continues to play a foundational role in all of Discovery's businesses and is the embodiment of Discovery's vision of making people healthier. The marked and positive impact of Vitality on morbidity and mortality is becoming statistically clear and strongly supports the Discovery strategy of intense focus in this area.

In the period under review operating profit reduced by 55% to R9 million (2003: R20 million). This was caused by the enhancement of certain key Vitality benefits and the significant investment in the development and rolling out of the DiscoveryCard, Discovery's new generation credit card. The combined positive knock-on effect elsewhere within Discovery will more than compensate for this going forward, and it is expected that the Vitality profit levels will return to and grow off previous levels.

The launch of DiscoveryCard during the period was particularly successful, with over 60 000 cards purchased in just the first three months. However, the combination of significant sales, the chosen courier delivery system and the onerous documentation requirements of the Financial Intelligence Centre Act (FICA) created significant delivery bottlenecks. This has largely been addressed and it is anticipated that card sales will continue to grow significantly, providing a foundation for an intensifying of Discovery's drive to incentivise better health.

Taxation

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

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

Balance sheet

Included in cash and cash equivalents is R200 million received in terms of a quota share agreement entered into by Discovery Life with effect from 1 July 2004 which effectively reinsures 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a period of approximately six years. We previously considered that this amount would be included in income in the current period. In line with recent developments in revenue recognition principles, the profits will be recognised as they are earned. R32 million has been recognised in income for the six months ended 31 December 2004 and the balance has been included in current liabilities.

On 31 December 2004, Discovery Holdings invested US$61 million into Destiny Health. These funds were used by Destiny to redeem the rand denominated borrowings on 18 January 2005.

In September 2004, Discovery invested GBP15 million into PruHealth to meet its capital requirements. An additional GBP5 million was invested in January 2005.

Investments have increased due to the strong performance of the equity markets.

The increase in the assets under insurance contracts of R296 million is as a result of the significant increase in profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the FSB directive 145. This directive allows for the zeroing of the negative life reserve on a statutory basis. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base. This is disclosed as a regulatory change in the embedded value statement.

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

The first tranche of Discovery Life preference shares was redeemed, by agreement with the preference shareholders, on 31 August 2004 resulting in the issue of 4 270 530 Discovery Holdings shares. Discovery Holdings issued a further 8 000 000 shares to the Share Incentive Trust in September 2004.

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.

Dividend policy

The directors have recommended that no dividend be paid at this time.

Comparative figures

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

- As disclosed at 30 June 2004, money market instruments in the investment portfolios, previously included in investments, have been reclassified as cash and cash equivalents in the 31 December 2003 comparatives.
- In line with industry practice, automatic premium increases have been excluded from the new business annualised premium income for the Group Life business. This has effectively reduced new business annualised premium income for the Life business segment in the Segmental information for the six months ended 31 December 2003, from R290 million to R279 million.

Embedded value statement

The embedded value of Discovery increased by 27% from R6 282 million at 31 December 2003, to R7 991 million at 31 December 2004.

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

Group embedded value

	Group Six months ended 31 December			Group Year ended 30 June
R million	**2004**	2003	% change	2004
Shareholders' funds	**2 821**[1]	2 170[2]	30	2 436
Value of in-force business before cost of capital	**5 604**	4 402	27	4 803
Cost of capital	**(434)**	(290)	50	(363)
Discovery Holdings embedded value	**7 991**	6 282	27	6 876
Number of shares (millions)	**520.1**	513.5		513.3
Embedded value per share	**R15.36**	R12.23	26	R13.40
Diluted embedded value per share	**R14.71**	R11.67	26	R12.89

1. *Shareholders' funds include R1 605 million in respect of the Life product negative reserve.*
2. *Destiny Health preference shares were converted at R14/US$1 during 2003 and not at historical rates of R7/US$1, in accordance with the Group's accounting policy. As described in the 2004 Annual Report, the 31 December 2003 shareholders' funds balance was restated to record the preference shares at historical rates. The effect of this restatement was to increase the currency translation reserve by R60 million and reduce outside shareholders' interest by R60 million.*

Embedded value earnings

	Six months ended 31 December		Year ended 30 June
R million	**2004**	2003	2004
Embedded value at end of period	**7 991**	6 282	6 876
Embedded value at beginning of period	**6 876**	4 928	4 928
Increase in embedded value	**1 115**	1 354	1 948
Net issue of capital	**(17)**	(849)	(847)
Dividends paid to Destiny Health preference shareholders	**1**	1	1
Revaluation of forward foreign exchange contract	**(6)**	(14)	(8)
Embedded value earnings	**1 093**	492	1 094
Annualised return on embedded value (%)	**34.3**	20.9	22.2

Components of embedded value earnings

	Six months ended 31 December			Year ended 30 June
R million	**2004**	2003	% change	2004
Total profit from new business (at point of sale)	**375**	358	5	637
Profit from existing business				
– Expected return	**286**	272		534
– Change in methodology and assumptions[1]	**315**	(262)		(361)
– Experience variances	**56**	60		230
Acquisition costs[2]	**(60)**	(40)		(5)
PruHealth start-up costs	**(64)**	–		(28)
Adjustment for minority interest in Destiny Health	**1**	4		(4)
Adjustment for Guardian profit share in Destiny Health[3]	**(9)**	–		(8)
Foreign exchange rate movements	**(38)**	(13)		(67)
Interest on loan capital	**(20)**	(25)		(41)
Return on shareholders' funds[4]	**251**	138		207
Embedded value earnings	**1 093**	492		1 094

1. *The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in the table below (for previous periods refer to previous embedded value statements).*
2. *A large proportion of Health and Vitality new business was written over the period but only activated on 1 January 2005. Acquisition costs of R37 million (December 2003: R30 million) arise in respect of these members who are not included in the embedded value calculation. Similarly acquisition costs of R15 million (December 2003: R10 million) arise for Destiny Health. Life acquisition costs of R8 million relate to commission paid in respect of new business that was not yet on risk at 31 December 2004.*
3. *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 non-alliance business once the business written by Guardian reaches the contractual new member threshold. This is modelled to occur in June 2007. Based on Guardian's progress at 31 December 2004 towards achieving this target, the value attributed to Destiny's non-alliance business from 30 June 2007 has been reduced by 13.7% (June 2004: 6.8%) in the embedded value calculation.*
4. *Return on shareholders' funds is the investment return on shareholders' funds after tax and management charges. Shareholders' funds include the Life product's negative reserve.*

Methodology and assumption changes

for the six months ended 31 December 2004

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes	–	(23)	19	(4)
Quota share	–	22	–	22
Lapses[1]	14	4	(4)	14
Economic assumptions[2]	35	13	73	121
Expenses[3]	160	35	6	201
Mortality and morbidity	–	(5)	8	3
Benefit enhancements[4]	(72)	–	(2)	(74)
Premium increase	–	(15)	–	(15)
Regulatory change[5]	–	–	99	99
Tax[6]	(55)	–	–	(55)
Other	–	3	(0)	3
Total	82	34	199	315

1. *The Life lapse assumption change is in respect of Health Plan Protector policies.*
2. *The Life economic assumptions change includes a higher cancellation rate on contribution increases which has been changed to be consistent with the current lower inflationary environment. The impact of this change was a negative R57 million. The impact of the 1.5% reduction in the economic assumptions is positive R124 million.*
3. *The Health and Vitality renewal expense assumption change is based on the results of the most recent expense analysis (31 December 2004). For Health and Vitality, the actual experience reflects efficiencies achieved in managing the Health business. The Destiny Health renewal expense assumption has been adjusted to allow for the expected growth in membership over the next 12 months.*
4. *The Health and Vitality assumption change includes an allowance for the expected cost of benefit enhancements on Vitality.*
5. *This represents the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.*
6. *The tax assumption change reflects a higher average VAT rate modelled.*

Experience variances

for the six months ended 31 December 2004

R million	Health and Vitality	Destiny Health	Life	Total
Renewal expenses	7	9	2	18
Non-recurring expenses[1]	(15)	(3)	–	(18)
Inflation[2]	(102)	–	6	(96)
Extended modelling term[3]	74	6	1	81
Lapses[4]	62	(14)	(10)	38
Policy alterations	3	2	37	42
Mortality and morbidity[5]	–	(34)	33	(1)
Quota share[6]	–	–	(7)	(7)
Premium increase	–	5	–	5
Reinsurance	–	–	(2)	(2)
Other	(8)	9	(5)	(4)
Total	21	(20)	55	56

1. *The non-recurring expenses for Health and Vitality relate to both the launch of the DiscoveryCard as well as costs relating to the discontinuation of the Corporate Funder benefit. For Destiny Health, non-recurring expenses are in respect of restructuring costs as well as costs relating to the recruitment of an executive director.*
2. *The negative variance for Health and Vitality is due to a lower 2005 increase (ie 4.2%) in the Health administration and managed care fees compared with that assumed in June 2004 (ie 5.5%).*
3. *The projection term for Health, Vitality, Destiny Health and Group Life at 31 December 2004 has not been changed from that used at 30 June 2004. Thus, an experience variance arises because the total term of the in-force business is effectively increased by six months.*
4. *Included in the Health and Vitality lapse experience variance is an amount of R131 million in respect of members joining existing employer groups during the period.*
5. *The Life mortality and morbidity variance is net of reinsurance.*
6. *The impact of implementing the new quota share agreement was negative R7 million. This, however, excludes investment return of R5 million earned on the assets received.*

Embedded value of new business

	Six months ended 31 December			Year ended 30 June
R million	**2004**	2003	% change	2004
Health and Vitality				
Gross profit from new business at point of sale	**67**	43		155
Cost of capital	**–**	–		–
Net profit from new business at point of sale	**67**	43	56	155
New business annualised premium income[1]	**424**	460	(8)	1 834
Life				
Gross profit from new business at point of sale	**369**	370		583
Cost of capital	**(78)**	(63)		(131)
Net profit from new business at point of sale[2]	**291**	307	(5)	452
New business annualised premium income[3]	**245**	214	14	406
Annualised profit margin[4] (%)	**14.3**	12.1		13.3
Destiny Health				
Gross profit from new business at point of sale	**17**	15		36
Cost of capital[5]	**(0)**	(7)		(6)
Net profit from new business at point of sale[6]	**17**	8	113	30
New business annualised premium income[1]	**250**	137	82	378
New business annualised premium income (US$ million)	**41**	19	116	56

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

   The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 31 December 2004.

   The total Health and Vitality new business annualised premium income written over the period was R1 211 million (December 2003: R961 million). For Destiny Health, the total new business annualised premium income written over the period was R409 million (December 2003: R222 million).
2. *The Life value of new business includes R22 million in respect of the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.*
3. *Life new business annualised premium income of R245 million shown above is net of automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R42 million and servicing increases of R45 million, was R332 million.*
4. *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums. The majority of policies sold under the Life product have accelerated premiums, ie 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, 118.8% (December 2003: 143.5%), would overstate the annualised profit margin.*
5. *As most of the new business is written on the Guardian and Tufts insurance licences, Destiny Health is not required to hold statutory capital for this business. An explicit charge for the use of their capital is payable to Guardian and Tufts, and this cost is included in the gross profit from new business.*
6. *The Destiny Health value of new business allows for the actual new business expenses incurred over the six month period. No allowance for acquisition cost efficiencies which are expected to occur as a result of strong membership growth during 2005 has been made.*

Embedded value assumptions

%	Six months ended 31 December 2004	Six months ended 31 December 2003	Year ended 30 June 2004
Risk discount rate			
– Health and Vitality	**11.00**	13.50	12.50
– Life product	**11.00**	12.50	12.50
– Destiny Health	**10.00**	10.00	10.00
Medical inflation			
South Africa	**7.00**	8.50	8.50
United States	**Current levels reducing to 12.50 over the projection period**	Current levels reducing to 11.50 over the projection period	Current levels reducing to 12.50 over the projection period
Expense inflation			
South Africa	**4.00**	5.50	5.50
United States	**3.00**	5.00	5.00
Pre-tax investment return			
South Africa – Cash	**6.50**	8.00	8.00
– Bonds	**8.00**	9.50	9.50
– Equity	**10.00**	11.50	11.50
United States – Bonds	**2.00**	2.00	2.00
Income tax rate			
– South Africa	**30.00**	30.00	30.00
– United States Federal Tax Rate[1]	**34.00**	34.00	34.00

1. Various additional State taxes also apply.

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

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

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

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.

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

The embedded value of Discovery at 31 December 2004 is calculated as the sum of the following components:

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

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

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

PricewaterhouseCoopers Inc. has reviewed the methodology and assumptions used to determine the value of in-force business and the value of new business and have confirmed that, overall, they are reasonable.

Future prospects

All of Discovery's businesses are well positioned for strong growth going forward without requiring recourse to additional capital.

By order of the board

LL Dippenaar / Chairman

A Gore / Chief Executive Officer

17 February 2005

Directors

LL Dippenaar (Chairman), A Gore (Chief Executive Officer), JM Robertson (Chief Operating Officer), Dr BA Brink, JP Burger, Dr NJ Dlamini, SB Epstein** (USA), MI Hilkowitz, NS Koopowitz*, HP Mayers*, B Swartzberg*, SD Whyte*, SV Zilwa

*Executive

**Appointed 17 February 2005

Transfer secretaries

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Share code: DSY ISIN code: ZAE000022331

Notes

This information is available on our website at

www.firstrand.co.za

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