integrated
financial services

audited results
for the year ended 30 June 2004

FIRSTRAND

Contents

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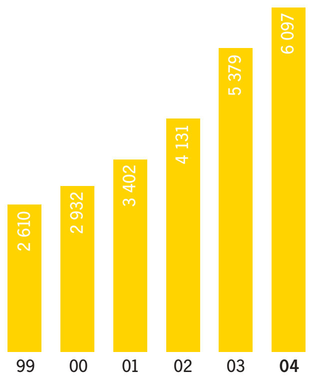
*A booklet containing supplementary information on the Banking Group is available from our website or on request from the company secretary's office

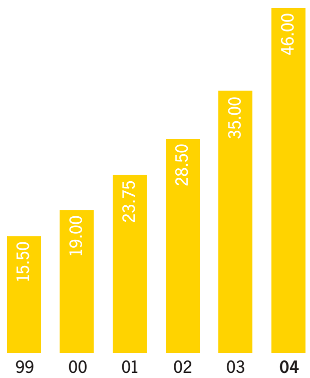
introduction

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, and its 66%-owned subsidiary Discovery Holdings Limited. Comprehensive reports relating to these subsidiaries are included in this circular and should be read in conjunction with this report.

Financial Highlights



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



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

Audited – year ended 30 June 2004	% change
Headline earnings per share	+19%
Headline earnings	+18%
Dividends per share	+31%
Total assets under management or administration	+8%

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

	Audited		
R million	**2004**	2003	% change
FirstRand Banking Group	**4 760**	3 829	24
Momentum Group	**1 081**	947	14
Discovery Group	**265**	178	49
FirstRand Limited	**(274)**	(39)	>(100)
Consolidation of Share Trusts	**(105)**	(68)	(54)
Headline earnings	**5 727**	4 847	18
Headline earnings for the Group	**5 727**	4 847	18
Add: Currency translation losses on integrated foreign operations – Banking Group	**370**	532	(30)
Headline earnings excluding currency translation losses	**6 097**	5 379	13
Dividends declared (Rm)	**2 516**	1 909	32
Return on average equity (based on headline earnings) (%)	**25.6**	25.0	
Number of shares in issue (before elimination of treasury shares) (million)	**5 476.4**	5 460.3	
Weighted average number of shares in issue (million)	**5 192.1**	5 241.3	
Diluted weighted average number of shares in issue (million)	**5 317.1**	5 343.7	
Headline earnings per share (cents)	**110.3**	92.5	19
Earnings per share (cents)	**109.3**	86.2	27
Diluted earnings per share (cents)	**106.8**	84.5	26
Diluted headline earnings per share (cents)	**107.7**	90.7	19
Headline earnings excluding currency translation losses per share (cents)	**117.4**	102.6	14
Diluted headline earnings per share excluding currency translation losses (cents)	**114.7**	100.7	14
Dividend per share (cents)			
Interim	**19.25**	16.50	17
Final	**26.75**	18.50	45
Total	**46.00**	35.00	31

Headline earnings reconciliation

Attributable earnings			
FirstRand Banking Group	**4 712**	3 774	25
Momentum Group	**1 065**	616	73
Discovery Group	**274**	228	20
Goodwill amortised – intergroup	**5**	5	0
	6 056	4 623	31
FirstRand Limited – Holding company	**(275)**	(39)	>(100)
Consolidation of Share Trusts	**(105)**	(68)	(54)
Earnings attributable to ordinary shareholders	**5 676**	4 516	26
Add: Amortisation of goodwill	**58**	104	
Add: Impairment of goodwill	**–**	242	
Add: Loss on disposal of assets	**92**	35	
(Less)/Add: Realised (profit)/loss on sale of available for sale financial instruments	**(99)**	5	
Less: Abnormal profit on release of reserves – Discovery	**–**	(55)	
Headline earnings	**5 727**	4 847	18

Balance sheet / as at 30 June

R million	Audited 2004	2003
Assets		
FirstRand Banking Group	**277 326**	256 655
Cash and short-term funds	**25 104**	29 252
Advances	**208 874**	188 112
– originated	**141 627**	130 436
– held to maturity	**8 971**	9 562
– available for sale	**4 499**	7 406
– trading	**32 742**	40 708
– at elected fair value	**21 035**	–
Investment securities and other investments	**36 131**	36 379
Financial instruments held for trading	**9 660**	10 870
Investment securities	**26 471**	25 509
– held to maturity	**957**	1 220
– available for sale	**16 867**	21 451
– at elected fair value	**8 647**	2 838
Commodities	**702**	509
Non-recourse investments	**6 515**	2 403
Momentum and Discovery	**82 654**	75 697
Cash and cash equivalents	**15 149**	15 836
Government and public authority stocks	**13 123**	12 574
– available for sale	**627**	98
– at elected fair value	**12 496**	12 476
Debentures and other loans	**8 110**	10 166
– available for sale	**75**	119
– at elected fair value	**8 035**	10 047
Equity investments	**42 070**	33 787
– held to maturity	**749**	681
– available for sale	**1 665**	1 337
– at elected fair value	**39 656**	31 769
Investment properties	**3 648**	2 753
Policy loans originated	**554**	581
Loans and receivables	**8 865**	8 694
Investments in associated companies	**2 815**	2 455
Derivative financial instruments	**45 485**	43 879
– qualifying for hedging	**4 798**	12 632
– trading	**40 687**	31 247
Taxation	**174**	–
Deferred taxation	**983**	982
Assets arising from insurance contracts	**1 403**	772
Intangible assets	**660**	472
Property and equipment	**4 456**	4 068
Total assets	**424 821**	393 674
Shareholders' equity and liabilities		
Deposits and current accounts	**219 061**	215 637
Non-recourse deposits	**6 515**	2 403
Current liabilities	**14 052**	17 150
Provisions	**1 345**	908
Taxation	**1 414**	1 430
Derivative financial instruments	**40 783**	46 657
– qualifying for hedging	**4 606**	12 632
– trading	**36 177**	34 025
Short trading positions	**23 286**	4 219
Deferred taxation	**2 155**	1 945
Retirement funding liabilities	**1 402**	1 293
Debentures and long-term liabilities	**7 104**	3 943
Policyholder liabilities	**81 969**	76 286
Policyholder liabilities under insurance contracts	**42 337**	39 710
Policyholder liabilities under investment contracts	**39 632**	36 576
Total liabilities	**399 086**	371 871
Outside shareholders' interests	**1 823**	1 010
Shareholders' equity	**23 912**	20 793
Share capital and share premium	**6 767**	7 055
Reserves	**17 145**	13 738
Total shareholders' equity and liabilities	**424 821**	393 674

Summarised cash flow statement / for the year ended 30 June

R million	Audited 2004	2003
Cash flows from operating activities		
Cash generated by operations	**16 312**	13 981
Working capital changes	**(11 844)**	4 520
Cash inflow from operations	**4 468**	18 501
Taxation paid	**(2 482)**	(1 332)
Dividends paid	**(1 956)**	(1 647)
Net cash inflow from operating activities	**30**	15 522
Net cash outflow from investment activities	**(7 966)**	(8 608)
Net cash inflow/(outflow) from financing activities	**3 101**	(65)
Net (decrease)/increase in cash and cash equivalents	**(4 835)**	6 849
Cash and cash equivalents at beginning of year	**45 088**	38 239
Cash and cash equivalents at end of year	**40 253**	45 088

Assets under management / at 30 June

R million	Audited 2004	2003
Holding company	**56**	63
FirstRand Banking Group	**321 955**	302 651
Momentum Group	**98 852**	87 611
Discovery Group	**3 958**	3 349
Total on balance sheet assets	**424 821**	393 674
Off-balance sheet assets managed or administered on behalf of clients	**104 218**	94 568
Total assets under management or administration	**529 039**	488 242

Sources of profit / for the year ended 30 June

R million	Audited 2004	%	2003	%
FirstRand Banking Group[1]	**4 760**	**78.1**	3 829	71.1
Retail banking – FNB	**1 261**	**20.7**	904	16.8
FNB HomeLoans	**394**	**6.5**	413	7.7
Instalment finance – WesBank	**759**	**12.4**	506	9.4
African operations – FNB Africa	**291**	**4.7**	329	6.1
Short-term insurance – OUTsurance/First Link	**168**	**2.8**	114	2.1
Corporate banking – FNB Corporate	**766**	**12.6**	582	10.8
Investment banking – RMB	**1 014**	**16.6**	799	14.8
Private banking – RMB Private Bank	**41**	**0.7**	30	0.6
Ansbacher	**(67)**	**(1.0)**	(89)	(1.7)
Fiduciary Services – FNB Trust Services	**21**	**0.3**	20	0.4
Capital centre – Banking Group	**112**	**1.8**	221	4.1
Momentum Group	**1 081**	**17.7**	947	17.5
Insurance operations – Momentum	**595**	**9.7**	561	10.4
Asset management – RMBAM/Ashburton	**175**	**2.9**	125	2.3
Investment income on shareholders' assets	**311**	**5.1**	261	4.8
Discovery Group	**265**	**4.3**	178	3.3
FirstRand Limited	**(274)**	**(4.5)**	(39)	(0.7)
Consolidation of share trusts	**(105)**	**(1.7)**	(68)	(1.3)
***Add:* Currency translation losses**	**370**	**6.1**	532	10.1
Headline earnings excluding currency translation losses	**6 097**	**100.0**	5 379	100.0

Notes:

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

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

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

** 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 group's results reflect how well the group is positioned to take advantage of the current economic environment. The Banking Group was the dominant driver of the group's overall results, with exceptional organic growth aided by a buoyant retail market and outstanding performances by the investment and corporate banking operations.

The Momentum Group's results benefited from new business growth in risk, linked investment products and the unit trust businesses. The asset management businesses showed good growth aided by improved investment markets. Momentum also benefited from the restructuring of its shareholders' assets.

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

The group's performance in summary is:

	2004	2003	% change
Earnings per share (cps)	**109.3**	86.2	27
Headline earnings per share (cps)	**110.3**	92.5	19
Diluted earnings per share (cps)	**106.8**	84.5	26
Dividend per share (cps)	**46.0**	35.0	31

Basis of presentation

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

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

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

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

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

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

Corporate governance

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

Accounting policies

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

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

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

The principal accounting policies are consistent in all material respects with those adopted in the previous period, except as noted on page 10.

Operating environment

The group's results for the year ended 30 June 2004 were achieved against a background of a sound domestic economy, a stronger Rand, lower inflation, a significant reduction in interest rates and a stronger than anticipated international economy.

The Rand strengthened by 18.3% to a level of R6.18: US$1 at 30 June 2004 contributing to the significant decrease in CPIX inflation from 6.4% at 30 June 2003, to 5.0% at 30 June 2004. The downward inflation trend resulted in interest rate cuts during the last 6 months of 2003, with the prime rate reducing by 4% during this period to 11.5% at 31 December 2003. Rates remained at this level for the remainder of the financial year.

The South African economy achieved an annualised growth rate in excess of 3% during the first quarter of 2004, increasing to 3.9% in the second quarter largely due to increased consumer optimism which resulted in a strong pick-up in domestic spending assisted by the lower interest rate environment. This was felt particularly in the retail, motor and building sectors of the economy. The strong Rand hampered the export and mining sectors and employment growth remained flat.

The sustained lower interest rate environment also resulted in improved credit quality with non-performing loans ("NPLs") and bad debts at historic lows.

During the first half of the current financial year the local equity markets staged a strong recovery, with the JSE ALSI 40 Index increasing by 24%. However, during the second six months of the financial year, local equity markets have remained static, mainly due to the negative impact of the strong Rand on resource stocks.

According to the statistics released by the Life Offices Association, individual life new business in the life insurance industry has remained relatively flat for the past two years. Investors appear cautious to commit their savings to longer-term equity-based products, and have preferred to either repay debt or place the largest portion of discretionary savings in property, money market and fixed interest products. Sales of discretionary linked investment products, where there is no contractual investment term, have however increased significantly due to improved equity markets.

Strategic issues

During the year the following strategic issues were addressed.

Ansbacher disposal

FirstRand signed an agreement on 1 July 2004 to dispose of its interest in Ansbacher to Qatar National Bank at an immediate premium to NAV of £7.5 million and a possible future premium of £7.5 million depending on the performance of certain business units. The NAV of Ansbacher is estimated to be approximately £90 million at completion date. The transaction is awaiting regulatory approval and completion is expected to be achieved in October 2004. The group's intentions regarding the capital to be released following the disposal are dealt with in the capital management section of this report.

Ownership transaction

FirstRand has reaffirmed its commitment to meeting or exceeding its responsibilities under the Financial Services Charter. The group has made significant progress towards the finalisation of an empowerment transaction using third-party funding. At present, together with its four broad-based partners, the group is negotiating the funding agreements with a view to implementing the empowerment transaction envisaged in the Memorandum of Understanding. FirstRand is hopeful of announcing the detailed terms of the transaction during the fourth quarter of this calendar year with its implementation following shortly thereafter.

Operating performance

Detailed reports on the operating performances of the major subsidiaries, FirstRand Banking Group, Momentum Group and Discovery Group are contained elsewhere in this report. A summary is set out below.

FirstRand Banking Group

The Banking Group produced excellent results for the year, benefiting from exceptional performances from all divisions. Attributable earnings increased by 24.9% and headline earnings by 24.3%. On a basis consistent with the prior year, headline earnings excluding currency translation losses increased by 17.6% and the Banking Group achieved a return on average book capital of 24.2%.

This increase was driven by a 25.9% growth in non-interest revenue, resulting from strong growth in transactional income (with banking fees and commissions increasing by 13.0% and knowledge-based fees and commissions by an exceptional 42.2%, 33.2% growth in trading income and in excess of 100% growth in investment income).

Bad debts have shown a significant reduction of 43.6% and growth of 18.4% in earnings from associates, largely OUTsurance and Private Equity Investments, positively impacted on the results.

The lower interest rate environment reduced endowment income as well as placing pressure on interest margins. The impact was to some extent offset by strong organic growth in assets and liabilities combined with the endowment hedges put in place by the Banking Group to mitigate against the expected effects of the lower interest rates.

Growth in operating expenses was contained at 10.1%.

The credit quality of the core advances book continued to improve, with NPLs as a percentage of gross advances down by 18% to 1.4% (1.7% in the prior year), and the impairment charge as a percentage of average gross advances down by 48% from 0.79% to 0.41%.

Retail Businesses

FNB Retail

FNB Retail produced excellent results. The margin squeeze in the low interest rate environment was more than compensated for by strong growth in non-interest income, deposit growth of 10.3% and advances growth of 11.0% with card loans being the major contributor. NPLs decreased from 7.8% to 5.9% of gross advances. The continuous improvement of credit processes, combined with the lower interest rates, resulted in an improvement in the credit quality of the retail book. The bad debt charge as a percentage of advances fell from 4.1% to 1.5%.

The 19% growth in non-interest income was a result of organic growth, increased transaction volumes as well as increases in certain bank charges designed to influence unprofitable client behaviour.

Non-interest expenses have increased by 18% year on year. Some of this expense growth was the result of investments made to ensure future revenue growth including processes to increase efficiencies, access to banking initiatives, customer retention and acquisition strategies and staff training.

HomeLoans

HomeLoans increased new business production by 67%, however due to the run-off of the acquired Saambou and NBS books, which have shorter durations, total advances only increased by 11.3%. HomeLoans suffered margin squeeze due to competitive pressures and the lower interest rate environment. Non-interest income was up 29.4% year on year due to increased cross selling of both short-term and life insurance products.

Whilst non-interest expenditure increased by 17.2%, it was driven by the increased level of new business volumes as new business costs are written off at origination.

WesBank

WesBank had an outstanding year achieving a profit before taxation of R1.05 billion, exceeding the R1 billion mark for the first time and representing a year on year increase of 52%.

WesBank increased new business production by 25.8% which resulted in a growth in assets of 22.2%, driven by a buoyant motor vehicle market.

The charge for bad debts as a percentage of advances decreased to 0.6% attributable to the increased disposable income levels of consumers.

Non-interest revenue increased by 39.4% due to underwriting profits as well as increased processing fees resulting from higher new business levels.

Non-interest expenditure grew in line with new business acquisition costs as well as the increased book size and associated administration costs.

African Subsidiaries

In Pula terms FNB Botswana increased pre tax profits by 7.5% but showed a 9.1% decrease in Rand terms due to the approximately 16% devaluation of the Pula against the Rand.

FNB Botswana experienced increased competition and achieved lower asset growth than in previous years.

The Banking Group's interest in FNB Namibia has been diluted from 78% to 60% as a result of the FNB Namibia/SWABOU merger which was effected 1 July 2003. The Namibian economy has been relatively flat, which restricted organic asset creation. This, combined with low interest rates put interest income under pressure, however bad debts have decreased.

Growth in non-interest income of 17.1% was assisted by the SWABOU merger, however the lack of new business volumes resulted in lower than expected fee and transaction income.

FNB Swaziland experienced a slightly depressed economy and interest margins came under pressure due to a combination of low interest rates and decreased balance sheet volumes.

Insurance

First Link

Strong revenue growth in both commercial and retail lines was behind First Link's operating profit growth of 34%. Operating income increased 30.4% as a result of a strong and effective new business drive and customer retention.

OUTsurance

The Banking Group's share of OUTsurance's headline earnings for the year was R161 million compared to R85 million in the previous year, an increase of 89.4%. The extremely favourable loss ratio was the main contributor to the results.

New business volumes were down 5% on the prior year, mainly due to dramatically increased competition as many of the industry players have copied the OUTsurance product offering and are becoming more aggressive on price.

Corporate businesses

FNB Corporate

FNB Corporate's 2004 financial year was characterised by a number of positive factors. The market found itself in a cash rich cycle that resulted in good deposit growth, however demand for credit in the large corporate segment remained subdued. The continued focus on the medium corporate market resulted in strong asset and liability growth from this segment. This benefited net interest income.

FNB Corporate benefited from client acquisition and higher transactional volume flows in respect of cash deposits and credit card transactions being acquired through retail merchants.

Property Finance was a particular area of focus for asset creation during the year and the division recorded a 39% growth in earnings.

The continued focus on debt restructuring and debt management resulted in the disposal of certain investments acquired in previous years. The entire equity investments in McCarthy and JD were sold at a profit. These disposals will result in significant savings on funding costs going forward.

Provisions and bad debt write-offs declined by 31.3% due to the improved quality of the credit book.

Rand Merchant Bank

Rand Merchant Bank produced exceptional results with net income before taxation up 29.9% to R1.4 billion. This was the result of strong performances from all divisions and in particular corporate finance and private equity.

Corporate Finance benefited from a more value-add and risk taking approach, and increased advisory deal flow from BEE related transactions.

The Private Equity division continued to perform well as a result of earnings from realisations and a steady stream of equity income from associates. The unrealised profits in the portfolio now amount to R984 million. The Equity and Treasury Trading activities showed good results and are starting to benefit from an increase in structured and annuity income as opposed to risk income.

SPJ International benefited from the improved international credit markets which led to an overall improvement in the value of the portfolio. Structured Finance continued to benefit from its strategy over the past few years to reposition its business as a credit specialist, with structuring an "add-on".

Wealth businesses

RMB Private Bank

The performance of the Private Bank was driven by strong asset growth across all products and an increase in total assets under management to R6.7 billion. Non interest income grew 27.7% as a result of the increase in transactional banking revenue arising from the growth in client numbers.

Ansbacher

Although Ansbacher's position improved relative to the prior year, it did not achieve a profit in the current period and the results were negatively affected by shortfalls in new business levels across most of its activities. Ansbacher's results include once-off costs relating to the sale of the company and various restructuring activities.

Momentum Group

Momentum's results benefited from good new business growth in risk products, linked investment products and improved results from the asset management operations. This resulted in group headline earnings increasing by 14% to R1 081 million.

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

Total marketing and administration expenses for the group amounted to R1 482 million, an increase of 4% over the 2003 expenses.

Insurance operations

New annualised individual life recurring premium business increased by a pleasing 6% compared to the prior year. The main contributor to this growth was a 51% increase in recurring risk product sales as the Myriad product achieved further market acceptance. The strong growth in linked product sales, both locally and internationally, resulted in retail lump sum inflows increasing by 18% to R7.1 billion.

Momentum's new health offering, Pulz, is starting to show good market penetration, with the initial target of 6 000 principal members achieved. The amalgamation of Pulz with the National Medical Plan, an open scheme with 145 000 members, is on track and will provide Pulz with the critical mass required to compete with larger open schemes.

Momentum Collective benefits, which provide risk products to the employee benefits market, achieved strong growth in new business premiums.

Asset management operations

The local and international asset management operations contributed a strong performance during the year generating a 40% increase in operating profit after tax to R175 million. Locally this was driven by the improved equity market returns, especially during the first half of the financial year, sound growth in the operating profit of the underlying businesses, the positive impact of reduced interest rates and the benefits of a stronger rand on the servicing costs of the loan raised to acquire the shareholding in Ashburton.

The R5.3 billion institutional off-balance sheet net outflows of funds experienced during the first six months of the financial year, has been turned around to a net inflow of R1.8 billion for the last six months of the financial year. Local unit trust inflows increased by an excellent 35% during the year.

Investment income on shareholders' assets

The investment income earned on shareholders' assets increased by 19% to R311 million, which is explained in more detail in the capital centre section.

Discovery Group

Discovery produced an excellent performance reflecting a combination of strong organic growth and increased efficiencies across all its businesses. This performance translated into a 102% increase in operating profits. Headline earnings attributable to FirstRand increased by 49%.

Discovery is evolving into four key insurance businesses:

Discovery Life exceeded expectations, further consolidating its leadership position within the pure risk assurance market and increasing operating profits by 138%.

Discovery Health produced a strong performance with operating profits increasing 40% as a result of improved efficiencies and new business growth.

In the US, *Destiny Health's* core Illinois business turned profitable during the second half of the year and significant progress was made in rolling out its joint ventures with the Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.

In the UK, Discovery entered into a joint venture with Prudential plc and a new company PruHealth will be launched in the next few months.

Discovery continues to invest in new businesses which will fuel future growth. Two exciting new initiatives announced are PruHealth and the DiscoveryCard.

The embedded value of Discovery increased by 19%, after taking into account the issue of new shares, from R5 775 million to R6 876 at 30 June 2004.

FirstRand capital strategy

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

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

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

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

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

Decisions in this regard will be communicated to shareholders.

Capital centre's financial performance

The table below reflects the headline earnings of the group's capital centres and costs incurred by FirstRand Limited.

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

FirstRand Banking Group

The Banking Group invests its capital in interest bearing instruments to achieve a desired interest return and risk profile. During the year the interest rates declined significantly with the overnight call rate declining by an average 3.84%, resulting in reduced interest income on the capital portfolios. The group partially offset the effect of the endowment by entering into Interest Rate Hedges during 2001 to protect the Bank against the impact of lower interest rates.

However, in terms of AC 133, the major part of the benefit of this protection had to be brought to account in the 2003 results, which inflated the prior year earnings by approximately R279 million after tax.

Momentum shareholder funds

The investment income earned on shareholders' assets increased by 19% to R311 million. The main reason for the increase is the higher cash balance in the shareholders' portfolio arising from the restructuring of the portfolio as detailed in last year's results announcement. The most significant aspect of this restructuring was the disposal of Momentum's investment in Discovery to FirstRand Limited for R740 million which was the net asset value at that time. The after-tax earnings on the proceeds totalled R59 million for the year.

FirstRand Limited

FirstRand issued R1.4 billion cumulative preference shares in 2003 to fund the restructuring of Momentum's shareholders' portfolio and the rights issue of Discovery.

The funding costs of these preference shares and the Secondary Tax on Companies charge on the ordinary and preference dividends contributed to a loss of R274 million in FirstRand.

Changes in accounting policies

Business combinations

This standard will affect the way in which entities account for goodwill, requiring that an annual impairment test replace the existing amortisation process. Although the transitional provisions make this standard immediately applicable, there is no effect on the group's results for the year to 30 June 2004.

Consolidation of Share Trusts

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

The primary impact of the consolidation of the various share incentive schemes within the FirstRand Group is that the loans between entities in the group and the respective share trusts have to be eliminated on consolidation. Together with the accompanying interest flows on the loans, any FirstRand shares held by the trusts are treated as treasury shares and are disregarded for purposes of determining earnings per share. Dividends received in respect of the FirstRand shares held by the trusts are reversed on consolidation.

Acquired trademarks, patents and similar intangible assets

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

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

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

Impact of the changes in accounting policy on opening equity

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

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

Impact of changes in accounting policy on current period income

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

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

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.

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

Share incentive scheme

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

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

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

Further details on the restatement of comparatives are disclosed in the table on page 13.

Prospects

The South African economy is expected to record accelerated growth during the 2005 financial year.

Following the 50 basis point reduction in rates during August 2004, interest rates are expected to remain stable during the coming financial year. Although the lower rate environment is expected to negatively impact on the Banking Group's margins, the higher levels of disposable income of retail consumers and a buoyant residential property and vehicle market is expected to generate growth in volumes, which will partially counteract this impact.

A renewed focus on the Banking Group's existing African operations is expected to provide an improvement in the results of these businesses. Various new opportunities in Africa are being evaluated which, if successful, are expected to enhance growth from this region in the medium to long term.

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

The insurance operations will continue to look for growth opportunities, both organically and through efficiency gains. Momentum International and Pulz are expected to contribute positively to next year's earnings, with acceptable growth prospects for the foreseeable future.

Discovery's strong operating performance, combined with increased efficiencies achieved across all its businesses, has laid the foundations for future growth.

FirstRand is confident that the underlying strength of all its businesses, and its relentless focus on both innovation and operating efficiencies, will continue to deliver good organic growth. This, combined with a favourable operating environment, opportunities generated through further collaboration across business units, and the development of new markets, suggests that in the absence of any unforeseen shocks, the group will maintain its long-term historic real return to shareholders.

Dividend

The dividend cover has been reduced from 2.85 to 2.5 times, which the group believes is a sustainable dividend cover given the internal earnings generation capacity and capital requirements of the businesses. The proposed final dividend amounts to 26.75 cents, with the total dividend for the year increasing by 31% from 35 cents to 46 cents.

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.

Final dividend declaration

Notice is hereby given that a final dividend of 26.75 cents per ordinary share has been declared on 14 September 2004 in respect of the year ended 30 June 2004. The last day to trade in these shares on a cum dividend basis will be Friday, 15 October 2004 and the first day to trade ex-dividend will be Monday, 18 October 2004. The record date will be 22 October 2004 and the payment date 25 October 2004.

Please note that no dematerialisation or rematerialisation can be done in the period 18 October 2004 to 22 October 2004, both dates inclusive.

By order of the Board

AH Arnott / Company Secretary

14 September 2004

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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(in terms of JSE requirements)

Rand Merchant Bank
(a division of FirstRand Bank)

Corporate Finance
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Restatement of prior year numbers

Comparative figures have been restated where necessary to afford proper comparison.

Balance sheet item	As restated	As originally stated	Difference	Reason
Advances				
– orginated	130 436	135 062	(4 626)	The restatement is due to the net of the following: • Consolidation of share trusts (–) R1 515 million, elimination of loans. • (–) R3 111 million impairment previously disclosed separately.
– held to maturity	9 562	9 753	(191)	Balance disclosed net of impairment of (–) R191 million previously disclosed separately.
– *Less:* Impairments	–	(3 302)	3 302	Impairment previously disclosed separately – balances disclosed net of impairment.
Financial instruments held for trading	10 870	11 379	(509)	Commodity instruments have been disclosed separately.
Investment securities	25 509	25 266	243	Consolidation of share trusts – investment in RMB Holdings (Pty) Ltd shares brought on balance sheet.
– available for sale	21 451	21 208	243	Refer above.
Commodities	509	–	509	Reallocated from "Financial instruments held for trading".
Debentures and other loans	10 166	10 759	(593)	Consolidation of share trusts – elimination of loans granted.
Equity investments	33 787	33 793	(6)	The restatement is due to the net of the following: • Consolidation of share trusts (–) R9 million • (+) R3 million reallocated from "Investments in associates"
Loans and receivables	8 694	8 926	(232)	The restatement is due to the net of the following: • Consolidation of share trusts- (–) R240 million. • (+) R8 million re-allocation of debit balances previously disclosed as part of "Current liabilities".
Loan	–	686	(686)	Consolidation of share trusts – elimination of long-term portion of OutPerformance loan.
Investment in associate companies	2 455	2 458	(3)	(–) R3 million reallocated to "Equity Investments"
Assets arising from insurance contracts	772	–	772	"Assets arising from insurance contracts" disclosed separately-previously disclosed as part of "Policyholder liabilities under insurance contracts"
Deposits and current accounts	215 637	186 031	29 606	The restatement is due to the net of the following: • Consolidation of share trusts-elimination of deposit of FirstRand Limited Share Trust. (–) R56 million. • Reallocation of Negotiable deposit (+) R29 662 million.
Negotiable deposits	4 219	33 881	(29 662)	Negotiable deposits previously disclosed seperately – now disclosed as part of "Deposits and current accounts".

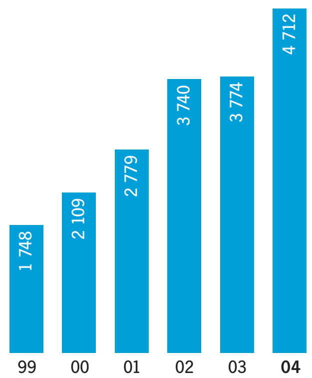
Restatement of prior year numbers continued

Balance sheet item	As restated	As originally Stated	Difference	Reason
Current liabilities	17 150	17 335	(185)	The restatement is due to the net of the following: • Consolidation of share trust – elimination of short term portion of preference shares issued by FirstRand Limited (–) (R247 million). • (+) R53 million refer "Policyholders liabilities under insurance contracts" • (+) R16 million refer "Policyholders liabilities under insurance contracts"
Provisions	908	1 092	(184)	Consolidation of share trust – elimination of specific provisions.
Debentures and long-term liabilities	3 943	4 645	(702)	The restatement is due to the net of the following: • Consolidation of share trust – elimination of long term portion of preference sharess issued by FirstRand Limited (–) R686 million. • (–) R16 million Discovery liabilities arising from reinsurance previously disclosed as part of "Debentures and long-term liabilities" reallocated to "Policyholder liabilities under insurance contracts".
Policyholder liabilities under insurance contracts	39 710	38 975	735	The restatement is due to the net of the following: • "Assets arising under insurance contracts" of (+) R772 million previously disclosed as part of "Policyholder liabilities under insurance contracts" now disclosed separately • (–) R53 million provision for claims reallocated to "Current liabilities". • (+) R16 million Discovery liabilities arising from reinsurance contracts reallocated from "Current liabilities" .
Outside shareholders' interest	1 010	1 145	(135)	The restatement is due to the net of the following: • Restatement of R96 million due to consolidation of share trusts. • R39 million due to restatement by Discovery of their outside shareholders interest of Destiny Health.
Share capital and share premium	7 055	8 487	(1 432)	Consolidation of share trusts – treasury shares eliminated against issued share capital.
Distributable reserves	11 881	11 766	115	Consolidation of share trusts.
Non-distributable reserves	1 857	2 033	(176)	The restatement is due to the net of the following: • Consolidation of share trusts (–) R215 million. • Discovery outside shareholders interest of (+) (R39 million). Refer to "Outside shareholders interest".
Earnings attributable to ordinary shareholders	4 516	4 594	(78)	Restatement due to consolidation of share trusts.

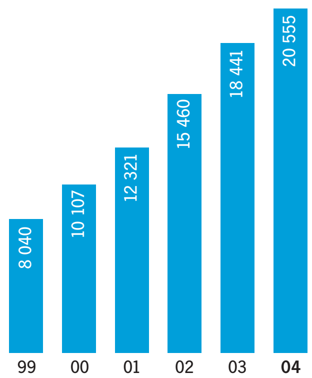
introduction

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



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



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

Audited – year ended 30 June 2004	% change
Attributable earnings	+24.9
Headline earnings	+24.3
	%
Return on average equity (including translation losses)	24.2
Return on average equity (excluding translation losses)	26.7
Cost to income ratio (including translation losses)	56.9
Cost to income (excluding translation losses)	55.8

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

Income statement / for the year ended 30 June

R million	Audited 2004	2003	% change
Interest income	**22 412**	26 293	(14.8)
Interest expenditure	**(13 505)**	(17 189)	(21.4)
Net interest income before impairment of advances	**8 907**	9 104	(2.2)
Impairment of advances	**(833)**	(1 478)	(43.6)
Net interest income after impairment of advances	**8 074**	7 626	5.9
Non-interest income	**8 970**	7 123	25.9
– transactional income	**6 583**	5 735	14.8
– trading income	**2 121**	1 592	33.2
– investment income	**430**	109	>100.0
– other non-interest income	**206**	219	(5.9)
– translation losses	**(370)**	(532)	(30.4)
Net income from operations	**17 044**	14 749	15.6
Operating expenditure	**(10 503)**	(9 537)	10.1
Income from operations	**6 541**	5 212	25.5
Share of earnings of associated companies	**585**	494	18.4
Income before taxation	**7 126**	5 706	24.9
Indirect taxation	**(436)**	(346)	26.0
Income before direct taxation	**6 690**	5 360	24.8
Direct taxation	**(1 701)**	(1 308)	30.1
Income after taxation	**4 989**	4 052	23.1
Earnings attributable to outside shareholders	**(277)**	(278)	(0.4)
Earnings attributable to ordinary shareholders	**4 712**	3 774	24.9

Balance sheet / as at 30 June

R million	Audited 2004	2003	% change
Assets			
Cash and short-term funds	**25 104**	29 252	(14.2)
Derivative financial instruments	**34 415**	36 375	(5.4)
– qualifying for hedging	**4 798**	12 632	(62.0)
– trading	**29 617**	23 743	24.7
Advances	**210 414**	189 611	11.0
– originated	**143 167**	131 935	8.5
– held-to-maturity	**8 971**	9 562	(6.2)
– available for sale	**4 499**	7 406	(39.4)
– fair value	**53 777**	40 708	32.1
Investment securities and other investments	**36 007**	36 146	(0.4)
Financial instruments held for trading	**9 670**	10 880	(11.1)
Investment securities	**26 337**	25 266	4.2
– held-to-maturity	**957**	1 220	(21.6)
– available for sale	**16 733**	21 208	(21.1)
– elected fair value	**8 647**	2 838	>100.0
Commodities	**702**	509	37.9
Non-recourse investments	**6 515**	2 403	>100.0
Accounts receivable	**2 796**	3 196	(12.5)
Investment in associated companies	**2 208**	1 915	15.3
Property and equipment	**3 839**	3 455	11.1
Deferred taxation assets	**918**	931	(1.4)
Intangible assets	**451**	205	>100.0
Assets of insurance operations	**85**	–	100.0
Total assets	**323 454**	303 998	6.4
Liabilities and shareholders' funds			
Liabilities			
Deposits	**225 886**	218 096	3.6
Deposit and current accounts	**219 371**	215 693	1.7
Non-recourse deposits	**6 515**	2 403	>100.0
Short trading positions	**23 286**	4 219	>100.0
Derivative financial instruments	**34 427**	43 103	(20.1)
– qualifying for hedging	**4 606**	13 655	(66.3)
– trading	**29 821**	29 448	1.3
Creditors and accruals	**7 715**	11 888	(35.1)
Provisions	**1 347**	976	38.0
Taxation	**1 351**	1 091	23.8
Post retirement benefit fund liability	**1 111**	1 004	10.7
Deferred taxation liabilities	**1 723**	1 721	0.1
Long-term liabilities	**5 078**	2 910	74.5
Liabilities of insurance operations – policyholder liabilities	**77**	–	100.0
Total liabilities	**302 001**	285 008	6.0
Outside shareholders' interest	**898**	549	63.6
Shareholders' equity			
Ordinary shares	**106**	106	0.0
Share premium	**1 632**	1 632	0.0
Non-distributable reserves	**2 376**	2 640	(10.0)
Distributable reserves	**16 441**	14 063	16.9
Total shareholders' equity	**20 555**	18 441	11.5
Total liabilities and shareholders' funds	**323 454**	303 998	6.4
Contingencies and commitments	**23 443**	25 883	(9.4)

Executive summary

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

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

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

Performance against targets

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

Performance measurement	Performance target	Actual achievement
Return on equity[1] (%)	22.0	26.7
Headline earnings growth[2] (%)	15.0	24.3
Cost to income ratio[3] (%)	55.0 – 57.0	55.8
Non-performing loans percentage[4]	3.0	1.6
Impairment charge as a percentage of average gross advances[5]	0.75	0.41
Net asset value growth[6]	15.0	11.5

Notes:

1. *Calculated as headline earnings before currency translation losses as a percentage of average equity. The Banking Group targets return on equity figure of weighted average cost of capital + 10 percentage points.*
2. *The Banking Group targets a growth of average CPIX + 10 percentage points.*
3. *The Banking Group has set a medium-term objective of maintaining a cost to income ratio (excluding the impact of currency translation gains or losses) of between 55.0% and 57.0%.*
4. *Calculated as non-performing loans as a percentage of gross advances.*
5. *Medium-term objective given current risk profile.*
6. *The Banking Group targets a growth of average CPIX + 10 percentage points. Excluding the effect of currency translation losses referred to in the table on page 19, the Banking Group increased net asset value by 15.1% year-on-year.*

The year under review

Economic overview

The 2004 financial year was characterised by a growing domestic economy, a further strengthening of the Rand, lower inflation, a significant reduction in interest rates and a turnaround in the international economy.

The Rand continued its rebound from the lows of 2001, strengthening by a further 18.3% to a level of R6.18:US$1 at 30 June 2004. This contributed to the significant decrease in CPIX inflation from a level of 6.4% at 30 June 2003, to 5.0% at 30 June 2004. The downward inflation trend within the South African Reserve Bank's targeted range of 3% – 6% CPIX, paved the way for aggressive interest rate cuts during the last six months of 2003, with the prime rate declining by 4% during this period to 11.5% at 31 December 2003. Rates remained stable at this level for the remainder of the financial year.

The South African economy continued its record 54-month unbroken growth-record during the 2004 financial year, achieving an annualised growth rate of in excess of 3% during the 1st quarter of 2004, accelerating to 3.9% in the 2nd quarter of 2004. This was to a large extent as a result of increased consumer optimism, leading to a significant pick-up in domestic spending assisted by the lower interest rate environment, especially in the retail, motor and building sectors of the economy. On the negative side, the strong Rand hampered exports and the mining industry, and employment growth remained flat.

The sustained lower interest rate environment had the further benefit of a significant improvement in the general level of credit quality in the South African market.

Financial overview

AC 133 – Financial instruments – Recognition and measurement ("AC 133")

The Banking Group adopted AC 133 with effect from 1 July 2002. The commentary below is based on the post-AC 133 numbers for the current and comparative period.

Additional disclosure on certain AC 133-specific anomalies which affect the financial results under discussion are set out on page 23.

Financial results at a glance

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

Growth in gross non-interest revenue of 25.9%, resulting from strong performances in transactional income growth (+14.8%), trading income (+33.2%) and investment income (+>100.0), historically low bad debt levels (–43.6%) and growth in income from associated companies (+18.4%) positively impacted on the results.

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

Total assets of the Banking Group grew by 6.4% during the year. This was in part as a result of satisfactory advances growth of 11.0%, assisted by exceptional new business growth of 67% and 26% respectively in the mortgage and instalment finance areas of the Banking Group.

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

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

Reconciliation between earnings attributable to ordinary shareholders and headline earnings

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

Calculation of headline earnings excluding translation losses

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

The operational performance above includes the effect of AC 133. Detailed information on AC 133 specific adjustments included in these results is 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 equity.

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

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

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

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

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

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

Unpacking the year's performance

Interest income

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

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

Net interest income was positively influenced by:

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

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

- the negative impact on endowment margins (capital and deposits) of the lower interest rate environment;
- significantly lower average interest rates during the current financial year;

- the lower translation rate relating to non-Rand denominated interest income; and
- margin-squeeze in the linked-rate asset generators of the Banking Group.

Interest margins

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

This can primarily be ascribed to the following:

- the anticipated and partially hedged negative endowment effect on capital and deposits; and
- pressure on the asset generators in the Banking Group.

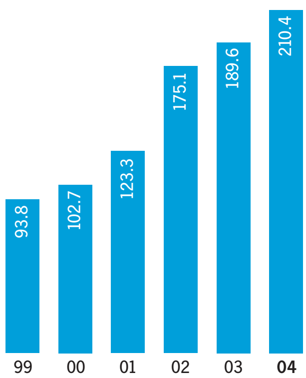
A reconciliation of the interest margin is set out below:

R million	Net interest income	Interest margin %
Interest income (2003)	9 104	5.02
Volume effect (Growth in advances and deposits)	854	0.00
Endowment effect (Deposits)	(511)	(0.28)
Endowment effect (Capital)	(792)	(0.43)
Protection provided by hedges	566	0.31
Other	(314)	(0.15)
Interest income (2004)	**8 907**	**4.47**

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

Advances

Net advances grew by a satisfactory 11.0% during the year under review.



Net advances (R million)

Compound annual growth: 17.5%

Advances can be deconstructed as follows:

R million	2004	% of total
South African retail book[1]	**94 016**	44.6
South African corporate book[2]	**68 389**	32.5
FNB Africa book	**9 167**	4.4
International operations	**7 112**	3.4
Sovereign and other	**31 730**	15.1
Net advances at 30 June 2004	**210 414**	100.0

1. Includes FNB Retail, WesBank (excluding WesBank corporate book) and FNB HomeLoans.
2. Includes FNB Corporate, RMB and WesBank corporate book.

South African advances growth of 12.9% was boosted by the significant reduction in domestic interest rates, which stimulated demand for credit.

This was specifically noticeable in the retail credit environment, where lower rates, the resultant increase in disposable income and a buoyant residential property market, resulted in significant advances growth in the instalment finance, home loan, and personal and credit card loan-segments. New business production in the South African home loan book was exceptionally strong, with a 67% growth year-on-year – however, the run-off of the older acquired Saambou and NBS home loan books limited gross advances growth to 11.3%. The instalment finance book achieved significant advances growth of 22.2% year-on-year, assisted by robust new business growth driven by record new vehicle sales.

FNB Africa achieved advances growth of 29.6% including the acquisition of SWABOU. Excluding the SWABOU acquisition, advances growth was 5.0% because of relatively lacklustre underlying economic conditions.

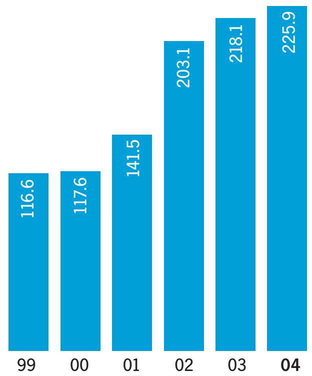
The South African corporate advances book benefited from strong growth in the mid-corporate market due to new client acquisitions, resulting in market share growth. Overall growth levels of advances were, however, hampered by cash-flush corporates, as well as by the increasing trend of major corporate entities to raise funds utilising their own paper. Overall corporate advances declined by 20.4%.

Rand-denominated advances grew by a satisfactory 16.3% in the year under review. This growth was offset by a 16.3% decline in the Banking Group's non-Rand denominated advances portfolio as a direct result of the strengthening of the Rand. Non-Rand denominated advances grew by 2.3% in US dollar terms. The significant strengthening of the Rand against the Pula resulted in a decline of 5.0% in gross advances in Botswana in Rand terms despite increasing 10% in Pula terms.

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

Deposits

The Banking Group was successful in increasing the component of funding raised from customers by 11.0%, while reducing the funding raised from the professional market by 8.9%.



Deposits and current accounts
Compound annual growth: 14.1%

Deposits can be deconstructed as follows:

R million	2004	% of total
South African retail book[1]	**63 086**	27.9
South African corporate book[2]	**47 688**	21.1
FNB Africa book	**8 857**	3.9
International operations	**23 003**	10.2
Sovereign and other	**76 737**	34.0
Non-recourse	**6 515**	2.9
Total deposits at 30 June 2004	**225 886**	100.0

1. Includes FNB Retail, WesBank (excluding WesBank corporate book) and FNB HomeLoans.
2. Includes FNB Corporate, RMB and WesBank corporate book.

FNB Retail's deposit book grew by 10.3% year-on-year. Growth was driven by a shorter interest rate perspective of consumers, resulting in growth in short-term products such as money market (+26.3%), current (+24.5%), call accounts (+12.1%) and savings and transmission accounts (+15.4%). This was partially offset by a resultant move away from fixed deposits (–10.1%) and other longer-term products.

A focus on the mid-corporate market has resulted in deposit growth in this area of 28.0%, driving total deposit growth within FNB Corporate of 13.8% year-on-year.

The African operations have seen significant deposit growth of 25.2%, primarily driven by the SWABOU acquisition, and in spite of the effect of the strengthening Rand.

Deposit growth in the international book was negatively affected through the downscaling of the operations of Ansbacher.

Non-performing loans and impairment of advances

Non-performing loans (NPLs)

The credit quality of the Banking Group's core advances book has continued to improve during the year under review, as reflected below:

	2004	2003	% change
NPLs as % of gross advances	**1.6**	2.4	(33.3)
Gross non-performing loans (Rand million)	**3 389**	4 620	(26.6)

The improved level of non-performing loans can be ascribed to the following factors:

- the positive impact of the lower interest environment, which has freed up disposable income of lenders resulting in improved servicing of debt;
- continued focus on credit management processes within the Banking Group, including the use of sophisticated client scoring and rating models, and the consequential improvement in pricing for risk;
- the positive effect of improved collection and work-out processes in the year under review;
- the final workout of the non-performing legacy retail industry advances; and
- a significant improvement in the emerging market and high-yield international debt markets.

The table below provides a breakdown of non-performing loans in the Banking Group per broad business classification:

R million	NPLs	NPLs as % of gross advances
South African retail book[1]	**1 679**	1.8
South African corporate book[2]	**1 133**	1.7
FNB Africa book	**374**	4.1
International operations	**22**	0.3
Sovereign and other	**181**	0.6
Total	**3 389**	1.6

1. Includes FNB Retail, WesBank (excluding WesBank corporate book) and FNB HomeLoans.
2. Includes FNB Corporate, RMB and WesBank corporate book.

Credit rating of the advances book

The Banking Group uses internal credit rating models to evaluate and monitor credit quality and to assist in the pricing of loans. These models produce a credit rating ("FR rating") ranging from 1 to 100 with 1 being the best credit rating and 100 the worst credit rating. The FR ratings have been mapped to default probabilities as well as National and International rating agency scales.

The improvement in the credit quality of the book over the past 12 months is reflected in the improved average FR rating of the total advances book, improving from a counterparty rating (which ignores the effect of collateral) of FR 48 at 30 June 2003, to FR 42 at 30 June 2004. Mapping the advances book to relevant rating agencies' credit ratings, the aggregate credit quality of the advances book is equivalent to a National scale external credit rating of zaBBB (2003: zaBBB).

The credit quality in the retail advances books (FNB Retail, FNB HomeLoans and WesBank) has on average improved from a counterparty rating of FR 51 at 30 June 2003, to FR 40 at 30 June 2004. On the corporate advances books (RMB and FNB Corporate), the average counterparty credit rating has remained at FR 43.

Impairments of advances

The total impairments reflected in the balance sheet represent a conservative 1.4% of gross advances (2003: 1.7%).

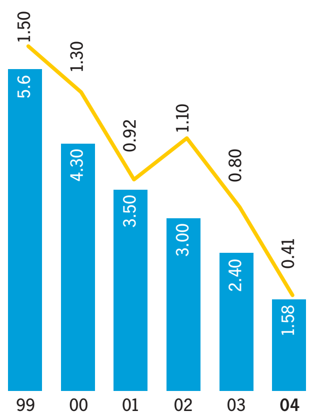
Income statement charge

The income statement charge for impairment of advances reflects a 43.6% decrease relative to the prior period, as reflected below:

	2004	2003	% change
Impairment charge (Rand million)	**833**	1 478	(43.6)
Impairment charge as a % of average gross advances	**0.41**	0.79	(48.2)

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

Portfolio impairments are calculated with reference to the performing book of the Banking Group, and effectively reflect impairments inherent in the performing portfolio which have not been specifically identified. The level of portfolio impairments is based on the expected cash flows of the performing book over the expected life of the advances portfolios.



Non-performing loan and impairments (%)

NPL percentage
Impairment charge percentage

Non-interest revenue

Non-interest revenue increased by 25.9% to an amount of R8 970 million (2003: R7 123 million). Non-interest revenue excluding currency translation gains or losses, increased by an exceptional 22.0% to R9 340 million (2003: R7 655 million). These results are discussed in more detail below:

Transactional income

Transactional income increased by a satisfactory 14.8%. Banking fee and commission income increased by 13.0%, while knowledge-based fee and commission income increased by a healthy 42.2%.

The retail businesses' fee and commission income grew by 24.6% as a result of steady growth in active client numbers and transaction volumes, strong new business growth in the instalment finance and home loans books, continued focus on revenue leakage initiatives, and limited price increases.

Corporate fee and commission income increased by 15.8%, benefiting from increased transactional volumes from existing clients as well as from market share growth. Areas of note were volume growth of 21.5% in the Electronic Banking environment and a year-on-year increase of 21.4% in merchant turnover in the Merchant Acquiring business unit.

Knowledge-based fee income improved by 42.2% from a low base. RMB benefited from stronger equity markets as well as increased mergers & acquisitions activity and strong structured finance deal flows during the year. International fee income remains under pressure in subdued markets, and was further negatively affected by the shortfall in new business flows in the fiduciary and advisory businesses of Ansbacher. This was further exacerbated by the strengthening of the Rand against the US dollar in the current year.

Trading income

Trading income increased by a significant 33.2% during the year, benefiting from trending markets.

The treasury trading operations of the Merchant Bank produced a good performance, benefiting from the declining interest rate environment. The equities trading area produced good results, benefiting from structuring and arbitrage opportunities, although proprietary trading opportunities were affected by reduced market liquidity in non-ALSI 40 counters.

Investment income

Investment income includes gains and losses from the Banking Group's private equity businesses.

The Banking Group's private equity businesses had a very successful year, benefiting from strong growth in income from associated companies. Realisation opportunities remained subdued during the period under review. The unrealised profit inherent in the Private Equity portfolio amounted to R984 million at 30 June 2004 (2003: R699 million).

The Banking Group realised certain legacy retail-industry investments which had resulted from debt restructurings during the past two financial years, clawing back provisions.

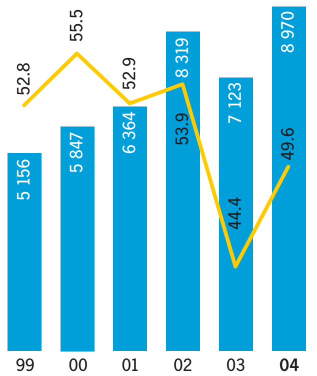
Share of income of associated companies

Income from associated companies increased by 18.4% to R585 million during the year.

The increase is as a result of:

- outstanding results by OUTsurance, which benefited from significant top-line business growth as well as record low claims ratios;
- improved result from the Banking Group's private equity associated companies; and
- strong performances from associated finance companies managed by WesBank.

Diversity ratio of income for the Banking Group



Non-interest revenue

Non-interest revenue (R million)
NIR percentage of total income (excluding translation effect)

Operating expenditure

Non-interest expenditure increased by 10.1% during the 2004 financial year.

Staff costs increased by an acceptable 7.6%. This was as a result of significant new business growth in areas of FNB Retail, costs relating to the merger with SWABOU and a 2% bonus payable to unionised staff in terms of the most recent salary negotiation process.

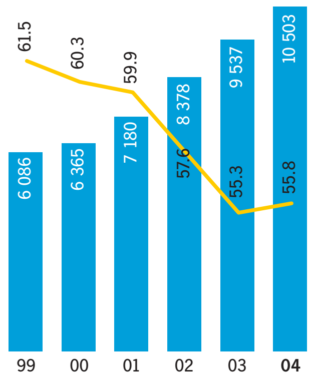
Major increases were experienced in professional fees of 42.1%, equipment leasing expenditure of 13.3% and fees payable to the auditors of 29.1%. Third party origination costs in respect of FNB HomeLoans increased by 82.2% during the year in line with the level of new business volumes.

Cost to income ratio

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

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

The historical trend in the cost to income ratio, excluding the effect of translation gains or losses, is set out below:



Operating efficiency

Operating expenditure (R million)
Cost to income ratio (%) (excluding translation effect)

AC 133

AC 133, as previously documented, introduces volatility into the reported income of companies.

While the Banking Group has made every effort to reduce this volatility, the philosophy of the group is that accounting considerations cannot be allowed to detract from good business decision-making.

The table below is not a reconciliation to pre-AC 133 numbers, but rather concentrates on those elements of AC 133 which in the opinion of management, do not necessarily reflect the operational performance of the Banking Group.

	2004	2003
Portfolio impairments	**(297)**	(69)
(Profit)/Loss on sale of available for sale assets	**(107)**	9
Mark-to-Market of ineffective hedges	**71**	398
	(333)	338
Tax effect	**100**	(101)
(Reduction)/Increase in headline earnings as a consequence of AC 133	**(233)**	237

Capital, capital adequacy and return on capital

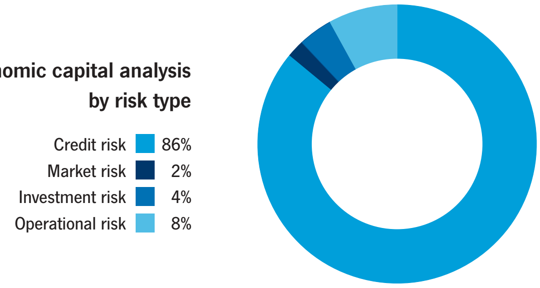
Capital management and return on capital

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

Capital is allocated to business units using 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.

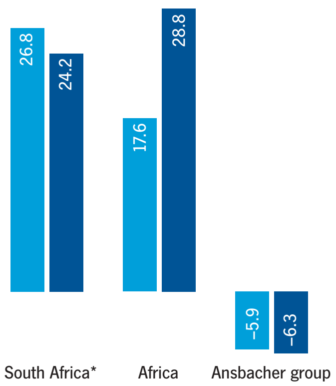
The graph below indicates the allocation of capital per risk type for the Banking Group:

Economic capital analysis by risk type



Detailed information on the framework for capital management and the use of economic capital measurement criteria in the allocation of capital is set out on pages 12 to 14 of the supplementary information document.

The Banking Group achieved a return on average book capital of 24.2% during the year under review. The graph below provides an analysis of the geographical split of total ROE:



ROE geographical analysis (%)

ROE 2004
ROE 2003

*Including offshore branches and subsidiaries

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

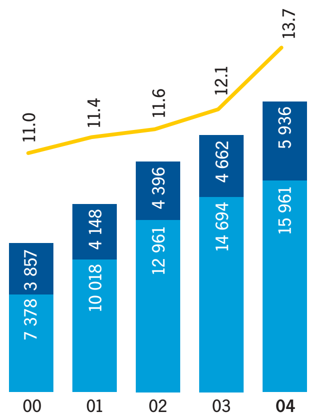
%	**2004**	2003	change
Tier 1	**10.0**	9.2	0.8
Tier 2	**3.7**	2.9	0.8
Total capital	**13.7**	12.1	1.6

The capital adequacy ratio of FirstRand Bank Limited at 30 June 2004 was 13.5% (2003: 10.3%).

As part of its ongoing capital optimisation programme the Banking Group successfully raised Tier 2 capital during the past financial year in FirstRand Bank Limited in order to improve the composition of its capital structure. The capital issue, which was oversubscribed 2.7 times, consisted of fixed and floating rate subordinated bonds of R1 billion raised at the following effective spreads:

Type	Amount	Effective rate
Fixed rate subordinated bond	R700m	R153 + 120 bps
Floating rate subordinated bond	R300m	JIBAR + 71.5 bps

The diagram below provides a 5 year overview of the regulatory capital position of the Banking Group:



Banking Group regulatory capital position

Tier 1 capital
Tier 2 capital
Capital adequacy (%)

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.

The graph clearly indicates the healthy internal capital generation ability of the Banking Group over time. The only capital raising that took place was the R1 billion of subordinated debentures which increased Banking Group's capital adequacy by approximately 0.8%.

The disposal of Ansbacher, and the full redeployment of surplus capital currently residing in Ansbacher, is expected to reduce the capital adequacy requirement by approximately 0.4%.

Analysis of book capital

Total shareholder equity and reserves per the Banking Group balance sheet totalled R20 555 million as at 30 June 2004 (R18 441 million in 2003).

Reconciliation of shareholders' equity and reserves capital balance

R million	Shareholders equity
Balance at 1 July 2003	18 441
Internally generated – attributable income	4 712
Internally generated – currency translation reserve	(299)
– other	(304)
Paid out during financial year	(1 995)
Balance at 30 June 2004	**20 555**
Average shareholders' equity and reserves for the year	**19 498**

Disposal of Ansbacher

During July 2003 the FirstRand board of directors announced its intention to dispose of the Ansbacher (UK) Group ("Ansbacher") as a whole or in part. The decision was based on the fact that over time Ansbacher had become non-core to the strategic focus of FirstRand.

FirstRand announced on 1 July 2004 that it had reached agreement with Qatar National Bank ("QNB"), a bank listed in Qatar, to dispose of all of the issued share capital in Ansbacher to QNB, at an immediate 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"). Certain expenditure will be incurred against the original premium of £7.5 million, including incentive and retention bonuses payable to staff of Ansbacher. The net asset value of Ansbacher is estimated to be £90 million on the completion date of the disposal. The disposal excludes certain investment portfolios in Ansbacher as well as certain businesses which facilitate the South African activities of FirstRand.

The disposal is subject to, inter alia, obtaining the necessary regulatory approvals in South Africa, the United Kingdom and Qatar. It is expected that the disposal will be finalised by December 2004.

Additional information pertaining to the disposal is set out on page 15 of the supplementary information document.

Settlement of Irish litigation

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

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

FirstRand still believes, based on independent legal advice, that there was no liability for Irish tax, and therefore did not provide for the settlement.

The settlement is included in the indirect tax charge of the Banking Group.

Accounting policies

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

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

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

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

Changes in accounting policy

AC 140 – Business combinations became effective in respect of business combinations effected on or after 31 March 2004. The statement contains various new provisions regarding the accounting for business combinations, including a change in the treatment of goodwill from amortisation thereof to an annual impairment test.

The Banking Group has changed its accounting policy to capitalise material acquired trademarks, patents and similar assets where it derives a benefit in more than one accounting period from these assets. These capitalised intangible assets are amortised and subject to an annual impairment test.

Further details regarding the changes in accounting policies and the effect of these changes on opening retained income and current period income are set out on page 16 of the supplementary information document.

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. Provision, net of expected recoveries, is made for all liabilities which are expected to materialise.

Prospects

The South African economy is expected to experience accelerated growth during the 2005 financial year, barring any unforeseen external shocks.

Pursuant to the 50 basis point reduction in rates during August 2004, interest rates are expected to remain stable during the financial year. The lower rate environment will, however, negatively impact on margins. On the positive side, a relatively low and stable rate environment and an expected slight weakening in the Rand should result in a further expanding economy. This is expected to lead to higher levels of disposable income for retail consumers and, together with a buoyant residential property market and a strong demand in the instalment finance side of the business is expected to provide stimulus for continuing growth in consumer credit demand.

Renewed focus on the strategy of the Banking Group's existing African operations is expected to provide a significant boost to the results of these businesses. Various new opportunities in Africa are being evaluated which, if successful, are expected to enhance growth from this geographical segment in the medium to long term.

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

The Banking Group is confident that the existing strategies of the business units of the group, together with an improvement in the operating environment and the diversified nature of its income streams, will result in maintaining its long-term historic real return to shareholders.

On behalf of the directors

GT Ferreira / Chairman

PK Harris / Chief Executive Officer

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

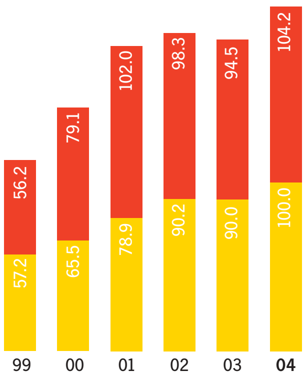
Registered office
1st Floor
4 Merchant Place
1 Fredman Drive
Sandton

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

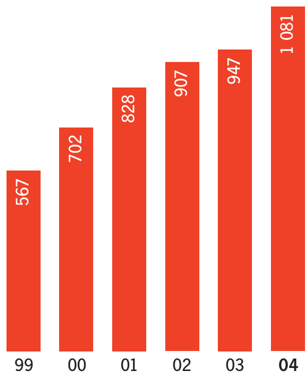


Assets under management or administration (R billion)

Compound annual growth: 12%

On balance sheet

Off balance sheet



Headline earnings (R million)

Compound annual growth: 14%

Year ended 30 June 2004	
Group headline earnings	+14% to R1 081 million
Retail new business inflows	+16% to R7.8 billion
New business inflows	+25% to R28.7 billion
Return on capital	24.3%
Return on embedded value	16.6%
Margin on new business	17.3%

Income statement / for the year ended 30 June

R million	Audited Group 2004	Group[1] 2003	% change
Income from operations	**1 258**	824	53%
Share of income of associated companies	**77**	79	(3%)
Income before direct taxation	**1 335**	903	48%
Direct taxation[2]	**(261)**	(279)	6%
Income after taxation	**1 074**	624	72%
Earnings attributable to outside shareholders	**(9)**	(8)	(13%)
Earnings attributable to ordinary shareholders	**1 065**	616	73%
Headline earnings reconciliation			
Earnings attributable to ordinary shareholders	**1 065**	616	73%
Add: Goodwill amortised	**31**	90	
Add: Goodwill impaired	**–**	242	
Less: Profit on sale of available for sale assets	**(15)**	–	
Less: Profit on sale of property and equipment	**–**	(1)	
Group headline earnings	**1 081**	947	14%
Group operating profit	**770**	686	12%
Investment income on shareholders' assets	**311**	261	19%
Group headline earnings	**1 081**	947	14%

1. The results of Discovery Holdings have been excluded from the comparative income statement for the year ended 30 June 2003, as the investment in Discovery was transferred from Momentum to FirstRand, effective 1 July 2003.

The income statement above reflects Momentum as a segment of the FirstRand Group, with Discovery Holdings being treated as a separate segment elsewhere in this report.

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

Balance sheet / as at 30 June

	Audited	
R million	**Group 2004**	Group[1] 2003
Assets		
Cash and cash equivalents	**14 495**	15 258
Government and public authority stocks	**12 941**	12 466
– available for sale	**497**	44
– at elected fair value	**12 444**	12 422
Debentures and other loans	**8 481**	10 529
– available for sale	**523**	556
– at elected fair value	**7 958**	9 973
Policy loans	**554**	581
Equity investments	**41 599**	33 476
– held to maturity	**749**	681
– available for sale	**1 313**	1 120
– at elected fair value	**39 537**	31 675
Derivative assets – held for trading	**11 070**	7 504
Investments in associated companies	**605**	536
Investment properties	**3 648**	2 753
Investment assets	**93 393**	83 103
Loans and receivables	**5 682**	6 162
Taxation	**174**	–
Deferred taxation	**55**	44
Intangible assets	**230**	321
Property and equipment	**416**	391
Total assets	**99 950**	90 021
Liabilities and shareholders' funds		
Liabilities		
Current liabilities	**3 962**	3 759
Provisions	**159**	99
Taxation	**–**	294
Derivative liabilities – held for trading	**6 356**	3 554
Deferred taxation	**304**	198
Retirement benefit liabilities	**291**	289
Long-term liabilities	**2 498**	2 408
Policyholder liabilities	**81 580**	76 016
Policyholder liabilities under insurance contracts	**42 207**	39 674
Policyholder liabilities under investment contracts	**39 373**	36 342
Total liabilities	**95 150**	86 617
Outside shareholders' interest	**21**	23
Shareholders' funds		
Share capital and share premium	**1 041**	1 041
Reserves	**3 738**	2 340
Total shareholders' funds	**4 779**	3 381
Total liabilities and shareholders' funds	**99 950**	90 021

1. The assets and liabilities of Discovery Holdings have been excluded from the comparative balance sheet as at 30 June 2003. The balance sheet above reflects Momentum as a segment of the FirstRand Group, with Discovery Holdings being treated as a separate segment.

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, 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).

Effective 1 July 2003, the Momentum Group's 65% interest in Discovery was transferred to FirstRand Limited. As a consequence of this transfer, the results of Discovery are consolidated at the FirstRand Group level for the full financial year to 30 June 2004, and Momentum's comparative figures have been adjusted to remove Discovery from these results.

Operating environment

During the first half of the current financial year local equity markets staged a strong recovery, with the JSE ALSI 40 index increasing by 24%. During the second six months of the financial year, local equity markets have remained static as the continued strengthening of the Rand impacted negatively on resource stocks.

According to the statistics released by the Life Offices Association, individual life new business in the life insurance industry has remained relatively flat for the past two years. Investors appear cautious to commit their savings to longer-term equity-based products, and have preferred to either repay debt or place the largest portion of discretionary savings in property, money market and fixed interest products. Sales of discretionary linked investment products, where there is no contractual investment term, have however increased significantly due to improved equity markets.

The long-term insurance industry experienced strong demand for individual risk products during the year, and Momentum capitalised on this very successfully with its Myriad risk product range.

The deadline for the lodging of applications for licensing as a financial services provider under the Financial Advisory and Intermediary Services Act (FAIS) with the Financial Services Board (FSB) was 31 July 2004. The FSB has committed to process these applications by 30 September 2004, at which date successful applicants will be licensed under FAIS. It is widely expected that the licensing under FAIS will have a beneficial impact on the overall quality of financial advice, as well as providing additional protection to clients.

Group operating results

Group headline earnings increased by 14% to R1 081 million for the year ended 30 June 2004. These results benefited from good new business growth in the linked investment product and unit trust businesses. Total new business inflows increased by a healthy 25% to R28.7 billion. The conscious decision by the group a number of years ago to move away from its dependency on pure life insurance products, to an approach where retail and institutional products are offered both on- and off-balance sheet, benefited the group during the year under review.

The headline return on equity for the year amounted to 24.3%, and the return on embedded value totalled 16.6%.

Earnings attributable to ordinary shareholders increased by 73% to R1 065 million. This significant growth is mainly due to the impairment of goodwill amounting to R242 million included in the comparative earnings.

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

Earnings source

R million	2004	2003	% change
Insurance operations[1]	**595**	561	6%
Asset management operations	**175**	125	40%
Group operating profit	**770**	686	12%
Investment income on shareholders' assets	**311**	261	19%
Group headline earnings[2]	**1 081**	947	14%

1. From 1 July 2003, the Individual Life and Employee Benefits operations have been integrated and are now referred to collectively as insurance operations.

2. Due to the fact that the group does not include any translation gains in earnings, core headline earnings are equal to group headline earnings.

Insurance operations

The insurance operations increased operating profit by 6% to R595 million. It is pleasing to note that the average annual compound growth in earnings from insurance operations over the past five years is 16%.

If the combined effect of the termination of the Discovery Health distribution fee agreement, and the investment in Momentum's new health initiative and loyalty programme, are excluded, then earnings growth in the insurance operations increases from 6% to 15%.

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

Retail new business

R million	2004	2003	% change
New annualised recurring premiums	**784**	737	6%
Total lump sum inflows	**7 060**	6 006	18%
Single premiums	**1 344**	1 832	(27%)
Immediate annuities	**1 110**	1 452	(24%)
Linked product inflows – local	**2 631**	1 446	82%
Linked product inflows – international[1]	**1 975**	1 276	55%
Total retail new business	**7 844**	6 743	16%
Annualised retail new business[2]	**1 490**	1 338	11%

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

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

Sales of Pulz, Momentum's new health offering, have been encouraging, with the scheme recently achieving its initial target of 6 000 principal members. This makes Pulz the fastest growing open medical scheme within the first year of operation. The process of amalgamating Pulz with National Medical Plan, an open scheme with 145 000 members, is well underway. The amalgamation provides Pulz with the critical mass to enable it to compete with larger open schemes. Momentum has also announced that it will acquire a 50% shareholding in Sovereign Health, one of the leading medical schemes administrators in the industry. Momentum's loyalty programme, Multiply, was also launched towards the middle of the financial year, and is available on a wide range of Momentum's products.

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

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

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

Asset management operations

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

The asset management operations generated an increase in net profit after tax of 40% to R175 million. These results were characterised by:

- the positive impact of improved local equity market returns, especially during the first half of the financial year;
- sound growth in operating profit of the underlying businesses; and
- the positive impact of reduced interest rates and a stronger rand on the loan raised to acquire the shareholding in Ashburton.

It is encouraging that the R5.3 billion in institutional off balance sheet net fund outflows experienced during the first six months of the financial year, has been turned around to a net inflow of R1.8 billion for the last six months of the financial year. Local unit trust inflows increased by an excellent 35% during the year.

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

Asset management operations – funds under management

R billion	**2004**	2003	% change
Group assets managed on balance sheet	**57.2**	52.3	9%
Off balance sheet assets – retail	**16.0**	14.4	11%
Off balance sheet assets – institutional	**77.0**	70.1	10%
Total funds under management	**150.2**	136.8	10%

RMB Asset Management produced excellent investment performance for the year ended 30 June 2004, with its balanced funds being placed 1st out of 11 managers in the Alexander Forbes Global Large Manager Watch for performance over one year. These funds were ranked 2nd out of 9 over three years, and 3rd out of 9 over five years.

Investment income on shareholders' assets

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

The directors' valuation of shareholders' net assets at 30 June 2004, as well as the investment income earned on the shareholders' portfolio investments, are set out in the following table:

Shareholders' net assets	Directors' valuation		Investment income earned after tax	
R million	**2004**	(restated)[1] 2003	**2004**	2003
Strategic subsidiary investments:[2]				
– Asset management operations	**1 479**	1 337	**–**	–
– Momentum MultiManagers	**35**	36	**–**	–
– Lekana Employee Benefits Solutions (70%)	**95**	–	**–**	–
Shareholders' portfolio investments:[2]				
– African Life (34%)	**518**	521	**71**	73
– Fixed interest instruments	**49**	573	**52**	50
– Preference shares	**516**	8	**40**	–
– Equities	**1 086**	157	**6**	3
– Properties	**–**	265	**8**	20
– Share trust and subsidiary loans	**510**	567	**42**	48
– Cash and other	**1 908**	1 921	**92**	67
Total shareholders' net assets	**6 196**	5 385	**311**	261

1. The directors' valuations at 30 June 2003 have been restated for comparative purposes to reflect the transfer of the investment in Discovery from Momentum to FirstRand.

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

Momentum's capital management policy is to invest the capital backing the capital adequacy requirement (CAR) in cash or near cash instruments, and to invest the remaining capital in equities. In order to achieve this objective, the following changes were made to the portfolio during the year:

- The property investments were sold;
- A portion of the cash backing CAR was invested in variable rate preference shares issued by two of the large banks, which provide an effective after tax yield; and
- The equity exposure of the portfolio was increased.

The headline return on capital (ROC) amounted to 24.3% for the year to 30 June 2004, in excess of the FirstRand group target of the weighted average cost of capital plus 10%, which currently equates to 22%. The ROC is calculated as the headline earnings divided by the average shareholders' funds for the year, taking into account the R740 million proceeds on the sale of Discovery from 1 July 2003.

Capital adequacy

The excess of assets over liabilities of Momentum Group Limited was R4 696 million at 30 June 2004 (2003: R4 032 million after the restatement to take account of the transfer of Discovery to FirstRand). This figure excludes the cumulative revaluation of strategic investments, as required by the FSB valuation requirements that came into effect on 1 August 2003. These FSB requirements state that unlisted investments must be shown at tangible net asset value as opposed to directors' valuation when determining the level of capital adequacy.

The capital adequacy requirement of R2 245 million was covered 2.1 times (2003: 2.0 times) by the excess of assets over liabilities.

Marketing and administration expenses

Total marketing and administration expenses for the group amounted to R1 482 million, an increase of 4% over the 2003 expenses. The following table provides a breakdown of the expenses per business unit:

Marketing and administration expenses

R million	**2004**	2003	% change
Insurance operations	**1 172**	1 097	7%
Asset management operations	**310**	322	(4%)
Total marketing and administration expenses	**1 482**	1 419	4%

Excluding the impact of increased expenses at Momentum International, the insurance operations increased expenses by 4.6%. The group is targeting a real reduction of 15% in expenses in the insurance operations by 2007, as part of an overall productivity and efficiency project.

Results of the embedded value calculation

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

The transfer of the investment in Discovery from Momentum to FirstRand reduced the embedded value by R1 099 million at 1 July 2003 (representing the market value of Discovery at that date, less the proceeds received of R740 million, being the net asset value of Momentum's investment in Discovery at that date), which has been reflected separately in the movement in embedded value for the year.

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

Embedded value

R million	2004	Restated[1] 2003
Directors' valuation of shareholders' net assets	**6 196**	5 385
Net value of in-force insurance business	**3 470**	3 399
Value of in-force insurance business	**4 096**	3 846
Opportunity cost of capital adequacy requirements	**(626)**	(447)
Embedded value	**9 666**	8 784

1. The embedded value at 30 June 2003 has been restated for comparative purposes to reflect the transfer of the investment in Discovery from Momentum to FirstRand effective 1 July 2003.

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

Value of new business

R million	2004	2003	% change
Value of new business	**326**	290	12%
Less: Opportunity cost of capital	**(38)**	(17)	>(100%)
Value of new business	**288**	**273**	**5%**

The increase in the embedded value of new business is due to the increased volumes of the more profitable Myriad risk product against the traditional risk products, and an increased proportion of retirement annuity business, which generates higher profit margins.

The embedded value of new business written represents a margin of 17.3% of the annualised new business premiums (new recurring plus 10% of single premiums), compared with 16.5% for the prior year.

The following table provides 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	998	27 736
Less items not valued:		
Employee benefit premium income (investment only business)		(2 521)
Linked product inflows – Momentum International		(1 975)
Unit trust sales		(7 097)
Segregated third party inflows		(9 995)
Policy alterations and other		(364)
Add additional item valued:		
Term extensions on existing policies		903
New business inflows included in value of new business	**998**	**6 687**

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

Analysis of movement in embedded value

R million	2004
Embedded value at 30 June 2003	**10 002**
Less: Impact of sale of Discovery	**(1 099)**
Market value of Discovery	**(1 839)**
Proceeds received for Discovery	**740**
Less: Increased opportunity cost of capital[1]	**(119)**
Adjusted embedded value at 1 July 2003	**8 784**
Embedded value profit	**1 455**
Factors related to operations:	**864**
Value of new business	**288**
Expected return on new business	**18**
Expected return on existing business	**478**
Experience assumption changes	**17**
Operating experience variations	**63**
Factors related to market conditions:	**591**
Investment return on shareholders' net assets	**777**
Economic assumption changes	**(29)**
Changes in opportunity cost of capital	**(179)**
Investment variations	**22**
***Less:* Dividends paid**	**(573)**
Embedded value at 30 June 2004	**9 666**

1. The replacement of an equity investment (Discovery) with cash has increased the opportunity cost of capital relating to the adjusted embedded value at 1 July 2003.

The following table shows the main economic assumptions used in calculating the embedded value at 30 June 2004:

Economic assumptions	%
Risk discount rate	13.1%
Investment returns (before tax)	11.5%
Expense inflation rate	7.5%

These economic assumptions were increased by 0.5% since the 30 June 2003 valuation in line with the increase in long-term market interest rates over the year. The investment return assumption of 11.5% per annum was determined with reference to the market interest rates on South African government stocks at 30 June 2004 taking into account the expected outstanding term of the in-force policy book. An annualised long-term asset distribution was used to calculate a weighted expected investment return, using the same methodology as at 30 June 2003.

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.

The embedded value calculation was reviewed by Deloitte and has not been audited. 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 R204.2 billion at 30 June 2004 compared with R184.5 billion at 30 June 2003, an increase of 11%. This increase is mainly due to the strong performance from investment markets, specifically during the first half of the financial year. The following table provides an analysis of the assets managed or administered by group companies:

Assets under management or administration

R billion	2004	2003	% change
On-balance sheet assets	**100.0**	90.0	11%
Segregated third party funds	**80.7**	74.3	9%
Unit trust funds managed	**16.0**	14.4	11%
Assets under management	**196.7**	178.7	10%
Linked product assets under administration[1]	**7.5**	5.8	29%
Total assets under management or administration	**204.2**	184.5	11%

1 Excludes business written by the Momentum Group's Linked Product Packager on the life company's balance sheet, as these assets are reflected under on-balance sheet assets above. Total linked product assets under administration amounted to R15.5 billion (2003: R12.6 billion).

New business inflows

New business inflows for the year totalled R28.7 billion, an increase of 25% compared with the corresponding figure in the prior year. New recurring premium business increased by a healthy 16%, mainly due to a significant improvement in new recurring employee benefits business. The significant increase in linked product sales, as well as stronger local unit trust sales, substantially offset the decline in individual life single premiums. The decline in corporate policy lump sums was due to a few large transactions included in the comparative figure. A breakdown of the new business inflows is provided in the table below:

New business

R million	2004	2003	% change
Annualised recurring premiums[1]	**998**	859	16%
Individual life	**784**	737	6%
Employee benefits	**214**	122	75%
Lump sum inflows	**17 741**	17 307	3%
Individual life inflows	**2 454**	3 284	(25%)
Corporate policy inflows	**587**	2 308	(75%)
Employee benefits inflows	**2 997**	3 242	(8%)
Linked product inflows – local[2]	**2 631**	1 446	82%
Linked product inflows – offshore – Momentum International	**1 975**	1 276	55%
Unit trust inflows – local	**5 644**	4 175	35%
Unit trust inflows – offshore – Ashburton	**1 453**	1 576	(8%)
Segregated third party inflows	**9 995**	4 730	>100%
Total new business inflows	**28 734**	22 896	25%
Annualised new business inflows[3]	**3 772**	3 063	23%

1. Excludes automatic premium increases.

2. Includes inflows relating to products on the life insurance balance sheet totalling R1 690 million (2003: R1 033 million).

3. Represents annualised new recurring premiums plus 10% of all lump sum inflows.

All internal transfers of funds have been excluded from the above

Total funds received from clients

Total funds received from clients, being the sum of the inflows from new and existing business, amounted to R33.2 billion, an increase of 23%. The following table provides a summary of these inflows:

Funds received from clients

R million	2004	2003	% change
Recurring premium income	**5 162**	4 680	10%
Individual life	**3 592**	3 286	9%
Employee benefits	**1 555**	1 379	13%
Corporate policy inflows	**15**	15	–
Lump sum inflows	**17 741**	17 307	3%
Individual life inflows[1]	**2 454**	3 284	(25%)
Corporate policy inflows	**587**	2 308	(75%)
Employee benefits inflows	**2 997**	3 242	(8%)
Linked product inflows – local	**2 631**	1 446	82%
Linked product inflows – International	**1 975**	1 276	55%
Unit trust inflows – local	**5 644**	4 175	35%
Unit trust inflows – Ashburton	**1 453**	1 576	(8%)
Segregated third party inflows	**10 268**	4 897	>100%
Total funds received from clients	**33 171**	26 884	23%

1. Single premiums exclude funds retained through the extension of the original policy term, amounting to R1 243 million (2003: R615 million).

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

Payments to clients

Payments to clients increased by 22% to R32.4 billion. The main reason for the increase was the large outflow of segregated third party funds at RMBAM, where a small number of large clients withdrew specialist bond mandates. On a positive note, the containment of linked product and unit trust outflows was particularly pleasing. The total outflows to clients are shown in the following table:

Payments to clients

R million	2004	2003	% change
Individual life	**5 629**	5 226	8%
Corporate policies	**1 147**	1 334	(14%)
Employee benefits	**4 733**	4 343	9%
Linked products – local[1]	**1 578**	1 746	(10%)
Linked products – offshore – Momentum International	**234**	262	(11%)
Unit trusts – local	**3 841**	4 266	(10%)
Unit trusts – offshore – Ashburton	**1 472**	1 128	30%
Segregated third party funds	**13 810**	8 252	67%
Total payments to clients	**32 444**	26 557	22%

1. Includes outflows relating to products on the life insurance balance sheet amounting to R1 029 million (2003: R945 million).

Net flow of funds

The net flow of funds from clients more than doubled to R727 million for the year. It is encouraging that the linked products and unit trust areas managed to improve their net flow of funds significantly.

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

Net flow of funds

R million	2004	2003	% change
Individual life	**417**	1 344	(69%)
Corporate policies	**(545)**	989	>(100%)
Employee benefits	**(181)**	278	>(100%)
Linked products – local	**1 053**	(300)	>100%
Linked products – offshore – Momentum International	**1 741**	1 014	72%
Unit trusts – local	**1 803**	(91)	>100%
Unit trusts – offshore – Ashburton	**(19)**	448	>(100%)
Segregated third party funds	**(3 542)**	(3 355)	(6%)
Total net flow of funds	**727**	327	>100%

It is pleasing that the net cash inflow during the second six months of the year amounted to R3.9 billion, compared with a net outflow of R3.2 billion during the first six months.

Accounting policies

The accounting policies applied are in accordance with South African Statements of Generally Accepted Accounting Practice. These accounting policies are consistent with those of the year ended 30 June 2003.

The International Accounting Standards Board's (IASB) international project on insurance has released an International Financial Reporting Standard (IFRS) regarding the disclosure of insurance contracts (IFRS4), at the end of March 2004. This IFRS is effective for financial years commencing on or after 1 January 2005, and will be applied by South African insurers from that date. The principles regarding the classification of policy contracts between insurance and investment contracts have been applied consistently with those applied during the year ended 30 June 2003.

Prospects

The Momentum Group will continue to look for growth opportunities, both organically and through selective industry consolidation opportunities. We expect two of our new initiatives, namely Momentum International and our health initiative, to contribute positively to next year's earnings, with good growth prospects for the foreseeable future. Momentum offers an exciting range of contemporary products, and further innovative product initiatives will be launched in 2004/05, which will ensure that Momentum continues adapting to changing consumer demands. We are confident that these factors will enable the group to continue delivering real earnings growth in line with shareholders' expectations, whilst also increasing the diversity of its earnings base.

LL Dippenaar / Chairman

HP Meyer / Managing Director

14 September 2004

Momentum Group Limited

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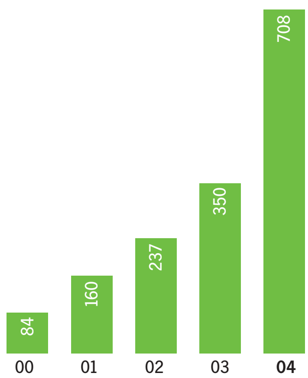
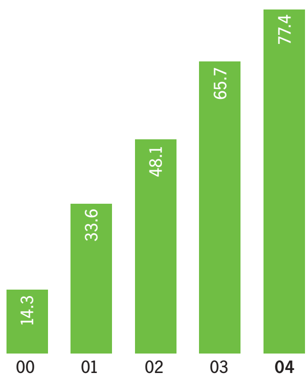
introduction

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 66% held by FirstRand (2003: 65%) 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 31 August 2004.

Financial Highlights



Operating profit (R million)



Diluted headline earnings per share before abnormal items (cents)

Audited – year ended 30 June 2004	
Operating profit	+102% to R708 million
New business annualised premium income	R3.2 billion
Discovery Life profit	+138%
Discovery Health profit	+40%
Destiny Health Illinois business turns profitable	
Joint venture with Prudential launched in UK	
Diluted HEPS before abnormal items	+18% to 77.4 cents

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

Income statement / for the year ended 30 June

R million	Audited Group 2004	Group 2003	% change
Profit from operations	**708**	350	102
Local operations	**842**	519	
Foreign operations	**(134)**	(169)	
Investment income	**124**	123	
Realised and unrealised investment gains and losses	**68**	(77)	
Fair value adjustment to liabilities arising from investment contracts	**(71)**	64	
Financing costs	**(47)**	(25)	
Foreign exchange loss – unrealised	**(62)**	(17)	
Profit before abnormal items and taxation	**720**	418	
Abnormal items	**–**	120	
Profit before taxation	**720**	538	
Taxation	**(299)**	(182)	
– Operating profit	**(299)**	(146)	
– Abnormal items	**–**	(36)	
Profit after taxation	**421**	356	
Minority share of loss	**(3)**	6	
Net profit attributable to ordinary shareholders	**418**	362	15
Basic earnings per share before abnormal items (cents)			
– undiluted	**83.0**	71.0	
– diluted	**79.7**	67.3	
Basic earnings per share (cents)			
– undiluted	**83.0**	92.5	
– diluted	**79.7**	86.8	
Headline earnings per share before abnormal items (cents)			
– undiluted	**80.5**	69.3	
– diluted	**77.4**	65.7	
Headline earnings per share (cents)			
– undiluted	**80.5**	90.8	
– diluted	**77.4**	85.2	
Weighted number of shares in issue (000's)	**504 051**	391 714	
Diluted weighted number of shares (000's)	**536 025**	432 123	
Headline earnings reconciliation:			
Net profit attributable to ordinary shareholders	**418**	362	
Adjusted for realised profit on available-for-sale financial instruments	**(13)**	(7)	
Headline earnings	**405**	355	
Abnormal items	**–**	(84)	
Headline earnings before abnormal items	**405**	271	

Balance sheet / at 30 June

R million	Audited **Group 2004**	Group 2003
Assets		
Cash and cash equivalents	**998**	1 469
Government and public authority stocks		
– available-for-sale	**130**	54
– at fair value through profit and loss	**52**	54
Equity investments		
– available-for-sale	**602**	217
– at fair value through profit and loss	**251**	224
Investment in associate	**2**	4
Investment assets	**2 035**	2 022
Loans and receivables	**430**	291
Deferred taxation	**10**	7
Assets arising from insurance contracts	**1 318**	772
Intangible assets	**38**	36
Equipment	**201**	221
Total assets	**4 032**	3 349
Liabilities and shareholders' funds		
Liabilities		
Current liabilities	**578**	547
Provisions	**22**	16
Taxation	**43**	44
Deferred taxation	**128**	26
Liabilities arising from insurance contracts	**6**	9
Liabilities arising from reinsurance contracts	**36**	16
Financial liabilities	**716**	1 527
– Investment contracts at fair value through profit and loss	**400**	370
– Borrowings at amortised cost	**316**	1 157
Total liabilities	**1 529**	2 185
Outside shareholders' interest	**67**	67
Shareholders' funds		
Share capital and share premium	**1 276**	429
Reserves	**1 160**	668
Total shareholders' funds	**2 436**	1 097
Total liabilities and shareholders' funds	**4 032**	3 349

Segmental information / for the year ended 30 June

R million	Health South Africa	Health United States of America	Health United Kingdom	Life	Vitality	Holdings	Total
30 June 2004							
New business annualised premium income	2 122	494	–	554	62	–	3 232
Gross inflows under management	12 550	534	–	858	403	–	14 345
Income statement							
Gross income	2 057	380	–	858	403	–	3 698
Reinsurance	(45)	(90)	–	(158)	–	–	(293)
Net policyholder benefits	(476)	(168)	–	(197)	–	–	(841)
Commissions	–	(39)	–	(510)	(27)	–	(576)
Operating and administration expenses	(1 014)	(189)	(28)	(251)	(326)	(1)	(1 809)
Transfer from assets/liabilities under insurance contracts	–	–	–	431	–	–	431
	522	(106)	(28)	173	50	(1)	610
Return on assets under insurance contracts	–	–	–	98	–	–	98
Profit from operations	522	(106)	(28)	271	50	(1)	708
Investment income and realised profits							121
Financing costs							(47)
Foreign exchange loss – unrealised							(62)
Profit before abnormal items and taxation							720
30 June 2003							
New business annualised premium income	2 284	378	–	423	63	–	3 148
Gross inflows under management	9 732	428	–	476	310	–	10 946
Income statement							
Gross income	2 638	332	–	476	310	–	3 756
Reinsurance	(133)	(119)	–	(90)	–	–	(342)
Net policyholder benefits	(1 115)	(149)	–	(102)	–	–	(1 366)
Commissions	–	(31)	–	(390)	(17)	–	(438)
Operating and administration expenses	(1 018)	(202)	–	(184)	(260)	–	(1 664)
Transfer from assets/liabilities under insurance contracts	–	–	–	346	–	–	346
	372	(169)	–	56	33	–	292
Return on assets under insurance contracts	–	–	–	58	–	–	58
Profit from operations	372	(169)	–	114	33	–	350
Investment income and realised profits							110
Financing costs							(25)
Foreign exchange loss – unrealised							(17)
Profit before abnormal items and taxation							418

Introduction

Discovery's performance over the year was pleasing. Robust performance, combined with strong organic growth and increased efficiencies across all of Discovery's businesses, resulted in a 102% rise in operating profits. Despite a 29% increase in the weighted number of shares in issue, diluted headline earnings per share before abnormal items increased by 18%.

Discovery's businesses are built on the foundation of innovation and engaging people in the managing of their health in order to achieve better social and financial outcomes. This has enabled Discovery to take a leadership position in the markets wherein it operates by offering life and health insurance products that are competitive, efficient and sustainable. This has led to strong organic growth and a competitive position going forward.

Discovery is evolving into four key insurance businesses, each underpinned by a common philosophy and values set, but each in a different stage of development:

- Discovery Life exceeded expectations, further consolidating its leadership position within the pure risk assurance market, and increasing operating profits by 138%.
- Discovery Health's pleasing performance led to the lowest contribution increase for members of the Discovery Health Medical Scheme ("DHMS") announced for 2005, and an increase in operating profits of 40%.
- In the US, Destiny Health made solid progress, resulting in a decrease in its operating losses by 37%. Its core Illinois business turned profitable during the second six months of the year, while significant progress was made in rolling out its joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.
- In the UK, Discovery entered into a joint venture with Prudential plc. The new company PruHealth is set to launch within the next few months.

Review of group results

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

Earnings source

R million	**2004**	2003	% change
SA Health Operations	**522**	372	40
Vitality Operations	**50**	33	52
Life Operations	**271**	114	138
Destiny Operations	**(106)**	(169)	(37)
UK set-up costs	**(28)**	–	–
Holdings	**(1)**	–	–
Group operating profit	**708**	350	102

The Discovery group continued to produce strong, consistent earnings growth. Headline earnings before abnormal items increased by 49% to R405 million for the year ended 30 June 2004. 134 615 385 additional shares were issued on 28 July 2003 raising R875 million in capital. These additional shares resulted in an increase in the weighted average number of shares in issue of 29%. Of the capital raised, R300 million was invested in equity investments. Unrealised gains on available-for-sale investments of R55 million for the year have been taken directly to reserves and are not included in earnings.

In the year to 30 June 2004, the group incurred a foreign exchange loss of R62 million on the Rand denominated borrowings made by Destiny Health. This loss was caused by the exceptional strengthening of the Rand against the dollar from R7.56/US$1 to R6.18/US$1 over the twelve-month period. The group has benefited from the stronger Rand in the translation of Destiny's losses.

In the last six months of the financial year, the group incurred approximately R28 million of costs towards the establishment of its joint venture with Prudential plc to provide health insurance in the United Kingdom. Even though we are confident that this investment will yield a return in excess of these costs once operational, the group has continued to adopt the policy of expensing set-up costs of new operations.

Gross inflows under management, which in our belief is the most appropriate measure of our level of operations, has shown a five-year compound growth of 46% per annum. This is pleasingly driven by growth in all business areas.

Discovery Health

Discovery Health's performance over the past year has demonstrated the company's ability to balance and align member and corporate interests. Through the performance of Discovery Health's product structures and sound risk management, the Discovery Health Medical Scheme generated a surplus of R1.52 billion over the financial year, enabling it to make significant progress toward meeting the 31 December 2004 statutory reserve requirements and creating a foundation for lower medical inflation for its members.

Discovery Health and the Discovery Health Medical Scheme recently announced a 5.4% contribution increase for 2005 – significantly lower than previous years – along with more comprehensive benefits. Also announced was significantly increased remuneration for general practitioners and specialists, an important step toward maintaining and enhancing access to quality health care for its members.

Discovery Health's strong performance is reflected in an increased market share of 22.8% (2003: 20.8%), and a growth in membership to in excess of 1.6 million members. The increased membership and administration efficiencies manifested in a robust financial performance by Discovery Health, with operating profits increasing by 40% to R522 million (2003: R372 million).

Discovery Life

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

During the year under review, Discovery Life continued to focus on product innovation and the integration with Discovery Health and Vitality. The launch of the PayBack Benefit allows Discovery Health members who are Discovery Life policyholders to receive back a substantial percentage of their life assurance premiums, based on how they manage their health. This and other product structures have enabled Discovery Life to maintain a competitive position within the markets in which it operates.

In just four years since its launch, Discovery Life has achieved a position of leadership in the pure life assurance market. This was reinforced when it was rated top by its peers in a recent industry survey conducted, among South Africa's leading insurance companies by PricewaterhouseCoopers Inc.

Destiny Health

The past year was significant in the evolution of Destiny Health, Discovery's US subsidiary. In February of this year, Destiny Health achieved its goal of break-even for its core Illinois business and made an operating profit of US$190 000 for the last six months of the year, in this market. In addition, Destiny commenced rolling out its joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.

Destiny experienced a 66% increase in membership to 36 189 (2003: 21 858) as a result of a 70% increase in new business to US$73 million (2003: US$43 million). Operating losses decreased by 37% to R106 million (2003: R169 million), reflecting a combination of membership growth, improved quality of business and focused expense management.

The second half of the year saw Destiny enter new markets with the roll out of its joint ventures with Guardian Life Insurance Company of America in the mid-Atlantic region and Tufts Health Plan of Boston, in Massachusetts. The joint venture with Guardian has already produced pleasing results while the roll out of the Tufts Health Plan venture has been slower than initially anticipated. Going forward, Destiny will aim to leverage the distribution capability and scale of its joint venture partners to grow its membership base.

Destiny Health has continued its focus of moving the significant elements of the back-office functionality into Discovery to achieve the benefits of scale and a lower cost environment. An important by-product of this has been the creation of job opportunities for South Africans of nearly 100 jobs in the past 12 months. It is anticipated that this will continue and grow as the business expands.

New initiatives: PruHealth and DiscoveryCard

In addition to its established businesses, Discovery continues to invest in new businesses which will drive future growth. Two important new initiatives were announced during the period under review:

- **PruHealth:** Work has been underway on the establishment of PruHealth, a joint venture with the UK's Prudential plc, since early 2003; it will be a key area of focus in the next year as it launches into the UK's private medical insurance market. The PruHealth product range will be built on Discovery's consumer-driven healthcare experience and, as with Destiny Health, the company's administrative and service support functions will reside in South Africa – there are already over 100 full-time PruHealth employees in this regard. PruHealth is progressing ahead of schedule, with the infrastructure approaching operational readiness and the Vitality product offering largely completed, having secured deals with two leading UK gym networks. Approval was recently obtained from the UK's Financial Services Authority, paving the way for the consumer product launch, the next key milestone in PruHealth's development.
- **DiscoveryCard:** The launch of DiscoveryCard drives the pursuit of better health, while providing a platform for growth, integration and differentiation. DiscoveryCard is a "new generation" credit card offering full VISA functionality, automatic savings at a network of leading stores, interest-free finance for healthcare and also operates as a Discovery Health and Vitality membership card. The Card will be available to Discovery members from late October.

Balance sheet

The short-term loan of R875 million owing to FirstRand Limited as at 30 June 2003 that arose in terms of the claw-back offer was repaid by the issue of 134 615 385 new Discovery shares. These shares were listed on the JSE on 28 July 2003.

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

The increase in the assets under insurance contracts of R546 million is as a result of the significant increase in profitable new business written by Discovery Life.

Investments have increased due to the investment of an additional R300 million into equity portfolios during October 2003 coupled with the strong performance of the equity markets.

Share based payments

The new accounting statement AC139 on Share based payments (equivalent to IFRS 2) was issued in June 2004. This statement is effective for all financial years commencing after 1 January 2005. The transitional provisions of this statement require that an expense is raised for all share based payments and options issued after 7 November 2002.

If this statement had been applied to all share based payments from 1993, the following amounts would have been expensed in the income statement of the group:

R million	Total
Year ended 30 June 2004	**42**
Year ended 30 June 2003	**41**
1993 to 30 June 2002	**47**
	130

The Discovery Life preference shares would be treated as a share based payment in terms of AC 139 and have been included in the above table.

Only Destiny Health has issued options subsequent to 20 November 2002. Upon future application of the statement only to these options, less than R1 million will be expensed in respect of the years ended 30 June 2004 and 2003.

Discovery Life preference shares

The first tranche of Discovery Life preference shares was redeemable on 30 June 2004. By agreement with the preference shareholders, these will be redeemed on 31 August 2004. A separate announcement was issued in this regard on 31 August 2004.

Dividend policy

As Discovery is in a growth phase of its operations, the directors have recommended that no dividend be paid at this time.

Results of the embedded value calculation

The embedded value of Discovery increased by 40% from R4 928 million at 30 June 2003, to R6 876 million at 30 June 2004.

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

Group embedded value

at 30 June

R million	**Group 2004**	Group 2003	% change	Group 2003[1]
				(Illustrative, after capital raising)
Shareholders' funds[2]	**2 436**	1 097		1 944
Value of in-force business before cost of capital	**4 803**	4 021	19	4 021
Cost of capital	**(363)**	(190)		(190)
Discovery Holdings embedded value	**6 876**	**4 928**	**40**	**5 775**
Number of shares (millions)	**513.3**	377.9		513.3
Embedded value per share	**R13.40**	R13.04	3	R11.25
Diluted embedded value per share	**R12.89**	R12.20	6	R10.76

1. In June 2003, Discovery proceeded with a claw-back offer to raise R875 million at an issue price of R6.50 per share. The shares were issued and listed on the JSE on 28 July 2003. At 30 June 2003, the capital raised was reflected as a short-term loan owing to FirstRand Limited, but is now included in shareholders' funds. The embedded value at 30 June 2003 has been restated for illustrative purposes to demonstrate the impact of including the capital raised (net of preliminary and share issue expenses) in shareholders' funds, and including the shares issued in the calculation of embedded value per share.

2. Outside shareholders' interest in Destiny Health consisting of preference shares, were converted at R14/US$1 in the prior year and not at historical rates of R7/US$1 in accordance with the group's accounting policy. Comparative figures have therefore been restated to record the preference shares at historical rates. The effect of this restatement is to increase the currency translation reserve by R60 million and reduce outside shareholders' interest by R60 million.

The embedded value earnings and the components thereof are set out below:

Embedded value earnings

for the year ended 30 June

R million	**Group 2004**	Group 2003
Embedded value at end of period	**6 876**	4 928
Embedded value at beginning of period	**4 928**	3 321
Increase in embedded value	**1 948**	1 607
Net issue of capital	**(847)**	(2)
Dividends paid to Destiny Health preference shareholders	**1**	12
Implementation of new accounting standards	**–**	17
Revaluation of forward exchange contract[1]	**(8)**	14
Embedded value earnings	**1 094**	1 648

1. This adjustment relates to cash flow hedges taken out to reduce exposure to currency risk on capital inflows to Destiny Health in July 2003 and capital inflows to Prudential Health in September 2004.

Components of embedded value earnings

for the year ended 30 June

R million	**Group 2004**	Group 2003	% change
Total profit from new business (at point of sale)	**637**	670	(5)
Profit from existing business			
• Expected return	**534**	500	
• Change in methodology and assumptions[1]	**(361)**	(0)	
• Experience variances	**197**	380	
Adjustment for minority interest in Destiny Health	**(4)**	(2)	
Adjustment for Guardian profit share in Destiny Health[2]	**(8)**	–	
Foreign exchange rate movements[3]	**(67)**	45	
Interest on loan capital	**(41)**	–	
Return on shareholders' funds[4]	**207**	55	
Embedded value earnings	**1 094**	1 648	

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 year's changes are described in detail in the table below (for previous periods refer to previous embedded value statements).

2. In terms of the agreement between Destiny Health and the Guardian Life Insurance Company of America, Guardian will share in 50% of the profits from Destiny's pre-alliance business once the business written by Guardian reaches 23 500 beneficiaries. It is expected that this will occur in June 2007. Based on Guardian's progress at 30 June 2004 towards achieving this target, the value attributed to Destiny's pre-alliance business from 30 June 2007 has been reduced by 6.8% in the embedded value calculation.

3. The impact of foreign exchange rate movements was previously shown as an experience variance. The item includes a R62 million unrealised foreign exchange loss during 2004, arising on a R279 million loan entered into by Destiny Health with RMB International (Dublin) Limited.

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 year ended 30 June

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes[1]	(109)	(14)	(104)	(227)
Premium escalations	–	3	(26)	(23)
Lapses	51	(24)	(73)	(46)
Risk discount rate	98	–	–	98
Economic assumptions	–	7	(13)	(6)
Expenses	(10)	27	(36)	(19)
Mortality and morbidity	–	9	120	129
Ancillary services fee[2]	(144)	–	–	(144)
Margins	–	–	(52)	(52)
Tax[3]	(53)	–	–	(53)
Other	2	(20)	–	(18)
Total	(165)	(12)	(184)	(361)

1. The Health and Vitality modelling change relates to a refinement of the model used to value the Discovery InHouse (Custom) schemes.

The Life modelling changes consist mainly of an increase in the cost of capital of R74 million due to changes in the method of projecting the Capital Adequacy Requirement over the lifetime of the portfolio.

2. Members of DHMS will not be charged an ancillary services fee with effect from 1 January 2005.

3. The tax assumption change reflects a higher average VAT rate modelled.

Experience variances

for the year ended 30 June

R million	Health and Vitality	Destiny Health	Life	Prudential Health	Total
Renewal expenses	(14)	(9)	(6)	–	(29)
Joint venture expenses	–	(35)	–	(28)	(63)
Administration fee increase	(21)	–	–	–	(21)
Extended modelling term[1]	133	11	2	–	146
Lapses	94	(24)	(53)	–	17
Contribution increase	1	(7)	23	–	17
Policy alterations	24	(2)	100	–	122
Mortality and morbidity	–	(12)	26	–	14
Health quota share reinsurance[2]	5	–	(13)	–	(8)
Life reinsurance[3]	–	–	1	–	1
Other	17	(4)	(12)	–	1
Total	239	(82)	68	(28)	197

1. *The projection term for Health, Vitality, Destiny Health and Group Life at 30 June 2004 has not been changed from that used at 30 June 2003. Thus, an experience variance arises because the total term of the in-force business is effectively increased by 12 months.*
2. *The 10% Health quota share reinsurance treaty for 2004 which was previously modelled has not been modelled in the 30 June 2004 calculation. The Life product cost of capital has increased due to the manner in which the cost of capital was previously shared between the Life and Health products.*
3. *During the past financial year, Discovery Life entered into reinsurance agreements to protect against future lapses. The effect of these agreements is included in the reinsurance variance. With effect from 1 July 2004 a quota share agreement was entered into, effectively reinsuring 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a fixed period of approximately six years. Discovery Life earned R200 million in terms of this contract in July 2004.*

   The terms of the quota share agreement are such that the agreement will have a negligible impact on the embedded value and was not included in the embedded value at 30 June 2004.

Embedded value of new business

for the year ended 30 June

R million	**Group 2004**	Group 2003	% change
Health and Vitality			
Gross profit from new business at point of sale	**155**	238	
Cost of capital	**–**	(3)	
Net profit from new business at point of sale	**155**	235	(34)
New business annualised premium income[1]	**1 259**	1 834	(31)
Life			
Gross profit from new business at point of sale	**583**	494	
Cost of capital	**(131)**	(76)	
Net profit from new business at point of sale	**452**	418	8
New business annualised premium income[2]	**406**	355	14
Annualised profit margin[3] %	**13.3**	13.1	
Destiny Health			
Gross profit from new business at point of sale	**36**	41	
Cost of capital	**(6)**	(24)	
Net profit from new business at point of sale	**30**	17	76
New business annualised premium income[4]	**378**	356	6
New business annualised premium income (US$ million)	**56**	40	40

1. *Health new business annualised premium income is the gross medical scheme contribution. For embedded value purposes, 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 30 June 2004 – outside of the valuation period. The total Health and Vitality new business annualised premium income written over the period was R2 184 million (June 2003: R2 347 million).

   Members joining existing employer groups have added R226 million to the Health product value of in-force over the past year. This is shown as part of the lapse experience variance.
2. *Life new business annualised premium income of R406 million shown above is net of automatic premium increases and 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 R80 million and servicing increases of R68 million, was R554 million.*
3. *The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums. The majority of policies sold under the Life product have accelerated premiums, i.e. premiums that increase over the term of the policies, hence expressing the value of new business as a percentage of the current new business premium, 111.4% (June 2003: 117.9%), would overstate the annualised profit margin.*
4. *For embedded value purposes, 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 30 June 2004 – outside of the valuation period. The total Destiny Health new business annualised premium income written over the period was R494 million (June 2003: R378 million).

Embedded value assumptions

The principal assumptions used in the calculation of the value of in-force business and the value of new business are set out below. These assumptions represent a best estimate view of the future:

General

- It is assumed that the South African capital adequacy requirements in future years will be backed by surplus assets consisting of 70% equities and 30% fixed interest securities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.
- The investment return assumption was determined with reference to the cashflow-weighted average risk free yield curve. Other economic assumptions were set relative to this yield.
- The current policy of Discovery is not to declare dividends and therefore no allowance has been made for secondary tax on companies.

Health and Vitality

- The embedded value term has been set at ten years for Health and Vitality.
- The Health administration and managed care fees are assumed to increase at the expense inflation rate for the full projection term.
- Lapse assumptions are based on the results of recent experience investigations. Negative turnover on employer groups is not modelled as lapses.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

Life

- Mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.
- The embedded value projection term for group business has been set at ten years.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

Destiny Health

- The embedded value projection term has been set at ten years.
- Based on the projected utilisation of Destiny Health's assessed tax loss to date, it is assumed that no income tax will be payable over the projection term.
- The morbidity assumptions are based on the results of recent experience investigations.
- The lapse assumptions are based on the results of recent experience investigations as well as future expectations regarding scheme renewals. The lapse rates assumed depend on the member's underwriting cohort.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.
- The value of in-force business for Destiny Health was converted into Rands using the year-end exchange rate of R6.18/US$1.

Embedded value assumptions

at 30 June

%	2004
Risk discount rate	
– Health, Life and Vitality	**12.5**
– Destiny Health	**10.0**
Medical inflation	
South Africa	**8.5**
United States – current levels reducing to	**12.5**
Expense inflation	
South Africa	**5.5**
United States	**5.0**
Pre-tax investment return	
South Africa	
– Cash	**8.0**
– Bonds	**9.5**
– Equity	**11.5**
United States	
– Bonds	**2.0**
Income tax rate	
– South Africa	**30.0**
– United States Federal Tax Rate[1]	**34.0**

1. Various additional State taxes also apply.

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.

Future prospects

The capital raised in 2003 through a claw-back offer to shareholders provides sufficient capital to fund Discovery's current growth aspirations. The strong operating performances, increased efficiencies achieved across all the businesses and new initiatives position the company well for future growth.

By order of the board

LL Dippenaar / Chairman

A Gore / Chief Executive Officer

26 August 2004

Directors

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

* Executive
** Appointed 19 February 2004
\# Resigned effective 5 December 2003

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