integrated financial services

FIRSTRAND

2005 Annual Report

GROUP AT A GLANCE

BANKING GROUP	Business profile	Attributable earnings (R million) 2005	2004	Headline earnings (R million) 2005	2004	Cost-to-income ratio (%) 2005	2004	ROE (%) 2005	2004	Impairment charge (%) 2005	2004	Non-performing loans (%) 2005	2004	Headline earnings contribution (%) 2005	2004
FNB	Retail and corporate banking, and wealth management	**2 914**	2 500	**2 930**	2 581	**66.8**	66.5	**35.5**	35.8	**0.3**	0.4	**1.8**	2.6	**45.1**	53.8
WesBank	Instalment finance	**1 007**	759	**1 008**	759	**46.8**	48.8	**17.8**	17.9	**0.5**	0.6	**0.9**	0.8	**15.5**	15.8
RMB	Investment and merchant banking	**1 370**	1 049	**1 317**	958	**25.2**	25.2	**31.5**	25.5	**–**	–	**1.1**	0.3	**20.3**	20.0
FirstRand Africa and Emerging Markets	African subsidiaries and Emerging Markets growth strategy	**313**	288	**313**	288	**48.5**	49.7	**28.6**	30.2	**0.6**	0.6	**2.7**	4.0	**4.8**	6.0
Bank Support	Support services and capital centre	**633**	589	**697**	643	**32.8**	0.4	**–**	–	**(1.6)**	(1.5)	**0.5**	(4.2)	**10.7**	13.4
Ansbacher UK	Wealth management in the UK	**309**	(67)	**(37)**	(63)	**119.8**	108.2	**–**	–	**n/a**	(0.3)	**n/a**	2.4	**(0.57)**	(1.3)
Total Banking Group		**6 810**	4 748	**6 492**	4 796	**55.4**	56.9	**27.6**	26.4	**0.3**	0.4	**1.4**	1.8		

MOMENTUM GROUP	Business profile	Headline earnings (R million) 2005	2004	New business (R million) 2005	2004	Funds received from clients (R million) 2005	2004	Net flow of funds (R million) 2005	2004	Embedded value (R million) 2005	2004	Headline earnings contribution (%) 2005	2004
Insurance operations	Long-term risk and investment products	**685**	595	**18 032**	11 849	**22 569**	16 286	**(924)**	2 600	**9 918**	8 187	**53.2**	55.0
Asset management operations	Domestic and international asset management products	**247**	175	**24 657**	16 885	**24 657**	16 885	**4 486**	(1 873)	**1 901**	1 479	**19.2**	16.2
Investment income on shareholders' assets	Investment income earned on the surplus assets	**355**	311	**–**	–	**–**	–	**–**	–	**–**	–	**27.6**	28.8
Total Momentum Group		**1 287**	1 081	**42 689**	28 734	**47 226**	33 171	**3 562**	727	**11 819**	9 666		

DISCOVERY	Business profile	New business annualised premium income (R million) 2005	2004	Gross inflows under management (R million) 2005	2004	Profit from operations (R million) 2005	2004	Value of in-force business (R million) 2005	2004
Health	Private health care cover in SA	**2 776**	2 122	**14 571**	12 550	**563**	522	**3 844**	3 194
Life	Pure-risk life assurance and retirement products in SA	**629**	535	**1 278**	858	**421**	271	**1 832**	1 107
Vitality	Wellness programme spanning all Discovery's businesses	**93**	62	**521**	403	**38**	50	**–**	–
Destiny Health	Private health care products to selected markets	**809**	494	**914**	534	**(87)**	(106)	**274**	139
PruHealth	Health care products for UK's private medical insurance market	**35**	–	**11**	–	**(148)**	(28)	**–**	–

On this DVD are two short films. The first film showcases the work of FirstRand's BEE partners. The second film presents some of FirstRand's transformation initiatives.

NATURE OF BUSINESS

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

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

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

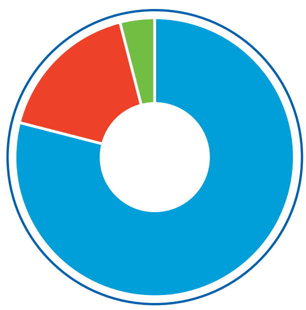
See inside back flap for contents

Contents

The FirstRand Group of companies produced an **excellent performance,** continuing a seven-year history of strong growth in headline earnings, ROE and dividends.

Headline earnings excluding impact of foreign currency translations
2005

Banking Group 79%
Momentum 17%
Discovery 4%



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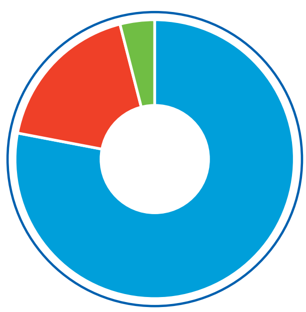


Some operational highlights

- FNB first SA Bank to launch cellphone banking
- WesBank breaks records to write R4 billion new business in the month of June
- RMB creates and lists new BEE financing player Makalani
- FNB and Discovery successfully roll out 200 000 DiscoveryCards
- Momentum launches new generation product Save Thru Spend

FINANCIAL HIGHLIGHTS

	% change
Headline earnings	+32
Headline earnings (excluding foreign currency translation)	+20
Headline EPS	+32
NAV	+15
DPS	+20
	%
ROE	27

RUDOLF GOUWS | Chief Economist, Rand Merchant Bank

RAND MERCHANT BANK
A division of FirstRand Bank Limited

Markets adapted to the structurally lower interest rate and inflation environment and sent asset prices soaring

GROUP ECONOMIC REVIEW

The South African economy hit a sweet spot in the Group's past financial year. This was due to a number of positive factors such as rapid growth in expenditure, income and output, strong increases in corporate profit, rising business fixed investment, net new employment creation, a buoyant property market, sharply rising share prices, as well as low inflation and interest rates.

Contributing to this exceptional performance was a global economy expanding at its fastest pace in over two decades. As a consequence, commodity prices and international trade volumes soared.

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

Overall though, the economy performed remarkably well, achieving **GDP growth of 4.5%** over the financial year.

This rapid growth was largely driven by strong consumer spending, large increases in residential building activity, as well as a solid expansion in fixed investment generally. The strength of the currency in the first half of the year had meant a tightening of overall monetary conditions, even in the face of already low nominal interest rates. However, the Rand's strength, coupled with better than expected inflation numbers, put the South African Reserve Bank in a position to cut its repo rate by a total of 100 basis points, following 550 basis points reductions earlier in the interest rate cutting cycle.

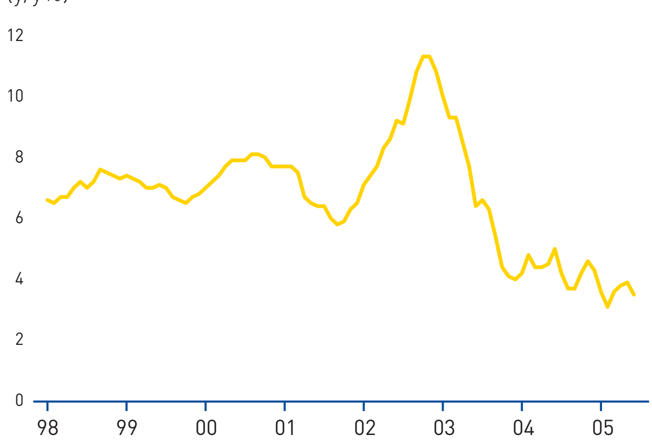
By the end of the financial year, interest rates had reduced to levels last seen 25 years ago. Markets adapted to the structurally lower interest rate and inflation environment and sent asset prices soaring. The property, bond and share markets all experienced substantial gains. Many households therefore enjoyed the "wealth effect", which encouraged them to spend, whilst benefiting from much lower borrowing costs.

Booming asset markets created an ideal environment for the rapid take-up of consumer debt: the asset-backed debt of households, for example, increased twenty-two per cent over the Group's financial year. The mood of consumers was also buoyed by faster real income growth as inflation, (and in particular, the prices of imported goods) fell, as well as lower direct taxes.

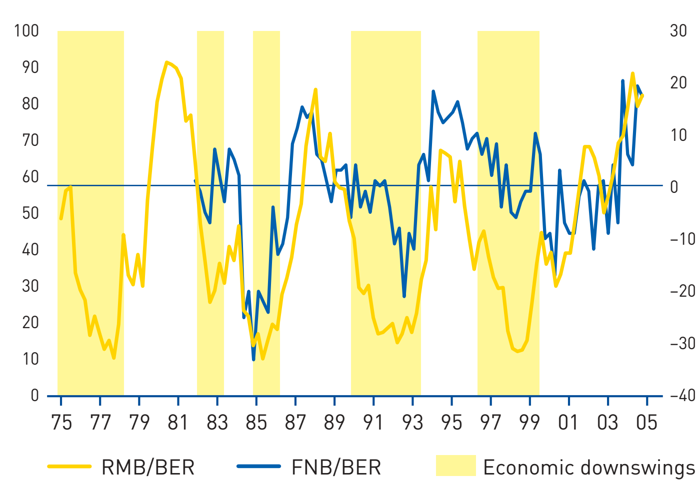
The unfolding situation was well illustrated by the FNB/BER Consumer Confidence Index, which reached near record highs, indicating that households viewed the economic climate as favourable for purchases of durable goods. Under these conditions, sales of vehicles, furniture appliances and clothing, soared. Total real consumer spending grew at a robust real rate of nearly six per cent over the past year.

Corporate profitability gained greatly from buoyant domestic demand, increased economic activity and subdued cost increases. As a result, the RMB/BER Business Confidence Index continued in 2005 to hover near the 23 year high it had reached late in 2004.

CPIX
(y/y%)



RMB/BER business confidence index



The generally positive business mood did not, however, translate into strongly rising demand for credit and capital on the part of private business enterprises. Growth in corporate borrowing remained subdued as companies remained largely cash flush, using internal resources to finance portions of their working capital, as well as capacity expansion. Those corporates which did borrow were for the most part clearly in good financial shape, as the value of banks' non-performing loans fell to record lows.

Government finances also remained healthy, with the strength of the economy resulting in exceptionally strong tax revenues. This reduced the budget deficit to well below originally budgeted levels, prompting the National Treasury to cancel a proposed international bond issue, as well as reducing the Government's demands on the domestic capital market. Along with a sharper than expected drop in inflation, this contributed to capital market yields falling to record lows. The conservative policies of the past few years are providing a stable foundation for the current economic expansion to stretch well into the future.

These positive economic and fiscal developments were recognised by foreign investors (who poured funds into South African equity and capital markets), as well as by international credit rating agencies.

In January, South Africa's international credit rating was upgraded by Moody's Investor Service, mainly due to the significant progress made in bolstering foreign exchange reserves and in raising economic growth. Standard and Poor's rating agency followed suit in August, further confirming South Africa's improved risk profile.

An overall balance of payments surplus, brought about largely by portfolio and other short-term capital inflows, coupled with the inflows related to the acquisition of a majority stake in ABSA by Barclays, has allowed the country to materially improve its level of foreign exchange reserves. This transaction is the largest foreign direct investment into the country to date and is a vote of confidence in the banking sector and the economy as a whole.

The outlook for domestic fixed investment is promising. South Africa has embarked on a massive public-sector investment programme to improve the country's infrastructure – plans for **R165 billion in investment projects** over the next four years were announced late in 2004.

Private fixed investment has been rising strongly for some years and will benefit from the planned improved and expanded infrastructure. This should mean that the rising trend in total employment, evident over the past two years, could gather pace.

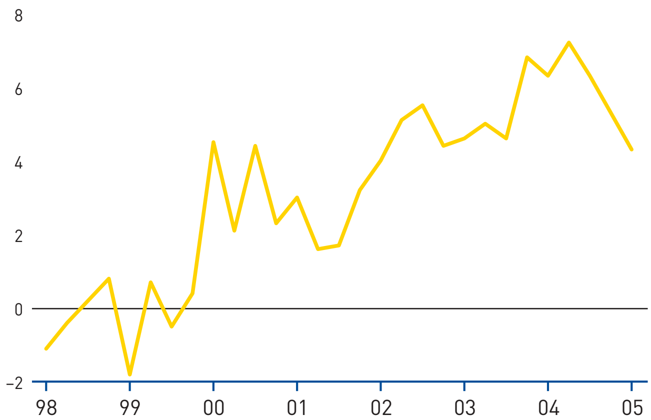
However, the strength in consumer spending is unlikely to be matched this financial year, as the impact of earlier rate cuts begins to fade. Also, substantial further tax relief is not expected going forward, and there are already signs that the housing and property boom is losing some momentum. The pace of consumer lending is therefore likely to slow down to some extent.

Barring a major external shock (such as a sharp and sustained further oil price rise), inflation is expected to remain contained within the target range, even if the Rand depreciates slightly over the coming year. The economy is set to continue growing briskly against the background of low and relatively stable interest rates.

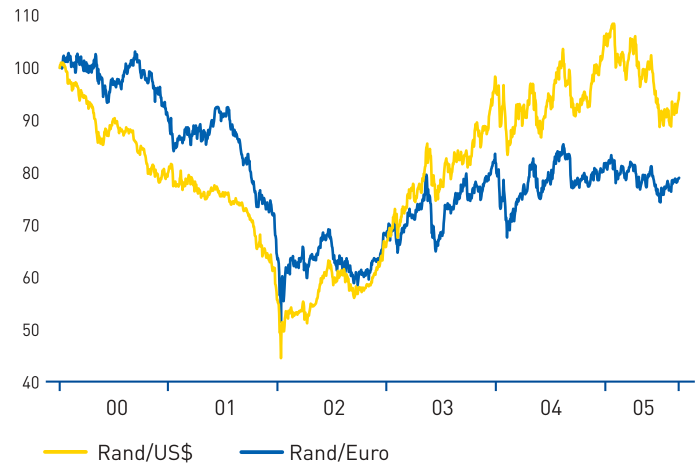
CEES BRUGGEMANS | Chief Economist, First National Bank

The conservative policies of the past few years are providing **a stable foundation** for the current economic expansion to stretch well into the future

Real growth in domestic expenditure
(y/y%)



Exchange rates



CHAIRMAN'S REPORT

BACKGROUND

The Group's results were achieved in a domestic environment characterised by continued growth in consumer spending, strong increases in corporate output, net new employment creation, a strong property market and sharply rising share prices against a backdrop of structurally lower inflation and interest rates. The global economy expanded rapidly resulting in rising commodity prices and international trade volumes.

Local markets experienced strong growth in asset prices, with the property, bond and share markets posting substantial gains. Many households in South Africa therefore enjoyed both "wealth effects" i.e. higher asset prices and lower interest rates, which encouraged them to spend whilst enjoying the benefit of much lower borrowing costs.

Local equity markets were particularly buoyant which had a positive impact on the Group's equity related businesses and sales of discretionary investment products, unit trusts and living annuities.

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

The year under review was a challenging but rewarding one with all the major business units of the Group **delivering strong top-line growth.**

OUR PERFORMANCE

The year was a challenging but rewarding one with all the major business units of the Group delivering strong top-line growth. This performance was assisted by buoyant equity, bond and property market conditions. In addition, the Group's diversified income streams, its relentless focus on innovation and its ability to leverage its many different businesses to create "greenfields" or new sources of growth, resulted in a 32% increase in headline earnings to R7.6 billion. After excluding the impact of foreign currency translations, the growth in headline earnings was still a very respectable 20%.

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

The assurance and insurance businesses of the Group also benefited from the benign economic environment. Momentum produced excellent results, growing headline earnings by 19% (the highest growth in five years) to R1.3 billion, with earnings attributable to shareholders increasing by 28%. These results were driven by strong new business inflows, significant growth in assets under management and a focus on business efficiencies.

Discovery Group delivered a strong performance for the year with headline earnings increasing by 32% to R350 million. The performance reflects strong growth in all Discovery's businesses, with the new business Annual Premium Income (API) increasing by 35% to R4.3 billion. It also appears as if subsidiary Destiny Health, based in the USA, has finally turned the corner.

GT FERREIRA | Chairman

STRATEGIC ISSUES

The disposal of Ansbacher

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

Ansbacher had become increasingly non-core to FirstRand's overall strategy and required a strategic partner that would facilitate and support its growth aspirations and ensure business continuity. Acquiring Ansbacher fitted with QNB's long-term strategic objectives to grow its private banking operations.

Going forward FirstRand's stated international strategy is to focus on areas which are more complementary to our South African strategy as well as areas where we believe we have a sustainable, competitive advantage in the international arena.

The disposal of Ansbacher unlocked capital which we can either allocate to other international initiatives or repatriate back to South Africa to fund growth opportunities in our local operations.

Black Economic Empowerment transaction

In February 2005 FirstRand announced the details of its Black Economic Empowerment (BEE) deal.

FirstRand facilitated a transaction over 10% of its issued share capital using a combination of vendor and third party funding. At the time of the announcement the transaction, worth R7.9 billion, was the largest ever BEE deal and it comprised two components.

Four broad-based BEE groups, Kagiso Trust, Mineworkers Investment Trust, the Women's Development Bank Trust and the FirstRand Empowerment Foundation (a newly created FirstRand BEE entity, with a mandate for broad-based transformation), hold 6.5% of FirstRand. This is held through the FirstRand Empowerment Trust, a newly created Trust for the purpose of this transaction. The remaining 3.5% is held by FirstRand's black South African staff and directors.

To implement the BEE transaction, approximately 7.6% of FirstRand's issued ordinary shares were procured from shareholders at a price of R12.28, through a Scheme of Arrangement.

In addition, to provide sufficient security to the third party funders and for the transaction to be viable with limited further involvement from FirstRand, the Group issued 119 million FirstRand ordinary shares to the FirstRand Empowerment Trust at par value. This aspect of the transaction led to a dilution of approximately 2.1% for existing FirstRand shareholders. The total cost of the BEE transaction to current shareholders was 3.15% of the market capitalisation.

We believe our BEE transaction demonstrates FirstRand's commitment to broad-based BEE. The Group is dedicated to achieving transformation in South Africa and specifically wishes to ensure that the long-term benefits of our BEE transaction reach the widest community of black South Africans as possible, with a specific focus on the lower income groups.

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

FirstRand also believes that further broad-based BEE will be achieved through the participation of its black staff in the BEE transaction. This will assist the Group to retain its black management, incentivise out performance by black managers and attract new black professionals to the Group.

FirstRand and its BEE partners are also committed to ensuring that real transformation takes place within the organisation and the BEE partners will play an active role in both FirstRand's existing transformation programme and the strategic direction of the Group.

The executive leadership of FirstRand remains fully committed to embracing the spirit of the Financial Sector Charter and exceeding the targets set by it.

SUSTAINABILITY REPORTING

We believe that the Charter will play a major role in the transformation process of South Africa and we also recognise that a Group as large and diverse as FirstRand can have a significant impact on broader society.

Ongoing interaction with a wide range of stakeholders is an integral part of our business and we are increasingly aware that non-financial issues are key to our sustainable performance. This year in the Annual Report we have identified some of these issues as part of our operational review and outlined on pages 22 and 23 is our new approach to sustainability reporting.

PROSPECTS

Looking forward in general the increased economic activity experienced in this year is expected to continue and barring unforeseen events, we believe the South African economy will remain in a structurally lower inflation and interest rate environment for some time to come.

Whilst the lower interest rate environment will continue to place the Banking Group's margins under pressure, it is also expected to drive continued growth in both credit demand and consumer spending, albeit at a slower rate than was experienced during this financial year. The challenge for the Banking Group going into 2006 will be to maintain profitable growth and efficiencies at current levels.

The rising level of consumerism in the insurance industry has resulted in an increased focus on product profit margins and the need to achieve scale benefits through consolidation. Momentum is actively addressing these issues firstly by having much lower charges on its new generation savings products, and secondly through the acquisitions of Advantage, Sovereign, African Life Health and Sage.

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

In the context of the current strong economic growth in South Africa, the existing strategies of the Group and the diversified income streams generated from the underlying businesses should ensure that FirstRand is well positioned to achieve its stated objective of 10% real growth in earnings per share.

MANAGEMENT CHANGES AND VOTE OF THANKS FROM THE CHAIRMAN

Since the year end FirstRand has announced certain management changes. Hillie Meyer, the MD of Momentum, left the Group as he wishes to spend more time on his outside interests. He also felt that in his eight years as MD he had achieved as much as he could for Momentum and it was time for a change at the top.

FirstRand has always believed that change is constructive for a company in that it creates opportunities for new energy and fresh ideas. However we are sorry to lose an executive of the calibre and experience of Hillie. He has proved to be a remarkable leader of people, to possess great strategic insight, a fierce sense of loyalty and deep seated integrity. He was a formidable MD at Momentum and his track record speaks for itself. We wish Hillie and his family a well deserved rest and it is my fervent hope that we may, sometime in the future, again see Hillie's photograph gracing the pages of our Annual Report.

Hillie has been replaced by EB Nieuwoudt, the CEO of the FirstRand Africa and Emerging Markets division. I am confident that under EB's leadership Momentum will continue to build on the sustainable earnings base established during Hillie's tenure.

We also recently informed shareholders that Laurie Dippenaar will be stepping down as Group CEO. Paul Harris, currently FirstRand Bank CEO will become Group CEO and Sizwe Nxasana, previously the CEO of Telkom SA, will join the Group as CEO of FirstRand Bank.

Laurie had indicated for some time that he would like to take on a more strategic non-executive role and hand over the day to day management of FirstRand and we were extremely fortunate to have a person of the calibre of Paul to replace Laurie as they have worked in successful partnership for the past 25 years. I thus anticipate the handover to be seamless given Paul's previous role as CEO of the Banking Group, which represents 80% of the Group's business activities.

As far as a successor for Paul is concerned, we are extremely privileged to have attracted an executive of the calibre of Sizwe. For the past seven years he has steered Telkom SA through the process of privatisation and transformed it into a profitable and efficient communications company, now ranked amongst the best in emerging markets. During his tenure Telkom delivered exceptional growth in shareholder value.

Sizwe is a Chartered Accountant who founded Nkonki Sizwe Ntsaluba, the first black-owned national firm of accountants in 1996 before joining Telkom. He has been a non-executive director of FirstRand Bank since 2003 and served on the NBS Boland Board with Paul Harris and myself from 1995 to 1998.

I believe that the decentralised structure of the Group has allowed us to develop highly effective and empowered CEOs in the underlying businesses. This structure will create a strong support base for Sizwe and facilitate an expeditious handover by Paul. Moreover we still have the added benefit of Laurie's immense experience, now to be deployed more at a strategic level.

Laurie's resignation and Paul's appointment as FirstRand Limited CEO will be effective 1st January 2006. Sizwe's appointment as CEO of FirstRand Bank will be effective on the same date. Laurie will remain non-executive Chairman of Momentum, Discovery and OUTsurance and serve as a non-executive director on the Boards of FirstRand Bank and FirstRand Limited. Sizwe's appointment as CEO of FirstRand Bank has been approved by the South African Reserve Bank.

Since the creation of FirstRand in 1998 Laurie has been an incredibly effective CEO, and the Group's track record speaks for itself. From 1998 to date FirstRand has delivered significant shareholder value reflected in a compound growth in diluted headline earnings per share of 20.3% per annum over this seven year period and a current market capitalisation of R78 billion.

The creation of FirstRand in 1998 represented the bringing together of some very large and very separate businesses, FNB and WesBank, together with RMB and Momentum. The challenge was to create a structure and an environment that would facilitate these businesses working together for the benefit of the Group and its shareholders. I believe that it is testament to Laurie's foresight and unstinting commitment to the concept of an integrated financial services model that, seven years later, the Group is fulfilling its promise.

I would like to thank Laurie on behalf of everyone at FirstRand for the vision, hard work, integrity and absolute conviction he has displayed in the past seven years as CEO.

GT Ferreira
Chairman

Sandton
19 September 2005

LAURIE DIPPENAAR | Chief Executive Officer

CEO'S REPORT

There is no doubt that **innovation** is what makes this Group different, both in banking and insurance. This approach has its roots in our **entrepreneurial culture** and it has flourished because of our decentralised and empowering structure and culture. **We reward innovators** and in many areas of financial services we "have changed the rules of the game".

INTRODUCTION

In last year's report I spent some time talking about the four pillars of our growth strategy. Since then we have added capital management as a further pillar, particularly given the Group's very strong focus on active capital management to deliver superior shareholder returns (in fact I am not sure why it was left off the list in the first place, it is such an obvious one).

In this report I shall cover some of the major deliverables of our growth strategy which now, I can confirm, rests on five pillars, none of which are mutually exclusive:

- Organic growth – growing but staying efficient;
- Collaboration – leveraging off the building blocks in the different businesses;
- Acquisitions – adding "load for the truck" or more diversification to the income base;
- "Greenfields" – creating completely new businesses and new sources of growth; and
- Capital management – optimising capital.

In the past, when presenting the results to the investment community, I have said that although our strategy has remained very consistent over the past 20 years, it often doesn't appear that way as its five components do not all "kick in" every year. This year was interesting in that our performance benefited from all five pillars making a contribution. The benefits of our capital management strategy are dealt with in detail in Johan Burger's CFO Report.

Strong organic growth continued

Strong organic growth was experienced across all of our main businesses, which resulted in excellent top-line growth for the Group as a whole. Whilst there is no doubt that the favourable economic conditions we are currently experiencing in South Africa provided very good natural growth there was also good "man made" growth created by our continuous efforts to innovate and collaborate.

Quantifying organic growth	Market	FirstRand
WesBank new business	24%	32%
FNB HomeLoans new business	57%	91%
FNB Card advances	30%	32%
RMB Private Bank advances	20 – 25%	41%
Momentum recurring new business	4%	21%
Discovery Life new business	4%	18%
Consumer investment products	11%	76%

The table above, which is not an exhaustive list, provides a good barometer of how these efforts allowed the Group to perform ahead of the growth provided by the market, and in many areas grow our market share.

FNB HomeLoans is a typical example. The business experienced extremely strong growth in new business of 91%, significantly ahead of the market and particularly evident in the second half of the year. The main reason for this is that during the year we improved our turnaround processes in the unit and in a market where speed of response is critical, this made all the difference.

Innovation remains key to our success

Another "man made" effort that I believe made a significant contribution to the organic growth we delivered, was our relentless (almost obsessive) focus on innovation.

There is no doubt that innovation is what makes this Group different, both in banking and insurance. This approach has its roots in our entrepreneurial culture and it has flourished because of our decentralised and empowering structure and culture. We reward innovators and in many areas of financial services we "have changed the rules of the game".

An example of this at First National Bank (FNB) is the One Account, which is a single credit facility for the middle market. We launched this last year and already have a book of R1.3 billion and sales are accelerating on a month-by-month basis.

This year FNB was the first bank in South Africa to launch cellphone banking as an sms channel and in six months we have signed up 74 000 customers.

Rand Merchant Bank (RMB) has, over the past few years, built a leadership position in BEE transactions and this continued apace during the year. In March **RMB created, launched and listed** a new investment company, **Makalani Holdings Limited** (Makalani), which is designed to invest solely in large BEE transactions and other targeted investments such as infrastructure, low cost housing, SMME's and emerging agriculture.

The first company of its kind, Makalani will invest in a diversified portfolio of mezzanine-type instruments which will provide investors with commercially acceptable, risk adjusted returns. These investments will be compliant with the Financial Services Charter and as a result will enable investors to earn Charter scorecard points. This innovative vehicle opens up a new market in South Africa.

The insurance industry faces significant structural challenges, and a very significant one is the recent rulings by the Pension Fund Adjudicator on retirement annuities. I believe that Momentum is responding to the issue with a great deal of creative thinking and innovation. We see the problem as two dimensional – dealing with past legacies and providing future solutions. To deal with the former Momentum has put aside R100 million to assist customers swapping from so-called old legacy products to new age products such as Momentum's Investo range.

Collaboration is happening throughout

Collaboration a big driver of organic growth. We have always emphasised that collaboration at FirstRand has a much broader meaning than simply cross-selling. The integrated structure of the Group allows us to leverage off all the building blocks of the businesses, such as IT systems, client bases and skills etc.

Collaboration is now endemic within the Group and is delivering growth at all levels. In the Review of Operations there are a large number of examples of where businesses have collaborated to create growth, I would like to mention just one now – the Discovery Card – which really flew this year.

Last year we were projecting that in two years Discovery would issue 325 000 cards. Given that the card is both a credit card, with some excellent benefits with major retailers such as Woolworths, and a Discovery Medical Scheme membership card, we believed that a large number of these cards would be taken up and activated. In fact we finished the first year with over 200 000 card holders in total which also helped FNB Card significantly grow its market share.

Making acquisitions is a core competency

Turning now to another pillar, acquisitions, and all the action has been from Momentum.

The ability to do mergers and acquisitions is one of **Momentum's core competencies** and it applied those skills very effectively this year to do transactions with Sage, Advantage, Sovereign and African Life Health.

The detail of these transactions can be found in the Momentum section of the Review of Operations, however I would like to touch on them briefly. The four acquisitions can be split between "load" and strategic with Sage very much a load transaction. Momentum currently has a small presence in the market segment that is serviced by agents and Sage provides benefits of scale, increasing Momentum's policy book by 25%, without a commensurate increase in costs. The acquisition of Sage adds a total of 590 agents to Momentum's current agency force and is expected to boost Momentum's new recurring premium income by 15%.

The acquisition of Advantage provides critical mass in the multi-manager market which is required to compete more effectively for new mandates.

We continue to create new Greenfields

The fourth pillar is what we call "greenfields" or new age businesses. FirstRand is well recognised for its ability to start completely new businesses which often take on the established players in the market. OUTsurance and Discovery are classic examples of this and both these businesses, started from scratch in 1999 and 1992 respectively, provided good contributions to this year's growth.

In the creation of these businesses we always leverage off the existing infrastructure (or what we call building blocks) within the Group, Discovery for instance was created off the distribution backbone of Momentum. Since the year end we have repeated this exercise, this time using the existing infrastructures of OUTsurance and Momentum.

Momentum will launch a short-term insurance offering in January 2006. To be known as Momentum Short Term Insurance (Momentum STI), the new company's strategy is to provide personal-lines and commercial-lines insurance products to that segment of the market that prefers to deal through brokers. To achieve this, distribution will take place through Momentum Distribution Services, which is a network of broker consultants that call on thousands of brokers who sell both long-term and short-term products to their customers.

The creation of Momentum STI was made easier by the fact that Momentum, as part of the FirstRand Group, had access to the existing short-term insurance back-office infrastructure of OUTsurance.

To facilitate the initiative, FirstRand will create FirstRand Short Term Insurance Administrator which will be the entity providing the back office and administration platform to both Momentum STI and OUTsurance. This will ensure a very efficient operation and ensure no duplication of costs or resources.

We are very excited about the prospects of this initiative and the fact that we have been able to use the various building blocks of FirstRand to create another new company and another new source of revenue.

Our international end game

One of the perceived gaps in FirstRand's armoury is our somewhat cautious approach to African and international expansion.

It is fair to say that FirstRand has been **most successful** expanding across industry boundaries in South Africa, rather than geographical boundaries, however we do continue to make good progress in Africa and other markets.

There are a few key principles that underpin our international strategy and the first is that we cannot replicate FirstRand overseas and we will therefore only expand the activities of those businesses within the Group that are of an "Olympic standard". This has meant that international expansion has been driven at business unit level and in many cases it is working well. However, many of these units are running very hard to capitalise on the growth opportunities within South Africa, so in order to provide momentum and support to their initiatives we have created a resource at the centre – the Africa and Emerging Markets Division.

Another key principle is that we would seek to establish joint ventures with partners who can provide brand credibility and distribution in chosen markets. Following its experiences with Destiny in the United States, Discovery has entered the UK with the Prudential who has a formidable presence in its markets and provides substantial benefits in terms of brand credibility and distribution muscle.

Our expansion into Africa remains conventional where appropriate and unconventional wherever possible.

In the category of unconventional we have made two investments. A commitment of $30 million to African International Financial Holdings ("AIFH"), a $96 million private equity fund which is focused on building retail banking networks, primarily acquired through privatisations in Africa; and the acquisition of Celpay, an embryonic cellphone payments operator in Zambia and the Democratic Republic of Congo (DRC).

AIFH is a private equity fund managed by WPA, Inc. and was formed in April 2003 to invest in the commercial banking sector in sub-Saharan Africa. This investment allows us to participate in the very attractive privatisation opportunities that arise in African countries that adopt strong economic reform programmes. FirstRand Bank's first right of refusal on the assets sold by the fund creates the opportunity to acquire, in time, direct control of good quality banking networks. In terms of our agreement we have a number of exit opportunities should AIFH be unable to find appropriate investments.

Celpay provides a mobile banking service between users, including the ability to make payments in real time via a cell phone, including airtime recharge. Celpay is functioning in two markets, Zambia and the DRC, and the service can be expanded in existing markets as well as new geographical markets in Africa and beyond.

In certain countries in Africa it is expected that technology will enable countries to leap-frog traditional payment methods. For example in the DRC there are approximately 20 000 active bank accounts but over two million cellphones. We made a small investment in Celpay, it is a start up operation and not yet profitable, however it is already doing in excess of 100 000 transactions a day.

Looking forward – structural or cyclical shift?

The question that everyone is asking in South Africa is whether the robust growth we are currently experiencing in our economy is cyclical or structural.

I believe that it is both, but overwhelmingly structural. Political and economic reform has delivered a continuation of the free market economy, increased competition across all sectors and fiscal discipline. Micro economic reform has increased social delivery and we have seen formal employment expanded.

There have been some cyclical windfalls. Firstly, we have experienced a commodity boom fuelled by demand from the hungry Asian tiger – China, and it could be said that this demand in itself has a strong structural component to it. The second cyclical factor is the strong capital inflows we experienced as an emerging market. Worldwide, emerging markets have become a more attractive asset class and once again there is a strong structural bias to what are essentially seen as cyclical capital inflows. The economic boom we are experiencing is, I think, based on very sound fundamentals.

We are in good shape – but some challenges ahead

The Group is definitely in good shape to face the future. We have a well-diversified earnings base that has been carefully assembled over a long period of time and this, combined with a benign operating environment, should allow us to continue to grow our top-line and increase market share.

We will continue to invest for the future across all our businesses in order to create new revenue sources and ensure the sustainability of our growth record. However we must also start to focus more rigorously on costs.

> It is in the DNA of this Group to acknowledge and reward revenue growth and we recognise that we need to apply the same vigour and enthusiasm to cost management.

However we must be careful not to cut into "muscle" at a time when the Group, across the board, is experiencing unprecedented growth.

Many of the Group's companies have increased their costs this year, but in most cases they have experienced good operational leverage and therefore "positive jaws" – growth comes at a price!

Having said that, there is no doubt that a structurally lower inflation environment means that we have to take cost out of the system. Management consultants recently identified certain areas within FNB where cost savings could be realised, specifically in areas such as capacity management and processing in the branches, operational processes in HomeLoans and central procurement. FNB has now embarked on a three-year plan to extract these cost savings and we expect to limit cost growth at FNB to single digits by 2007.

The other big challenge facing many of our businesses is rising consumerism and the need to provide value for money, and earlier in my report I covered some of the responses Momentum is pursuing in its market. Bank charges have also been in the press a great deal this year and this is a specific challenge for FNB. We strongly believe that FNB is one of the lowest, if not the lowest, cost provider in all the segments it services and has structured its fees to encourage customers to use less costly services.

The final challenge I would like to cover briefly is the entry of Barclays into the South African market – their arrival will certainly "lift the bar". We are, I stress, not in any way complacent about this increased level of competition and we have already been very busy analysing where we might be vulnerable. However I am confident that the different divisions in the Group will rise to the challenge and probably emerge better businesses than they already are.

Thank you

In his Chairman's Statement GT Ferreira has covered the recent management changes at FirstRand. This is my last year as CEO of the Group and I am looking forward to my new non-executive role as I feel it will provide me with the "mental space" to spend more time on the big ticket issues coming down the road.

I have enjoyed my seven years at the helm of FirstRand, it really is a very unique organisation, full of fantastic people with great ideas and boundless energy. I would like to firstly thank our shareholders for their long-term support and secondly I would like to say thank you to every single member of staff for providing seven years of superior growth and value creation for shareholders. I have been very proud to present the results of your efforts.

LL Dippenaar

Laurie Dippenaar
Chief Executive Officer
FirstRand Limited

Sandton
19 September 2005

> We have a well-diversified earnings base that has been carefully assembled over a long period of time and this, combined with a benign operating environment, should allow us to **continue to grow our top-line** and increase market share.

FIRSTRAND

The listed holding company

100% — FirstRand Bank Holdings Limited

Banking

- 100% » FirstRand Bank
  - First National Bank*
  - Rand Merchant Bank*
  - WesBank*
- 60% » FNB Namibia
- 100% » FNB Swaziland
- 70% » FNB Botswana
- 85% » RMB Private Equity
  - 49% » Ethos
  - 79% » RMB Corvest
  - 90% » RMB Ventures
- 48% » OUTsurance**
- 100% » First Link
- 100% » FirstRand International

100% — Momentum Group Limited

Insurance & Asset Management

- 100% » Momentum Group
  - FNB Life*
  - Momentum Life*
- 50% » Advantage Asset Managers
- 100% » Sovereign Health
- 70% » Lekana Employee Benefit Solutions
- 100% » FirstRand Asset Management
  - 100% » RMB Asset Management
  - 100% » RMB Properties
  - 40% » Futuregrowth
  - 87% » Ashburton
  - 100% » RMB Unit Trusts

64.7%** — Discovery Holdings Limited

Health & Insurance

- 100% » Discovery Health
- 100% » Discovery Life
- 100% » Vitality
- 98% » Destiny
- 50% » PruHealth

Group structure at 30 June 2005

* Divisions
** Effective shareholding

JOHAN BURGER | Chief Financial Officer

CFO'S REPORT

The Group's performance management strategy is a cornerstone of the Group's overall strategy and is closely aligned with operational and financial objectives.

Whilst recognising the Group's overall business philosophy which is to run a decentralised management structure with autonomous business units, certain principles are formulated at the centre, **designed to optimise performance and deliver superior and sustainable shareholder value.**

INTRODUCTION

This FirstRand Limited ("FirstRand") CFO's Report represents a high level overview of:

- The Group's performance management strategy, covering;
  - risk management strategy;
  - capital management strategy;
  - assessing performance;
- Excess capital and capital raising;
- The future impact of International Financial Reporting Standards (IFRS); and
- The Group's dividend policy.

Details pertaining to these issues where they specifically relate to the two wholly-owned subsidiaries of the Group namely FirstRand Bank Holdings ("the Banking Group") and Momentum Group Limited, and its 64.7% subsidiary Discovery Holdings Limited, can be found in the respective CFO reports on page 121 (Banking Group) page 228 (Momentum) and page 300 (Discovery) of the Annual Report.

FINANCIAL HIGHLIGHTS

The Group achieved excellent results for the year to June 30th 2005, and its performance in summary is:

R million	2005	2004	% growth
Headline earnings for the FirstRand Limited Group	**7 602**	5 763	32
Currency translation (gains)/losses on integrated foreign operations			
– Banking Group	**(264)**	370	
Headline earnings excluding impact of foreign currency translation	**7 338**	6 133	20
Cents			
Earnings per share (cents)			
Basic	**154.3**	110.0	40
Diluted	**151.2**	107.4	41
Headline earnings per share (cents)			
Basic	**146.2**	111.0	32
Diluted	**143.3**	108.4	32
Headline earnings excluding impact of foreign currency translation per share (cents)			
Basic	**141.1**	118.1	19
Diluted	**138.3**	115.3	20

The weighted average number of shares used to calculate earnings per share was determined as follows:

Million	2005	2004
Number of ordinary shares in issue	**5 613.6**	5 476.4
Less: Treasury shares held	**(426.2)**	(249.7)
Total	**5 187.4**	5 226.7
Number of ordinary shares in issue at beginning of year	**5 476.4**	5 460.3
Adjusted for:		
– Treasury shares	**(293.7)**	(268.2)
– Odd lot offer (less than 100 000)	**(–)**	–
– Conversion of "A" preference shares	**2.2**	–
– BEE transaction	**15.0**	–
Weighted average number of shares	**5 199.9**	**5 192.1**
Plus: Potential dilution relating to share options		
– "A" preference shares	**42.4**	62.1
– Share options	**64.1**	62.9
Diluted weighted average number of shares	**5 306.4**	**5 317.1**

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

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

GROUP PERFORMANCE MANAGEMENT STRATEGY

The Group's performance management strategy is a cornerstone of the Group's overall strategy and is closely aligned with operational and financial objectives. Whilst recognising the Group's overall business philosophy which is to run a decentralised management structure with autonomous business units, certain principles are formulated at the centre, designed to optimise performance and deliver superior and sustainable shareholder value.

One key area where these principles are applied is risk management which breaks down into the following components, (these are covered in more detail further in this report):

- Credit risk management;
- Interest rate management;
- Liquidity risk management;
- Market risk management; and
- Underwriting risk management.

Other key risks are covered fully in the Risk Reports of the Banking Group and Momentum. These include:

- Operational risk management;
- Insurance risk management;
- Business continuation and disaster recovery risk management;
- Legal risk management; and
- Compliance risk management.

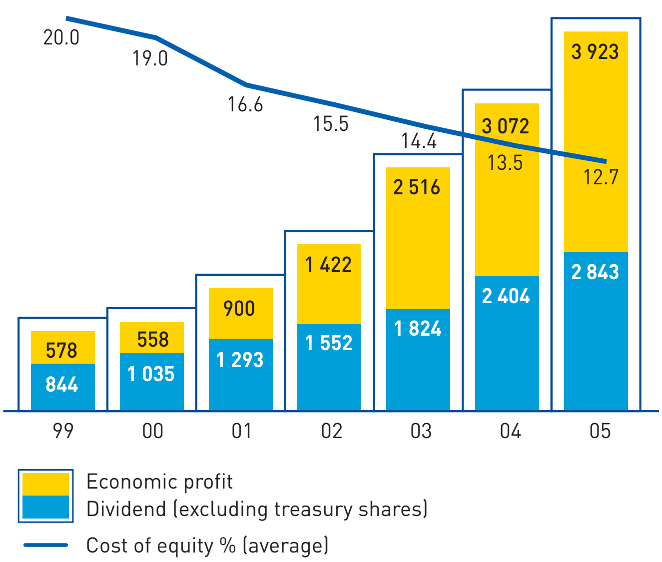
The second key area is Capital Management and on page 17 of this report is a detailed explanation of the Group's Capital Management strategy.

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

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

The table below illustrates the benefits of this approach:

Total shareholder value-add
(R million)
CAGR: 30%



Risk management

A successful business has to manage all its business risks effectively in order to achieve optimal performance, avoid adverse outcomes and prevent reputational damage. FirstRand's risk management philosophy has been inculcated throughout the organisation and the underlying businesses apply its key principles rigorously. Certain risks, which require specialist skills are managed at the centre.

FirstRand sees risk management as a critical tool to:

- identify strategic and operating business risks
- track that these risks are properly managed to yield a return commensurate with the risk, and correct shortcomings
- capitalise a business to match its risk profile in order to ensure its sustainability.

Credit risk

As credit risk represents 79% of the overall group risk profile it remains a critical area of focus. FirstRand believes it has very sophisticated rating methodologies and credit scoring models which are applied universally across all the businesses. This allows the Group to appropriately price for risk and put assets on the book of the quality required to generate adequate profits and achieve targeted return on equity.

The Group manages the credit exposure on its books as an active portfolio and this approach allows it to ensure an optimal credit risk profile.

Interest rate risk

The Group applies a similarly dynamic approach to interest rate risk which is managed in a specialist central department and the strategy is to protect the interest rate margin by way of interest rate hedges. In 2003 the Group identified the potential decline in interest rates and put certain interest rate hedges in place. To date the hedges have provided R1 billion protection to the endowment effect. These hedges will contribute additional income of R400 million over the next two years (R250 million in 2006 and R150 million in 2007) provided interest rates remain at current levels.

Since 1998 the Group has adopted Matched Maturity Funds Transfer Pricing to manage its interest rate risk. The mechanism of funds transfer pricing removes the hedgeable interest rate risk from the business unit and transfers it to the centre. This enables the centre to focus on the interest rate mismatch and allows the business units to focus on client and product profitability. The intention is that the business units should use the funds transfer price (being the cost of funds) as an input to their commercial pricing decisions.

Liquidity risk

The liquidity risk management framework aims to ensure that the Banking Group has sufficiently diversified funding sources to meet obligations when they fall due, as well as funding ongoing lending and trading activity under increasing levels of stress at a minimum acceptable level of cost.

The Group includes the liquidity risk cost in the Matched Maturity Funds Transfer mechanism which ensures that the business units are priced accordingly for the liquidity risk that is transferred to the Group's balance sheet.

Market risk

The Group manages market risk by means of stress loss limits which has resulted in market risk representing only 2% of the overall Group risk profile. The Group is positioned as an execution agent for clients in the financial and capital markets rather than a proprietary trader. For more detailed analysis of our market risk exposure, please refer to page 136 of the Annual Report.

Underwriting risk

Momentum proactively manages its underwriting risk by:

- conducting regular investigations into actual mortality and morbidity experience; and
- reinsuring non-standard risks and mortality risks above a defined retention limit.

The reinsurance is placed with a panel of treaty partners selected from the top local reinsurers. The cost of reinsurance is included in the product pricing.

Capital management

FirstRand has always adopted the philosophy of charging its business units for the use of capital. In 2001 the Group recognised that Basel II, the international framework for measurement and minimum capital standards (to be implemented globally in 2007) would provide sophisticated tools to further enhance this practice. As a result the Group has already fully incorporated a number of the principles applied by Basel II into its existing capital management strategy. This has not only allowed the Group to become more efficiently capitalised but it also means that the impact of full implementation of Basel II in South Africa, in 2008, will be minimal.

The overall framework for the management of the Group's capital base consists of three pillars as depicted in the diagram below: Active capital management is one of the five pillars in the growth strategy of FirstRand which is outlined in Laurie Dippenaar's CEO's Report.

Through the framework and its associated processes, Capital Management aims to enhance shareholder value. This is achieved through the proactive management of the level of capital, the investment of capital and the allocation of capital as indicated in the diagram below:

	Level of capital	Investment of capital	Allocation of capital
Objectives	• Minimise economic risk exposure • Optimise cost of capital through choice of capital instruments	• Investment capital base to maximise wealth within acceptable earnings at risk and economic risk	• Strategic decision making • Risk adjusted performance measurement • Pricing and reversing for expected and unexpected losses
Principles	• Internal capital adequacy assessment process • Capitalise at highest of economic capital or regulatory capital plus appropriate buffer	• Profile managed by specialist business unit • Rolling investment profile • Invest in Government assets or provide funds to funding pool	• Bottom-up calculation on risk adjusted basis • Credit, market, investment, interest rate, operational, insurance and other residual risks
Focus	**Capitalise in line with economic risk exposure of FirstRand**	**Invest capital to produce optimal risk adjusted return**	**Alignment of managers' and shareholders' interest**

The implementation of the above model within the three main operating subsidiaries is dealt with in the separate CFO's reports to be found on page 121 (Banking Group), page 228 (Momentum) and page 300 (Discovery). The chart below provides a snapshot of where the Group's capital is currently invested.

	Net asset value (including outside shareholders' interest)	FirstRand Limited net asset value	Outside shareholders' interest	Net long-term liabilities in FirstRand Limited
Ordinary shareholders' funds				
Banking Group	25 406	24 416	990	
Momentum	5 883	5 375	145	363
Discovery	3 275	1 496	1 155	624
	34 564	31 287	2 290	987
Consolidation of share trusts	(4 423)	(4 423)		
	30 141	26 864	2 290	987
Non-redeemable non-cumulative preference shareholders' funds				
Banking Group	3 000	3 000		
Share issue expenses	(8)	(8)		
	2 992	2 992		

Targeted capital ratio

The Banking Group's capital adequacy ratio overall was 11.8% (Tier 1: 8.8%). The capital adequacy target ranges for 2005/2006 for the Banking Group have been set at 11.5% to 12%.

During the year Momentum made a number of acquisitions, the detail of which can be found in Momentum's review of operations. The impact of these acquisitions on Momentum's Capital Adequacy Requirement (CAR) can be seen in the chart below.

Capital invested in Momentum's strategic acquisitions

	CAR cover
As at 30 June 2005	2.2x
Less: Sage	(0.6x)
Add: Aflife transactions	0.1x
Net	1.7x
Add: Non-cumulative non-redeemable preference shares	0.2x
	1.9x

This will result in the Momentum Group achieving their targeted CAR cover.

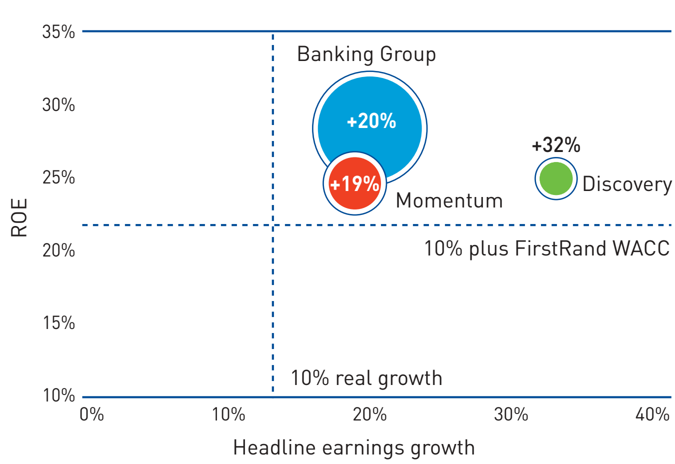
Assessing performance

The Group monitors the effectiveness of its performance management strategy using two financial targets:

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

Against these targets all three main operating subsidiaries operated in the top quadrant, delivering superior value for shareholders.

Financial targets met



The Group believes that its strong focus on capital management is reflected in the strong underlying shareholder value creation by the Banking Group as illustrated below:

ROE and economic value – the Banking Group*

	2005	2004
Return on assets*	**1.84**	1.67
	X	X
Gearing multiple	**15.0**	15.7
Return on equity	**27.6**	26.3
	–	–
Cost of equity	**12.7**	13.5
Shareholder value-add	**14.9**	12.8

** Based on headline earnings excluding impact of foreign currency translation*

EXCESS CAPITAL AND CAPITAL RAISING

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

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

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

In terms of the remaining R2.1 billion, FirstRand redeemed R400 million debt in the form of cumulative preference shares. In addition, due to the significant organic growth in asset backed advances in the second half of the year a further R1.2 billion was utilised. The resultant excess of R500 million will be used for a share buy-in programme as part of our strategy to grow shareholder value through active capital management.

IFRS

The Group will implement IFRS as from 1 July 2005. At this stage the Group cannot define the total impact of IFRS on its financial results but expects to provide full disclosure when it announces its results for the six months to December 2005.

DIVIDEND POLICY

Ordinary shareholder dividend

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

	R million
Headline earnings	7 602
Current translation gains on integrated operations	(264)
Headline earnings for dividend purposes	7 338

The Group will retain its dividend cover of 2.5 times headline earnings for dividend purposes, after taking into account the fact that Discovery Limited does not pay a dividend at this time. The dividend attributable to Discovery's headline earnings are paid proportionally by the Banking Group and Momentum. The Group believes 2.5 times is a sustainable dividend cover given the internal earnings generation capacity and organic growth of the businesses.

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

Johan Burger
Chief Financial Officer
FirstRand Limited

Sandton
19 September 2005

SEVEN-YEAR REVIEW for the year ended 30 June

R million	1999	2000	2001	2002	2003	2004	**2005**	Compound growth %
Balance sheet								
Total assets	202 064	222 791	271 430	374 766	393 674	424 867	**462 231**	14.8
Advances	93 718	102 667	123 343	175 161	188 112	208 874	**222 495**	15.5
Deposit and current accounts	115 391	117 559	141 460	201 404	215 637	219 061	**237 612**	12.8
Total equity	11 013	14 133	16 585	19 084	20 793	24 015	**29 856**	18.1
Assets under administration	255 412	303 683	373 452	473 094	488 242	529 085	**615 840**	15.8
Income statement								
Earnings attributable to ordinary shareholders	2 488	3 055	3 574	4 495	4 516	5 712	**8 023**	21.5
Headline earnings	2 482	2 946	3 689	4 734	4 847	5 763	**7 602**	20.5
Headline earnings excluding translation gains and losses	2 482	2 946	3 450	4 186	5 379	6 133	**7 338**	19.8
Return on average equity (%)	24.4	24.3	23.3	25.2	22.6	25.4	**26.7**	
Earnings per share (cents)								
– Basic	45.7	56.1	65.7	82.5	86.2	110.0	**154.3**	22.5
– Diluted	45.7	56.1	65.7	82.5	84.5	107.4	**151.2**	21.1
Headline earnings per share (cents)								
– Basic	45.6	54.1	67.7	86.9	92.5	111.0	**146.2**	21.4
– Diluted	45.6	54.1	67.7	86.9	90.7	108.4	**143.3**	21.0
Headline earnings excluding foreign translation losses (cents)								
– Basic	45.6	54.1	63.4	76.9	102.6	118.1	**141.1**	20.7
– Diluted	45.6	54.1	63.4	76.9	100.7	115.3	**138.3**	20.3
Dividend per ordinary share (cents)								
– Interim	7.50	9.00	11.25	13.50	16.50	19.25	**26.60**	23.5
– Final	8.00	10.00	12.50	15.00	18.50	26.75	**28.50**	23.6
Total	15.50	19.00	23.75	28.50	35.00	46.00	**55.10**	23.6
Perpetual preference dividend per share (cents)								
– February	–	–	–	–	–	–	**228**	
– August	–	–	–	–	–	–	**360**	
Net asset value per ordinary share	2.02	2.60	3.05	3.50	3.97	4.39	**5.32**	17.5
Shares in issue (million)	5 445.3	5 445.3	5 445.3	5 445.3	5 445.3	5 476.4	**5 613.6**	
Exchange rates								
Rand/US$								
– Closing	6.03	6.77	8.07	10.31	7.56	6.18	**6.67**	
– Average	5.95	6.40	7.42	9.19	8.89	6.77	**6.19**	
Rand/£								
– Closing	9.51	10.26	11.35	15.75	12.47	11.20	**11.96**	
– Average	9.63	9.88	10.81	14.81	14.12	11.83	**11.50**	
Balance sheet (USD)								
Total assets	33 509	32 896	33 647	36 349	52 089	68 747	**69 243**	12.9
Advances	15 541	15 159	15 289	16 989	24 890	33 798	**33 330**	13.6
Deposit and current accounts	19 136	17 358	17 535	19 534	28 532	35 447	**35 595**	10.9
Total equity	1 826	2 086	2 055	1 851	2 751	3 885	**4 473**	16.1
Assets under administration	42 357	44 841	46 293	45 886	64 602	85 605	**92 254**	
Income statement (USD)								
Earnings attributable to ordinary shareholders	418	477	482	489	508	844	**1 295**	20.7
Headline earnings	417	460	497	515	545	851	**1 227**	19.7
Headline earnings excluding translation gains and losses	417	460	465	456	605	905	**1 185**	19.0
Balance sheet (GBP)								
Total assets	21 258	21 716	23 912	23 801	31 563	37 933	**38 622**	10.5
Advances	9 859	10 007	10 866	11 124	15 082	18 650	**18 591**	11.1
Deposit and current accounts	12 139	11 459	12 462	12 791	17 289	19 560	**19 854**	8.5
Total equity	1 158	1 377	1 461	1 212	1 667	2 138	**2 495**	13.6
Assets under administration	26 871	29 602	32 900	30 046	39 146	47 235	**51 456**	
Income statement (GBP)								
Earnings attributable to ordinary shareholders	258	309	331	303	320	483	**698**	18.0
Headline earnings	258	298	341	320	343	487	**661**	17.0
Headline earnings excluding translation gains and losses	258	298	319	283	381	518	**638**	16.3

SOURCES OF PROFIT for the year ended 30 June

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

Note:

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

As one of the largest financial institutions in South Africa we have a very important role to play in building and developing our country

SUSTAINABILITY REPORTING

OUR PHILOSOPHY

FirstRand believes that the management of non-financial issues is integral to its business and key to sustainable performance.

As a holding company we do not have direct customers or a large complement of staff. Since its formation the Group's business philosophy has been to devolve responsibility and authority into the business units, and it is these units – most easily recognised by their brands – that have direct relationships with large numbers of employees and clients and whose operations impact on broader society and the natural environment.

During the year, and for the first time since its inception, we updated the FirstRand business philosophy to include an emphasis on the Group's broader role. The philosophy now requires business units to clearly understand and monitor social and environmental as well as cost and revenue implications of all actions, and states that for profits to be sustainable, the Group must be able to defend its markets against local and foreign players, and adapt to the changing social and environmental landscape. We expect our business units to address the issues relevant to them in line with this.

INCORPORATING NON-FINANCIAL ISSUES IN THIS ANNUAL REPORT

FirstRand's direct stakeholders, for whom these Annual Financial Statements are written, are shareholders, financial analysts and legal and regulatory bodies, including the JSE Limited. We must therefore meet their requirements for information regarding financial performance and corporate governance and a perspective on major economic trends in the markets in which the Group operates.

In previous years (last report covered year to June 2004) the Group produced a Sustainability Report separate to the Annual Financial Statements. However, in line with our new philosophy, this year the Group has decided to integrate the disclosure of key non-financial issues within the Annual Report.

Each brand, through the Review of Operations, discusses the performance of its business and its strategy for the coming year. Each brand has its own set of non-financial issues, as it serves different market segments with different products and is operating under distinct regulatory regimes. Therefore its sustainability performance criteria and stakeholders differ. To accommodate this, each brand has included an overview of key non-financial risks and opportunities.

THE NEW FORMAT FOR REPORTING

The level of detail required to provide a comprehensive report to all stakeholders cannot be accommodated in the FirstRand Annual Report alone.

Underlying the non-financial issues identified in this report is a significant amount of further detail regarding policies, practices, operations and results, which we believe is vital to make available at the brand level. We have therefore created detailed brand reports for the financial year, which are available on a dedicated website www.firstrandsusrep.co.za. This site can be accessed through the FirstRand website www.firstrand.co.za and all of the Group's brand sites.

The format on the site provides an opportunity to view the information by brand and by stakeholder groups and will provide a very comprehensive picture of the Group's approach to sustainability and the actions it has taken.

We do believe, given the size and complexity of the Group that this is a practical and useful format. We would welcome any feedback at the following web address www.firstrandsusrep.co.za.

SUSTAINABILITY INDICATORS

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

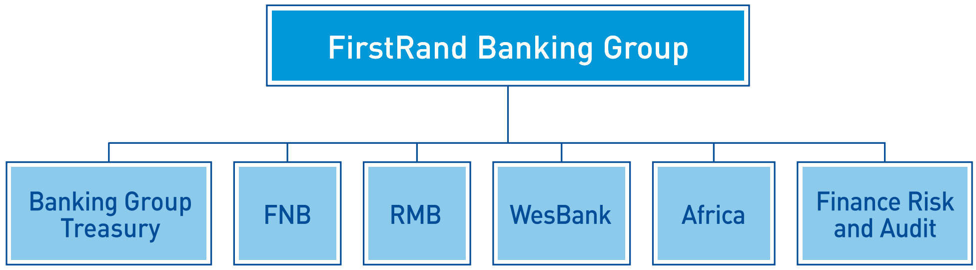
Topics and indicators	JSE SRI Criteria	King II	GRI #	FSC	FirstRand strategy	Where to find it	Page
Strategy							
Group strategy	x		1			Annual Report	6, 22
Structure including significant changes	x		2.14	x		Annual Report	5, 13
Sustainability reporting approach							
Philosophy	x		2.11 – 2.13; 2.17	x		Annual Report	22
Key non-financial risks and opportunities					x	Annual Report	32, 35, 38, 39, 41, 43, 47, 51
Corporate governance							
Corporate governance overview	x	x	3.1 – 3.8; 3.19; SO3;			Annual Report	60 – 65
Board composition			LA11			Annual Report	54 – 57
Regulatory environment	x	x	3.14			Annual Report	147
Compliance	x	x		x		Annual Report	63, 142
Risk management	x	x	3.17; SO1			Annual Report	16, 17, 127 – 142
Non-financial risk management	x		3.17	x		Annual Report	12, 237
Stakeholders							
Stakeholder list	x		2.9			Annual Report Website	22
Stakeholder engagement	x		3.9-3.12			Website	
Regulatory environment – brands	x		3.15			Website	
Our people							
Scope	x				x	Website	
Major Issues identified	x			x	x	Website	
Policies	x		HR1; HR2; HR5 – 7	x		Website	
Workforce breakdown	x		LA1; LA2; LA11	x		Website Annual Report	68
Transformation	x		LA10	x		Website	
Staff satisfaction	x					Website	
Staff consultation	x		LA3; LA4			Website	
Health and safety including HIV/AIDS	x		LA5;LA6; LA7; LA8			Website	
Training	x		LA9	x		Website	
Remuneration	x		EC5			Website Annual Report	66, 112 – 114
Supply chain							
Scope including total expenditure	x		EC3		x	Website	
Strategy	x			x	x	Website	
Policies	x		3.16; HR3	x		Website	
Supplier Satisfaction			3.9-3.12			Website	
Transformation	x			x		Website	
Environment							
Scope					x	Website	
Policies	x		3.14			Website	
Direct energy usage; initiatives	x		EN3			Website	
Reduce, recycle, reuse; initiatives	x		EN5;EN 11			Website	
Transport; initiatives	x		EN8			Website	
Community							
Scope					x	Website	
Major issues	x					Website	
Policies	x		3.14			Website	
Total contribution	x		EC10	x		Website	
Community satisfaction	x		3.9-3.12			Website	
Impact assessment	x				x	Website	
Customers							
Scope			EC2		x	Website	
Major issues	x		3.17; EN14; SO1	x		Website	
Policies	x		PR2; PR3; 3.14			Website	
Current performance	x			x		Website	
Distribution	x			x		Website	
Transformation	x			x		Website	
Customer satisfaction						Website	
Health and safety			PR1			Website	
Economic impact							
Statement of economic Value-added	x		EC5 – EC8; EC10			Annual Report	53
Financial performance	x		EC1			Annual Report	1, 78 – 82

PAUL HARRIS
CEO, FirstRand Banking Group

Banking Group

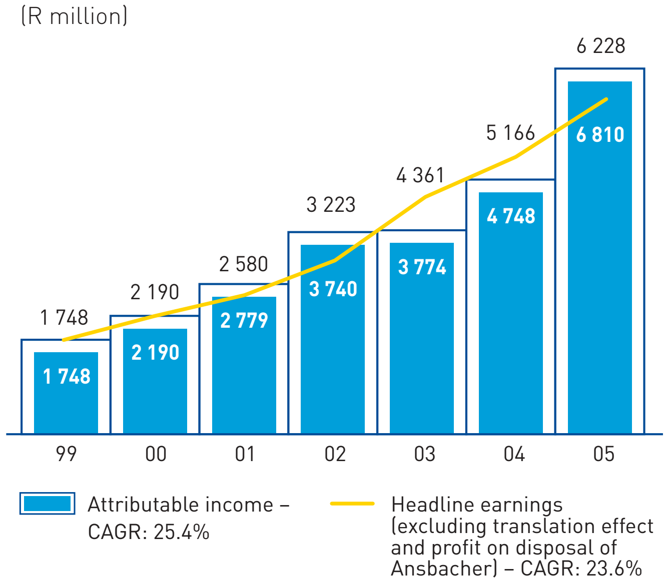
FIRSTRAND
Banking Group

The favourable economic environment provided strong organic opportunities for the Banking Group



The FirstRand Banking Group is a wholly-owned subsidiary of FirstRand Limited and represents 79% of the Group's profits. Within the Banking Group are the major banking businesses, namely Rand Merchant Bank (RMB) the investment bank, First National Bank (FNB) the retail and wholesale bank, WesBank – instalment finance, the African subsidiaries of FNB and the Group's treasury businesses. During the year to 30 June 2005 the Banking Group grew headline earnings by 35% to R6.5 billion.

Earnings performance
(R million)



EXECUTIVE COMMITTEE


1. P Harris


2. J Burger

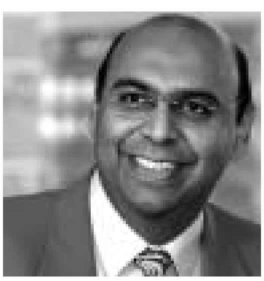

3. L Dippenaar


4. M Jordaan

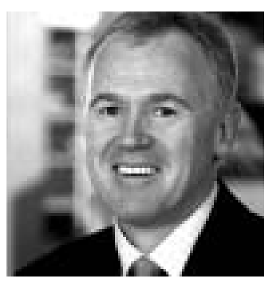

5. T Lategan


6. Z Manyathi


7. M Moatlhodi


8. Y Narsai


9. EB Nieuwoudt


10. M Pfaff


11. Z Roscherr


12. R Watson

1. **Paul Harris** | 55
   MCom
   CEO: FirstRand Banking Group
2. **Johan Burger** | 46
   BCom (Hons), CA (SA)
   CFO: FirstRand Banking Group
3. **Laurie Dippenaar** | 56
   MCom, CA (SA)
   CEO: FirstRand Limited
4. **Michael Jordaan** | 37
   MCom (Economics)
   PhD (Banking Supervision)
   CEO: First National Bank
5. **Theunie Lategan** | 48
   DCom; CA (SA)
   Advanced Diploma Banking
   FirstRand Banking Group Executive
   Appointed: Head of Africa and Emerging Markets with effect from 1 October 2005
6. **Zweli Manyathi** | 43
   Honours BCom (Financial Management) (Unisa)
   CEO: FNB Branch Banking
7. **Modise Moatlhodi** | 43
   BCom, MBA, CAIB (SA), CM (SA)
   CEO: Public Sector Banking
8. **Yatin Narsai** | 39
   BSc Hons
   CEO: FNB Smart Solutions & CIO
9. **EB Nieuwoudt** | 43
   MCom
   CEO: Africa and Emerging Markets
   Appointed: CEO Momentum wef 1 October 2005
10. **Michael Pfaff** | 43
    BCom, CA (SA), MBA
    CEO: Rand Merchant Bank
11. **Zelda Roscherr** | 38
    BSc (Maths), BCom Hons
    Group Treasurer
12. **Ronnie Watson** | 58
    AMP (Harvard)
    CEO: WesBank

MICHAEL JORDAAN
CEO, First National Bank

FNB

FNB's focus is on differentiation through innovation, investment in people and improvements in efficiencies

	2005	2004	% change
Profit before tax (Rm)	**4 135**	3 516	17.6
Profit after tax (Rm)	**2 915**	2 500	16.6
Advances (Rm)	**106 044**	84 167	26.0
Total deposits (Rm)	**118 517**	108 551	9.2
Cost to income ratio (%)	**66.8**	66.5	0.5
Non-performing loans (%)	**1.8**	2.6	(30.8)

During the year FNB merged FNB Corporate and FNB Retail and subsequently refocused its business along segment lines. For the purposes of consistency, a short financial and operational commentary based on the previous structure is provided below. Further on in this document is a financial and operational commentary per segment, which is how the business will be reviewed going forward.

Environment

FNB operated in a benign environment characterised by low inflation, low interest rates, rising consumer demand for credit and strong equity and property markets. Pressure on margins was experienced as a result of the lower interest rates.

Performance

R million	2005	2004	% change
FNB Retail	**2 422**	1 892	28.0
– Retail other	**2 127**	1 674	27.1
– Card Issuing	**295**	218	35.3
FNB HomeLoans	**464**	548	(15.3)
FNB Corporate	**1 139**	988	15.3
– Large Corporate	**510**	556	(8.3)
– Medium Corporate	**629**	432	45.6
Private Banking	**78**	60	30.0
FNB Trust Services	**32**	28	14.3
Total FNB	**4 135**	3 516	17.6

FNB Retail

FNB Retail produced another year of excellent results with profit before taxation increasing by 28% from R1 892 million to R2 422 million.

This was achieved despite low interest rates placing pressure on margins, and was the result of a strong increase in client numbers and volume growth.

Interest income grew by 12% during the year as result of strong growth in advances as well as deposits.

Non-interest income increased by 23% as a result of an increase in client numbers and higher transaction volumes. Average price increases were held below inflation for the year.

Advances grew by 17% due to focused sales activities, with credit card advances and personal loans (including micro loans) increasing by 32% and 17% respectively.

Bad debts and non-performing loans ("NPLs") remained low with NPLs at 3.7% of gross advances.

Retail deposits grew by 10% with the growth in this market driven by demand for short-term deposits, in particular overnight deposits, indicating the increased liquidity positions of customers.

Card Issuing had a successful year increasing its profits by 35%. The growth in new business is a result of the increased level of cross-selling to existing FNB and WesBank customers and the successful launch of the Discovery Card, all of which resulted in an increase in new customer accounts.

FNB Insurance achieved significant growth due to its strategy of adding enhanced insurance features to existing products. At June 2005, 1.5 million lives were insured, a growth of 19%.

First Link, FNB's short-term insurance broker, experienced a 20% growth in revenue and operating profit primarily resulting from an increased sales focus on its client base coupled with acquisitions made in the current year.

Internet banking achieved significant growth in customer numbers, volumes and values during the year under review and 375 000 customers were registered at 30 June 2005. **Transactions to the value of R112.7 billion were processed during the year** (2004: R78.9 billion), an increase of 43%.

FNB HomeLoans

FNB HomeLoans showed advances growth of 31%. The continued buoyant residential market and a customer retention strategy resulted in increased levels of new business as well as increased readvances payouts. Market share was gained from major competitors resulting in new business increasing by 91%. In June 2005, a record payout of R4.1 billion was achieved. Non-interest revenue increased by 37% mainly as a result of the increased volumes.

The current year's profit before tax decreased by 15% as a result of the current policy of expensing acquisition costs in the year incurred and margin compression resulting from competitor activity and the declining interest rates.

FNB Corporate

Large Corporate profit before tax decreased by 8%. Asset growth has become increasingly difficult in this market segment as a result of disintermediation, increased competition and low credit demand.

While the overall volumes in the international and cross border businesses increased, the strengthening of the Rand and its limited volatility had a negative impact on results.

Significant growth in the utilisation of electronic channels and the renewed focus placed on electronic banking resulted in volumes increasing by 26%.

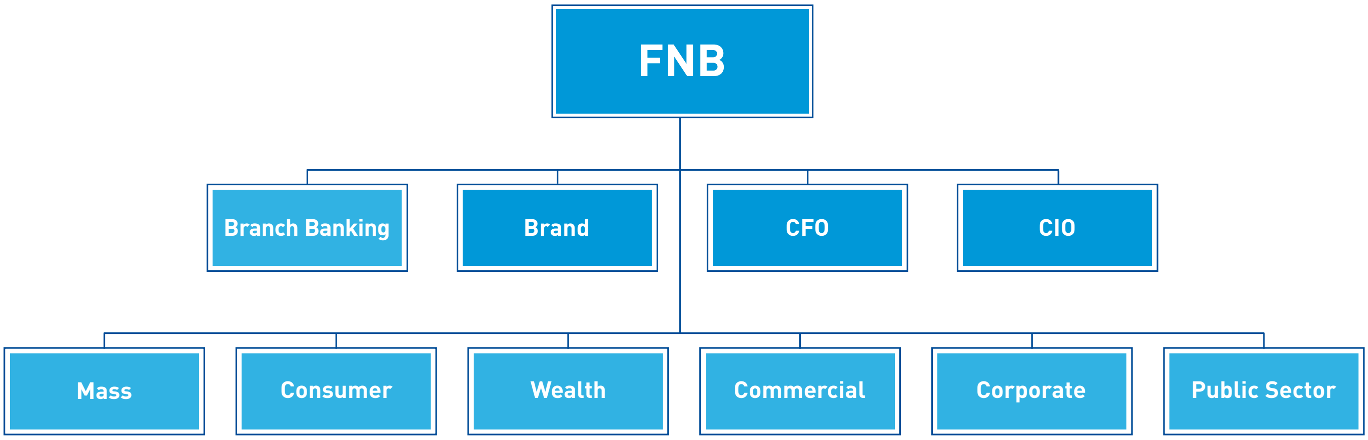
Mid Corporate performed exceptionally well in the period under review, with profit before tax increasing by 46%.

Strong focus was placed on credit extension and asset growth and various asset growth campaigns were launched, resulting in a 23% growth in advances. Deposit growth was also strong at 25%. A focus on niche market dominance has been identified as a key strategy combined with a streamlined credit and delivery model.

Private Banking (now Wealth)

Private Banking performed exceptionally well during the year with profit before tax increasing by 30% after investing to extend the Private Banking model to FNB clients in the Wealth segment. Advances and assets under management grew by 41% and 71% respectively.

FNB Trust Services delivered a solid performance with profit growth of 15%. Assets under management grew by 31%.



FNB's segment structure

Change of structure

In October 2004, FNB Retail and FNB Corporate were brought together under a single FNB brand. This decision was taken to better position FNB to:

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

As part of this realignment, FNB adopted a segment focus to the business and restructured along segment lines (as depicted in the chart above). The segment strategy is aimed at achieving a client-centric view in the way FNB conducts business. Over time this will evidence itself in a move from product silos to customer relationships as the driving force of FNB.

The focus is on differentiation through innovation, investment in people and improvements in efficiencies. Over and above this, each segment has its own identified strategy to achieve optimal customer relationships.

Since October FNB has been managed according to this structure and the remainder of this review is presented by segment. Going forward FNB will present its financial and operational performance on this basis and the 2005 financial performance by segment is indicated in the following table. HomeLoans and Card Issuing will continue to be disclosed separately.

R million	June 2005
Consumer segment	1 556
Personal banking	815
HomeLoans	446
Card Issuing	295
Wealth	104
Commercial	1 506
Corporate	536
FNB Other	433
Profit before tax	4 135

It is important to note that the numbers in this table should not be considered a "pure" indication of FNB's total penetration into each segment. There are some cases where revenue for clients within a defined segment is recognised in a different segment depending on the product segment categorisation.

It is likely that segmentation of clients will be revised on a continuous basis as the model refines. Notwithstanding this, the numbers disclosed above do provide an indication of the relative performance of each segment in the current year.

Consumer segment (Personal Banking)

Cheque products including overdrafts
Investment products
Card Issuing
HomeLoans
Personal Loans
eBucks

This segment focuses on the middle market (incomes ranging from R60 000 to R750 000 per annum) and includes HomeLoans (except for affordable housing and commercial property finance) and the entire Card Issuing product house.

This segment performed well. Non-interest revenue grew particularly strongly up 21%, as a result of growth in active cheque accounts of 9.5%, increased transactions per customer and NIR growth within HomeLoans of 32% and Card Issuing of 27%. Total advances grew 30% to R66 billion.

HomeLoans achieved excellent advances growth of 31% to R57.9 billion, excellent new business growth of 91% and an **increase** in its market share in new business to 20.8%.

This growth has been achieved through improved efficiencies, particularly turnaround processes, against a background of a buoyant property market. The costs associated with acquiring new business increased by 69% from R193 million to R327 million. This, combined with margin pressure, had a negative impact on profits which declined by 16%. The current accounting policy is to expense acquisition costs immediately, but under IFRS these costs will be spread over the life of the transaction.

Asian, Black and Coloured customers now account for 33% of HomeLoans' new business and 37% of the total HomeLoans book, both based on the number of accounts.

The run-off from the acquired NBS and Saambou books has slowed significantly and the credit quality of the book continues to be high.

The One Account, which currently has 3 200 customers, continued to perform ahead of expectations, with a total book of R1.3 billion, compared to R540 million at December 2004. Judging by the current rate of take-up in this product significant growth in the coming year is expected.

Card Issuing also had an excellent year, growing advances 32% to R6.8 billion. This performance was driven mainly by continued strong consumer spending with cardholder turnover increasing by 28% and customer numbers by 27%. The Discovery Card was launched in October 2004 and exceeded expectations with 200 000 cards issued by year end.

Another contributor to this performance was the Balance Transfer campaign (effective debt consolidation) which was rolled out to the Discovery Card base and experienced good take-up.

The Million-a-Month account, which was launched in January 2005 as part of the strategy to attract deposits, had a successful first six months with 155 000 accounts acquired.

Personal Loans increased its contribution and started to show healthy new business volumes towards the end of the year.

The eBucks rewards programme continued to perform well as a strategy to acquire and retain customers and, since inception, has awarded R490 million eBucks to its members. It was once again rated the best financial services rewards programme.

FNB expects this segment to perform well in the coming year given consumer activity. Continued strong take-up in the Discovery Card is anticipated as is strong advances growth in HomeLoans and Card Issuing. In addition, as part of its growth strategy, HomeLoans has launched a home loan offering through Discovery.

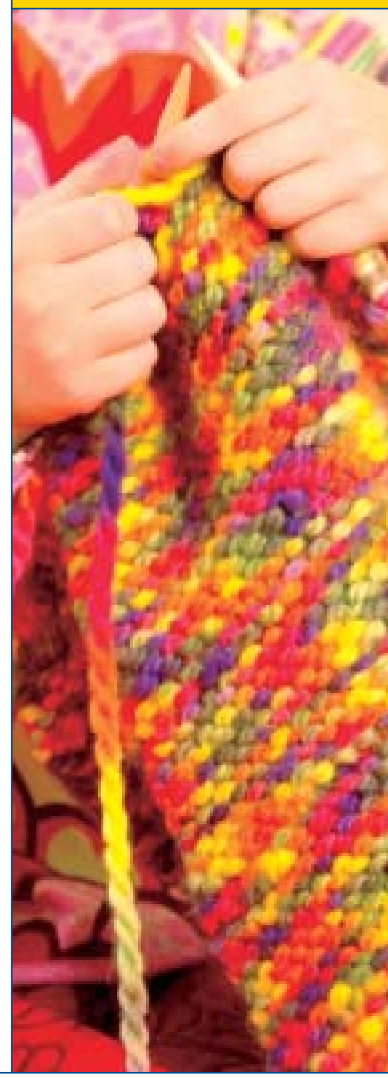
Wealth segment

RMB Private Bank
FNB Private Clients
FNB Trust Services

The Wealth segment focuses on high net worth and high income individuals. The key drivers of this segment's performance were strong growth in advances, non-interest revenue and assets under management.

Significant inroads have been made by RMB Private Bank into the structured lending market which resulted in advances growth of 41%.

Continued strong take up in the Discovery Card is anticipated as is strong advances growth in HomeLoans and Card Issuing



RMB Private Bank grew assets under management by 71%. A significant portion of this growth related to net new business inflows with the balance reflecting market value and investment performance growth.

This strong balance sheet growth enabled RMB Private Bank to grow its profits by 45%. FNB Trust Services grew its assets under management by 31%, as such the combined growth of the Wealth Segment's assets under management is 49%.

FNB Private Clients was launched in March 2005 with the first deals paid out in May. These customers are existing FNB clients that meet the criteria of a private bank, but have not been exposed to a private bank service model. The existing RMB Private Bank full service offering will be rolled out to this client base under the FNB Private Clients brand.

The focus for the year ahead is to increase the penetration of existing Wealth segment clients in FNB with the FNB Private Clients offering, while maintaining aggressive growth of non-FirstRand clients in RMB Private Bank.

Commercial segment

Mid Corporate
Business
Agriculture
Commercial Property Finance
Debtor Finance
FNB Enterprise Solutions

The Commercial segment was created through the merger of Mid Corporate from FNB Corporate and Business, SMMEs and Agriculture from FNB Retail.

The Mid Corporate segment continued to perform well, on the back of strong advances growth of 23%, deposit growth of 25%, non-interest revenue growth of 28% and a significant reduction in bad debts.

Collaboration between Mid Corporate and other parts of the Banking Group continued to be strong as indicated in the table below.

Mid Corporate	June 2005	June 2004	% change
WesBank (payouts) (Rm)	1 517	922	64.5
RMB Private Bank (new facilities) (Rm)	450	329	36.8
RMB Structured Finance (average assets) (Rm)	100	44	>100
RMB Property Finance (average assets) (Rm)	1 430	852	67.8

The Business segment continued to perform satisfactorily despite an historic lack of focus on this segment. The strategy is to apply certain of the Mid Corporate initiatives to this customer base, including a segment focused value chain to customers. Strong growth is expected going forward.

Initiatives include offering support to SMEs in terms of business management skills and creating a forum for business people to engage and a focus on franchise businesses.

eBucks for Business was launched in June 2005 with 3 700 clients enrolled in the first month which was well ahead of expectations. It is expected that this initiative will drive both customer base growth and assist in client retention.

The Agriculture segment maintained its dominant 33% market share in the year. Steady asset growth was accompanied by an increase in bad debts relating particularly to maize farmers who were negatively impacted by the stronger Rand, low maize price and continued oversupply due to bumper crops. The overall quality of the Agricultural book however remains sound.

FNB Enterprise Solutions (FES) offers specialised financing solutions for start-ups. These solutions include acquisitions of existing businesses, management buy-outs (MBOs) or buy-ins (MBIs), particularly focused on BEE transactions.

The 2005 financial year was FESs first year of operation. Five regional offices were established during the course of the year and a strong team of specialist dealmakers deployed. Approximately R120 million was advanced with start-ups and franchises constituting over 30% of the portfolio, expansion funding 30% and acquisitions, MBOs and MBIs the remaining 40%. FESs production for 2006 is projected to increase significantly.

In addition to its mainstream business, FNB increased its commitment from R10 million to R240 million to the Progress Fund, a private-public partnership with the Umsobomvu Youth Fund to promote access to finance for black youth empowered businesses. R35 million of transactions have been approved to date and it is envisaged that 200 businesses will receive Progress Fund financing over the next five years.

FNB also committed R5 million to the R50 million Enablis Khula Loan Fund, an innovative new fund in partnership with Khula Enterprise Finance and the Canadian based Enablis Entrepreneurial Network to promote the Information and Communications Technology (ICT) sector in South Africa.

Commercial Property Finance made significant progress in 2005, its first year as part of the Commercial segment. Its advances more than doubled in this year, and Commercial Property Finance remains a key focus for this segment and strong growth is expected.

Corporate segment

Large Corporate Transactional Banking
Associated Working Capital Solutions
Speedpoint

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

Asset growth in the Large Corporate segment continues to be very subdued. This resulted in a reduction in gross interest income of 10%.

Non-interest revenue in the large corporate segment grew by 10% as a result of increased transactional volumes across both the electronic banking and merchant acquiring environment. With the growing utilisation of electronic channels and a focus on product development, the electronic banking platforms continued to receive attention, with specific focus on the integration of product offerings.

Speedpoint, the merchant acquiring business, performed well due to significant revenue growth from new client acquisition, and maintained its leading market position.

The Corporate segment's collaboration with WesBank remained strong with the payout increasing from R1 100 million to R1 300 million, a growth of 18%.

Transactional banking is seen as the major growth area for this market segment and FNB is developing best-of-breed electronic capabilities to offer a full transactional banking solution which includes electronic banking, merchant acquiring (cash and card) and international banking. This approach to transactional banking positions FNB well to contend with any international challenges. A continued cost reduction focus will remain, whilst it is envisaged that a newly implemented sales model will deliver significant non-interest revenue growth.

FNB Other

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

Mass (Smart Solutions)

Smart accounts (includes Smart savings and transmission and Mzanzi accounts)
Micro loans
Mini-ATM's
Cellphone Banking
Housing Finance
Prepaid products
Credit Life

This segment focuses on individuals earning less than R60 000 per annum and is principally serviced by the FNB Smart products and services. In addition, this segment focuses on innovation, particularly where technology can provide convenience and cost efficiency, as this customer base particularly requires cheaper delivery channels.

The segment performed well during the financial year and the main driver of this performance was the strong growth in non-interest revenue, which increased by 22%.

This in turn was driven by growth in sales of Smart accounts of 24%, debit card transaction growth of 122%, strong growth in the ATM channel and pre-paid's airtime turnover growth of 90% across all channels.

The ATM channel continued to perform well. This was due to the continued roll-out of the mini ATMs which contributed to an increase in market share of Saswitch transactions, and the successful migration of customers to more cost efficient channels. The number of ATMs increased by 300 to 2 405 (including mini ATMs) while mini ATMs increased by 162 to 1 313.

During the year FNB launched cellphone banking and by August 2005 had over 100 000 customers.

This initiative is still in a start-up phase and required a significant investment, with the benefits only expected to materialise in the medium term. Good market share growth is expected as customers move to this channel as it provides convenience and cost efficiencies.

FNB has always recognised the importance of the lower income market and is pursuing a lending strategy in this segment which, although coming off a low base, has grown strongly. Smart Loans (micro-loans) achieved record sales with total payout growth in excess of 100%. The launch of the industry-wide Mzanzi account resulted in FNB having a current take-up of approximately 21% of the total bank market.

FNB believes that there are still more growth opportunities in this market that have not yet been fully explored. These include further asset growth, micro-loans and short-term insurance. More growth is also expected from prepaid.

FNB is developing best of breed electronic capabilities to offer a full transactional banking solution to the corporate segment

Public Sector segment

The focus of the Public Sector segment is on the three spheres of Government; namely, national, provincial and local. Customers also include universities and schools.

FNB's increased focus on this segment resulted in a number of large tenders being won.

The priority in the next financial year will be on local government in line with Government's own focus on service delivery.

Branch Banking

During the year Branch Banking embarked on a programme to further improve and enhance the branch infrastructure. The main elements of this programme include:

- repositioning of branches in line with demographic shifts and new nodes that are emerging. This resulted in a net increase of 33 branches, increasing the network size to 667, with 19% of the coverage in previously disadvantaged areas, including 22 community banks;
- improving the retail design of the branches to create easier customer navigation. 121 branches were revamped in the current financial year with a further 53 branches planned for 2006;
- creating specialised sales and service platforms within the branches;
- upskilling all branch frontline staff; and
- optimising processes to ensure that over-the-counter service delivery is faster.

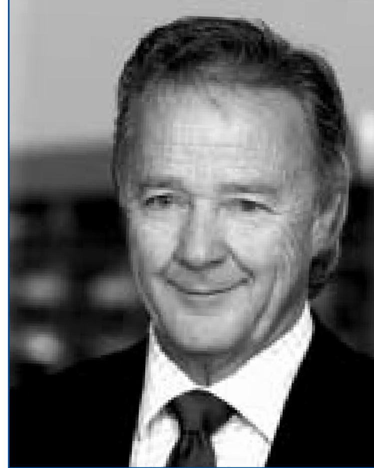
Branch Banking is strengthening its sales force by increasing the number of dedicated in-branch sales people. In addition a new mobile sales team is being established to focus on customer acquisition and cross sell in the middle market segment and this team will be remunerated based on performance. In order to ensure that this sales team does not oversell to customers there is a post-sales audit to check appropriateness of products sold and customer affordability.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Financial Sector Charter: employment equity targets at senior levels	Strategic HR interventions; close monitoring of market conditions.
Potential changes to FSC targets codes of best practice	Engagement with negotiation process via Banking Council.
Value for money to customers; Government probe into bank pricing	Raising awareness of customers about charging structures and how to maximise value.
Increased regulation: National Credit Bill	Engagement with legislative process via Banking Council.

	2005	2004	% change
Profit before tax (Rm)	**1 404**	1 049	33.8
Profit after tax (Rm)	**1 007**	760	32.8
Advances (Rm)	**63 318**	49 034	29.1
Cost to income ratio (%)	**46.8**	48.8	(4.3)
Non-performing loans (%)	**0.85**	0.81	7.4



RONNIE WATSON
CEO, WesBank

WesBank

WesBank
A division of FirstRand Bank Ltd.

WesBank had an exceptionally good year with earnings increasing by 33.8%, continuing an extended period of sustained profit growth

Environment

The retail industry over the period was one of increased consumer confidence with high volumes of activity. Growth is expected to continue into the future in line with the economic outlook and new entrants in the market place. Vehicle pricing has remained fairly static throughout the financial year. Gross domestic fixed investment is providing stimulus for capital investment in the corporate market. The market remains highly competitive with pricing pressures playing a major role.

Main focus areas in 2004/2005

International expansion has been an area of major focus with the establishment of WesBank's retail motor finance business in Australia, branded Motor One Finance. Support of the company's partners involved in business in sub-Saharan Africa was also initiated during the year.

WesBank has established relationships with several new partners in the motor industry, as well as with key players in the corporate market. This further enhanced the delivery of point-of-sale service to customers.

Process efficiency and innovation has driven major productivity improvements during the past year. Consolidation of functions, in addition to automation efficiencies and the introduction of "First Call Resolution", have provided a greater degree of process streamlining, improved customer service and more economic collection of payments.

The introduction of performance-linked remuneration has also shown a positive productivity improvement in both the marketing environment and the customer relationship arena, where this form of remuneration is less typical.

There has been a major focus on the Financial Sector Charter and significant progress was made on both the Employment Equity and Procurement components. BEE procurement now exceeds 40%, and continues to increase.

Offerings to motor dealers have been continuously enhanced, providing dealers with alternative and incremental revenue opportunities in various motor-related value-added products and consolidating WesBank's position as the "Dealer Bank". New asset finance packages have also been offered into the corporate market.

Performance

WesBank had an exceptionally good year with earnings increasing by 33.8%, continuing an extended period of sustained profit growth.

Growth was driven by increases in new business volumes and market share. New business written was R39.6 billion, an increase of 31.6%, with the milestone of R4 billion new business written during the month of June.

Advances increased by R14.8 billion, (29.1%), as a result of the high new business growth.

Bad debts were 0.56% and non-performing loans 0.85% of gross advances. These figures are consistent with the prior year due to the prevailing low interest rates and low levels of arrears, coupled with advanced credit assessment and collection activities. The introduction of economic (or differential) collections has resulted in certain categories of arrears deteriorating, but this has not resulted in increased bad debt write-offs.

Margins declined to 3.61% from 3.83% due to competitive pressure on customer rates, compression of short-term funding rates, the run down of the existing fixed-rate book and lower levels of early settlement.

Non-interest revenue increased by 34.2%. This growth is as a result of the high new business volumes, greater penetration of insurance products and an increase in the customer base within WesBank Auto.

Costs increased by 15.1% (against business growth of 31.6%). Internal efficiency initiatives have led to improved cost ratios, with cost to assets reducing from 2.72% to 2.57% (a 5.5% improvement).

On a divisional basis, Motor, Corporate, Fleet and Personal Loans increased new business by 29.5%, 20.3%, 54.0% and 111.5% respectively.

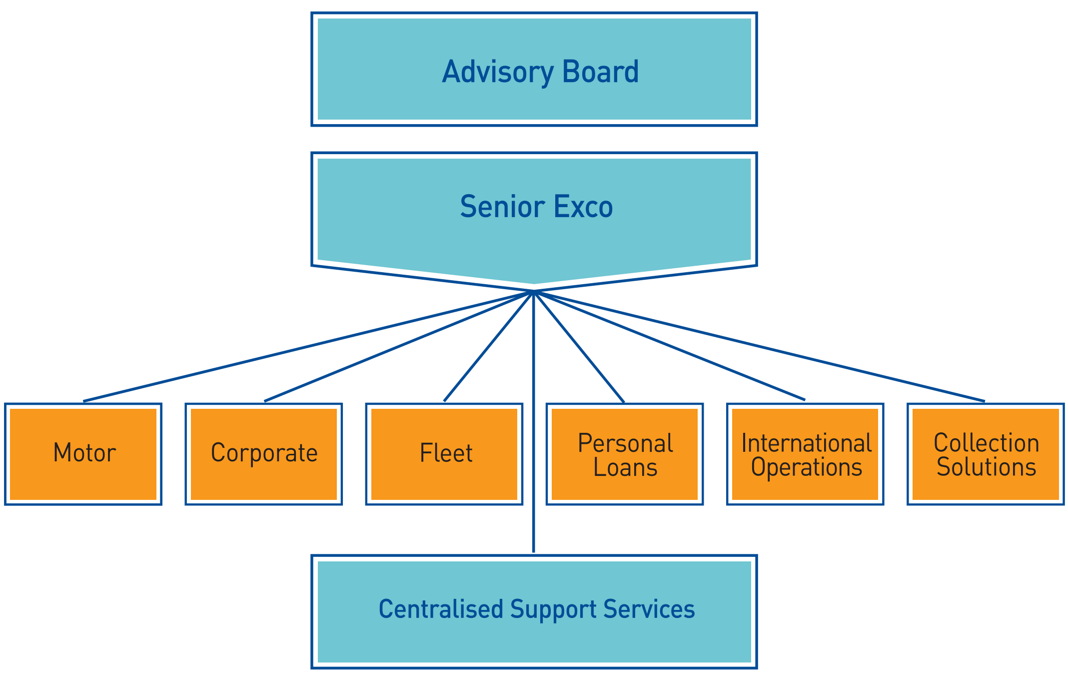
Personal Loans benefited from higher consumer debt appetite and aggressive marketing to the middle market customer base.

The combination of WorldMark Australia, which was purchased in the previous financial year, and Motor One Finance, the start-up retail finance operation, contributed R19 million to pre-tax profit. In addition, Motor One Finance concluded a joint venture with Porsche Financial Services in Australia.

Management structure

WesBank manages its business through one Senior Executive team ("Exco"), reporting into an Advisory Board, well represented with non-executive directors. WesBank is structured into six major business units as shown in the chart below, each one operating independently through individual Exco structures.

International expansion has been an area of major focus with the establishment of WesBank's retail motor finance business in Australia



Areas of focus for 2006

- Growth through increased partnerships, improved market share and continued enhancement of dealer offerings;
- Exploration into international partnership opportunities will continue to be aggressively explored – the ability to offer a unique service offering and the ability to leverage off the South African infrastructure being the main drivers for expansion;
- The SANTACO joint venture has been established and is expected to gain considerable momentum as the taxi recapitalisation programme is rolled out;
- Great opportunities exist to expand a presence in the corporate market, through industry/sector focus with innovative products and new strategic alliances with major distributors, suppliers and manufacturers;
- Further efficiency and productivity improvements are also a major focus area. Opportunities still exist to further enhance cost efficiency in the administrative centres, as well as those opportunities offered by international expansion. The continued roll-out of the debtors' system brings with it additional efficiencies, and the expansion of performance linked remuneration is also expected to provide benefits to cost ratios;
- The growth of the existing personal loans business and expansion into innovative new sales channels, make the loans market a further focus area; and
- The run up to 2010 will generate various opportunities within the corporate and SME markets, which WesBank is well positioned to take advantage of.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Meeting Charter targets specifically for BEE at middle management levels	Programmes focusing on recruiting suitable candidates into the front line, and other areas of the business.
Impact of shift in legislative environment for credit	Cooperating with the auto sector and financial sector to engage on key issues relating to access to credit.
Customer impact of poor road and vehicle safety	Proactive stance and close collaboration with SANTACO on taxi recapitalisation. Contribution towards a taxi driving academy.
Long-term environmental impact of vehicle emissions	Promoting idea of "environmentally friendly" car of the year with motor industry.

The run up to 2010 will generate various opportunities within **the corporate** and SME markets, where WesBank is well positioned

MIKE PFAFF
CEO, Rand Merchant Bank

Rand Merchant Bank

RAND MERCHANT BANK
A division of FirstRand Bank Limited

RMB fired on all cylinders in 2005 to produce an outstanding set of results growing net income before tax by 33% to R1.9 billion

	2005	2004	% change
RMB – profit before tax (Rm)	1 901	1 426	33.3
Affordable Housing – profit before tax (Rm)	–	16	(100.0)
Total Merchant Bank – profit before tax (Rm)	1 901	1 442	31.8
Profit after tax (Rm)	1 371	1 081	26.8
Total assets (Rm)	101 346	109 047	(7.0)
Cost to income ratio	25.2%	25.2%	0

Environment

The environment was generally conducive to favourable investment banking results. The equity businesses in particular benefited from operating in a "sweet spot" due to a combination of low interest rates, increased business confidence, strong equity markets and high levels of BEE activity.

The debt businesses also benefited from high levels of business confidence and BEE activity but were impacted by declining margins in a lower interest rate environment, reduced borrowing requirements by cash flush corporates, continuing development of debt capital markets, and slow roll-out of infrastructure spending. Despite these challenges the debt businesses produced good growth on the prior year performance.

Divisional contribution
2005

Private Equity	30%
Structured Finance	21%
Treasury Trading	13%
Equity Trading	13%
Corporate Finance	8%
SPJ International	6%
Project Finance	5%
Other	4%

Performance

RMB fired on all cylinders in 2005 to produce an outstanding set of results growing net income before tax by 33% to R1.9 billion (2004: R1.43 billion). This growth is largely attributable to a very strong performance by the equity businesses, which have produced increasingly significant contributions to overall performance as a result of an increased focus which started a few years ago.

Private Equity produced a record performance. Lower interest rates impacted favourably on highly geared private equity investments and this, together with strong equity markets, also provided a favourable climate for realisations.

High levels of BEE activity created good investment deal flow and, despite the realisations, both the book value of private equity investments and unrealised profits increased over the prior year.

Equity Trading produced exceptional results. Corporate arbitrage, structuring and broking activities were the primary contributors to performance. The division has experienced early successes in building an offshore trading business based on well developed value analysis skills and the creation of an international network through a number of small investments and joint ventures.

Corporate Finance produced a balanced performance comfortably exceeding its prior year results. Fee income was a significant contributor, mainly driven by BEE activity. Investment and financing activities also contributed strongly. During the year the division entered into various alliances with international partners that will facilitate participation in international M&A transactions going forward.

Structured Finance has repositioned itself over the past few years as a credit specialist providing value-added debt solutions. This strategy has enabled the division to show strong earnings growth over the prior year and ensured that RMB retained its rating as the No. 1 debt house in South Africa. During the year the FirstRand Banking Group's fragmented activities in the larger commercial and industrial property finance area were merged under the management of Structured Finance with a view to improving RMBs competitive standing in this market.

In spite of difficult market conditions, Project Finance managed to exceed its prior year performance. During the year the soft and hard commodity trading activities merged with Project Finance and it is expected that significant value will be extracted from the combined resources and expertise of these teams. This will provide a platform for investment in relationships, origination capability and jurisdictional knowledge in Africa and leaves the division well placed for the anticipated infrastructure development "explosion" in South Africa and sub-Saharan Africa.

Treasury produced a strong performance founded predominantly on successful trading activities in the interest rate and debt capital markets.

SPJ International capitalised on tighter credit spreads to significantly reduce credit concentrations in both the high yield corporate and sovereign credit portfolios. The business is now well positioned to exploit opportunities in the credit markets.

Strategic initiatives

RMB operates with extensive divisional independence and provides an environment in which superior product innovation, specialisation and accountability for divisional performance thrives. To support this divisional focus, RMB commenced with a number of strategic bank-wide initiatives. These initiatives can be grouped along the following lines:

Refurbishment of the operating platform

A number of initiatives are being undertaken aimed at creating a robust, scalable and efficient operational infrastructure within RMB. This is essential to:

- effectively respond to the challenges of an increasingly intensive regulatory environment;
- provide a sound base for future growth;
- minimise operational and reputational risk; and
- ensure business units are still able to quickly respond to market opportunities.

Morgan Stanley JV

During the year RMB announced its intention to enter into a joint venture with Morgan Stanley utilising the existing platform and infrastructure of RMB Stockbroking. The JV will provide RMB and its clients access to Morgan Stanley's research and international distribution capability.

Achieving more customer focus and improving client relationships

During the year RMB took a number of steps to strengthen its client relationships.

The constitution of the Strategic Marketing Board will ensure a more specific focus on clients and elevate the importance of client relationships. It is expected that this new client focus, leveraging off RMBs proven product capabilities, will help sustain profitability in the years ahead.

Restructuring of the RMB management board (Manbo)

To facilitate these and other initiatives during the year Manbo was restructured into three separately focused boards as shown at the top of the next page.

This new management board structure should provide the necessary impetus and leadership to drive the strategic initiatives discussed above and to support the highly successful federal business model.

RMB operates with extensive divisional independence and provides an environment in which superior product innovation, specialisation and accountability for divisional performance thrives

New management board structure

Offshore strategy

RMB actively pursues opportunities to participate in international capital markets but only where able to effectively leverage its offshore capital base through:

- applying skills proven in the domestic markets to international opportunities;
- using innovative funding structures; and
- developing strategic relationships which provide meaningful insights into relevant markets and opportunities.

RMBs major current offshore activities include:

- a private equity business in Australia;
- a trading business based in the United Kingdom (principally in the equity and credit markets);
- a structured trade and commodity finance business based in the United Kingdom;
- a resources business represented in Australia, the United States and the United Kingdom; and
- project finance activities in Africa.

Competitive landscape

RMB is well positioned in the market, evidenced by its ratings in the 2005 PricewaterhouseCoopers peer review. The introduction of a stronger client focus, leveraging off proven product capabilities, should strengthen its competitive standing and enhance the status of the brand as the leading investment bank in SA.

While cognisant of increasing international competition, RMB is confident of its ability to continually enhance its intellectual capital base and effectively deal with evolving competitive threats.

Non-financial opportunities and risks

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

Awards

In 2005, RMB topped the PricewaterhouseCoopers annual survey of financial institutions in five key areas of investment banking – structured finance, mergers and acquisitions, black economic empowerment (BEE) deals, listings and private equity.

In addition, with a record R42 billion of mergers and acquisitions concluded during 2004, RMB was rated the top Investment Adviser in the 2005 Ernst & Young review of mergers and acquisitions activity, and the top Merchant Bank in mergers and acquisitions by DealMakers magazine.

In September 2005 RMB achieved third position and won the financial services category in the Deloitte's Best Company to Work For survey.

LOUIS VAN DER MERWE
CEO, RMB Asset Management

RMB Asset Management

RMB ASSET MANAGEMENT

	2005	2004	% change
Profit before tax (Rm)	**234**	151	55.0
Profit after tax (Rm)	**179**	115	55.7
Assets under management (Rm)	**162 868**	138 028	18.0
Cost to fee income ratio (%)	**38.0**	43.6	5.6

Environment

A strong equity market during 2005 together with a low inflationary environment compensated for the challenges of a generally mature industry and current low savings culture.

Main focus areas in 2005

- The development of the retail business with emphasis on growing assets under management was very successful;
- The institutional third party business performed in line with expectations with an emphasis on higher yielding assets; and
- Investment performance as measured over a three year period remains excellent.

Performance

After a period of consolidation and realignment with core business strategy during the previous two years, RMBAM was well positioned for strong growth in operating profits. Assisted by strong market returns and the elimination of non-recurring losses which hampered profits in the previous two years, growth in net profit after tax of 55.7% was achieved.

Growth in funds under management is summarised in the table below.

Areas of focus for 2006

- Continue building the retail presence in the market;
- Investigate economically viable businesses in sub-Saharan Africa;
- Expand the current product range; and
- Investigate efficiencies of internal structures to streamline the current business model.

After a period of consolidation and realignment with core business strategy during the previous two years, RMBAM was well positioned for strong growth in operating profits

R million	Institutional	Unit trusts
Funds under management – 1 July 2004	129 943	7 307
Funds under management – 30 June 2005	150 300	11 988
Growth for the year	15.7%	64.1%

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Mandate compliance	Appointed a dedicated Mandate Compliance Officer and an alternate who report to the head of the Portfolio Construction department. An automated compliance system was installed.
Regulatory compliance	Established a Regulatory Compliance Department, an independent function, reporting directly to the Chief Executive Officer.
Responsiveness to shareholder activism	Established a Corporate Action and Proxy Vote Department and rigorous proxy voting procedures. Formal policy document written. Direct engagement with company management. Full support of King II.

EB NIEUWOUDT
CEO, Africa and Emerging Markets

FirstRand Africa & Emerging Markets

The growth in profitability was driven mainly by the largest subsidiaries, FNB Botswana and FNB Namibia

	2005	2004	% change
Profit before tax of operating activities (Rm)	**653**	567	16.6
Operating cost of emerging market development activities (Rm)	**(7)**	–	–
Profit before tax (Rm)	**646**	567	13.9
Profit after tax (Rm)	**475**	421	12.8
Attributable earnings (Rm)	**313**	288	8.7
Advances (Rm)	**10 671**	9 462	12.8
Total deposits (Rm)	**9 920**	8 857	12.0
Cost to income ratio (%)	**48.5**	49.7	(1.4)
Non-performing loans gross advances (%)	**2.7**	4.0	(32.5)

FNB AFRICA

Environment

Economic conditions were characterised by moderate growth, sluggish domestic demand and a general slow-down in exports across the countries where the Group has exposure. This was due to the strength of the Rand, which had a strong influence on these markets.

Additionally, a low interest rate environment prevailed in Lesotho, Namibia and Swaziland, placing pressure on interest margins.

Main focus areas in 2005

Across all the African subsidiaries the focus has been on:

- service delivery and sales to increase volumes and resultant transactional business;
- electronic delivery platforms to support the new business drivers with value-added offerings such as InContact and cross-border functionality being well received; and
- the introduction of appropriate technology to create efficiencies and cost control initiatives, this continues to be critical for further growth opportunities.

Performance

The growth in profitability was driven mainly by the largest subsidiaries, FNB Botswana and FNB Namibia.

FNB Botswana

The business continued to perform well with profit before tax increasing by 22% to P248 million. In Rand terms, profit growth was 9%, negatively influenced by the weakening of the Pula against the Rand.

Advances grew by 21% as a result of a focus on good quality corporate lending, supported by a strong electronic delivery platform.

This, together with growth in deposits of 5%, had the effect of increasing net interest income by 8%.

Non-interest income grew 23%, with transactional income and treasury forex income being the main drivers behind this increase.

Through strict cost control, operating costs increased by 7%, in line with the average inflation rate for the year. This, together with the increase in net interest income and non-interest income, resulted in the bank achieving an excellent 38% cost to income ratio.

FNB Namibia

Two years after the Swabou merger, the expected benefits are now emerging and income before tax grew by 26% to N$310 million following a flat performance the previous year.

The main synergies of the merger occurred in the HomeLoans business and in Swabou Life, with embedded value increasing by 36%. Costs were well controlled and grew by an inflationary 5%.

Despite the decreasing interest rate environment, net interest income increased by 9%, due to the growth in advances of 15%, predominantly driven by HomeLoans and WesBank, both of which are market leaders in Namibia.

Non-interest income grew by 18% (excluding the sale of property of N$6 million) due to increased volumes from growth in new accounts.

The BEE transaction, which was announced during the year (4% BEE consortium and 1% BEE staff initiative) will dilute the FirstRand Banking Group's 60% shareholding over five years due to the option structure.

FNB Swaziland

Business conditions remained challenging as a result of the depressed state of the economy.

Swaziland performed below expectations as a result of pressure on interest income as well as an increase in bad debt provisioning. The latter was due to the sale of a poorly performing micro finance book which required intensive management attention and an increase in specific provisions due to the depressed state of the economy. However, non-interest income grew 18% as a result of new business growth and increased transactional volumes, supported by the electronic delivery platform.

FNB Lesotho

Lesotho's first year of operation exceeded the original business plan with a lower than expected required investment in the start-up of the business. The main drivers of the business have been growth in the deposit base as well as transactional banking revenue.

Growth in advances has been somewhat disappointing due to limited quality lending opportunities. The WesBank operation, which commenced during the year, is showing positive signs.

Electronic cross-border banking functionality and the "in country" electronic banking offering are proving to be very successful and will be a focal point for 2006.

Focus areas for 2006

FirstRand continues to explore expansion opportunities in selected African and emerging markets and two transactions were completed during the year under review.

FirstRand made an investment in Africa International Financial Holdings (AIFH), a private equity fund, which is focused on building retail banking networks primarily acquired through privatisations in Africa. Several opportunities are currently under consideration and FirstRand's first right of refusal on the assets sold by the fund creates the opportunity to acquire, in time, direct control of good quality banking networks.

FirstRand also acquired Celpay (with effect from 30 June 2005) which provides mobile payment solutions, in the form of banking and airtime purchases, in the Democratic Republic of Congo and Zambia. This product extension strategy offers exciting prospects for further expansion into Africa.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
HIV/AIDS in workforce	HIV/AIDS education programmes, policies and support facilities, e.g. social worker/s.
Country Risk on new investments	Well developed and strong risk management model in due diligence process.
Different constitutional frameworks, with fewer rights entrenched by law	Apply same standards to all operations as those expected in South Africa.

WILLEM ROOS
Joint CEO, OUTsurance

HOWARD ARON
Joint CEO, OUTsurance

OUTsurance

	2005	2004	% change
Gross premiums (Rm)	**1 901**	1 468	29.5
Operating profit (Rm)	**373**	261	42.5
Headline earnings (Rm)	**298**	203	46.8
Expense/cost to income ratio (%)	**16.2**	18.0	(11.1)
Claims and OUTbonus ratio (%)	**57.6**	58.5	(1.5)
Banking Group attributable profit before tax (Rm)	**204**	160	27.5

FirstRand Bank holds 48% in OUTsurance, South Africa's leading direct short-term insurance company.

Environment

The positive underwriting cycle, low inflation and increased customer spending are the primary reasons for the strong performance of the short-term insurance market. Competition has intensified and a slow-down in growth is expected in the future. Levels of crime are continuing to decrease in South Africa positively impacting crime-related claims.

Main focus areas in 2005

OUTsurance's main focus for the year was on the continual improvement of its core business. By improving processes, greater efficiencies were achieved, ensuring improved service levels and better value for money for clients.

Essential OUTsurance was launched in May 2005. This new product, which includes an OUTbonus, is aimed at the uninsured older vehicle market. Essential OUTsurance offers partial cover for theft, hijacking and accident, together with full cover for liability towards other parties, and is substantially cheaper than traditional comprehensive cover. Again OUTsurance has launched a unique concept and another first in the South African short-term insurance market. Initial sales volumes are promising.

Performance

The increase in operating profit of 42.5% is a combination of volume growth and greater cost efficiency. Volume was driven by good organic growth in Personal and the continued growth of Business OUTsurance, which was launched during the previous financial year, was encouraging.

Expenses as a percentage of net premium revenue improved substantially from 18% to 16.2%.

The claims ratio of 57.6% (including OUTbonus costs) was similar to that experienced in the previous year.

A significant milestone was reached during the year when the total OUTbonuses paid out to valued clients, since the Company's inception, reached R100 million.

Areas of focus for 2006

- Growing the customer base for Essential OUTsurance;
- Further increasing new business volumes in Business OUTsurance by establishing a new fleet offering; and
- Continued focus on maintaining strong organic growth in Personal OUTsurance.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Reputation for good customer service and value for money	Staff are incentivised for providing outstanding service. Detailed management information is available on a daily basis to ensure tight monitoring of various aspects of service rendered to clients.
Reputation for claims repayment	Claim repudiations are subject to robust escalation procedures. Complaints lodged internally and at the Short-Term Insurance and FAIS Ombuds are monitored closely. Significant management resources have been deployed to ensure OUTsurance's claims payment reputation is strengthened even further.
Regulatory action on premiums rating	Through the South African Insurance Association (SAIA), OUTsurance is playing an active part in ongoing engagement with regulators and input to the legislative drafting process.
FSC procurement targets (*vis a vis* very large number of very small suppliers)	Through active participation in SAIA working groups and significant deployment of internal resources, practical implementation plans are being devised.

A significant milestone was reached during the year when the total OUTbonuses paid out to valued clients, since the Company's inception, reached **R100 million**

HILLIE MEYER
CEO, Momentum

Momentum Retail Insurance & Asset Management divisions

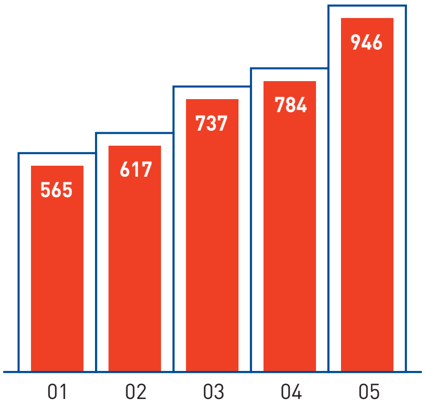
momentum

Momentum's results were driven by excellent new business growth, the positive impact of good market growth and effective cost control

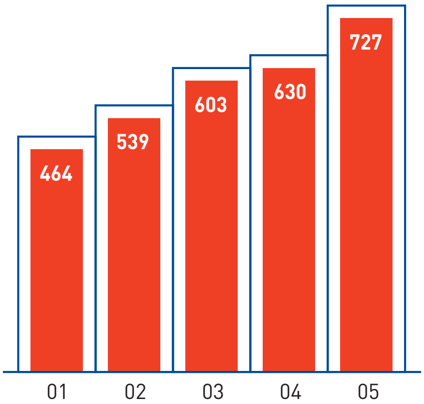
	2005	2004	% change
Profit before tax (Rm)	**948**	812	17
Profit after tax (Rm)	**727**	630	15
New individual life recurring premium volumes (Rm)	**946**	784	21
Lump sum retail inflows (Rm)	**8 895**	7 060	26
Value of new business (Rm)	**368**	288	28

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

New individual life recurring premium volumes
(R million)
CAGR: 14%



Profit after tax
(R million)
CAGR: 12%



EXECUTIVE COMMITTEE

1. H Meyer

2. J Burger

3. D Botes

4. D Carstens

5. L Dippenaar

6. N Dunkley

7. N Kruger

8. J le Roux

9. P Mjoli

10. A Naidu

11. K Sieberhagen

12. F Truter

13. R van Dyk

14. F van Heerden

1. **Hillie Meyer** | 47
   BCom, FIA, AMP (Oxford)
   CEO: Momentum Group
2. **Johan Burger** | 46
   BCom (Hons), CA (SA)
   CFO: FirstRand
3. **Danie Botes** | 41
   BCompt (Hons)
   CEO: Middle Market Initiative
4. **Derek Carstens** | 55
   BEcon (Hons), MA (Cantab)
   Director of Brands: FirstRand
5. **Laurie Dippenaar** | 56
   MCom, CA (SA)
   CEO: FirstRand Limited
6. **Nigel Dunkley** | 39
   CA (SA), Adv Tax Cert, AMP (Oxford)
   CEO: Corporate Advisory Services
7. **Nicolaas Kruger** | 37
   BCom, FFA, FASSA
   CEO: Momentum Group Business
8. **Johann le Roux** | 38
   BSc (Hons), MBA, FFA
   CEO: Momentum Risk and Savings
9. **Phillip Mjoli** | 43
   MBA, MDP, BCompt (Hons), B Com
   CEO: Momentum Service
10. **Asokan Naidu** | 44
    CA (SA), MBA
    CFO: Momentum Group
11. **Kobus Sieberhagen** | 46
    BA Admission, Psychology (Honours), MA: Clinical Psychology, DPhil
    CEO: Momentum Distribution Services
12. **Frans Truter** | 50
    BCom (Hons), CA (SA), AMP (Oxford)
    Director: Strategic Investments
13. **Riaan van Dyk** | 39
    BSc, FFA, ASA
    CEO: Momentum Investments
14. **Ferdi van Heerden** | 42
    BSC (Hons), AMP
    CEO: Momentum Existing Business

Environment

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

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

The savings industry has undergone significant changes since the early 1990's.

Clients demand better value for money and more flexibility, consumer bodies demand better disclosure, regulatory pressures have increased, whilst competitive pressures as well as the structurally lower inflation environment are putting pressure on margins.

The values of retirement annuities following the early cessation (or reduction) of premium payments are currently receiving unprecedented attention from consumers and the press, especially following rulings of the Pension Fund Adjudicator against life insurers and retirement funds. Momentum is acutely aware that policy designs and charging structures of the past lend themselves to criticism.

Main focus areas in 2004/2005

- Momentum capitalised on consolidation opportunities in its chosen markets by forming Advantage Asset Managers, effective 12 January 2005, and acquiring a 100% shareholding in Sovereign Health, effective 1 June 2005. The acquisition of a 100% shareholding in Sage Holdings finally received regulatory approval on 24 August 2005. The disposal of Momentum's 34% shareholding in African Life and the acquisition of a 100% shareholding in African Life Health are still subject to regulatory approval;
- Momentum launched a new range of the Investo product, which features lower policy charges and the unique Save Thru Spend benefit, which enhances clients' savings as they channel household spend to a closed community of business partners;

The Investo product range sets new standards in transparency and fee levels, and was well received by clients, financial advisors and the financial press;

- The agency force was expanded from 180 to 317 agents as at 30 June 2005, and this was increased by another 590 agents following the acquisition of Sage. This was achieved while maintaining market share in the fiercely competitive independent broker market; and
- The increase in marketing and administration expenses of the local insurance operations (excluding new acquisitions) was limited to 5%.

Performance

Headline earnings increased by 15% to R727 million for the year ended 30 June 2005. These results were driven by a 25% increase in total new retail business, the positive impact of good market growth and effective cost control. New individual life recurring premiums increased by 21%, mainly due to the continued strength in sales of the Myriad risk product. Total retail lump sum inflows increased by 26%, driven by a 65% increase in local linked product inflows, as clients still seem to prefer investing in discretionary investments without a contractual term.

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

Main focus areas for 2006

- The efficient integration of Sage onto Momentum's systems will receive high priority;
- Momentum has embarked on a joint venture with FNB to penetrate the middle market, with Momentum providing the product expertise and FNB providing the distribution channel;
- Growth in the number of medical scheme members under administration with the proposed acquisition of African Life Health and by offering the Multiply lifestyle programme to all members;

- Focus on establishing and growing the newly formed short-term insurance initiative; and
- Continued focus on providing good value for money to customers. Momentum plans to encourage existing retirement annuity investors to convert to the latest product ranges on favourable terms. Momentum has reserved R100 million to facilitate this conversion process. The commission proposals recently made by the LOA should significantly improve early termination values of savings products, and will simplify product design and fee structures.

Non-financial opportunities and risks

Management understands the importance of managing key non-financial opportunities and risks that could have a material impact on Momentum's operations. The main non-financial opportunities and risks, together with management actions taken to address it are tabled below:

ISSUE	MANAGEMENT ACTION
Change in commission regulations	Consumer bodies and regulators are pressurising the industry to move away from up-front commission to as-and-when commission. Management is investigating various alternatives.
Providing value for money products, especially in a low inflationary environment	Momentum will encourage clients to switch to the current generation retirement annuity products. As part of the switching process early termination values will be enhanced. Momentum has also realised the importance of scale benefits through consolidation in the industry.
Legislative changes might cause a threat to some markets	Momentum is addressing this challenge through innovation and a diversified product range.
Achieving employment equity targets for the Financial Sector Charter, especially at senior and middle management levels.	Momentum focuses on the retention of key employment equity staff, as well as performance measurement and career development.

ADRIAN GORE
CEO, Discovery

Discovery

Discovery's leadership position in the markets in which it operates, enables a focus on innovation resulting in organic growth

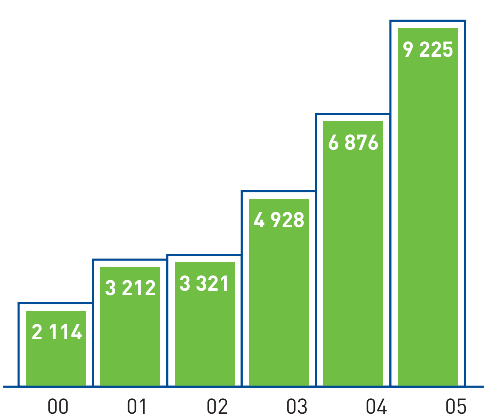
	2005	2004	% change
Profit before tax (Rm)	883	720	22.6
Profit after tax and minorities (Rm)	585	418	40.0
New business premium income (Rm)	4 342	3 213	35.1
Gross inflows under management (Rm)	17 295	14 345	20.6

The Discovery Group is a subsidiary of FirstRand Limited. Discovery Health is made up of four related, but distinct businesses:

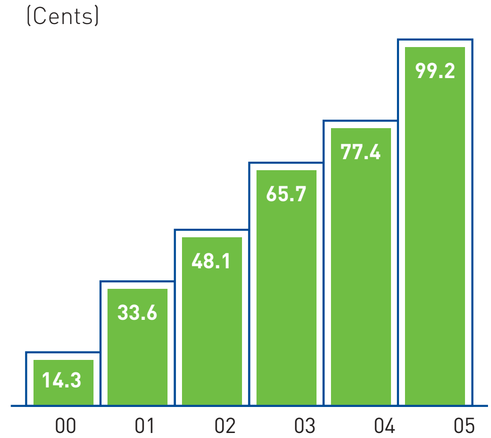
Discovery Health – private health care funding
Discovery Life – life assurance
Destiny Health – US-based health insurance
PruHealth – UK-based private medical insurance
A fifth business, **Vitality** offering scientific wellness benefits and rewards, underpins them all.

Discovery operates in international health and life assurance markets, and its core purpose across all its businesses is to make people healthier and to enhance and protect their lives.

Embedded value
(R million)



Diluted headline earnings per share before abnormal items
(Cents)



Environment

The year under review has been the most active year in Discovery's history and overall a successful one. The innovative approach and strong leadership position that it has in the markets in which it operates, enabled a focus on innovation resulting in organic growth. There was a significant dual focus on new initiatives across multiple industries and geographies, as well as its existing businesses.

South Africa's health care environment has seen continued regulatory changes during the period under review aimed at broadening access to health care, specifically in terms of the benefits available to medical scheme members and the affordability of medicines. Key regulatory issues that affected Discovery Health during the year under review included the uncertainty around the medicine pricing regulations, the roll-out of extended prescribed minimum benefits for certain chronic conditions, preparation for the implementation of the ICD10 coding system on 1 July 2005 and changes to the regulations governing Medical Savings Accounts, which will affect members' Health Plans in 2006. For Discovery Life, the increasing focus on retirement funding products in the industry provided an ideal context for the launch of its new-generation retirement Optimiser in June 2005.

> The year under review has been the most active year in Discovery's history and overall, a successful one.

Performance

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

Headline earnings increased by 32% to R536 million despite considerable start-up costs associated with PruHealth. For the first time, operating profit of the local businesses exceeded R1 billion. Annualised recurring new business production exceeded expectation, **increasing by 35% to R4.34 billion** (2004: R3.21 billion). Embedded value increased by 34% driven by strong new business and enhanced efficiencies.

Discovery Health

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

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

Its relative size, product range and operational sophistication, and a market share of 26%, position Discovery Health uniquely for strong growth going forward.

In addition, from a policy perspective Discovery Health is playing a leadership role in the industry in helping to build a robust private health care system that is affordable and covers more people.

Discovery Life

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

Discovery Life has positioned itself particularly well in an industry that requires scale and strength, but that, through the effects of consumerism, faces a liability in its legacy of old products covering large blocks of policyholders.

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

Over the last two years, Discovery Life has been developing products and infrastructure to enter the long-term investment market. The manifestation of this was the launch in June of the retirement Optimiser – a suite of retirement products focused on ensuring the certainty and efficiency of retirement funding.

Given the broad-based nature of the new business flow and the need for operational excellence, a focus was placed on the service capabilities over the period, resulting in the best service levels in its history, despite the increase in volumes.

Vitality and the DiscoveryCard

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

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

The DiscoveryCard, Discovery's new generation credit card, was launched successfully during the year. By year end 200 000 cards were in issue. The Card's role is to provide Discovery members a tangible and immediate reason to better manage their health. From a strategic perspective, the Card will form a capability that will be used by the other Discovery businesses.

Destiny Health

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

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

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

PruHealth

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

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

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

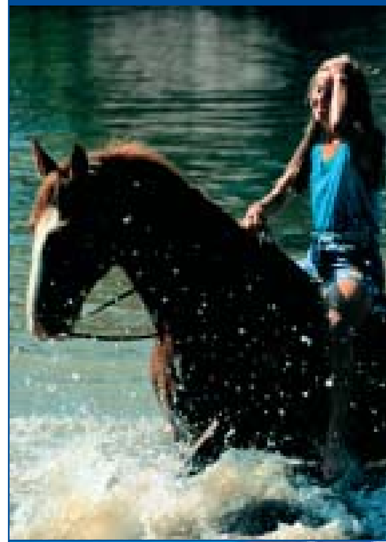
Main focus areas for 2006

- Continued development of the joint initiative with the Prudential plc wherein Discovery Life's pure protection products will enter the UK insurance markets in 2006. Discovery Life will also continue to focus on the investment market and specifically the marketing of its retirement Optimiser in 2006;
- The issue of extending affordable access to private health care to South Africa's previously uninsured market through our KeyCare Plans will continue to be an important focus area for Discovery Health in the year ahead. Leveraging Discovery Health's scale and size to deliver value for money and excellent service to clients are also important ongoing issues;
- Destiny Health will drive a more aggressive strategy of expansion into new markets, while PruHealth will focus on its distribution channels;
- Discovery Vitality will focus even more intensively on science-based wellness initiatives and clinical research to improve members' health; and
- a BEE transaction was announced in September 2005, which sets out to empower and reward Discovery's talented black employees, make a positive contribution to the health care sector through the Discovery Foundation and achieve broad-based empowerment in partnership with WDB Investment Holdings.

In the year ahead, Discovery will focus on realising these objectives by working actively with its new partners.

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

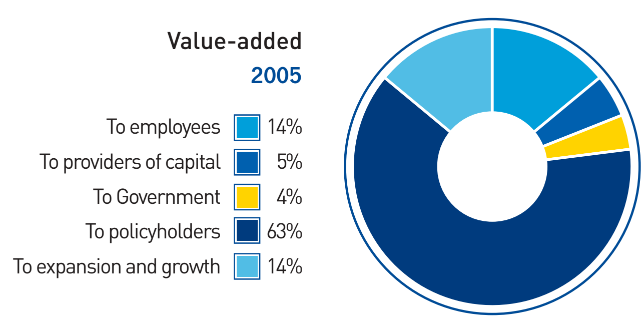
Discovery Life continued to capitalise on its leadership position in the pure protection market

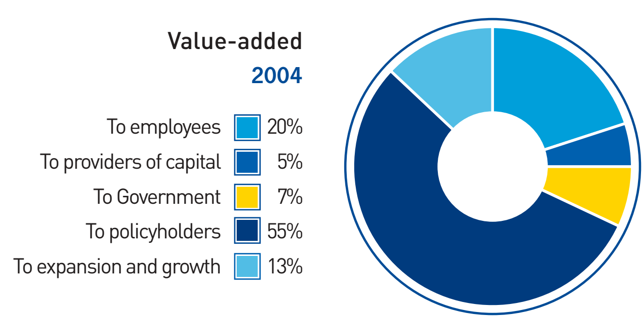


ISSUE	MANAGEMENT ACTION
Reputation for good customer service and value for money	**Service** Discovery focuses on service across all its businesses. Some of our key focus areas are: • exceeding call centre best practice • multi-skilled consultants • fast payment of claims • simplicity and familiarity Our website is Discovery's online service platform for all stakeholders, offering extensive service functionality. **Value for money** Both initial affordability and ongoing sustainability of premiums are important. Discovery Health has given members consistently stable increases over the past decade. Discovery Life's integrated products cover the entire risk-spectrum, allowing policyholders to consolidate risk cover and take advantage of significant savings.
Impact of BEE	Discovery is on target to meet all the targets set by the Financial Sector Charter. With the announcement of the BEE transaction on 13 September 2005 and the flow-through of shareholding from FirstRand's BEE transaction, marginally over 25% of Discovery's South African assets rest with previously disadvantaged individuals
Complex and high profile regulatory environment	Discovery has found in all instances that proactive and ongoing engagement with the regulatory bodies responsible for the relevant industries to be the most effective means of ensuring that Discovery stays abreast of proposed regulatory changes and makes appropriate inputs to represent the interests of stakeholders
HIV/AIDS impact on customer base	The impact of HIV/AIDS is both measurable and manageable in relation to our client base. Discovery Health's HIV/AIDS programme provides a confidential vehicle to help HIV-positive members manage their condition effectively.

VALUE-ADDED STATEMENT for the year ended 30 June

	2005		2004	
	R million	%	R million	%
Value-added				
Net interest income earned by FirstRand Banking Group	8 791		8 074	
Net premium income and fees earned by Momentum	19 606		14 622	
Net income earned by Discovery	2 369		2 234	
Net loss by FirstRand Limited	(290)		(231)	
Value-added by Group	30 476		24 699	
Non-operating income:	32 904		17 988	
FirstRand Banking Group	12 932		9 278	
Momentum	19 909		8 704	
Discovery	63		6	
Non-operating expenditure:	(8 375)		(6 687)	
FirstRand Banking Group	(5 383)		(4 201)	
Momentum	(1 702)		(1 385)	
Discovery	(1 214)		(1 059)	
FirstRand Limited	(76)		(42)	
Valued-added by Group	55 005		36 000	
To employees				
Salaries, wages and other benefits	7 882	14.3	7 058	19.6
To providers of capital				
Dividends to shareholders	2 835	5.2	1 956	5.4
To Government	2 387	4.3	2 664	7.4
Normal taxation	1 191		1 766	
Value-added tax	502		423	
Regional Services Council levies	120		152	
Capital Gains Tax	293		73	
Other	281		250	
To policyholders				
Policyholder claims and benefits	34 362	62.5	19 577	54.4
Insurance contracts	8 662		7 209	
Investment contracts	10 413		6 579	
Adjustment to liabilities under investment and insurance contracts	15 287		5 789	
To expansion and growth	7 539	13.7	4 745	13.2
Retained income	5 179		3 715	
Depreciation	721		676	
Deferred taxation	1 639		354	
	55 005	100.0	36 000	100.0

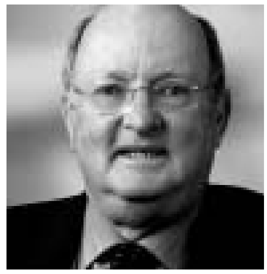


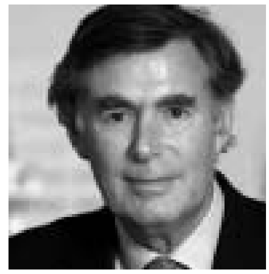


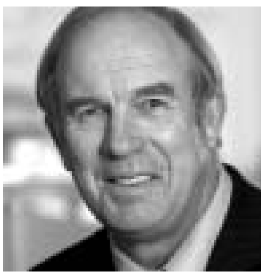
BOARD OF DIRECTORS


1. GT Ferreira


2. LL Dippenaar


3. VW Bartlett


4. DJA Craig


5. DM Falck


6. PM Goss


7. NN Gwagwa


8. PK Harris


9. MW King


10. YI Mahomed


11. G Moloi

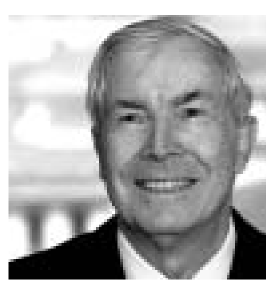

12. AP Nkuna


13. SEN Sebotsa


14. KC Shubane


15. BJ van der Ross


16. F van Zyl Slabbert


17. RA Williams

1. **Gerrit Thomas Ferreira** | 57 | **Non-executive Chairman** | BCom, Hons B (B&A), MBA | Appointed May 1998 | "GT" Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was managing director of RMB from 1985 to 1988 after which he was elected as executive chairman. When RMB Holdings was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of FirstRand in 1998 he was appointed non-executive chairman. He is a member of the Council of the University of Stellenbosch.

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

2. **Lauritz Lanser Dippenaar** | 56 | **Chief Executive Officer** | MCom, CA(SA) | Appointed May 1998 | Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director in 1988, which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that time. He was appointed as executive chairman of that company, a position he held until being appointed chief executive officer of FirstRand in 1998.

FirstRand – memberships | Audit committee | Executive committee – Chairman
Directorships | Discovery Holdings – Chairman | FirstRand Bank Holdings | Momentum Group – Chairman | OUTsurance – Chairman | RMB Asset Management | RMB Holdings

3. **Vivian Wade Bartlett** | 62 | **Non-executive** | AMP (Harvard), FIBSA | Appointed May 1998 | Viv Bartlett started his career with Barclays Bank DCO South Africa, which became First National Bank of SA in 1987. After some four years of overseas secondments he returned to South Africa in 1972 where he has served as general manager and managing director in various group companies until being appointed as group managing director and chief executive officer of First National Bank of Southern Africa in 1996. In 1998 he was appointed deputy chief executive officer of FirstRand Bank, a position he held until his retirement in 2004.

FirstRand – memberships | Directors' affairs and governance committee | Financial sector charter and transformation monitoring committee
Directorships | Banking Ombudsman – board member | CEMEA Regional Visa International – Chairman | FirstRand Bank Holdings | Makalani Holdings Limited – Chairman | OUTsurance | Visa International

Following the successful completion of FirstRand's black economic empowerment transaction three new directors were appointed to the board.

4. **David John Alistair Craig** | 57 | **Independent Non-executive** | British | Appointed May 1998 | David Craig held the position of director – International Capital Markets Division at Hambros Bank until 1979 when he left to help set up JP Morgan Securities. In 1983, holding the position of deputy chief executive (chief executive designate), he left to take up the position of group managing director at IFM Trading, the first major hedge fund group in London, until the time of its sale to the J Rothschild Group in 1994.

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

5. **Denis Martin Falck** | 59 | **Non-executive** | CA(SA) | Appointed February 2001 | Denis Falck left the auditing profession in 1971 to join the Rembrandt Group. He was appointed group financial director in 1990 and currently holds the same portfolio on the board of Remgro.

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

6. **Patrick Maguire Goss** | 57 | **Independent Non-executive** | BEcon (Hons), BAccSc (Hons), CA (SA) | Appointed May 1998 | Pat Goss, after graduating from the University of Stellenbosch, served as President of the Association of Economics and Commerce Students (AIESEC), representing South Africa at The Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other conservation related activities.

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

7. **Nolulamo Nobambiswano (Lulu) Gwagwa** | 46 | **Independent Non-executive** | BA (Fort Hare), MTRP (Natal) , MSc (cum laude) (London), PhD (London) | Appointed February 2004 | Lulu Gwagwa worked as a town planner in the private, public and NGO sector between 1981 and 1986, whereafter she proceeded to further her studies. In 1992 she joined the University of Natal as a senior lecturer in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003 she was the chief executive officer of the Independent Development Trust. She is currently an independent development consultant.

FirstRand – memberships | Directors' affairs and governance committee | Financial sector charter and transformation monitoring committee

Directorships | A C S A | Development Bank of South Africa

8. **Paul Kenneth Harris** | 55 | **Executive Director** | MCom | Appointed May 1998 | Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed deputy managing director of RMB. In 1992 he took over as managing director and chief executive officer. He has been chief executive officer of FirstRand Bank Holdings since July 1999.

FirstRand – memberships | Executive committee

Directorships | FirstRand Bank Holdings – CEO | Momentum Group | Remgro Limited | RMB Holdings

9. **Michael Wallis King** | 68 | **Independent Non-executive** | CA (SA), FCA | Appointed May 1998 | Mike King was educated at St John's College and the University of Witwatersrand. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances, and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of South Africa, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

FirstRand – memberships | Audit committee – Chairman | Directors' affairs and governance committee | Remuneration committee

Directorships | FirstRand Bank Holdings | African Rainbow Minerals | Sturrock and Robson Holdings | The Tongaat-Hulett Group

10. **Yunus Ismail Mahomed** | 54 | **Independent Non-executive** | BProc, MBA | Appointed May 2005 | Yunus Mahomed graduated from the University of South Africa, and is an admitted attorney and conveyancer. He worked for Shun Chetty & Company until 1979 and thereafter practised as Yunus Mahomed & Associates. He is one of the founding Trustees of Kagiso Trust and is currently its chairman.

FirstRand memberships | Directors' affairs and governance committee

Directorships | Kagiso Media Limited | Various private companies

11. **Gugu Moloi** | 37 | **Independent Non-executive** | BA (Law), MA (Town and Regional Planning), Diploma (General Management) | Appointed February 2004 | Gugu Moloi was appointed CEO of Umgeni Water in 2002. Prior to that she was CEO of the Government's Municipal Infrastructure Investment Unit. She has considerable expertise in the field of development at both national and local level. She is a member of the KwaZulu-Natal University Council and the Financial and Fiscal Commission.

FirstRand – memberships | Directors' affairs and governance committee

Directorships | Rand Water | Umgeni Water – CEO | Zenele African Networks

12. **Aser Paul Nkuna** | 53 | **Independent Non-executive** | AMP (Wits Business School) | Appointed May 2005 | Paul Nkuna started his career as a teacher and joined the mining industry in 1977. Since 1984 he has been involved with the trade union movement. He was the National Treasurer of the National Union of Mineworkers for ten years and was vice-president for the Federation of Mineworkers' on the African continent. He was active in the transitional local government negotiations and served as chairman of the management committee in Brakpan. He was involved in the formation of the Gauteng Local Government Association (GALA) and the South African Local Government Association (SALGA) and served as an executive member of both associations. He joined the Mineworkers' Investment Company as executive chairman in 1977 and is currently their chief executive officer.

FirstRand – memberships | Directors' affairs and governance committee

Directorships | BP South Africa | Credit Management Solutions | Dairyworld | Mathomo | Primedia Broadcasting | SA Airways | SA Teemane Holdings | Ster-Kinekor | Tracker Investment Holdings

13. **Sonja Emilia Ncumisa Sebotsa** | 33 | **Non-executive** | LLB (Hons) LSE, MA (McGill), SFA | Appointed May 2005 | Sonja Sebotsa's areas of study were in Law, Business and Economics. She started her career in investment banking at Deutsche Morgan Grenfell, Johannesburg in 1997 working on M&A transactions, privatisations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices as well. Leaving Deutsche Bank as a Vice President in late 2002 she took

up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of the WDB's sole shareholder, the WDB Trust.

FirstRand – memberships | Directors' affairs and governance committee

Directorships | Adcorp Holdings | Makalani Holdings | Paracon Holdings | Willis South Africa

14. **Khehla Cleopas Shubane** | 49 | **Independent Non-executive** | BA (Hons); MBA | Appointed May 1998 | Khehla Shubane graduated at the University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his release he was employed at Liberty Life for a short time. He served on various political organisations until joining the Centre for Policy Studies in 1988. He is an author and has co-authored several political publications, and is a member of the board of the Centre for Policy Studies.

FirstRand – memberships | Directors' affairs and governance committee

Directorships | FCB South Africa | Newhco | Nurcha | RMB Holdings

15. **Benedict James van der Ross** | 58 | **Independent Non-executive** | Dip Law (UCT) | Appointed May 1998 | Ben van der Ross is a director of companies. He has a diploma in Law from the University of Cape Town and was admitted to the Cape Side Bar as an attorney and conveyancer. Thereafter he practiced for his own account for 16 years. He became an executive director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was deputy chief executive officer from 1995 to 1998. He acted as chief executive officer of the South African Rail Commuter Corporation from 2001 to 2003 and as chief executive officer of Business South Africa from 2003 to 2004. He was appointed to the board of The Southern Life Association in 1986.

FirstRand – memberships | Audit committee | Directors' affairs and governance committee | Financial sector charter and transformation monitoring committee – Chairman | Remuneration committee

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

16. **Frederik van Zyl Slabbert** | 65 | **Independent Non-executive** | BS, BA Hons (cum laude), MA (cum laude), D Phil | Appointed November 2001 | Frederik van Zyl Slabbert is a graduate of Stellenbosch University from which he received a Doctorate in Philosophy in 1967. He lectured at various South African universities until 1974 when he was elected to the South African Parliament as a member of the Progressive Party for the Rondebosch Constituency. At the time of his retirement from politics in 1986, he was the leader of the Progressive Federal Party, which was the official opposition in Parliament. He is currently a political analyst. He holds an Honorary Doctorate from the Simon Fraser University in Canada, the University of Natal and the University of the Free State. He is the author of a number of books dealing with demographics and change in South Africa and also a member of the board of the Open Society of South Africa.

FirstRand – memberships | Directors' affairs and governance committee

Directorships | Adcorp – Chairman | CTP Caxton – Chairman

17. **Robert Albert Williams** | 64 | **Independent Non-executive** | BA, LLB | Appointed May 1998 | Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the managing director in 1979. In 1983 he was appointed chief executive officer of Tiger Oats. In 1985 he assumed the chairmanship of CG Smith Foods and Tiger Oats, and was appointed to the board of Barlow Rand. Following the unbundling of CG Smith, he remained chairman of Tiger Brands and Illovo Sugar.

FirstRand – memberships | Directors' affairs and governance committee | Remuneration committee

Directorships | FirstRand Bank Holdings | Illovo Sugar – Chairman | Mutual & Federal Assurance Company | Nampak | Oceana Group | Tiger Brands – Chairman

EXECUTIVE COMMITTEE


1. LL Dippenaar


2. JP Burger


3. DN Carstens


4. P Cooper


5. KM Gordhan


6. A Gore


7. PK Harris


8. M Jordaan


9. MT Lategan


10. ZN Manyati


11. HP Meyer


12. MT Moatlhodi


13. SA Moss


14. Y Narsai


15. EB Nieuwoudt


16. MW Pfaff


17. Z Roscherr


18. RW Watson

The Executive Committee includes the CEOs of the major subsidiaries and operating brands.

1. **Laurie Dippenaar** | 56
   MCom, CA (SA)
   CEO: FirstRand Limited

2. **Johan Burger** | 46
   BCom (Hons), CA (SA)
   CFO: FirstRand Limited and FirstRand Banking Group

3. **Derek Carstens** | 55
   BEcon (Hons), MA (Cantab)
   Director of Brands

4. **Peter Cooper** | 49
   BCom (Hons), CA (SA), H Dip Tax
   COO: RMB Holdings Limited

5. **Ketso Gordhan** | 48
   BA – UDW, MPhil Sussex University
   Executive Director private equity

6. **Adrian Gore** | 41
   BSc (Hons), FFA, ASA, MAAA, FASSA
   CEO: Discovery Holdings Limited

7. **Paul Harris** | 55
   MCom
   CEO: FirstRand Banking Group

8. **Michael Jordaan** | 37
   MCom (Economics)
   PhD (Banking Supervision)
   CEO: First National Bank

9. **Theunie Lategan** | 48
   DCom, CA (SA)
   Advanced Diploma Banking
   FirstRand Banking Group Executive
   Appointed: Head of Africa and Emerging Markets with effect from 1 October 2005

10. **Zweli Manyathi** | 43
    Honours BCom (Financial Management) (Unisa)
    CEO: FNB Branch Banking

11. **Hillie Meyer** | 46
    BCom, FIA, AMP (Oxford)
    CEO: Momentum Group Limited
    Resigned wef 30 September 2005

12. **Modise Moatlhodi** | 43
    BCom, MBA, CAIB (SA), CM (SA)
    CEO: Public Sector Banking

13. **Sam Moss** | 45
    BA (Hons), MA (UK)
    Director of Investor Relations, FirstRand Limited

14. **Yatin Narsai** | 39
    BSc Hons
    CEO: FNB Smart Solutions & CIO

15. **EB Nieuwoudt** | 43
    MCom
    CEO: Africa and Emerging Markets
    Appointed: CEO Momentum wef 1 October 2005

16. **Michael Pfaff** | 43
    BCom, CA (SA), MBA
    CEO: Rand Merchant Bank

17. **Zelda Roscherr** | 38
    BSc (Maths), BCom (Hons)
    Group Treasurer: Banking Group

18. **Ronnie Watson** | 58
    AMP (Harvard)
    CEO: WesBank

CORPORATE GOVERNANCE

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

GOVERNANCE ETHOS

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

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

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

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

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

Across the Group strategies are developed in the business units for effective engagement and communication with their specific stakeholders. These include segment-based customer groups, employees and the community.

Shareholders are encouraged to attend the annual general meeting.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Composition

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

Following the successful completion of FirstRand's black economic empowerment transaction three new directors were appointed to the board. These directors were nominated by the Trusts they represent namely, the Kagiso Trust, the WDB Investment Trust and the Mineworkers' Investment Company Trust. Their appointment to the board was subject to the standard procedures adopted by FirstRand companies for the appointment of new directors and their continued membership of the board will be subject to ratification by shareholders at the forthcoming annual general meeting. In terms of the FirstRand BEE transaction, there is no automatic right for the Trusts referred to above to appoint directors to the board.

At 30 June 2005 the board of FirstRand comprised seventeen directors. Two of the directors are executive, a further three are defined as non-executive and the balance are independent non-executive directors. The board includes three women. Seven of the directors are classified as black in terms of the Financial Sector Charter. The profiles, of the directors appear on pages 55 to 57 of this report.

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

Appointment of directors

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

A brief CV of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the annual report. A staggered rotation of directors ensures continuity of experience and knowledge. Non-executive directors are appointed for three years and are subject to Companies Act, Act 61 of 1973, as amended, provisions relating to their removal. The reappointment of non-executive directors is not automatic and is subject to performance and eligibility for re-appointment. The retirement age is set at age 70 across the Group. The executive directors all have contracts that can be terminated with one month's notice.

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

Board proceedings

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

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

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

Mr VW Bartlett retired as an executive director on 1 July 2004. He has remained on the board in a non-executive capacity.

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

Role and function of the board

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

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

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

Subsidiary boards and board committees

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

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

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

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

EXECUTIVE COMMITTEE

Role

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

Composition

Exco is chaired by the Chief Executive of FirstRand. Membership of Exco, which was restructured during the year, includes the CEOs of the major subsidiaries and operating brands, the Group Chief Financial Officer and certain members of senior management. The members of the FirstRand Exco are listed on page 58 to 59.

REMUNERATION COMMITTEE

Role

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

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

FirstRand espouses a remuneration philosophy that promotes widespread ownership for collective organisational goals and bases reward on individual contribution to the achievement of those goals. Further details relating to FirstRand's remuneration practices can be found on page 66 and 67 of this report.

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

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

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

Composition

Membership includes representatives of the remuneration committees of the Group's principal subsidiaries. The chief executive of FirstRand attends in an *ex-officio* capacity.

The chairperson attends the annual general meeting.

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

	July	April	June
PM Goss (Chairman)	√	√	√
GT Ferreira	√	√	√
R Hutchison			
MW King	√	√	√
BJ van der Ross	√	√	√
RA Williams	√	√	√

AUDIT AND RISK COMMITTEE

Role

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

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

- ensure the integrity, reliability and accuracy of accounting and financial reporting systems;
- ensure that appropriate systems are in place to identify and monitor risk, controls and compliance with the law and codes of conduct;
- evaluate the adequacy and effectiveness of internal audit, risk and compliance;
- maintain transparent and appropriate relationships with the respective firms of external auditors;

- review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors; and
- set principles recommending the use of the accounting firm of external auditors for non-audit services.

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

Composition

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

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

	Sept	Feb
MW King – Chairman and Chairman of the Banking Group audit committee	√	√
LL Dippenaar – Chief Executive	√	√
BJ van der Ross – Chairman of the Insurance Group audit committee	√	√

The chairman attends the annual general meeting.

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

Role

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

Composition

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

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

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

The chairman attends the annual general meeting.

FINANCIAL SECTOR CHARTER AND TRANSFORMATION MONITORING COMMITTEE

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

Role

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

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

Composition

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

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

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

	July	Sept	Nov	Jan	May	June
B van der Ross – Chairman	√	√	√	√	√	√
VW Bartlett – FirstRand			√	√		
NN Gwagwa – FirstRand	√	√	√		√	√
Z Manyathi – FirstRand Bank					√	√
R Watson – FirstRand Bank	√	√	√			
NB Langa-Royds – Momentum	√	√	√	√	√	
HP Meyer – Momentum		√		√		
J Dlamini –Discovery	√	√	√	√	√	√
K Mayet – Discovery	√	√	√		√	√

Financial Sector Charter progress

The Charter Council has still to agree on certain targets and definitions relating to the Charter Scorecard. As a consequence it has not been possible to publish audited results reflecting FirstRand's progress in terms of the Scorecard. The Group's internal monitoring does, however, indicate that good progress is being made and FirstRand expects to score well.

The FirstRand BEE transaction means that at least 10% of the Company's shares are now directly held by black shareholders. FirstRand believes that at least a further 15% is held indirectly by black South Africans through their pension and provident funds.

The Group has made considerable progress in meeting the Charter's objectives. In this regard the Transformation Unit established last year has played an important role in consolidating data and providing guidance to the Group's divisions on how to meet the various targets. Under executive leadership, a comprehensive policy statement was prepared and disseminated across the Group. Where live presentations were not possible, in-house close circuit television was used. The presentations and guidelines have been well received and the response has been supportive and enthusiastic.

Structures are in place to share information relating to best practice and where feasible reports are being independently audited.

The Financial Sector Charter and Transformation Monitoring Committee is playing a valuable role in monitoring performance and offering constructive advice where appropriate. Support for the Financial Sector Charter and its national objectives are an important part of FirstRand's good corporate citizenship philosophy. Progress insofar as it relates to each of the major brands is reported in Sustainability Reports which are available on the FirstRand website. Employment equity figures are reflected on page 68 of this report.

PERFORMANCE EVALUATION

In June 2004 the directors evaluated the effectiveness of the FirstRand board. They deemed it unnecessary to repeat this exercise during the 2005 financial year and agreed that the next survey would be completed in 2006. No material concerns were expressed in these evaluations and the committees in their opinion have satisfied their responsibilities during the year.

Details of each respective director's remuneration for the period under review can be found on page 112 of this report. The remuneration of the non-executive directors is reviewed annually and proposals relating to increases in fees are submitted to the annual general meeting of shareholders for approval.

MANAGEMENT SUCCESSION PLANNING

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

SUSTAINABILITY REPORTING

FirstRand believes that the management of issues relating to sustainability are integral to the way in which the Group is managed. The Group's approach to sustainability is outlined on pages 22 and 23 and the material risks and opportunities associated with sustainability challenges have been dealt with in the Review of Operations. Detailed information relating to stakeholder concerns is available on the FirstRand sustainability website (www.firstrandsusrep.co.za).

CORPORATE SOCIAL INVESTMENT

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

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

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

During the year under review the Group contributed in excess of R50 million to a wide range of causes including education, health and HIV initiatives, job creation and skills training, community care and the environment. The geographical spread of funding across the country has remained fairly constant. In addition, FirstRand employees were encouraged to contribute their time and skills in support of the FirstRand Volunteers initiative.

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

COMPANY SECRETARY

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

AUDITOR INDEPENDENCE

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

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

FirstRand follows a practice of devolving the design and implementation of appropriate "industry specific" remuneration strategies through various board remuneration committees.

REMUNERATION COMMITTEE

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

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

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

REMUNERATION STRATEGY

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

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

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

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

The policy on remuneration of executive directors is consistent with that of senior staff. Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. Non-executive directors do not qualify for participation in share incentive schemes. Black non-executive directors serving on the boards of FirstRand, FirstRand Bank Holdings and Momentum Group were invited to participate in FirstRand's BEE transaction on terms and conditions approved at the general meeting of shareholders held on 21 April 2005.

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

Basic salary and benefits

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

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

All full-time employees are required to belong to a medical aid scheme. On retirement, opportunities exist for ex-employees to join medical aid schemes in their individual capacities. Where, as the result of past practice, the Group is required to contribute towards post-retirement medical aid costs, the present value of such contributions is calculated and provided for. Since 1999 it has not been employment practice for the Group to provide post-retirement medical aid benefits.

Performance related payments

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

Share incentives

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

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

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

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

The present Outperformance scheme was introduced in 2000 and ends during the 2006 financial year. Its introduction recognised modern trends to encourage long-term sustainable performance relative to a peer group, thereby countering suggestions of windfall executive remuneration.

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

At the meeting of shareholders held to approve the FirstRand BEE deal, shareholders approved the allocation of share options to certain black non- executive directors. These options vest in equal amounts over a ten-year period commencing April 2005. No benefits accrue until 2014.

WORKFORCE PROFILE for the year ended 30 June

	AIC		White		Grand total		Total
	Male	Female	Male	Female	Male	Female	
South African workforce							
1. Top management	25	9	138	23	163	32	195
2. Senior management	85	39	535	212	620	251	871
3. Professionally qualified and experienced specialists and mid-management	768	685	2 035	1 496	2 803	2 181	4 984
4. Skilled technical and academically qualified workers, junior management, supervisors	1 914	3 183	1 951	3 818	3 865	7 001	10 866
5. Semi-skilled and discretionary decision-making	4 093	8 323	1 107	4 633	5 200	12 956	18 156
6. Unskilled and defined decision-making	731	335	12	6	743	341	1 084
Total	**7 616**	**12 574**	**5 778**	**10 188**	**13 394**	**22 762**	**36 156**

AIC = African, Indian and Coloured.

	By race					By gender			
	2005	**%**	2004	%		**2005**	**%**	2004	%
AIC	**20 190**	**55.8**	17 532	53.6	Male	**13 394**	**37.0**	11 815	36.1
White	**15 966**	**44.2**	15 200	46.4	Female	**22 762**	**63.0**	20 917	63.9
Total	**36 156**	**100.0**	32 732	100.0	Total	**36 156**	**100.0**	32 732	100.0

Change in South African workforce

	2005	2004
Staff complement at 1 July	**32 732**	32 110
New appointments/acquisitions	**6 909**	3 770
Resignations	**(2 453)**	(1 993)
Retrenchments	**(94)**	(89)
Dismissals	**(229)**	(104)
Deaths or disability	**(78)**	(58)
Other*	**(631)**	(904)
Staff complement at 1 July	**36 156**	32 732

** Contract workers.*

Total workforce

	2005		2004	
	Number	**%**	Number	%
South Africa	**36 156**	**91.8**	32 732	91.3
Rest of Africa	**2 451**	**6.2**	2 331	6.5
Other countries	**778**	**2.0**	774	2.2
Total workforce	**39 385**	**100.0**	35 837	100.0

INTEGRATED

The Group's **diversified** income streams, focus on **innovation** and its ability to create "greenfields" or new sources of growth resulted in a 32% increase in headline earnings to R7.6 billion

FIRSTRAND

These financial statements cover the consolidated and company financial statements of FirstRand Limited, its wholly-owned subsidiaries, FirstRand Bank Holdings Limited and Momentum Group Limited and its 65%-owned subsidiary Discovery Holdings Limited.

Contents

Directors' responsibility statement

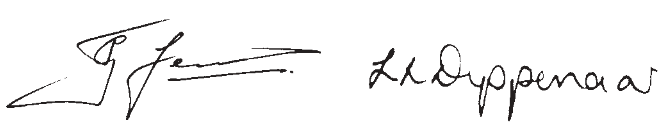
To the members of FirstRand Limited

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

The directors have reviewed the Group's budget and flow of funds forecast for the year to 30 June 2006. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand Limited will not be a going concern for the foreseeable future. The going-concern basis has therefore been adopted in preparing the financial statements.

The Group's external auditors, PricewaterhouseCoopers Inc., have audited the financial statements and their unqualified report appears on page 72.

The financial statements of the Group and the Company for the year ended 30 June 2005, which appear on pages 73 to 99 and 100 to 111 respectively, have been approved by the board of directors and are signed on its behalf by:



GT Ferreira
Chairman

LL Dippenaar
Chief Executive Officer

Sandton
19 September 2005

Report of the independent auditors

To members of FirstRand Limited

We have audited the annual financial statements of the Group and Company set out on pages 73 to 99 and 100 to 111 for the year ended 30 June 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Group and the Company at 30 June 2005 and the results of their operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act of 1973.

PricewaterhouseCoopers Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)

Sandton
19 September 2005

NATURE OF BUSINESS

FirstRand Limited ("FirstRand") is listed under "Financial – Banks" on the Securities Exchange of JSE Limited ("JSE") and the Namibian Stock Exchange and is the holding company of the FirstRand Group of companies. These companies are engaged in diverse financial services activities in the areas of retail, corporate, investment and merchant banking, life insurance, employee benefits, health insurance, short-term insurance and asset and property management.

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

GROUP RESULTS

A general review of the financial results of the Group and the operations of its subsidiaries commences on page 26.

The financial results have been prepared in accordance with Statements of Generally Accepted Accounting Practice in South Africa. To the extent that there have been changes in accounting policies, the impact of these changes on prior year figures is set out in note 40 to the financial statements.

Earnings

Headline earnings were as follows:

R million	2005	2004
Banking Group	6 492	4 796
Momentum Group	1 287	1 081
Discovery Group	350	265
FirstRand Limited	(304)	(274)
Consolidation of Share Trusts	(155)	(105)
Dividend payment on non-cumulative non-redeemable preference shares	(68)	–
Headline earnings	7 602	5 763
Headline earnings per share (cents)	146.2	111.0

Dividends

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2005 financial year:

Cents per share	2005	2004
Interim (declared 1 March 2005)	26.60	19.25
Final (declared 15 September 2005)*	28.50	26.75
	55.10	46.00

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

Preference shares

Dividends on the "A" preference shares are calculated at a rate of 65% of the prime lending rate of First National Bank. The following dividends were declared and paid during the year:

For the six months to 31 December 2004:	R22 465 956 (2004: R39 073 135)
For the six months to 30 June 2005:	R12 568 955 (2004: R28 101 308)

Dividends on the "B" preference shares are calculated at a rate of 68% of the prime lending rate of First National Bank. The following dividends have been declared for payment:

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

SHARE CAPITAL

Authorised – ordinary and preference share capital

Details of the Company's authorised share capital as at 30 June 2005 are shown in note 34 to the financial statements.

No changes were made to FirstRand's authorised ordinary and preference share capital. At a general meeting of shareholders held on 2 September 2004, shareholders agreed in terms of a special resolution to amend the Articles of Association pertaining to the terms of certain of the rights attaching to preference shares, prior to their issue, to accord with current market practice.

Issued – ordinary share capital

During the year under review the following changes were made to the issued ordinary share capital of the Company.

On 20 September 2004, 49 850 ordinary shares were repurchased from shareholders who held less than 100 shares at a price of R10.74 (R10.23 plus a 5% premium). This repurchase, in terms of an odd-lot offer, was approved at a general meeting of shareholders held on 2 September 2004.

At the annual general meeting of the shareholders of the Company, held on 22 November 2004, a special resolution was passed authorising the board of the Company or the board of a subsidiary of the Company to approve the purchase of shares in FirstRand during the period up to and including the date of the following annual general meeting. This repurchase is limited in any one financial year to a cumulative maximum of 10% of the Company's issued share capital. This resolution is governed by the provisions of the Companies' Act, as amended, and the Listings Requirements of the JSE.

As part of the FirstRand Black Economic Empowerment Transaction which was approved by shareholders on 21 April 2005 and sanctioned by the High Court on 3 May 2005, 119 000 000 new ordinary FirstRand shares were issued at a price of 1 cent per share on 16 May 2005 to the FirstRand Empowerment Trust.

Details of FirstRand's BEE transaction are included in the Chairman's report on page 5.

On 16 May 2005, FirstRand issued 18 241 971 new ordinary shares. This new issue resulted from the redemption of the same number of "A" variable rate, convertible, redeemable, cumulative preference shares issued by the Company in terms of the FirstRand Outperformance share incentive scheme.

Issued – preference share capital

During the year under review the following changes were made to the preference share capital of the Company.

The following "A" preference shares were redeemed or converted in terms of the Outperformance share incentive scheme:

Date	Number of shares	Premium
Redemptions		
1 July 2004	540 000	R8.14
	720 000	R7.44
	1 080 000	R6.53
	2 340 000	
1 January 2005	2 580 000	R8.14
	360 000	R7.44
	2 940 000	
16 May 2005	9 456 737	R8.14
	841 292	R7.44
	10 298 029	
Conversions		
16 May 2005	17 335 763	R8.14
	906 208	R7.44
	18 241 971	

For reporting purposes, the "A" preference shares are shown as part of long-term liabilities, as the substance of these instruments is debt.

On 11 November 2004 FirstRand issued 30 million 1 cent variable rate non-cumulative non-redeemable "B" preference shares at a premium of R99.99 per share.

Subsequent to 30 June 2005 FirstRand issued and listed on 11 August 2005, R1 530 million non-cumulative non-redeemable preference shares at an effective coupon rate of 66,7% of First National Bank's prime prevailing lending rate. A dividend of 37 cents per share was declared for the period to 29 August 2005.

The proceeds will be applied to redeem the remaining R1.1 billion cumulative preference shares issued in the 2004 financial year by FirstRand Investment Holdings (Pty) Limited. This will result in an improvement in the quality of the capital base of FirstRand Limited. The remaining funds will be used to subscribe for R500 million non-cumulative non-redeemable preference shares in Momentum Group, which will improve their weighted average cost of capital.

SHAREHOLDER ANALYSIS

(Disclosure in terms of section 140 A (8 (a)) of the Companies Act).

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

Percentage	2005	2004
RMB Holdings Limited	29.59	32.64
Financial Securities Limited (Remgro)	8.57	9.51
PIC	8.29	9.29
FirstRand Empowerment Trust	6.48	–
Share Trusts	5.00	5.25

A further analysis of shareholders is set out on page 363.

DIRECTORATE

Following the successful conclusion of the FirstRand Empowerment transaction, Messrs YI Mahomed and AP Nkuna and Ms SEN Sebotsa were appointed to the board with effect from 3 May 2005. Their appointment is required to be confirmed by shareholders at the forthcoming annual general meeting.

Mr VW Bartlett was appointed as a non-executive director with effect from 1 July 2004. He previously fulfilled an executive role.

Details of the board of directors are set out on page 55.

DIRECTORS' INTEREST IN FIRSTRAND

(Disclosure in terms of paragraph 8.63 (d) of the Listings Requirements of the JSE)

Details of the directors' interest in the issued ordinary and preference shares of FirstRand are reflected on page 114 of this report.

DIRECTORS' EMOLUMENTS

Directors' emoluments and their participation in share incentive schemes are disclosed on page 112 and 113. Information relating to the determination of directors' emoluments, share option allocations and related matters are contained in the remuneration report on page 68.

INTEREST OF DIRECTORS AND OFFICERS

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

PROPERTY AND EQUIPMENT

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

INSURANCE

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

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiary and associate companies which are considered material in the light of the Group's financial position and its results are set out on page 111.

COMPANY SECRETARY AND REGISTERED OFFICES

AH Arnott was appointed company secretary on 25 November 2002. The address of the company secretary is that of the registered office as stated on page 364.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to year end Discovery Holdings has announced a Black Economic Empowerment Transaction. Details of this transaction are dealt with in the Discovery section of this annual report and in the report of the FirstRand Chief Financial Officer.

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

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

AH Arnott
Company Secretary

19 September 2005

Accounting policies

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

BASIS OF PRESENTATION

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

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

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

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

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

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

CONSOLIDATION

The financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit, and which it does not intend to dispose of within a short term (12 months). The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

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

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

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

The Group discontinued the amortisation of goodwill with effect from 1 July 2004. An impairment test was performed on the carrying value of goodwill on 1 July 2004. Any adjustments to the carrying amount of goodwill were made against retained income. The comparative financial information includes an amortisation charge for goodwill.

An annual impairment test is performed on goodwill and any impairment calculated is expensed to the income statement.

Investment in subsidiaries

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

REVENUE AND EXPENSE RECOGNITION

Investment income

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

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

Direct and indirect taxation

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

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

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

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

RECOGNITION OF ASSETS, LIABILITIES AND PROVISIONS

Assets

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

Liabilities and provisions

Liabilities, including provisions, are recognised when the Group:

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

The Group initially recognises derivative financial instruments, including equity options in the balance sheet at cost and subsequently remeasures these instruments at their fair value.

Contingent liabilities

Contingent liabilities are recognised when the Group:

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

DERECOGNITION OF ASSETS, LIABILITIES AND PROVISIONS

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

CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise money on call and short notice.

ACCOUNTING POLICIES SPECIFIC TO THE BANKING GROUP, MOMENTUM AND DISCOVERY

For detailed accounting policies relating to the Banking Group, Momentum and Discovery, please refer to pages 153 to 161, pages 247 to 253 and pages 313 to 317 respectively.

Income statement for the year ended 30 June

R million	Notes	2005	2004
Banking Group			
Interest income	Banking note 2	23 417	22 412
Interest expenditure	Banking note 3	(13 920)	(13 505)
Net interest income before impairment of advances		9 497	8 907
Impairment of advances	Banking note 10	(706)	(833)
Net interest income after impairment of advances		8 791	8 074
Non-interest income	Banking note 4	12 001	8 970
Transactional income		8 188	6 583
Trading income		2 238	2 121
Investment income		497	430
Other non-interest income		814	206
Translation losses		264	(370)
Net income from operations		20 792	17 044
Operating expenditure	Banking note 5	(12 389)	(10 503)
Income from operations		8 403	6 541
Share of earnings of associated companies	Banking note 15	877	585
Income before discontinuing operations		9 280	7 126
Profit on sale of discontinuing operations	Banking note 34	346	–
Income before taxation		9 626	7 126
Indirect taxation	Banking note 6.2	(409)	(400)
Income before direct taxation		9 217	6 726
Direct taxation	Banking note 6.1	(2 115)	(1 701)
Income after taxation		7 102	5 025
Earnings attributable to outside shareholders	Banking page 162	(292)	(277)
Earnings from banking operations		6 810	4 748
Momentum and Discovery			
Group operating profit after tax	4	1 314	1 013
Revenue		11 082	11 306
Net premium income		9 591	10 026
Fees for asset manager services rendered		1 491	1 280
Investment income attributable to policyholders		4 994	5 128
Policyholder benefits		(8 866)	(7 498)
Operating and administration expenses		(3 821)	(3 291)
Commissions		(1 761)	(1 452)
Deferred acquisition costs		1	–
Fair value adjustment to policyholder liabilities from investment contracts		(7 917)	(3 214)
Realised and unrealised investment surpluses		14 917	3 377
Direct taxation		(1 200)	(661)
Indirect taxation		(146)	(134)
Transfer to policyholder liabilities under insurance contracts		(5 528)	(2 328)
Earnings attributable to outside shareholders		(441)	(220)
Investment income on the shareholders' portfolio		426	326
Investment income on the shareholders' portfolio	Momentum note 4	393	346
Profit on sale of available-for-sale assets	Momentum page 254	71	15
Taxation on investment income	Momentum note 8	(38)	(35)
Earnings from Momentum and Discovery		1 740	1 339
Earnings from Momentum	Momentum note 7, 9	1 358	1 065
Earnings from Discovery	Discovery note 10, 11	382	274
FirstRand Limited		(304)	(275)
Management expenses		(31)	(50)
Capital raising expenses		(89)	(110)
Secondary tax on companies		(184)	(115)
Goodwill amortised – intergroup		–	5
Consolidation of share trusts		(155)	(105)
Earnings attributable to shareholders	3, 6, 35	8 091	5 712
Headline earnings per share (cents)	6	146.2	111.0
Earnings per share (cents)	6	154.3	110.0
Diluted earnings per share (cents)	6	151.2	107.4
Diluted headline earnings per share (cents)	6	143.3	108.4
Headline earnings per share excluding currency translation losses (cents)	6	141.1	118.1
Diluted headline earnings per share excluding currency translation losses (cents)	6	138.3	115.3
Dividend per share (cents)	5	55.1	46.0

Balance sheet as at 30 June

R million	Notes	2005	2004
Assets			
Banking Group		297 744	277 326
Cash and short-term funds	7	23 403	25 104
Advances	8	222 495	208 874
– originated		176 019	141 627
– held-to-maturity		7 449	8 971
– available-for-sale		1 648	4 499
– fair value		37 379	53 777
Investment securities and other investments	9	43 047	36 131
Financial instruments held for trading		20 728	9 660
Investment securities		22 319	26 471
– held-to-maturity		998	957
– available-for-sale		13 758	16 867
– elected fair value		7 563	8 647
Commodities		618	702
Non-recourse investments	10	8 181	6 515
Momentum and Discovery		96 732	82 654
Cash and cash equivalents	11	13 143	15 149
Government and public authority stocks	12	14 735	13 123
– available-for-sale		194	627
– elected fair value		14 541	12 496
Debentures and other loans	13	8 378	8 110
– available-for-sale		36	75
– elected fair value		8 342	8 035
Equity investments	14	55 787	42 070
– held-to-maturity		824	749
– available-for-sale		1 367	1 665
– elected fair value		53 596	39 656
Investment properties	15	4 159	3 648
Policy loans-originated		530	554
Banking Group, Momentum and Discovery		67 755	64 887
Loans and receivables	16	16 020	8 865
Investments in associated companies	17	3 768	2 815
Derivative financial instruments	18	39 727	45 485
– qualifying for hedging		811	4 798
– trading		38 916	40 687
Taxation	26	118	174
Deferred taxation	19	575	1 029
Assets arising from insurance contracts	22	2 169	1 403
Intangible assets	20	1 145	660
Property and equipment	21	4 233	4 456
Total assets		462 231	424 867
Shareholders' equity and liabilities			
Liabilities			
Deposits and current accounts	23	237 612	219 061
Non-recourse deposits	Banking note 13	8 181	6 515
Current liabilities	24	23 128	14 052
Provisions	25	1 569	1 345
Taxation	26	193	1 414
Derivative financial instruments	27	30 264	40 783
– qualifying for hedging		249	4 606
– trading		30 015	36 177
Short trading positions	28	19 919	23 286
Deferred taxation	19	3 919	2 098
Retirement funding liabilities	29	1 516	1 402
Debentures and long-term liabilities	30	6 432	7 104
Policyholder liabilities		97 352	81 969
– under insurance contracts	31	48 508	42 337
– under investment contracts	32	48 844	39 632
Total liabilities		430 085	399 029
Outside shareholders' interest	33	2 290	1 823
Shareholders' equity			
Ordinary share capital and share premium	34	4 396	6 767
Reserves	35	22 468	17 248
– Distributable reserves		20 575	15 208
– Non-distributable reserves		1 893	2 040
Non-cumulative non-redeemable preference shares	34	2 992	–
Total shareholders' equity		29 856	24 015
Total shareholders' equity and liabilities		462 231	424 867
Contingencies and commitments	36	26 465	23 443

Statement of changes in equity for the year ended 30 June

	Ordinary share capital and ordinary shareholders' funds			
R million	Share capital (Note 34)	Share premium (Note 34)	Retained earnings (Note 35)	Non-distributable reserves (Note 35)
Balance at 1 July 2003	53	7 002	11 881	1 857
Change in accounting policy	–	–	67	–
Restated balance at 1 July 2003	53	7 002	11 948	1 857
Movement in revaluation reserves	–	–	–	(201)
Currency translation differences	–	–	–	(254)
Movement in other reserves	–	–	–	70
Earnings attributable to shareholders	–	–	5 817**	–
Realised loss on minority share buy-back	–	–	(3)	–
Ordinary dividends	–	–	(1 956)	–
Transfer (to)/from reserves	–	–	(493)	493
Sub-total	53	7 002	15 313	1 965
Consolidation of share trusts	(1)	(287)	(105)**	75
Balance at 30 June 2004	52	6 715	15 208	2 040
Balance at 1 July 2004	52	6 715	15 208	2 040
Issue of share capital	1	–	–	–
Reduction of share capital	*	(1)	–	–
Share issue expense	–	(5)	–	–
Currency translation differences	–	–	–	(354)
Movement in revaluation reserves	–	–	(1)	455
Movement in other reserves	–	–	–	(139)
Earnings attributable to shareholders	–	–	8 246**	–
Ordinary dividends	–	–	(2 767)	–
Preference dividends	–	–	(68)	–
Transfer (to)/from reserves	–	–	116	(116)
Effective change of shareholding of subsidiary	–	–	(4)	–
Sub-total	53	6 709	20 730	1 886
Consolidation of share trusts	(2)	(2 364)	(155)**	7
Balance at 30 June 2005	51	4 345	20 575	1 893

* *Less than R500 000.*

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

R million
Earnings attributable to shareholders per above
Consolidation of share trusts
Earnings attributable to shareholders per income statement

Total ordinary shareholders' funds	Perpetual preference shareholders' funds			Total shareholders' funds
	Non-cumulative preference share capital (Note 34)	Non-cumulative preference share premium (Note 34)	Total preference shareholders' funds	
20 793	–	–	–	20 793
67	–	–	–	67
20 860	–	–	–	20 860
(201)	–	–	–	(201)
(254)	–	–	–	(254)
70	–	–	–	70
5 817	–	–	–	5 817
(3)	–	–	–	(3)
(1 956)	–	–	–	(1 956)
–	–	–	–	–
24 333	–	–	–	24 333
(318)	–	–	–	(318)
24 015	–	–	–	24 015
24 015	–	–	–	24 015
1	*	3 000	3 000	3 001
(1)	–	–	–	(1)
(5)	–	(8)	(8)	(13)
(354)	–	–	–	(354)
454	–	–	–	454
(139)	–	–	–	(139)
8 246	–	–	–	8 246
(2 767)	–	–	–	(2 767)
(68)	–	–	–	(68)
–	–	–	–	–
(4)	–	–	–	(4)
29 378	*	2 992	2 992	32 370
(2 514)	–	–	–	(2 514)
26 864	*	2 992	2 992	29 856

2005	2004
8 246	5 817
(155)	(105)
8 091	5 712

Cash flow statement for the year ended 30 June

R million	Notes	2005	2004
Cash flows from operating activities			
Cash generated by operations	38.1	17 887	16 312
Working capital changes	38.2	1 835	(11 844)
Cash inflow from operations		19 722	4 468
Taxation paid	38.3	(3 298)	(2 482)
Dividends paid	38.4	(2 835)	(1 956)
Net cash inflow from operating activities		13 589	30
Cash flows from investment activities			
Banking Group investment activities	38.5	(10 484)	73
Momentum and Discovery investment activities	38.6	(6 733)	(6 275)
Net purchase of property and equipment		(388)	(1 265)
Investment in associates		(1 174)	(106)
Net purchase of intangible assets		(238)	(393)
Subsidiaries acquired		(278)	–
Proceeds on disposal of subsidiary		1 019	–
Net cash outflow from investment activities		(18 276)	(7 966)
Cash flows from financing activities			
Repayment of long-term borrowings		(693)	–
Proceeds from share issue		3 000	3 101
Net cash inflow from financing activities		2 307	3 101
Net (decrease) in cash and cash equivalents		(2 380)	(4 835)
Cash and cash equivalents at the beginning of the year		40 253	45 088
Cash and cash equivalents at the end of the year		37 873	40 253
Cash and cash equivalents sold		(1 335)	–
Cash and cash equivalents bought		8	–
Cash and cash equivalents at the end of the year	38.7	36 546	40 253

R million	Reference	2005	2004
1. Accounting policies			
The accounting policies of the Group are set out on pages 76 to 77.			
2. Turnover			
Turnover is a concept not relevant to the business of the Group.			
3. Net income after tax attributable to shareholders			
Net income after tax is stated after charging the following:			
Directors' emoluments paid			
Executive directors			
Salaries, pension and medical aid contributions		20	26
Non-executive directors			
Fees for service as directors/consultants		6	5
		26	31
Directors' emoluments paid by:			
Company		2	2
Subsidiaries		24	29
		26	31
4. Momentum and Discovery			
Operating profit after taxation			
Net premium income		9 591	10 026
Momentum	Momentum note 3	5 940	6 621
Discovery	Discovery note 3	3 651	3 405
Fees for asset manager services rendered		1 491	1 280
Momentum	Momentum page 254	1 491	1 280
Investment income attributable to policyholders		4 994	5 128
Momentum	Momentum note 4	4 924	5 045
Discovery	Discovery note 6	124	130
Discovery	Discovery note 7	(54)	(47)
Policyholder benefits		(8 866)	(7 498)
Momentum	Momentum note 5	(8 287)	(6 657)
Discovery	Discovery note 4	(579)	(841)
Operating and administration expenses		(3 821)	(3 291)
Momentum	Momentum note 6	(1 675)	(1 482)
Discovery	Discovery note 5	(1 734)	(1 495)
Discovery	Discovery page 318	(412)	(314)
Commissions		(1 761)	(1 452)
Momentum	Momentum page 254	(1 046)	(876)
Discovery	Discovery page 318	(715)	(576)
Deferred acquisition costs		1	–
Discovery	Discovery page 318	1	–

R million	Reference	2005	2004
4. Momentum and Discovery *(continued)*			
Operating profit after taxation *(continued)*			
Fair value adjustment to policyholder liabilities arising from investment contracts		(7 917)	(3 214)
Momentum	Momentum page 254	(7 795)	(3 137)
Discovery	Discovery note 21	(122)	(77)
Realised and unrealised investment surpluses		14 917	3 377
Momentum	Momentum page 254	14 768	3 371
Discovery	Discovery page 318	157	68
Discovery	Discovery note 8	(8)	(62)
Direct taxation		(1 200)	(661)
Momentum	Momentum note 8	(893)	(362)
Discovery	Discovery note 9	(307)	(299)
Indirect taxation		(146)	(134)
Momentum	Momentum note 8	(146)	(134)
Transfer to policyholder liabilities under insurance contracts		(5 528)	(2 328)
Momentum	Momentum note 21	(6 102)	(2 857)
Discovery	Discovery note 16	574	529
Earnings attributable to outside shareholders		(441)	(220)
Momentum	Momentum page 254	(247)	(73)
Discovery	Discovery page 318	9	(3)
FirstRand Group consolidation of Discovery		(203)	(144)
Operating profit after taxation		1 314	1 013
5. Dividends			
Ordinary dividends			
An interim dividend of 26.60 cents (2004: 19.25 cents) per share was declared on 1 March 2005 in respect of the six months ended 31 December 2004.		1 457	1 051
A final dividend of 28.50 cents (2004: 26.75 cents) per share was declared on 15 September 2005 in respect of the six months ended 30 June 2005.		1 600	1 465
		3 057	2 516
Preference dividends			
An interim dividend of 228 cents (2004: nil cents) per share was declared on 1 March 2005 in respect of the six months ended 31 December 2004.		68	–
A final dividend of 360 cents (2004: nil cents) per share was declared on 15 September 2005 in respect of the six months ended 30 June 2005.		114	–
		182	–

R million	Reference	2005	2004
6. Earnings per share			
Attributable earnings			
Earnings per share is based on the net income after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.			
Earnings attributable to ordinary shareholders amounted to R8 023 million (2004: R5 712 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 199 864 205 (2004: 5 192 070 171)			
The weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share amounted to 5 306 440 278 (2004: 5 317 088 855).			
Headline earnings			
Headline earnings per share is based on the net income after tax attributable to ordinary shareholders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.			
Headline earnings reconciliation			
Earnings attributable to shareholders		8 091	5 712
Less: Dividends paid to non-cumulative non-redeemable preference shareholders		(68)	–
Earnings attributable to ordinary shareholders		8 023	5 712
Add: Amortisation of goodwill		–	58
(Less): Profit on sale of subsidiaries		(346)	–
Add: Loss on disposal of assets		7	92
(Less): Realised profit on sale of available-for-sale financial instruments		(82)	(99)
Headline earnings		7 602	5 763
(Less)/Add: Foreign currency translation (gains)/loss on integrated foreign operations – Banking Group		(264)	370
Headline earnings excluding currency translation losses		7 338	6 133
7. Cash and short-term funds			
Banking Group	Banking note 7	23 403	25 104
8. Advances			
Banking Group	Banking note 9	226 552	210 414
Consolidation adjustment		(115)	15
Consolidation of share trusts		(3 942)	(1 555)
		222 495	208 874
9. Investment securities and other investments			
Banking Group	Banking note 11	43 522	36 007
Consolidation adjustment		(636)	(10)
Consolidation of share trust		161	134
		43 047	36 131
10. Non-recourse investments			
Banking Group	Banking note 12	8 181	6 515

R million	Reference	2005	2004
11. Cash and cash equivalents			
FirstRand Limited	FirstRand Limited page 100	**36**	14
Momentum	Momentum page 255	**13 014**	14 495
Discovery	Discovery page 319	**1 075**	998
FirstRand Investment Holdings Group		**(33)**	(100)
Consolidation adjustment		**(949)**	(258)
		13 143	15 149
12. Government and public authority stocks			
Momentum – available-for-sale	Momentum page 255	**91**	497
Discovery – available-for-sale	Discovery page 319	**146**	130
Consolidation adjustment		**(43)**	–
		194	627
Momentum – elected fair value	Momentum page 255	**14 501**	12 444
Discovery – elected fair value	Discovery page 319	**40**	52
		14 541	12 496
13. Debentures and other loans			
Momentum – available-for-sale	Momentum page 255	**565**	523
Consolidation of share trusts		**(529)**	(448)
		36	75
Momentum – elected fair value	Momentum page 255	**8 341**	7 958
Discovery – elected fair value	Discovery note 14.2	**1**	77
		8 342	8 035
14. Equity investments			
Momentum – held-to-maturity	Momentum page 255	**824**	749
Momentum – available-for-sale	Momentum page 255	**703**	1 313
Discovery – available-for-sale	Discovery note 12	**922**	602
Consolidation adjustment		**(258)**	(250)
		1 367	1 665
Momentum – elected fair value	Momentum page 255	**53 258**	39 537
Discovery – elected fair value	Discovery note 12	**337**	251
Consolidation adjustment		**1**	(132)
		53 596	39 656
15. Investment properties			
Momentum	Momentum note 12	**4 159**	3 648
16. Loans and receivables			
FirstRand Limited	FirstRand Limited note 5	**270**	275
Banking Group	Banking note 14 and page 163	**10 090**	2 796
Momentum	Momentum note 13	**5 491**	5 682
Discovery	Discovery note 14.1	**556**	353
FirstRand Investment Holdings Group		**1 075**	3
Consolidation adjustment		**(1 101)**	(7)
Consolidation of share trusts		**(361)**	(237)
		16 020	8 865

R million	Reference	2005	2004
17. Investments in associated companies			
Banking Group	Banking note 15	2 780	2 208
Momentum	Momentum note 11	978	605
Discovery	Discovery note 13	4	2
FirstRand Investment Holdings Group		6	–
		3 768	2 815
18. Derivative financial instruments			
Banking Group	Banking note 8	27 752	34 415
Momentum	Momentum note 25	11 975	11 070
		39 727	45 485
19. Deferred taxation			
Banking Group – debit balances	Banking note 6	522	964
Momentum – debit balances	Momentum note 14	40	55
Discovery – debit balances	Discovery note 15	13	10
		575	1 029
Banking Group – credit balances	Banking note 6	2 799	1 666
Momentum – credit balances	Momentum note 14	797	304
Discovery – credit balances	Discovery note 15	323	128
		3 919	2 098
20. Intangible assets			
FirstRand Limited	FirstRand Limited note 6	121	47
Banking Group	Banking note 18	466	451
Momentum	Momentum note 15	619	230
Discovery	Discovery note 17	45	38
Consolidation adjustment		(106)	(106)
		1 145	660
21. Property and equipment			
Banking Group	Banking note 16	3 633	3 839
Momentum	Momentum note 16	404	416
Discovery	Discovery note 18	196	201
		4 233	4 456
22. Assets arising from insurance contracts			
Banking Group	Banking note 19	170	85
Discovery	Discovery note 16	1 881	1 318
Consolidation adjustment		118	–
		2 169	1 403
23. Deposits and current accounts			
Banking Group	Banking note 20	238 903	219 371
Consolidation adjustment		(1 291)	(310)
		237 612	219 061

R million	Reference	2005	2004
24. Current liabilities			
FirstRand Limited	FirstRand Limited page 100	**310**	303
Banking Group	Banking note 22 and page 163	**16 716**	7 715
Momentum	Momentum note 17	**4 177**	3 962
Discovery	Discovery note 19	**896**	578
FirstRand Investment Holdings Group		**39**	116
Consolidation adjustment		**991**	1 625
Consolidation of share trusts		**(1)**	(247)
		23 128	14 052
25. Provisions			
Banking Group	Banking note 23	**1 361**	1 347
Momentum	Momentum note 18	**178**	159
Discovery	Discovery note 20	**30**	22
Consolidation of share trusts		**–**	(183)
		1 569	1 345
26. Taxation			
FirstRand Limited – credit balance	FirstRand Limited page 100	**14**	19
FirstRand Investment Holdings Group – credit balance		**–**	1
Banking Group – credit balance	Banking Group page 163	**112**	1 351
Momentum – credit balance	Momentum page 255	**50**	–
Discovery – credit balance	Discovery page 319	**17**	43
		193	1 414
Momentum – debit balance	Momentum page 255	**118**	174
27. Derivative financial instruments			
Banking Group	Banking note 8	**25 467**	34 427
Momentum	Momentum note 25	**4 797**	6 356
		30 264	40 783
28. Short trading positions			
Banking Group	Banking note 21	**19 919**	23 286
29. Retirement funding liabilities			
Banking Group	Banking note 17	**1 249**	1 111
Momentum	Momentum note 19	**267**	291
		1 516	1 402
30. Debentures and long-term liabilities			
FirstRand Limited	FirstRand Limited note 9	**105**	386
Banking Group	Banking note 24	**3 422**	3 678
Momentum	Momentum note 20	**2 744**	2 498
Discovery	Discovery note 22.2	**94**	316
FirstRand Investment Holdings Group	Refer below	**1 080**	1 405
Consolidation adjustment		**(652)**	(793)
Consolidation of share trusts		**(361)**	(386)
		6 432	7 104

R million	Reference	2005	2004
30. Debentures and long-term liabilities *(continued)*			
During July 2003 the Group raised R1 405 million through the issue of preference shares. This issue was made to facilitate the restructuring of Momentum's balance sheet and the transfer of the investment in Discovery from Momentum to FirstRand Limited.			
The Momentum investment in Discovery comprised of an existing shareholding and Momentum's portion of the Discovery rights issue on 28 July 2003.			
The total number of shares held in Discovery as at 30 June 2005 total to 341 941 763 at a cost of R1 407.3 million. This represent a 64.7% shareholding in Discovery Limited.			
The preference shares of FirstRand Investment Holdings Group have been classified as long-term liabilities and comprise the following:			
2 750 Preference shares subscribed for by the Banking Group		275	275
2 500 Preference shares subscribed for by Momentum		250	250
5 550 Preference shares subscribed for by third and related parties (refer note 37)		555	880
		1 080	1 405
31. Policyholder liabilities under insurance contracts			
Banking Group	Banking note 19	109	77
Momentum	Momentum note 21	48 368	42 207
Discovery	Discovery note 16	31	42
Consolidation adjustment		–	11
		48 508	42 337
32. Policyholder liabilities under investment contracts			
Momentum	Momentum note 22	48 350	39 373
Discovery	Discovery note 21	483	400
Consolidation adjustment		11	(141)
		48 844	39 632
33. Outside shareholders' interest			
Banking Group	Banking Group page 163	990	898
Momentum	Momentum page 255	145	21
Discovery	Discovery note 23	67	67
Consolidation adjustment		1 088	837
		2 290	1 823

R million	2005	2004
34. Share capital and share premium		
Share capital		
Authorised		
5 928 000 000 ordinary shares of 1 cent each (2004: 5 928 000 000)	**59**	59
272 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each (2004: 272 000 000)	**3**	3
100 000 000 "B" variable rate non-cumulative non-redeemable preference shares of 1 cent each (2004: 100 000 000)	**1**	1
100 000 000 "C" variable rate convertible non-cumulative redeemable preference shares of 1 cent each (2004: 100 000 000)	**1**	1
100 000 000 "D" variable rate cumulative redeemable preference shares of 1 cent each (2003: 100 000 000)	**1**	1

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

	Number of ordinary shares	Number of "A" preference shares	Number of non-redeemable "B" preference shares	Share capital R million	Share premium R million	Total R million
34. Share capital and share premium *(continued)*						
Balance at 1 July 2004						
Ordinary shares of 1 cent each	5 226 649 405			52	6 715	6 767
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		81 725 000		1	632	633
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each			–	–	–	–
Share buy-back through odd-lot offer						
Ordinary shares of 1 cent each	(49 850)			*	(1)	(1)
Shares redeemed during the year						
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(15 578 029)		*	(271)	(271)
Shares converted during the year						
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(18 241 971)		*	–	*
Shares issued during the year						
Ordinary shares of 1 cent each	18 241 971			*	–	*
Ordinary shares of 1 cent each	119 000 000			1	–	1
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each			30 000 000	*	3 000	3 000
Shares issue costs						
Ordinary shares of 1 cent each				–	(5)	(5)
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each				–	(8)	(8)
Current year movement in treasury shares						
Ordinary shares of 1 cent each	(176 436 062)			(2)	(2 364)	(2 366)
Balance at the end of the year						
Ordinary shares of 1 cent each				51	4 345	4 396
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each				1	361	362
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each				*	2 992	2 992
Preference shares disclosed under liabilities				(1)	(361)	(362)
Total share capital at 30 June 2005	5 187 405 464	47 905 000	30 000 000	51	7 337	7 388

* *Less than R500 000.*

	2005 %	2004 %
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:		
Momentum Group Limited – held on behalf of policyholders	0.7	1.9

Share option schemes

The investment in FirstRand Limited by the share incentive schemes in existence within the Group have been treated as treasury shares as set out above.

R million	2005	2004
35. Reserves		
Distributable reserves		
Retained earnings at the beginning of the year as previously stated	15 208	11 881
Change in accounting policy	–	67
Restated balance at the beginning of the year	15 208	11 948
Earnings attributable to shareholders	8 246*	5 817*
Realised loss on minority share buy-back	–	(3)
Movement in revaluation reserves	(1)	–
Ordinary dividend for the year	(2 767)	(1 956)
Preference dividend for the year	(68)	–
Transfer from/(to) non-distributable reserves	116	(493)
Effective change of shareholding of subsidiary	(4)	–
Consolidation of share trusts	(155)*	(105)*
Retained earnings at the end of the year	20 575	15 208
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking Group	1 333	1 645
General risk reserve	1 123	1 146
Revaluation reserve	488	317
Currency translation reserve	(317)	4
Other	39	178
Momentum	450	306
Revaluation reserve	331	155
Currency translation reserve	54	106
Reserve on capitalisation of subsidiary	51	51
Other	14	(6)
Discovery	204	74
Revaluation reserve	137	33
Currency translation reserve	65	45
Other	2	(4)
FirstRand Investment Holdings Group		
Other	6	6
FirstRand Limited		
Capital redemption reserve	–	148
FirstRand share trusts	(100)	(139)
Non-distributable reserves at the end of the year	1 893	2 040
Total reserves	22 468	17 248
* *On the face of the income statement dividends received in treasury shares have been offset against earnings attributable to shareholders as follows:*		
Earnings attributable to shareholders per above	8 246	5 817
Consolidation of share trusts	(155)	(105)
Earnings attributable to shareholders per income statement	8 091	5 712

R million	Reference	2005	2004
35. Reserves *(continued)*			
Movement for the year in non-distributable reserves			
Balance at the beginning of the year		**2 040**	1 857
Transfer from retained earnings relating to Banking Group		**(8)**	94
Transfer from retained earnings to FirstRand Investment Holdings Group		**–**	6
Transfer to retained earnings from Momentum Group		**1**	–
Transfer (from)/to Capital Redemption Reserve Fund		**(148)**	148
General risk reserve		**(23)**	245
Revaluation reserve		**455**	(201)
Currency translation reserve		**(354)**	(254)
Other		**(77)**	70
Consolidation of share trusts		**7**	75
Non-distributable reserves at the end of the year		**1 893**	2 040
36. Contingencies and commitments			
Banking Group	Banking note 27	**26 465**	23 443
		26 465	23 443

37. Related parties

Major shareholders

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

Transactions with major shareholders and with share trusts

Interest-free loans to share trusts amounted to R4 671 million (2004: R2 674 million) and have been eliminated on consolidation. For details of options granted by share trusts refer to note 39.

Loans advanced to RMB Holdings Limited amounted to R3 million (2004: nil) and loans received amounted to R2 001 million (2004: R551 million). Income received from RMB Holdings Limited amounted to R2.5 million (2004: R1 million) and expenses paid to R1 million (2004: R6 million).

Deposits received from the Remgro Limited Group amounted to R172 million (2004: R290 million).

Transactions with directors

Directors' emoluments are detailed in note 3 and pages 112 and 113. Transactions with directors are entered into in the normal course of business. In addition to emoluments, trusts under the control of directors subscribed for Rnil (2004: R13 million) of cumulative redeemable preference shares, detailed in note 30 and received dividends of Rnil (2004: R1 million) on these preference shares. "B" preference shares subscribed to are detailed on page 114.

Transactions with entities in the Group

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

Fixed interest securities and derivative instruments

The Momentum Group invests from time to time in fixed interest securities and equity instruments issued by FirstRand Bank. These assets are acquired at market rates in accordance with the Group accounting policy. Due to the fact that these assets are acquired to back liabilities to policyholders under unmatured policies, they are not eliminated on consolidation. At 30 June 2005 Momentum Group reflected assets with FirstRand Bank of R11 696 million (2004: R9 096 million) and liabilities of R3 828 million (2004: R6 290 million). The shareholding of Momentum Group in FirstRand Limited is detailed in note 34.

R million	2005	2004
38. Cash flow information		
38.1 Cash generated by operations		
Net income before tax attributable to ordinary shareholders	**15 941**	12 457
Adjustment for non-cash items and taxation	**1 946**	3 855
	17 887	16 312
38.2 Working capital changes		
Net increase in current assets	**(7 807)**	(1 492)
Net increase/(decrease) in current liabilities	**9 642**	(10 352)
Net working capital changes	**1 835**	(11 844)
38.3 Taxation paid		
Balance at the beginning of the year	**(1 240)**	(1 430)
Taxation charged for the year	**(2 133)**	(2 292)
Balance at the end of the year	**75**	1 240
Taxation paid	**(3 298)**	(2 482)
38.4 Dividends paid		
Ordinary dividends		
Final dividend declared on:		
– 14 September 2004 in respect of the year ended 30 June 2004	**(1 465)**	
– 16 September 2003 in respect of the year ended 30 June 2003		(1 010)
Interim dividend declared on:		
– 1 March 2005 in respect of the period ended 31 December 2004	**(1 457)**	
– 2 March 2004 in respect of the period ended 31 December 2003		(1 051)
Preference dividends on "B" preference shares		
Interim dividend declared on:		
– 1 March 2005 in respect of the period ended 28 February 2005	**(68)**	–
Dividends paid on treasury shares	**155**	105
Dividends paid	**(2 835)**	(1 956)
38.5 FirstRand Banking Group investment activities		
Decrease/(increase) in:		
Investment securities and other investments	**(8 526)**	(1 081)
Advances	**(18 311)**	(24 435)
	(26 837)	(25 516)
Deposits and current accounts	**24 397**	38 685
Short trading positions	**(8 044)**	(13 096)
Net (increase)/decrease in Banking Group investment activities	**(10 484)**	73
38.6 Momentum and Discovery investment activities		
Cash (outflow)/inflow from:		
Assets arising from insurance contracts	**327**	–
Government and public authority stocks	**(904)**	(1 115)
Debentures and other loans	**(268)**	1 410
Policy loans	**24**	27
Equity investments	**(6 211)**	(5 356)
Property investments	**92**	(778)
Derivative instruments	**–**	(764)
Loans	**–**	301
Policyholder liabilities	**207**	–
Net increase in Momentum and Discovery investment activities	**(6 733)**	(6 275)

R million	2005	2004

38. Cash flow information *(continued)*

38.7 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2005	2004
Cash and short-term funds	23 403	25 104
Funds on deposit	13 143	15 149
	36 546	40 253

39. Share Option Schemes

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

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

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Share Option Schemes 2005					
Number of options in force at the beginning of the year (millions)	0.1	2.6	21.9	228.3	2.7
Granted at prices ranging between (cents)	532 – 867	348 – 1 029	325 – 1 069	655 – 1 015	300 – 1 350
Number of options granted during the year (millions)	0.3	0.1	0.1	67.3	–
Granted at prices ranging between (cents)	–	0 – 1 029	630	655 – 1 399	–
Number of options exercised/ released during the year (millions)	(0.4)	(1.4)	(10.8)	(22.4)	(1.9)
Market value range at date of exercise/release (cents)	532 – 1 390	426 – 1 455	325 – 1 454	655 – 1 399	1 590 – 2 299
Number of options cancelled/ lapsed during the year (millions)	–	–	–	(15.8)	–
Granted at prices ranging between (cents)	–	–	–	655 – 1 399	–
Number of options in force at the end of the year (millions)	–	1.3	11.2	257.4	0.8
Granted at prices ranging between (cents)	–	0 – 1 029	325 – 1 069	655 – 1 399	300 – 1 350
Options are exercisable over the following periods: (first date able to release)					
Financial year 2005/2006 (millions)	–	1.3	11.2	35.7	0.8
Financial year 2006/2007 (millions)	–	–	–	41.8	–
Financial year 2007/2008 (millions)	–	–	–	47.6	–
Financial year 2008/2009 (millions)	–	–	–	67.2	–
Financial year 2009/2010 (millions)	–	–	–	44.0	–
Financial year 2010/2011 (millions)	–	–	–	21.1	–
Total	–	1.3	11.2	257.4	0.8

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
39. Share Option Schemes *(continued)*					
Share Option Schemes 2005					
Options outstanding (by expiry date)					
Financial year 2005/2006 (millions)	–	–	–	–	–
Financial year 2006/2007 (millions)	–	0.1	0.4	51.4	0.6
Financial year 2007/2008 (millions)	–	–	4.6	74.0	0.2
Financial year 2008/2009 (millions)	–	1.2	0.6	68.8	–
Financial year 2009/2010 (millions)	–	–	5.4	63.2	–
Financial year 2010/2011 (millions)	–	–	0.2	–	–
Total	–	1.3	11.2	257.4	0.8
Total options outstanding – in the money (millions)	–	1.3	11.2	257.0	0.8
Total options outstanding – out of the money (millions)	–	–	–	0.4	–
Total	–	1.3	11.2	257.4	0.8
Number of participants	–	146	181	1 979	28
Share Option Schemes 2004					
Number of options in force at the beginning of the year (millions)	19.3	4.7	45.2	176.0	26.5
Granted at prices ranging between (cents)	527 – 990	348 – 1 029	225 – 1 069	655 – 861	250 – 1 450
Number of options granted during the year (millions)	–	–	–	76.0	–
Granted at prices ranging between (cents)	–	–	–	685 – 1015	–
Number of options exercised/ released during the year (millions)	(18.7)	(2.1)	(23.1)	(10.4)	(15.5)
Market value range at date of exercise/release (cents)	532 – 1 020	348 – 1 040	225 – 1 037	655 – 1 040	1194 – 1 617
Number of options cancelled/ lapsed during the year (millions)	(0.5)	–	(0.2)	(13.3)	(8.3)
Granted at prices ranging between (cents)	527 – 591	348 – 648	628 – 690	655 – 772	1184 – 1 450
Number of options in force at the end of the year (millions)	0.1	2.6	21.9	228.3	2.7
Granted at prices ranging between (cents)	532 – 867	348 – 1 029	325 – 1 069	655 – 1 015	300 – 1 350
Options are exercisable over the following periods (first date able to release)					
Financial year 2004/2005 (millions)	–	2.6	21.7	19.6	2.7
Financial year 2005/2006 (millions)	–	–	0.2	29.3	–
Financial year 2006/2007 (millions)	–	–	–	54.5	–
Financial year 2007/2008 (millions)	–	–	–	51.3	–
Financial year 2008/2009 (millions)	–	–	–	49.4	–
Financial year 2009/2010 (millions)	–	–	–	24.2	–
Total	0.1	2.6	21.9	228.3	2.7

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)

39. Share Option Schemes *(continued)*

Share Option Schemes 2004

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Options outstanding (by expiry date)					
Financial year 2004/2005 (millions)	–	–	–	–	1.4
Financial year 2005/2006 (millions)	–	0.5	0.3	–	1.0
Financial year 2006/2007 (millions)	–	0.2	0.8	74.4	0.3
Financial year 2007/2008 (millions)	–	–	9.2	5.7	–
Financial year 2008/2009 (millions)	–	1.9	1.3	75.6	–
Financial year 2009/2010 (millions)	–	–	10.0	72.6	–
Financial year 2010/2011 (millions)	–	–	0.3	–	–
Total	0.1	2.6	21.9	228.3	2.7
Total options outstanding – in the money (millions)	0.1	2.5	21.8	228.3	2.7
Total options outstanding – out of the money (millions)	–	0.1	0.1	–	–
Total	0.1	2.6	21.9	228.3	2.7
Number of participants	5	239	300	1745	47

RMB Preference Share Scheme

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

	2005	2004
Number of RMBH shares in SPV companies at the beginning of the year (millions)	**2.6**	5.1
Purchased at prices ranging between (cents)	**900 – 1 327**	900 – 1 327
Number of shares released during the year (millions) (preference shares redeemed)	**2.2**	2.5
Number of RMBH shares in SPV companies at the end of the year (millions)	**0.4**	2.6
Purchased at prices ranging between (cents)	**900 – 1 327**	900 – 1 327
Cost price of shares in special purpose companies at the beginning of the year (R million)	**25.6**	57.2
Cost price of shares released during the year (R million) (preference shares redeemed)	**21.8**	31.6
Cost price of shares in special purpose companies at the end of the year (R million)	**3.8**	25.6
Market value of shares in special purpose companies at the end of the year (R million)	**7.9**	41.5
Preference shares are redeemable over the following periods (by first date)		
Financial year 2003/2004 (millions)	**0.4**	2.3
Financial year 2004/2005 (millions)	**–**	0.3
Total	**0.4**	2.6
Preference shares outstanding (by final redemption date)		
Financial year 2004/2005 (millions)	**–**	1.4
Financial year 2005/2006 (millions)	**0.4**	0.9
Financial year 2006/2007 (millions)	**–**	0.3
Total	**0.4**	2.6
Total shares outstanding in the money (millions)	**0.4**	2.6
Total shares outstanding out of the money (millions)	**–**	–
Total	**0.4**	2.6
Number of participants	**3**	17

39. Share Option Schemes *(continued)*

FirstRand Outperformance Share Incentive Scheme

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

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

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

	2005	2004
Number of "A" preference shares at the beginning of the year (millions)	**81.7**	118.8
Purchased at prices ranging between (cents)	**654 – 815**	654 – 815
Number of shares redeemed during the year (millions) (resignations)	**(5.3)**	(9.0)
Number of shares issued during the year (millions)	**–**	–
Number of shares converted/redeemed during the year (millions)	**(28.5)**	(28.1)
Number of "A" preference shares at the end of the year (millions)	**47.9**	81.7
Purchased at prices ranging between (cents)	**654 – 815**	654 – 815
Preference shares are redeemable over the following periods:		
Financial year 2004/2005 (millions)	**–**	30.3
Financial year 2005/2006 (millions)	**32.5**	34.5
Financial year 2006/2007 (millions)	**5.7**	6.3
Financial year 2007/2008 (millions)	**5.7**	6.3
Financial year 2008/2009 (millions)	**4.0**	4.3
Total	**47.9**	81.7
Number of participants	**213**	222

40. Comparative figures

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

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

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

Income statement for the year ended 30 June

		Company	
R million	Notes	2005	2004
Net investment income	1	8 644	5 945
Management and administration expenses	2	(76)	(42)
Income before taxation		8 568	5 903
Taxation	3	(167)	(107)
Earnings attributable to shareholders	11	8 401	5 796

Balance sheet as at 30 June

		Company	
R million	Notes	2005	2004
Assets			
Investments			
Funds on deposit		36	14
Investment in subsidiaries	13	33 984	25 675
Total investments		34 020	25 689
Current assets	5	270	275
Intangible assets	6	121	47
Loan to share trust	7	105	386
Property and equipment		*	–
Deferred tax asset	3	24	8
Total assets		34 540	26 405
Liabilities and shareholders' funds			
Liabilities			
Current liabilities		310	303
Derivative financial instruments	8	82	27
Long-term liabilities	9	105	386
Taxation		14	19
Total liabilities		511	735
Shareholders' funds			
Ordinary share capital and share premium	10	8 482	8 487
Preference share capital and share premium	10	2 992	–
Reserves	11	22 555	17 183
Total shareholders' funds		34 029	25 670
Total liabilities and shareholders' funds		34 540	26 405

* *Less than R500 000.*

Cash flow statement for the year ended 30 June

R million	Notes	Company 2005	Company 2004
Cash flows from operating activities			
Cash generated by operations	12.1	3 202	2 456
Working capital changes	12.2	(62)	(35)
Cash inflow from operations		3 140	2 421
Taxation paid	12.3	(188)	(97)
Dividends paid	12.4	(2 990)	(2 061)
Net cash (outflow)/inflow from operating activities		(38)	263
Cash flows from investment activities			
Investment in subsidiaries		(3 083)	(1 326)
Loan to subsidiaries		(3)	(3)
Net cash outflow from investment activities		(3 086)	(1 329)
Cash flows from financing activities			
Loan from subsidiaries		158	1 073
Proceeds from issue of ordinary shares		1	–
Share issue expense written off against ordinary share premium		(5)	–
Proceeds from issue of preference shares		3 000	–
Share issue expense written off against preference share premium		(8)	–
Net cash inflow from financing activities		3 146	1 073
Increase in cash and cash equivalents		22	7
Cash and cash equivalents at the beginning of the year		14	7
Cash and cash equivalents at the end of the year		36	14

Statement of changes in equity for the year ended 30 June

R million	Share capital (Note 10)	Share premium (Note 10)	Retained earnings (Note 11)	Non-distributable reserves (Note 11)
	Ordinary share capital and ordinary shareholders' funds			
Balance at 1 July 2003	55	8 432	11 698	2 071
Change in accounting policy	–	–	67	–
Restated balance at 1 July 2003	55	8 432	11 765	2 071
Movement in revaluation reserves	–	–	–	(201)
Currency translation differences	–	–	–	(254)
Movement in other reserves	–	–	–	70
Earnings attributable to shareholders	–	–	5 796	–
Realised loss on minority share buy-back	–	–	(3)	–
Ordinary dividends	–	–	(2 061)	–
Transfer (to)/from reserves	–	–	(493)	493
Balance at 30 June 2004	55	8 432	15 004	2 179
Balance at 1 July 2004	55	8 432	15 004	2 179
Issue of share capital	1	–	–	–
Reduction of share capital	*	(1)	–	–
Share issue expense	–	(5)	–	–
Currency translation differences	–	–	–	(354)
Movement in revaluation reserves	–	–	(1)	455
Movement in other reserves	–	–	–	(139)
Earnings attributable to shareholders	–	–	8 401	–
Ordinary dividends	–	–	(2 922)	–
Preference dividends	–	–	(68)	–
Transfer (to)/from reserves	–	–	148	(148)
Balance at 30 June 2005	56	8 426	20 562	1 993

* *Less than R500 000.*

		Perpetual preference shareholders' funds			
	Total ordinary shareholders' funds	Non-cumulative preference share capital (Note 10)	Non-cumulative preference share premium (Note 10)	**Total preference shareholders' funds**	**Total shareholders' funds**
	22 256	–	–	–	22 256
	67	–	–	–	67
	22 323	–	–	–	22 323
	(201)	–	–	–	(201)
	(254)	–	–	–	(254)
	70	–	–	–	70
	5 796	–	–	–	5 796
	(3)	–	–	–	(3)
	(2 061)	–	–	–	(2 061)
	–	–	–	–	–
	25 670	–	–	–	25 670
	25 670	–	–	–	25 670
	1	*	3 000	3 000	3 001
	(1)	–	–	–	(1)
	(5)	–	(8)	(8)	(13)
	(354)	–	–	–	(354)
	454	–	–	–	454
	(139)	–	–	–	(139)
	8 401	–	–	–	8 401
	(2 922)	–	–	–	(2 922)
	(68)	–	–	–	(68)
	–	–	–	–	–
	31 037	*	2 992	2 992	34 029

Notes to the annual financial statements for the year ended 30 June

R million	Company 2005	Company 2004
1. Net investment income		
Interest in respect of "A" preference shares (classified as liabilities):		
Preference share dividends received	35	67
Preference share dividends paid	(35)	(67)
Investment income earned from subsidiaries:		
Equity accounted earnings of subsidiaries	5 494	3 523
Dividends received from subsidiaries – unlisted shares:		
Ordinary dividends	3 092	2 459
Preference dividends	68	–
Fees from subsidiaries	17	13
Interest paid	(4)	(26)
Interest received	31	2
Other investment income:		
Option premium received	–	2
Fair value adjustment of derivative financial instruments	(54)	(28)
	8 644	5 945
2. Management and administration expenses		
Included in management and administration expenses are the following:		
Advertising and promotions	2	5
Annual reports	5	5
Auditors' remuneration		
Audit fees – current year	*	*
Depreciation charge	*	–
Directors' fees paid	2	2
Goodwill amortised	–	2
Investor relations	2	1
Operating lease charges		
Land and buildings	1	1
Personnel costs	8	9
Professional fees paid to subsidiaries	38	3
Regional services council levies	5	8
Value-added tax	8	3
Other	5	3
Total management and administration expenses	76	42

* *Less than R500 000.*

R million	Company 2005	Company 2004
3. Taxation		
South African normal taxation		
Deferred		
– Current year	(16)	(8)
South African secondary taxation on companies ("STC")	183	115
Total taxation	167	107
Tax rate reconciliation	%	%
Effective rate of taxation	1.9	1.8
Equity accounted earnings	18.6	17.9
Dividends received	10.5	12.5
Non-deductible expenses	0.1	(0.3)
Secondary taxation on companies ("STC")	(2.1)	(1.9)
Standard rate of taxation	29.0	30.0
Deferred tax asset comprises:		
Change in fair value of derivative financial instrument	24	8
4. Dividends		
Ordinary dividends		
An interim dividend of 26.60 cents (2004: 19.25 cents) per share was declared on 1 March 2005 in respect of the six months ended 31 December 2004.	1 457	1 051
A final dividend of 28.5 cents (2004: 26.75 cents) per share was declared on 15 September 2005 in respect of the six months ended 30 June 2005.	1 600	1 465
	3 057	2 516
"B" Preference dividends		
An interim dividend of 228 cents (2004: nil cents) per share was declared on 1 March 2005 in respect of the six months ended 31 December 2004.	68	–
A final dividend of 360 cents (2004: nil cents) per share was declared on 15 September 2005 in respect of the six months ended 30 June 2005.	114	–
	182	–
5. Current assets		
Dividends receivable ("A" preference shares)	13	27
Sundry debtors	*	1
Short-term portion of loan to share trust	257	247
	270	275

* *Less than R500 000.*

Notes to the annual financial statements for the year ended 30 June

| Continued |

R million	Company 2005	Company 2004
6. Intangible assets		
Goodwill		
Carrying value	121	49
Less: Impairment and amortisation	–	(2)
	121	47
Movement in goodwill-book value		
Opening balance	47	–
Additions: Acquisition of Discovery	–	49
Additions: Increase of shareholding in Discovery	74	–
Amortisation charge and impairment	–	(2)
	121	47
7. Loan to share trust		
Outperformance Share Incentive Scheme loan		
Total amount outstanding	362	633
Short-term portion disclosed under current assets	(257)	(247)
Long-term portion	105	386

This loan is repayable by the FirstRand Limited Trust upon conversion of the preference shares into ordinary shares. If the conditions for conversion are not met, the loan and preference shares will be cancelled. The return on the loan is linked to the preference share dividend.

R million	Company 2005	Company 2004
8. Derivative financial instruments		
Held for trading		
Equity option at fair value	82	27

Comprises 6 700 000 Discovery Holdings Limited ordinary share options at a strike price of R10.00 per option expiring on 30 September 2005. A market price of R22.00 was used in the valuation of the option on 30 June 2005.

R million	Company 2005	Company 2004
9. Long-term liabilities		
Outperformance Share Incentive Scheme liability		
Total amount outstanding	362	633
Short-term portion disclosed under current liabilities	(257)	(247)
Long-term portion	105	386

This liability represents the preference shares issued in terms of the Outperformance Share Incentive Scheme.

R million	Company 2005	Group 2004
10. Share capital and share premium		
Share capital		
Authorised		
5 928 000 000 ordinary shares of 1 cent each (2004: 5 928 000 000)	**59**	59
272 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each (2004: 272 000 000)	**3**	3
100 000 000 "B" variable rate non-cumulative non-redeemable preference shares of 1 cent each (2004: 100 000 000)	**1**	1
100 000 000 "C" variable rate convertible non-cumulative redeemable preference shares of 1 cent each (2004: 100 000 000)	**1**	1
100 000 000 "D" variable rate cumulative redeemable preference shares of 1 cent each (2004: 100 000 000)	**1**	1

	Number of ordinary shares	Number of "A" preference shares	Number of non-redeemable "B" preference shares	Share capital R million	Share premium R million	Total R million
Issued						
Balance at 1 July 2003						
Ordinary shares of 1 cent each	5 460 321 030			55	8 432	8 487
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		118 837 500		1	933	934
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each			–	–	–	–
Shares issued during the year						
Ordinary shares of 1 cent each	16 053 803			–	–	–
Shares redeemed during the year						
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(21 058 697)		–	(301)	(301)
Shares converted during the year						
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(16 053 803)		–	–	–
Balance at the end of the year						
Ordinary shares of 1 cent each				55	8 432	8 487
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each				1	632	633
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each				–	–	–
"A" Preference shares disclosed under liabilities				(1)	(632)	(633)
Total share capital at 30 June 2004	5 476 374 833	81 725 000	–	55	8 432	8 487

Notes to the annual financial statements for the year ended 30 June

| Continued |

	Number of ordinary shares	Number of "A" preference shares	Number of non-redeemable "B" preference shares	Share capital R million	Share premium R million	Total R million
10. Share capital and share premium *(continued)*						
Balance at 1 July 2004						
Ordinary shares of 1 cent each	5 476 374 833			55	8 432	8 487
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		81 725 000		1	632	633
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each			–	–	–	–
Share buy-back through odd-lot offer						
Ordinary shares of 1 cent each	(49 850)			*	(1)	(1)
Shares redeemed during the year						
"A" variable rate convertible redeemable cumulative preference shares of 1 cent each		(15 578 029)		*	(271)	(271)
Shares converted during the year						
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each		(18 241 971)		*	–	*
Shares issued during the year						
Ordinary shares of 1 cent each	18 241 971			*	–	*
Ordinary shares of 1 cent each	119 000 000			1	–	1
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each			30 000 000	*	3 000	3 000
Shares issue costs						
Ordinary shares of 1 cent each				–	(5)	(5)
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each				–	(8)	(8)
Balance at the end of the year						
Ordinary shares of 1 cent each				56	8 426	8 482
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each				1	361	362
"B" variable rate non-cumulative non-redeemable preference shares of 1 cent each				*	2 992	2 992
"A" preference shares disclosed under liabilities				(1)	(361)	(362)
Total share capital at 30 June 2005	5 613 566 954	47 905 000	30 000 000	56	11 418	11 474

	2005 %	2004 %
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:		
Momentum Group Limited - held on behalf of policyholders	0.7	1.9

* *Less than R500 000.*

R million	Company 2005	Company 2004
11. Reserves		
Retained earnings		
Retained earnings at the beginning of the year	15 004	11 698
Change in accounting policy	–	67
Restated retained earnings at the beginning of the year	15 004	11 765
Earnings attributable to shareholders	8 401	5 796
Realised loss on minority share buy-back	–	(3)
Movement in revaluation reserves	(1)	–
Ordinary dividend for the year	(2 922)	(2 061)
Preference dividend for the year	(68)	–
Transfer from/(to) non-distributable reserves	148	(493)
Retained earnings at the end of the year	20 562	15 004
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking Group	1 333	1 645
General risk reserve	1 123	1 146
Revaluation reserve	488	317
Currency translation reserve	(317)	4
Other	39	178
Momentum	450	306
Revaluation reserve	331	155
Currency translation reserve	54	106
Reserve on capitalisation of subsidiary	51	51
Other	14	(6)
Discovery	204	74
Revaluation reserve	137	33
Currency translation reserve	65	45
Other	2	(4)
FirstRand Investment Holdings Group		
Other	6	6
FirstRand Limited		
Capital redemption reserve	*	148
Non-distributable reserves at the end of the year	1 993	2 179
Total reserves	22 555	17 183
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	2 179	2 071
Transfer (from)/to retained earnings relating to Banking Group	(8)	94
Transfer from retained earnings relating to FirstRand Investment Holdings Group	–	6
Transfer to retained earnings relating to Momentum Group	1	–
Transfer (from)/to Capital Redemption Reserve Fund	(148)	148
General risk reserve	(23)	245
Revaluation reserve	455	(201)
Currency translation reserve	(354)	(254)
Other	(109)	70
Non-distributable reserves at the end of the year	1 993	2 179

* *Less than R500 000.*

R million	Company 2005	Company 2004
12. Cash flow information		
12.1 Cash generated by operations		
Net income after taxation attributable to shareholders	**8 401**	5 796
Adjustment for non-cash items and taxation	**(5 199)**	(3 340)
Cash generated by operations	**3 202**	2 456
12.2 Working capital changes		
Increase in current assets	**(69)**	(17)
Increase/(decrease) in current liabilities	**7**	(18)
Net working capital changes	**(62)**	(35)
12.3 Taxation paid		
Balance at the beginning of the year	**(11)**	(1)
Taxation charged for the year	**(167)**	(107)
Balance at the end of the year	**(10)**	11
Taxation paid	**(188)**	(97)
12.4 Dividends paid		
Ordinary dividends		
Final dividend declared on:		
– 14 September 2004 in respect of the year ended 30 June 2004	**(1 465)**	
– 16 September 2003 in respect of the year ended 30 June 2003		(1 010)
Interim dividend declared on:		
– 1 March 2005 in respect of the period ended 31 December 2004	**(1 457)**	
– 2 March 2004 in respect of the period ended 31 December 2003		(1 051)
Ordinary dividends paid	**(2 922)**	(2 061)
Preference dividends on "B" preference shares		
Interim dividend declared on:		
– 1 March 2005 in respect of the period ended 28 February 2005	**(68)**	–
Preference dividends paid	**(68)**	–
Dividends paid	**(2 990)**	(2 061)

	Effective percentage holding		Investment of holding company: Amounts owing by/(to) subsidiaries		Investment of holding company: Shares at net carrying amount	
	2005	2004	**2005**	2004	**2005**	2004
	%	%	**Rm**	Rm	**Rm**	Rm
13. Investment in subsidiaries						
Banking Group						
FirstRand Bank Holdings Limited (FRBH)						
– Ordinary shares	**100**	100	**(1 548)**	(1 390)	**22 186**	18 236
– Non-redeemable preference shares	**100**	–	**–**	–	**3 000**	–
Momentum						
Momentum Group Limited	**100**	100	**14**	11	**8 148**	7 189
Discovery						
Discovery Holdings Limited	**65**	66	**–**	–	**2 119**	1 599
FirstRand Investment Holdings Limited	**100**	100	**–**	–	**65**	30
			(1 534)	(1 379)	**35 518**	27 054
Total interest in subsidiaries					**33 984**	25 675
Carrying amount at the beginning of the year					**27 054**	22 639
Movement for the year:						
Investment in FRBH non-redeemable preference shares					**3 000**	–
Equity accounted earnings					**5 494**	3 524
Acquisition of Discovery					**83**	1 325
Goodwill on acquisition (transfer to intangible assets)					**(74)**	(49)
Reserve accounting by subsidiaries					**(39)**	(385)
Carrying amount at the end of the year					**35 518**	27 054

The following share trusts are controlled by FirstRand Limited:

- Momentum Life Assurers Limited Share Trust
- Southern Life Association Limited Share Scheme
- First National Bank Share Purchase/Option Scheme
- FirstRand Limited Share Trust
- RMB Share Trust
- FirstRand Staff Assistance Trust
- FirstRand Black Employee Trust
- FirstRand Black Non-Executive Directors' Trust

The carrying amount of these investments is nil, except for the loan to the FirstRand Limited Share Trust which is disclosed in Note 7.

Directorate

DETAILS OF DIRECTORS

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

DIRECTORS' EMOLUMENTS

Remuneration and fees

Payments to directors during the year for services rendered are as follows:

	Services as directors FirstRand R000's	Group R000's	Cash package[1] R000's	Other benefits[2] R000's	Performance related[3] R000's	**Total 2005 R000's**	Total 2004 R000's
Executive							
VW Bartlett			–	–	–	**–**	7 119
LL Dippenaar[4]			3 165	685	6 000	**9 850**	9 171
PK Harris[4]			3 241	609	6 000	**9 850**	9 171
Sub-total			6 406	1 294	12 000	**19 700**	25 461
Non-executive							
GT Ferreira (Chairman)[5]	345	1 000				**1 345**	1 250
BH Adams	–	–				**–**	313
VW Bartlett	145	384				**529**	–
DJA Craig	118	138				**256**	256
DM Falck	134	325				**459**	455
PM Goss	194	270				**464**	452
NN Gwagwa	151	–				**151**	46
MW King	215	784				**999**	1 155
YI Mahomed	20	–				**20**	–
G Moloi	118	–				**118**	46
AP Nkuna	20	–				**20**	–
SEN Sebotsa	20	–				**20**	–
MC Ramaphosa	–	–				**–**	110
KC Shubane	118	–				**118**	130
F van Zyl Slabbert	118	–				**118**	110
BJ van der Ross	215	783				**998**	667
RA Williams	151	390				**541**	520
Sub-total	2 082	4 074	–	–	–	**6 156**	5 510
Total	**2 082**	**4 074**	**6 406**	**1 294**	**12 000**	**25 856**	**30 971**

1. "Cash package" includes travel and other allowances.

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

3. "Performance related" payments are in respect of the year ended 30 June 2005, but will be paid (together with an interest factor) in three tranches, during the year ending 30 June 2006.

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

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

Share incentives

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

The current interests of executive directors in share incentive schemes, together with benefits derived from redemptions and sales required in terms of the FirstRand BEE transaction, are as follows:

Share Option Scheme	Opening balance (number of shares)	Strike price (cents)	Expiry date	Taken up this year (number of shares)	BEE transaction (number of shares)	Benefit derived (Rand)	Closing balance (number of shares)
(FirstRand shares)							
Executive							
VW Bartlett	450 000	628	24/3/2009	450 000		2 574 000	–
	1 000 000	655	17/9/2007	1 000 000		5 450 000	–
	1 450 000			1 450 000		8 024 000	–
LL Dippenaar	2 750 000	690	9/4/2006		151 341	749 612	2 598 659
	2 000 000	655	17/9/2007		26 200	–	1 973 800
	500 000	770	16/9/2008		6 550	–	493 450
	400 000	1212	1/10/2009		5 240	–	394 760
	5 650 000				189 331	749 612	5 460 669
PK Harris	2 750 000	690	9/4/2006		151 341	749 612	2 598 659
	2 000 000	655	17/9/2007		26 200	–	1 973 800
	500 000	770	16/9/2008		6 550	–	493 450
	400 000	1212	1/10/2009		5 240	–	394 760
	5 650 000				189 331	749 612	5 460 669

	Opening balance	Price (cents)	Expiry date	Cancelled/ redeemed this year	Benefit derived R	Closing balance
Outperformance Scheme						
(FirstRand "A" preference shares)						
VW Bartlett	750 000	815	1/4/2006	750 000	–	–
LL Dippenaar	1 000 000	815	1/4/2006	500 000	4 535 722	500 000
PK Harris	1 000 000	815	1/4/2006	500 000	4 535 722	500 000

FirstRand Black Non-Executive Directors' Trust

Messrs KC Shubane and BJ van der Ross and Mesdames NN Gwagwa and G Moloi have each been granted rights to 1 000 000 FirstRand ordinary shares in terms of the FirstRand Black Non-Executive Directors' Trust deed. The rights entitle the non-executive directors to receive the shares on 31 December 2014 at a price of R12.28 per share plus holding and other related costs less dividends received on the shares by the FirstRand Black Non-Executive Directors' Trust. In the event of a director ceasing to be a director prior to 31 December 2014, the participation rights of that director are reduced by 10% in respect of each year prior to 31 December 2014 during which he is not a director. The Trust owns 15 000 000 FirstRand ordinary shares.

DIRECTORS' INTERESTS

According to the Register of Directors' interest, maintained by FirstRand in accordance with the provisions of section 140A of the Companies Act, directors of FirstRand have disclosed the following interest in the Company at 30 June 2005.

Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which company holds a 29.6% (2004: 32.6%) interest in FirstRand.

Ordinary shares

000's	Direct beneficial	Indirect beneficial	Indirect via RMBH	**Total 2005**	Total 2004
VW Bartlett	3 693	376	–	**4 069**	2 953
DJA Craig	–	–	–	**–**	–
LL Dippenaar	4	1 200	126 336	**127 540**	138 767
DM Falck	–	–	–	**–**	–
GT Ferreira	–	–	122 107	**122 107**	131 402
PM Goss	1	–	15 893	**15 894**	17 104
NN Gwagwa	–	–	–	**–**	–
PK Harris	–	856	42 023	**42 879**	45 709
MW King	–	21	42	**63**	68
YI Mahomed	–	–	–	**–**	–
G Moloi	–	–	–	**–**	–
AP Nkuna	–	–	–	**–**	–
SEN Sebotsa	–	–	–	**–**	–
KC Shubane	23	–	–	**23**	25
BJ van der Ross	–	–	–	**–**	–
F v Z Slabbert	–	–	–	**–**	–
RA Williams	–	54	–	**54**	59
Total	3 721	2 507	306 401	**312 629**	336 087

"B" Preference shares

000's	Direct beneficial	Indirect beneficial	Indirect via RMBH	**Total 2005**	Total 2004
LL Dippenaar	–	250	–	**250**	–
MW King	–	40	–	**40**	–
RA Williams	–	4	–	**4**	–
Total	–	294	–	**294**	–

The Banking Group produced **excellent results** benefiting from strong performances by RMB, FNB and WesBank

BANKING

FIRSTRAND
Banking Group

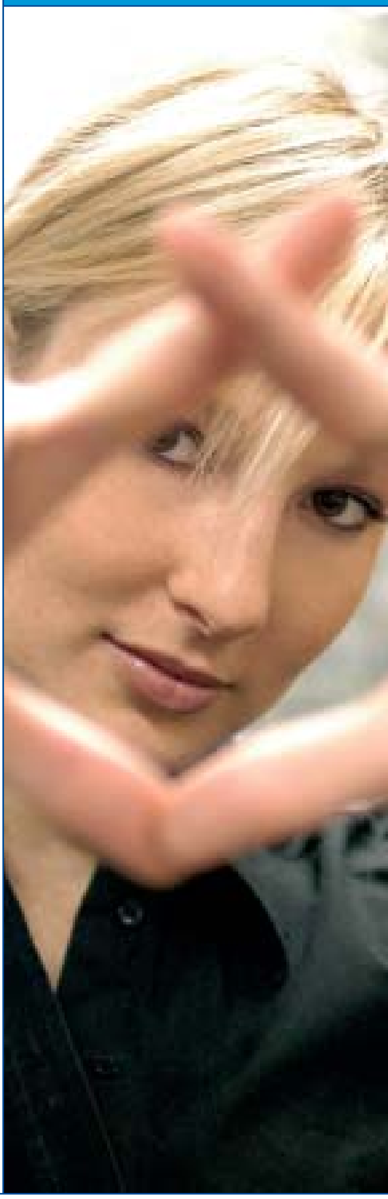
FIRSTRAND
BANKING GROUP
ANNUAL REPORT 2005

These financial statements cover 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 section of the annual report on FirstRand Limited.

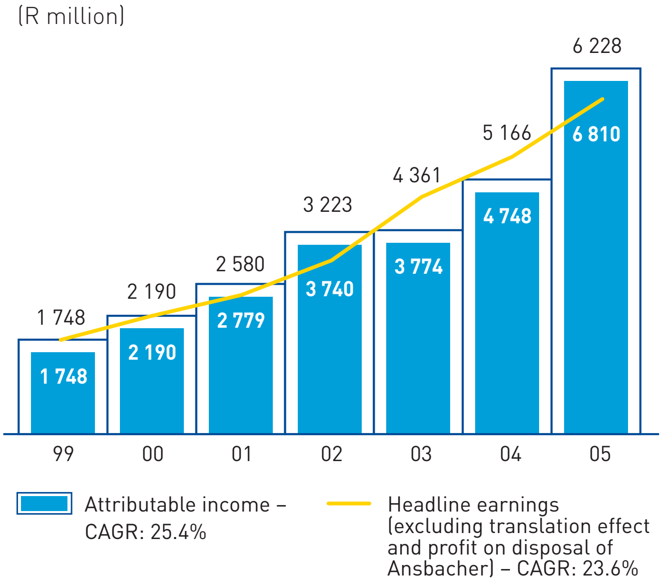
Contents

Financial highlights

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



Earnings performance
(R million)



Seven-year review

R million	1999	2000	2001	2002	2003	2004*	**2005***	Compound growth %
Balance sheet								
Total assets	146 067	155 721	189 979	281 722	303 998	327 886	**347 689**	15.6
Advances	93 824	102 652	123 328	175 145	189 611	210 414	**226 552**	15.8
Non-performing loans	5 298	4 520	4 423	5 305	4 980	3 766	**3 241**	
Deposits	116 306	117 592	141 461	203 142	218 096	225 886	**247 084**	13.4
Total shareholders' equity	8 040	9 505	11 911	15 558	18 441	22 058	**28 461**	23.5
Income statement								
Net interest income before impairment of advances	4 594	4 697	5 415	6 417	9 104	8 907	**9 497**	12.9
Charge for bad and doubtful debts	(1 363)	(1 329)	(1 143)	(1 705)	(1 478)	(833)	**(706)**	(10.4)
Non-interest income	5 145	5 847	6 446	8 319	7 123	8 970	**12 001**	15.2
Operating expenditure	(6 086)	(6 365)	(7 180)	(8 378)	(9 537)	(10 503)	**(12 389)**	12.6
Earnings attributable to ordinary shareholders	1 748	2 190	2 779	3 740	3 774	4 748	**6 810**	25.4
Earnings attributable to ordinary shareholders (excluding translation gains and losses)	1 748	2 190	2 572	3 192	4 306	5 118	**6 546**	24.6
Earnings from associated companies	–	20	134	368	494	585	**877**	>100
Headline earnings	1 748	2 190	2 787	3 771	3 829	4 796	**6 492**	24.4
Headline earnings (excluding translation gains and losses)	1 748	2 190	2 580	3 223	4 361	5 166	**6 228**	23.6
Key ratios (%)								
Return on average equity (%) (including translation gains and losses)	20.7	25.0	26.0	27.2	22.2	24.2	**28.8**	
Return on average equity (%) (excluding translation gains and losses)	20.7	25.0	26.0	25.1	25.7	26.1	**27.3**	
Efficiency ratio (%)	61.5	60.3	59.9	57.6	55.3	55.8	**55.4**	
Bad debts as a percentage of advances (%)	1.5	1.3	0.9	1.0	0.8	0.4	**0.3**	
Other operating income as a percentage of total income (%)	52.8	55.5	52.9	53.9	44.4	49.6	**55.8**	
Return on average total assets (%)	1.2	1.5	1.6	1.6	1.5	1.8	**2.0**	
Interest margin on average advances (%)	4.9	4.8	4.8	4.3	5.0	4.5	**4.3**	

* *The change in accounting policy in respect of the recognition of an STC asset was affected in the 2004 and 2005 financial years.*

Currency balance sheet and income statement

Million	1999	2000	2001	2002	2003	2004*	**2005***	Compound growth %
Exchange rates								
Rand/US$								
– Closing	6.0300	6.7725	8.0670	10.3100	7.5576	6.1800	**6.6755**	
– Average	5.9500	6.4013	7.4198	9.1891	8.8906	6.7722	**6.1944**	
Rand/£								
– Closing	9.5051	10.2590	11.3511	15.7454	12.4723	11.1994	**11.9682**	
– Average	9.6271	9.8821	10.8051	14.8113	14.1176	11.8255	**11.5011**	
Balance sheet US$								
Total assets	24 223.4	22 993.1	23 550.2	27 325.1	40 224.2	53 055.9	**53 055.9**	17.8
Advances	15 559.6	15 157.2	15 288.0	16 987.9	25 088.8	34 047.6	**33 937.8**	17.5
Deposits	19 287.9	17 363.1	17 535.7	19 703.4	28 857.8	36 551.1	**37 013.6**	16.3
Total shareholders' equity	1 333.3	1 403.5	1 476.5	1 509.0	2 440.1	3 569.3	**4 107.0**	24.9
Income statement US$								
Net interest income before impairment of advances	772.1	733.7	729.9	698.4	1 024.0	1 315.2	**1 533.2**	15.9
Charge for bad and doubtful debts	(229.0)	(207.7)	(154.1)	(185.5)	(166.2)	(123.0)	**(114.0)**	(11.3)
Non-interest income	864.7	913.4	868.7	905.3	801.2	1 324.5	**1 937.4**	16.2
Operating expenditure	(1 022.9)	(994.4)	(967.6)	(911.7)	(1 072.7)	(1 550.9)	**(2 000.0)**	15.0
Earnings attributable to ordinary shareholders	293.8	342.1	374.6	407.0	424.5	701.1	**1 099.4**	26.3
Balance sheet £								
Total assets	15 367.2	15 179.0	16 736.6	17 892.3	24 373.9	29 277.1	**29 051.1**	13.9
Advances	9 871.0	10 006.1	10 864.9	11 123.6	15 202.6	18 788.0	**18 929.5**	13.6
Deposits	12 236.2	11 462.3	12 462.3	12 901.7	17 486.4	20 169.5	**20 645.1**	12.5
Total shareholders' equity	845.9	926.5	1 049.3	988.1	1 478.6	1 969.6	**2 378.1**	20.7
Income statement £								
Net interest income before impairment of advances	477.2	475.3	501.2	433.3	644.9	753.2	**825.7**	11.7
Charge for bad and doubtful debts	(141.6)	(134.5)	(105.8)	(115.1)	(104.7)	(70.4)	**(61.4)**	(14.5)
Non-interest income	534.4	591.7	596.6	561.7	504.5	758.5	**(1 043.5)**	12.0
Operating expenditure	(632.2)	(644.1)	(664.5)	(565.6)	(675.5)	(888.2)	**(1 077.2)**	10.8
Earnings attributable to ordinary shareholders	181.6	221.6	257.2	252.5	267.3	401.5	**592.1**	21.7

* *The change in accounting policy in respect of the recognition of an STC asset was affected in the 2004 and 2005 financial years.*

Board of directors and board committees of FirstRand Bank Holdings Limited

GT Ferreira (57) *Non-independent Non-executive*
BCom, Hons B(B&A), MBA
Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings and Director of Momentum Group

PK Harris (55) *Executive*
MCom
Chief Executive Officer of FirstRand Bank Holdings, Director of FirstRand, RMB Holdings and Momentum Group

VW Bartlett (62) *Non-independent Non-executive*
AMP (Harvard), FIBSA
Director of FirstRand and FirstRand Bank Holdings

JP Burger (46) *Executive*
BCom (Hons), CA (SA)
Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

LL Dippenaar (56) *Executive*
MCom, CA (SA)
Chief Executive Officer of FirstRand, Chairman of Momentum Group and Discovery Holdings, Director of RMB Holdings and FirstRand Bank Holdings

DM Falck (59) *Independent Non-executive*
CA (SA)
Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PM Goss (57) *Independent Non-executive*
BEcon (Hons), BAccSc (Hons), CA (SA)
Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

WR Jardine (40) *Independent Non-executive*
BSc, MSc
Director of FirstRand Bank Holdings

MW King (68) *Independent Non-executive*
CA (SA), FCA
Director of FirstRand, FirstRand Bank Holdings and FirstRand International

SE Nxasana (48) *Independent Non-executive*
BCom, BCompt (Hons), CA (SA)
Director of FirstRand Bank Holdings

RK Store (63) *Independent Non-executive*
CA (SA)
Director of FirstRand Bank Holdings

BJ van der Ross (58) *Independent Non-executive*
Dip Law (UCT)
Director of FirstRand, FirstRand Bank Holdings and Momentum Group

RA Williams (64) *Independent Non-executive*
BA, LLB
Director of FirstRand and FirstRand Bank Holdings.

The following director was appointed to the board during the year on the date indicated below:

RK Store – 1 September 2004

The following director served on the board during the year and resigned on the date indicated below:

I Charnley – 1 March 2005

Audit committee

MW King (Chairman)
VW Bartlett
DM Falck
SE Nxasana
RK Store
RA Williams

Risk committee

RK Store (Chairman)
DM Falck
MW King
SE Nxasana
RA Williams

Remuneration committee

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

Large exposures credit committee

RK Store (Chairman)
VW Bartlett
JP Burger
PK Harris
WR Jardine
BJ van der Ross

Directors' affairs and governance committee

DM Falck (Chairman)
VW Bartlett
GT Ferreira
PM Goss
WJ Jardine
MW King
SE Nxasana
RK Store
BJ van der Ross
RA Williams

Report of the Chief Financial Officer

OVERVIEW

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

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

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

Business unit performance

FNB increased profit before tax by 18% benefiting from:

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

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

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

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

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

Performance against targets

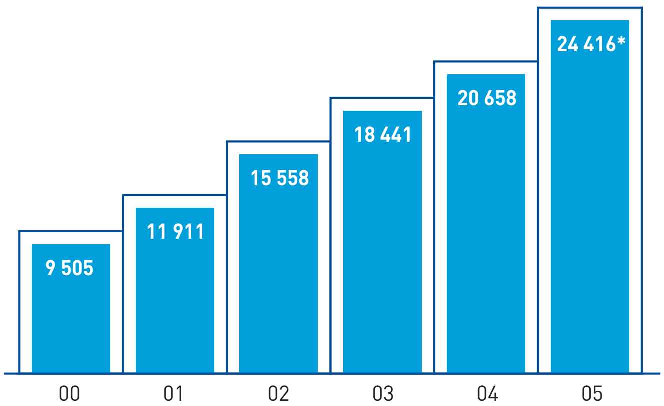
The Banking Group achieved the following results against internal performance targets for the year under review:

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

Notes:

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

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



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

Reconciliation between earnings attributable to ordinary shareholders and headline earnings

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

Calculation of headline earnings excluding translation (gains)/losses

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

FINANCIAL REVIEW

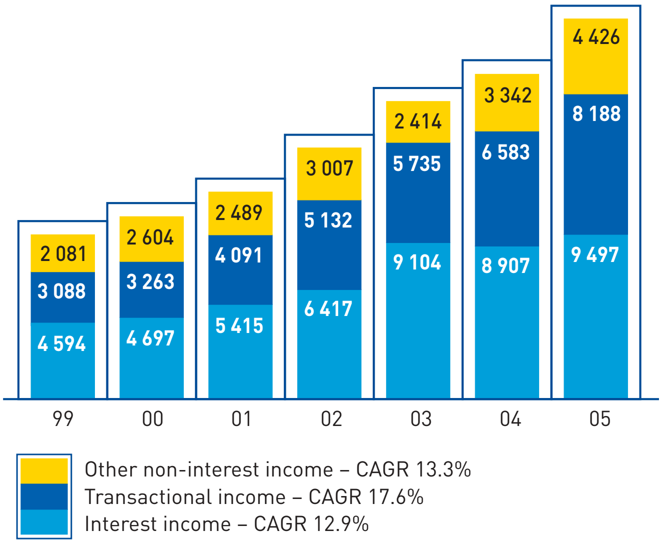
Profit before tax

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

Analysis of total income

The graph below provides a breakdown of total income:

Total income
(R million)



Note:

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

Net interest income (after impairment of advances)

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

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

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

Net interest income and interest margins were positively influenced by:

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

Negative factors included:

- the negative impact of the lower interest rate environment on endowment margins;

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

A reconciliation of the interest margin is set out below:

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

Non-interest income

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

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

Transactional income – up 24.4%

Banking fee and commission income increased by 23.9%.

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

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

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

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

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

Trading income – up 15.9%

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

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

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

On a statutory account basis, trading income increased by 5.5%.

Income from investment activities – up 77.4%

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

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

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

On a statutory account basis, investment income increased by 15.6% in the year under review.

Income from associate companies – up 49.9%

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

The increase is as a result of:

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

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

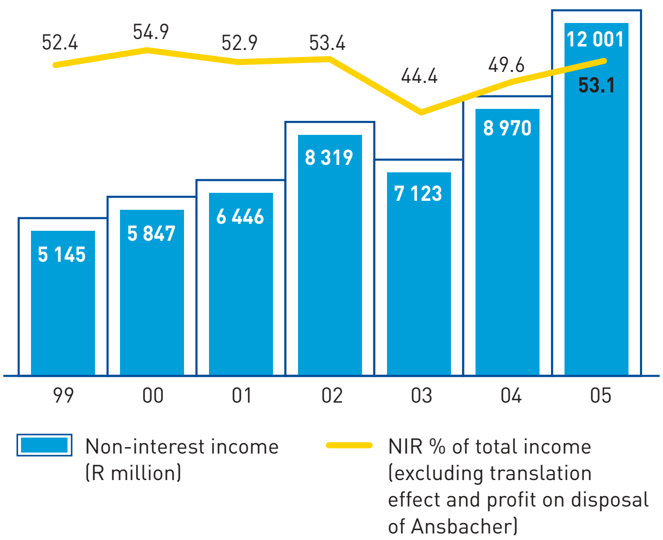
Report of the Chief Financial Officer

| Continued |

The graph below shows the diversity ratio of income for the Banking Group, excluding the profit on the disposal of Ansbacher (refer page 126 below):

(refer page 126 below)

Non-interest income



Operating expenditure – up 18.0%

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

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

Other operating costs increased by 26.0% primarily due to:

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

Direct taxation

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

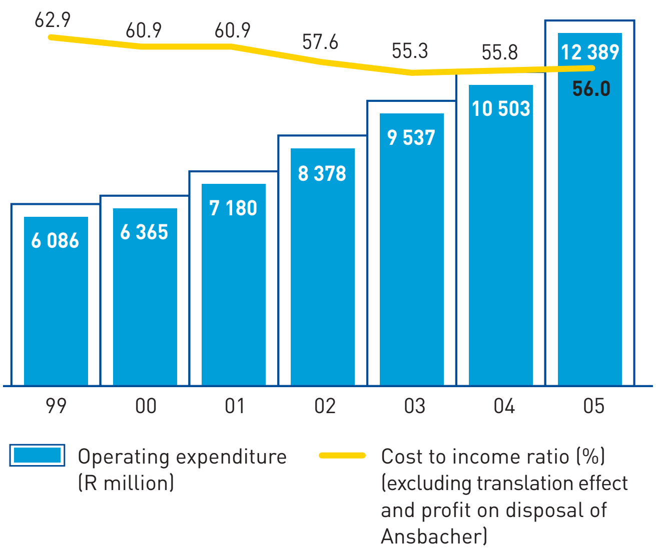
Cost to income ratio

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

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

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

Operating efficiency



BALANCE SHEET

Advances – up 7.7%

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

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

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

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

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

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

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

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

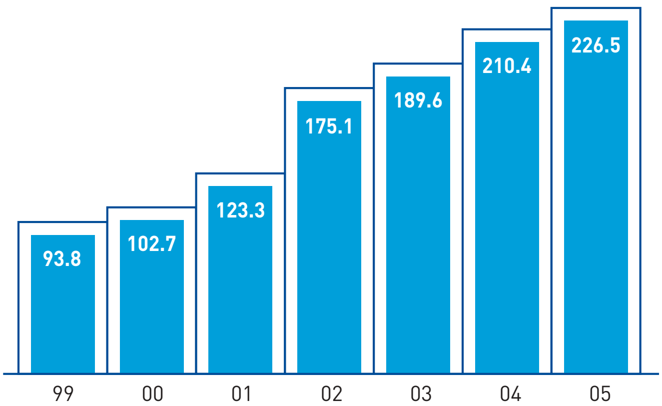
Fair value advances (including collateralised debt and emerging market advances) reduced by 34%. This is consistent with the Banking Group's decision taken in June 2003 to reduce these exposures, partially as part of a switch to more capital efficient instruments.

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

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

The Banking Group disposed of Ansbacher with effect from 1 November 2004. At 30 June 2004, Ansbacher had advances of R4.7 billion.

Net advances
(R billion)
CAGR: 15.8%



Deposits – up 9.4%

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

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

Major contributors to this growth were money market accounts (+25%), current, savings and transmission accounts (+20%) and notice deposits (+12%). The launch of the industry-wide Mzansi account led to FNBs current 21% share of the total banking Mzansi-account market. Growth was further assisted through the development of innovative deposit products such as the "Million-a-month" account. Fixed deposits and cash management accounts grew marginally.

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

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

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

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

Non-performing loans

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

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

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

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

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

Credit rating of the advances book

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

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

A detailed analysis of the credit quality of the advances book is set out on pages 131 to 134.

Impairment charge on advances

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

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

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

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

RETURN ON CAPITAL

Return on equity

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

Additional information on capital adequacy of the Banking Group and movement in equity is set out pages 144 to 146.

DISPOSAL OF ANSBACHER

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

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

A reconciliation of the profit on disposal is shown below:

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

Notes:

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

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

DISPOSAL OF RELYANT

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

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

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

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

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

Risk management

PHILOSOPHY

A successful business has to manage all its business risks effectively in order to achieve its desired objectives, avoid adverse outcomes and prevent reputational damage. It has to get many things right and be mindful that a single factor could cause sub-optimal performance or even failure. Successful entrepreneurs seek profitable opportunities which will yield superior and sustainable returns because of the risk management expertise that they bring to develop such opportunities to full potential.

RISK MANAGEMENT POLICY

Risk management in the Banking Group is governed by the Business Success and Risk Management Framework ("Framework") which is a policy of the boards of directors.

In terms of the Framework, risk management is vested as an integral part of management's functions at all levels of the Banking Group and includes the management of strategy, reputation, human resources, competitive positioning and all financial risks. It also covers securing the safety of people and assets, the management of tax, market and credit risk, capital, interest rate risk, liquidity, technology, business continuity, information security, legal and compliance risks, criminal activities, processes and systems risk and external factors.

Risk management is simply a tool, albeit a most important one, which management uses:

- to identify strategic and operating business risks;
- to track, by means of appropriate reporting and monitoring processes, that these risks are properly managed to yield a return commensurate with the risk and to correct shortcomings; and
- to capitalise a business in accordance with its inherent risk profile to ensure its sustainability for the benefit of all its stakeholders.

The executive, independent and deployed risk managers, internal auditors and the governance committees monitor that the Banking Group's business risks are managed in accordance with the framework and that the processes are effective. Improvements are initiated as required.

IMPLEMENTATION OF THE RISK MANAGEMENT FRAMEWORK

Business performance is the responsibility of the business entity leaders. (Business entities include all holding, operating and subsidiary companies as well as their divisions, departments and business units.) The implementation of the Risk Management Framework of the board is the responsibility of everyone at the Banking Group; the business entity, business unit and team leaders and all employees. Business entities are supported in this task by the independent and deployed risk management functions.

REPORTING ON THE EFFECTIVENESS OF RISK MANAGEMENT

The risk management processes across the eight generic business risk categories of the framework, are monitored by the independent and deployed risk managers and the entity risk committees, which meet monthly. All the business units, 136 in total, report on the effectiveness of their risk management processes, in a generic dashboard format, to their relevant risk management functions and risk committees and to Risk Management Services via a bottom-up process. Consolidated assessments, for each of the main business divisions, are submitted quarterly for review by the main Risk committee.

The monitoring structures and processes also follow the progress with corrective actions which the business entities implement to improve risk management deficiencies.

GOVERNANCE STRUCTURES

Independent oversight of the risk management processes

The independent Finance, Risk and Audit Services division employs experts in the following areas to drive and facilitate risk management across the Banking Group, while Risk Management Services will drive the risk management processes:

Asset and liability management (ALCO);
Balance sheet management;
Capital management;
Corporate governance;
Credit risk;
Direct and indirect tax;
Financial market trading;
Internal audit;
Liquidity management;
Operational risk;
Risk quantification.
Safety of people;
Business continuity;
Compliance;
Criminal loss prevention;
Risk insurance;
Financial management;
Information security;
Legal risk management;
Market risk;

Strategic business risks are managed by executive management and monitored by the executive and strategic governance structures of the Banking Group. Shortcomings in the management processes to address strategic and operating risks are highlighted in the assessments of the effectiveness of risk management and reported as outlined.

Responsibility of the board

The board of the Banking Group is responsible for overall risk management and the quality of internal control systems. The board is supported in these tasks by the committees of the board ("board committees") and their sub-committees and the risk management functions. The table overleaf lists the board committees and their main responsibilities.

Risk management

| Continued |

Audit and risk committees of the board of directors

Committee and chairperson	Main duties and responsibilities
Audit committee *MW King Sub-audit committees	Approves the financial statements and accounting policies. Monitors the quality of the internal controls and processes of the Banking Group and the implementation of corrective actions.
Risk committee *RK Store Sub-risk committees	Approves risk management policy, standards and processes; monitors group risk assessments; monitors the effectiveness of risk management and high priority corrective actions.
Large exposures credit committee *RK Store	Approves credit exposures in excess of 10% of bank capital.
Banking Group credit committee *JP Burger	Credit approvals of group or individual credit facilities in excess of sub-committee mandates and limits. Approves all credit products and product policies.
Credit approval committees and sub-committees ● Large exposures credit committee ● Banking Group credit committee Sub-committees: ● Project and structured commodity finance credit committee ● Corporate credit committee ● Commercial credit committee and panels (including medium corporate, business and agricultural segments) ● International credit committee ● Country risk credit committee ● Leveraged finance committee ● Commercial property finance credit committee ● Consumer credit review committees and panels ● WesBank credit committee ● HomeLoans credit committee	Credit approvals as per individual committee mandates.
Banking Group credit risk committee *JP Burger Sub-committees: Corporate and consumer segment credit risk committees	Approves credit risk management policies, standards and processes; monitors the effectiveness of the credit risk management processes.
Market risk committee MH Field	Approves market risk management policy, standards and processes; monitors the effectiveness of the market risk management processes.
Operational risk committee JJH Bester Sub-committees ● Security committee ● Technology and Information Management committee	Monitors the risk management processes, operational risk management, the effectiveness of risk management, process breakdowns and corrective actions.
Asset and Liability committee (ALCO) *JP Burger Sub-committees International Asset and Liability committee	Approves liquidity and interest rate risk management policies, methodologies, standards and processes for the banking books; monitors the effectiveness of these risk management processes.
Risk sub-committees of the subsidiaries and main operating divisions	Monitor risk management processes and risk assessments; monitor the effectiveness of risk management and high priority corrective actions.

* *Denotes board director.*

Risk governance structure

The diagram below depicts the various levels of the risk management governance structures for the Banking Group which cascade down from the board to the subsidiaries and main divisions and their business units. All subsidiaries, divisions and major business units of the Banking Group have risk and audit committees. All audit committees and the main risk committee have non-executive representation. The main risk and audit committees and all audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions. The independent and deployed risk managers attend all risk committees as is appropriate.

Through these mechanisms the Banking Group maintains transparency and ensures the integrity of the reports to the board committees through the presence of external and independent observers at all governance levels.

Board committees

Audit committee	Risk committee	Large exposure credit committee	Banking Group credit committee

Sub-committees of the risk committee

Banking Group Credit Risk committee	Assets & Liability committee	Market risk committee	Operational risk committee

Risk committees of the subsidiaries and divisions of the Banking Group

FNB Namibia	FNB Botswana	FNB Swaziland	FNB	WesBank	RMB & RMBI	Banking Group Treasury	Finance, Risk & Audit

Risk committees of business units

The major business units all have their own risk committees as sub-committees of the subsidiary and divisional risk committees: 17 in total

Audit committees of the subsidiaries and divisions of the Banking Group

FNB Namibia	FNB Botswana	FNB Swaziland	FNB	WesBank	RMB & RMBI	Banking Group Treasury	Group Support

ENTERPRISE-WIDE RISK MANAGEMENT

All risks are managed in terms of the policies and frameworks of the board and its committees and their sub-committees; for example the Business Success and Risk Management Framework, the Credit Risk Management Framework, the Market Risk Management Framework, the Operational Risk Management Framework, the Compliance Risk Management Framework and the Legal Risk Management Framework.

The review of the effectiveness of the risk management processes that follows shows that the Banking Group was very successful in the management of its business risks during the past year. The Group has achieved its desired business objectives and managed to avoid unexpected losses of any consequence, which might have been caused by shortcomings in risk controls.

Achievements of the past year

- further integration of the management and risk management processes;
- further improvement in the measurement and reporting of the effectiveness of risk management;
- considerable progress with the alignment of risk management, internal audit and other governance functions;
- ongoing development of the qualitative and quantitative measures of key risks;
- substantial improvement in systems controls, credit administration processes and business continuation arrangements;
- ongoing improvement of management information and financial reporting systems;
- proactive positioning in anticipation of a decline in interest rates; and
- further development of the risk quantification processes generally and specifically to address the directives of the Basel II Capital Accord to determine capital adequacy requirements for credit, market and operational risk.

The year ahead

- implementation of an intranet application to automate the reporting of the effectiveness of risk management;
- further integration of the audit and risk management reporting systems;
- further improvement in and refinement of key risk indicator reporting;
- ongoing refinement of the risk quantification processes including the quantification of concentration risk at business entity and enterprise level; and
- further refinement of the reporting of the effectiveness of risk management.

THE EFFECTIVENESS OF RISK MANAGEMENT

The management of the key business risks of the Banking Group

The key economic risks of the Banking Group are credit, interest rate, liquidity, operational and market risk. The most important operating risks lie in business continuation and the functionality and efficiency of processes and systems.

It is in the nature of a large commercial Banking Group that credit risk is the largest risk exposure category. This is certainly true of FirstRand with 79% of economic capital allocated to support the credit businesses. Investment, operational, interest rate and market risk exposures follow, although these exposures are much smaller.

The management of these risks has been very effective as is demonstrated in the following sections:

- losses due to credit defaults have declined further in a benign economic and business environment;
- the bank was well positioned against the negative impact of lower interest rates;
- market risk was well controlled and trading activities yielded excellent result;
- the Group did not experience any funding constraints during the past year;
- the Group has made substantial progress in its aim to implement best practice business continuation arrangements across the various business units and is close to achieving this goal;
- systems availability was high with little or no service disruption due to capacity constraints or external attacks by hackers or fraudsters; and
- losses due to criminal activities declined further as did process losses.

The sections that follow discuss the success of the risk management activities in more detail.

RISK EXPOSURE UNDER STRESS CONDITIONS

The Banking Group did not experience any unexpected or stress conditions during the past year in the markets in which it operates. The Group assesses the potential impact and losses which it might experience under stress conditions. In the exercise to quantify potential stress losses a number of factors are considered, including:

- a worsening of business conditions which causes a substantial increase in credit losses;
- one or more severe price movements in the financial and commodity markets;
- a substantial rise or fall in interest rates;
- potential currency fluctuations;
- unexpected operational losses; and
- unexpected declines in revenues and increases in operating costs.

The aggregation of potential losses across these factors and based on the underlying assumptions yields a range of potential stress losses, though the coincidence of such hypothetical events is highly unlikely. The aggregate of these hypothetical losses under extreme stress conditions is substantially less than the annual operating income, before tax, of the Banking Group. This confirms the relatively low risk profile of the Group relative to its income and capital base. Conversely, it demonstrates a very high degree of organisational sustainability and capital adequacy.

CREDIT RISK

The risk that a counterparty will default on an obligation to the Bank

The management of credit risk

Credit risk is managed in terms of the Credit Risk Management Framework. The credit originating units operate in terms of policies, mandates and limit structures and provide credit products and services to the market, which have all been approved in terms of the aforementioned framework, in alignment with their business strategies.

All credit exposures are approved by means of scoring models, or individual assessments and approval by a credit approval committee, as is appropriate to a specific market segment.

The Banking Group's main risk exposures are to counterparties in respect of credit facilities in the form of secured or unsecured advances, project and structured financing, trade and market trading facilities and property and asset based finance. The board, executive, credit product owners and credit risk management functions recognise the relative magnitude of these exposures and that credit risk is the main risk exposure of the Banking Group. With the foregoing in mind, the credit processes are designed to implement and maintain the best possible approach to the identification and management of these risks; even more so in an environment where credit costs are relatively low, consumers have scope to take on additional credit and where the competitive pressures are high to provide credit facilities to the satisfaction of customers.

The Banking Group has considerable appetite to take on credit risk, being one of its main income generators, but only if such risks are properly identified, quantified, adequately controlled and sufficiently rewarding relative to the risk.

Credit risk control extends across the credit processes from origination, through day-to-day credit exposure management to final settlement. These processes include counterparty assessment and rating which determines default probability, the assessment of exposure given default, the setting of prudential exposure limits, credit approvals and pricing facilities for risk. The processes also cover facility terms and conditions, contractual agreements, control over payments, ongoing monitoring of exposures and account behaviour, payments and settlements, analysis of risk concentration, settlement and recovery. The Banking Group aims to maintain best practice processes across all these aspects of credit and operational risk in order to keep credit losses within the parameters assumed in the pricing models so that it generates an optimum return on risk capital.

For the past financial year, credit defaults were lower than statistically expected defaults in all the main credit businesses. However pleasing this outcome may be, one must bear in mind that defaults will vary over time to reflect general business and economic conditions and expect that default levels may increase in the future should these conditions deteriorate as is discussed in the section on the distribution of credit risk profiles.

Effectiveness of credit risk management

The effectiveness of credit risk management in the credit product houses is monitored by the business units, the credit risk managers, the corporate and consumer segment credit risk committees and the Banking Group credit risk committee. These functions and committees monitor credit default rates relative to default expectations, recoveries, actions to address risk control shortcomings, portfolio risks and changes in the credit environment.

The following sections report on the effectiveness and status of risk management with reference to the various elements of the credit risk management processes across the credit product houses and market segments namely corporate and commercial, commercial property, the consumer segments, HomeLoans and asset based finance.

Credit origination

The credit origination processes in the various product houses and market segments are in accordance with approved policy frameworks and mandates and are aligned to the segmentation criteria. These processes are standardised within the various segments and are continuously improved to adjust to changes in the credit environment.

Credit assessments vary from scoring models in the mass market segments to individual analysis in the corporate, commercial and commercial property segments and for larger exposures in the Wealth and mass markets. The credit research and analysis processes are appropriate to the relevant products, customer and market segments and credit portfolio dynamics.

Pricing for risk

A bank has to maintain capital according to its risk profile to ensure its sustainability, to comply with regulatory requirements and to give comfort to its counterparties and stakeholders as a going concern. The credit businesses are charged for the capital that they utilise commensurate with the risk profiles of their credit products, portfolios and market segments.

All the credit businesses apply scoring and rating methodologies and credit pricing models which are designed to price appropriately for the credit risk they assume, in order to service the cost of capital and to generate adequate profits to achieve the organisation's targeted return on equity to cater for future growth in the financing needs of its customers and the economy as a whole. The effectiveness of these pricing models are continuously monitored by the business units and risk management functions and changes are made as needed.

Ongoing risk management

The management of credit risk exposure does not end with the approval of a credit facility. Credit risk is controlled in an end-to-end process which covers:

- the management of the conditions of the facility which have to be met before the facility becomes activated;
- the implementation of the necessary contracts and agreements to formalise the facility;
- ongoing collateral management;
- ongoing monitoring of the utilisation of the facility to ensure that capital and interest payments and covenants are met, that excesses and arrears are identified without delay and corrected or formally authorised;
- timeous review of facilities and the identification of facilities that are not performing according to the facility, or where circumstances may have changed the creditworthiness of the counterparty, so that appropriate corrective actions and risk mitigation measures may be implemented;
- monitoring of default experience at product and portfolio level to verify the effectiveness of the pricing models and to identify operational control weaknesses which may have contributed to credit losses so that the process deficiencies may be corrected;
- identification of credit losses which have been caused by operational breakdowns or defects in the enforceability of contracts so that these shortcomings can be rectified;
- the handing over of defaulted accounts to specialist collection and workout units to limit the potential loss on a defaulted counterparty;
- the identification of portfolio concentration risk in order to mitigate the risk;
- the modelling of portfolio performance under stress conditions to provide an early warning of potential weak spots to enable timeous mitigating steps;
- compliance with statutes and regulations; and
- regular internal and external audits to verify the quality of the credit risk control methodologies and processes and general compliance.

Credit impairment policy

The credit businesses make credit impairments against underperforming or non-performing loans, with due recognition of security, in accordance with formal procedures and policies. The accounting standards in respect of credit impairment, which do not support the creation of general loss reserves, introduce the potential for income volatility as credit defaults fall or increase in line with business conditions; defaults have to be charged to the income statement in the year in which they occur. Furthermore, should a valuation of the credit portfolio show that future losses would result in operating losses in the lending portfolio, such future losses have to be provided for.

The past year

The Banking Group's efforts to refine and improve its credit risk management processes focused on the following:

- continuous enhancement of the scoring, rating, individual assessment and pricing models in the various credit businesses;
- considerable effort to ensure that credit processes will be Basel II compliant;
- further improvement of models to align economic capital with the credit risk inherent in the various portfolios;
- continuation of the development of an automated exposure and limit management system for the corporate sector; and
- continuous improvement of the data quality in the credit businesses.

Going forward

The initiatives listed in the foregoing section are multi-year projects designed to ensure continuous improvement of the credit risk management processes within the Banking Group and readiness for the implementation of Basel II. These initiatives will continue in the year ahead as key focus areas for credit risk management. In addition, the Banking Group looks to refine and develop credit concentration risk identification methodologies within business units and at enterprise level.

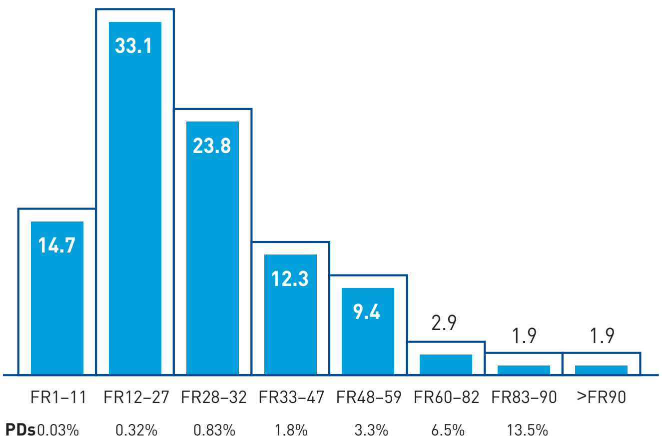
Distribution of credit risk profiles

This section describes the key inputs used internally in the credit process to determine the potential future credit losses. The following graphs show the distribution of the main credit portfolios. The FirstRand master rating scale, the FR ratings, range from FR 1 to FR 100, with FR 1 being the best rating with the lowest probability of default. The FR rating has been mapped to default probabilities as well as external rating agency national and international rating scales.

Wholesale portfolio (Corporate and SME exposures)

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

Wholesale and SME credit portfolio
Exposure distribution across rating buckets (%)



Notes:

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

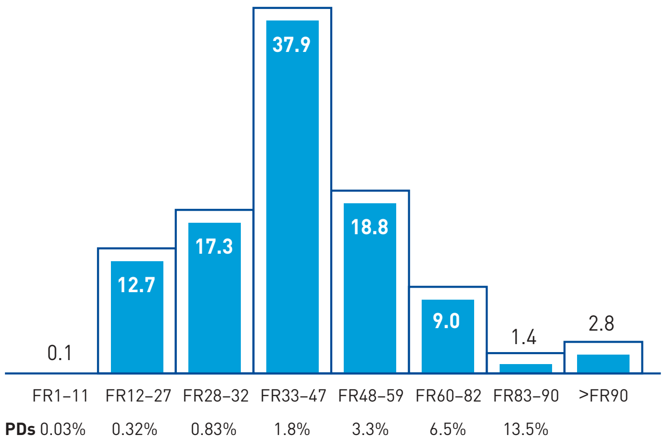
FR Rating	Mid-point PD	International scale	National scale equivalent (zaf)
FR 1 – 11	0.03%	AAA, AA, A	AAA, AA+
FR 12 – 27	0.32%	BBB	AA, AA-
FR 28 – 32	0.83%	BB+, BB	A
FR 33 – 47	1.84%	BB-	BBB
FR 48 – 59	3.38%	B+	BB
FR 60 – 82	6.52%	B	B+
FR 83 – 90	13.55%	B-	B
Above FR 90		Below B-	CCC

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

Retail credit portfolio

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

Retail portfolio
Exposure distribution across rating buckets (%)



Note:

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

The LGD for the retail exposures depend on the product and collateral type. The LGD would typically vary between 20% and 40% for secured lending (e.g. home loans) and between 50% and 70% for unsecured lending (e.g. credit cards).

Actual versus expected losses – Portfolio view

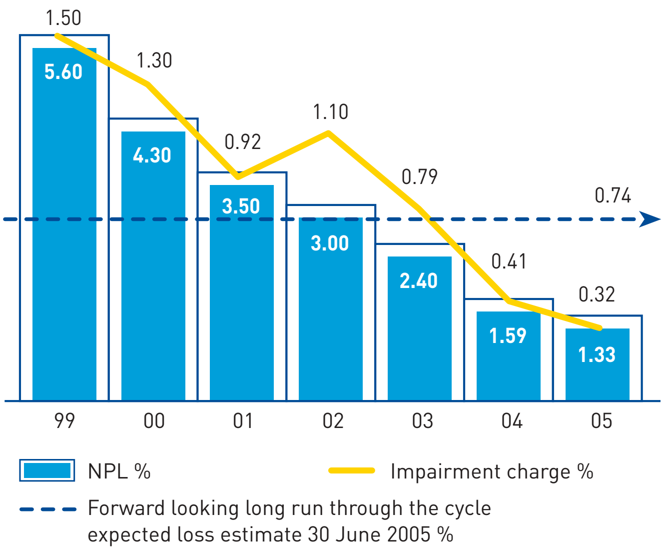
The expected loss ("EL") of the portfolio is a function of the PD (reflected in the credit distributions above) and the loss given default dimension and is a forward looking measure of risk through the cycle. The forward looking long run average expected loss estimated at 30 June 2005 for the Bank's portfolio is estimated at 0.74%.

Risk management

| Continued |

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

NPLs and impairment charge percentages



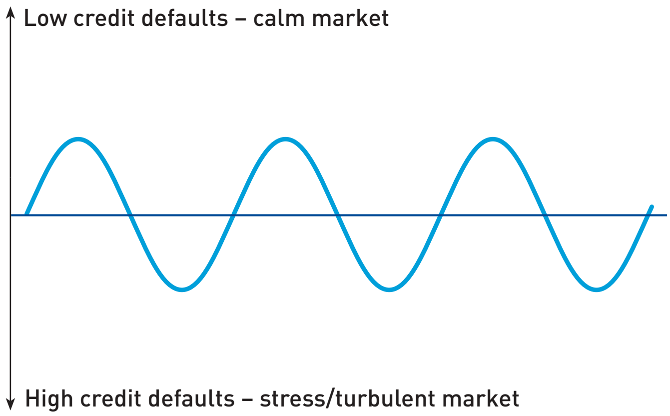
Note:

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

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

It should furthermore be noted that the long run average expected loss estimates presented above were based on data which included data from the high interest rate environment experienced in 1998/1999 and 2001/2002. Should the current interest rate environment constitute a more permanent structural interest rate shift the long run average expected loss estimates through the cycle will need to be revised to a lower level.

Internally, the expected losses are also analysed by looking at the potential scenarios in the credit cycle as illustrated in the graph below in order to provide a better point in time estimate of credit conditions.



The analysis of the credit cycle is conducted for each business unit and is based on past experience, internal data, management judgement and also external data for other markets where appropriate.

INTEREST RATE RISK

The risk of loss of interest income due to fluctuations in interest rates

Interest rate risk in the banking book

Interest rate risk management processes in place for the domestic and international entities; reported to the relevant asset and liability committees	Yes
Net interest income in line with expectations and interest rate forecast	Yes
Loss in income due to unexpected developments in interest rate markets	None
Interest rate sensitivity in line with approved limits; no exceptions noted during the period under review	Yes
Effectiveness of income hedges taken against expected rate trends	Very good
Portfolios managed within interest rate risk limits, namely interest rate sensitivity, economic value sensitivity, net interest income at risk	Yes

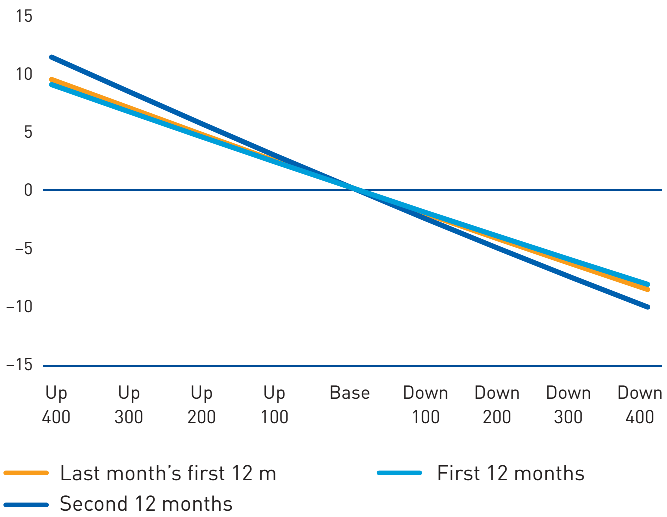
Key initiatives

- refinement of the quantification of interest rate risk per portfolio; and
- protection of the interest margin of portfolios by means of appropriate hedges where possible.

The graph below reflects the adverse change in net interest income in the domestic banking book to a range of instantaneous shocks to the yield curve over a twelve-month period and in addition, a further twelve-month cycle.

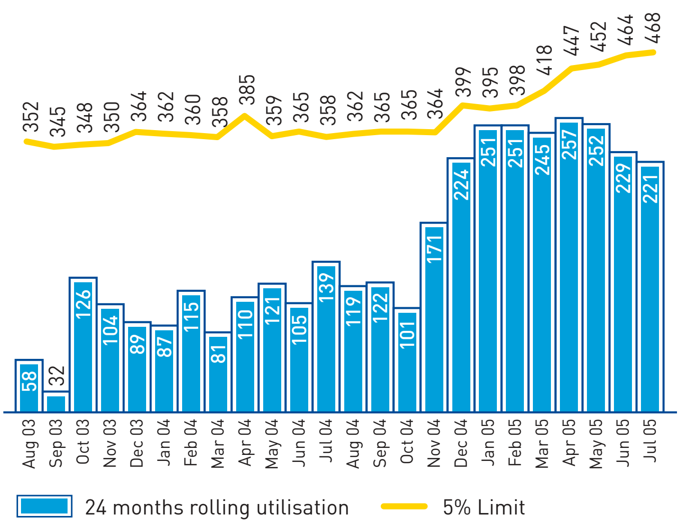
A change of 200 points in interest rates, will result in a change in net interest income in the domestic banking book of approximately 4%.

% Change to net interest income for a shock in rates – June 2005



The next graph reflects the actual interest rate risk exposure of a 1% instantaneous shock against the approved limit of not greater than 5% change to net interest income.

NII changes 5% for a 1% instantaneous shock to yield curve



The sensitivity of interest income in comparison to the base scenario (where current market rates and client behaviour are held constant for the next twelve months) is considered small relative to the size of the Banking Group's net interest income before impairment of advances of R9 497 million.

LIQUIDITY RISK

The inability to discharge funding or trading obligations which fall due at market related prices

Management of liquidity risk

The Banking Group has a group-wide funding and liquidity management process in place. Liquidity positions are managed at currency level and across all jurisdictions in which the Banking Group operates. Liquidity risk is managed by Banking Group Treasury and the dedicated liquidity risk management team reports to the Group Assets and Liabilities Committee ("ALCO").

Management of the current liquidity position

The bank performs numerous tasks to manage the short-term liquidity gap. These include:

1. Industry benchmarking.
2. Analysing the concentration of short-term funding maturities.
3. Running a longer term funding portfolio at appropriate cost.
4. Diversifying the range of funding products offered to financial institutions.
5. Managing the portfolio of available liquid securities.
6. Monitoring the daily cash flow movements across the bank's various payment streams.
7. Actively managing the daily settlements and collateral management processes.
8. Performing assumptions based on scenario analysis to assess potential cash flows at risk.
9. Monitoring sources of funding for contingency funding needs.
10. Monitoring liquidity risk limits.

No significant changes to the Banking Group's liquidity position have been noted during the current financial period. The Banking Group is adequately funded and able to meet all its current and future obligations.

Liquidity contingency planning

Product behaviour assumptions are assessed and stress analysis is performed on the current liquidity position in order to assess potential cash flows at risk. Consideration is given to a variety of appropriate contingency funding mechanisms aimed at ensuring the Banking Group remains liquid during stress conditions. In addition, the liquidity risk management team monitors and manages the Group's portfolio of available liquid sources and instruments against these stress assumptions.

MARKET RISK

The risk of loss on trading instruments and portfolios due to changes in market prices and rates

Trading in the financial, equity and commodity markets is undertaken in terms of the Market Risk Management Framework which is a policy of the board.

Market risk exposures are controlled by means of stress loss limits which are approved by the relevant business and risk management functions, the market risk committee (RMB risk committee), the Group risk committee and the board of directors.

Market risk exposures are quantified daily across all trading activities of the Banking Group and monitored by the business risk managers and the business unit heads. The deployed and independent risk managers at RMB and the internal auditors monitor limit excesses, the causes of any excesses and the correction thereof on a daily basis for the main trading activities namely Treasury and Equity Trading. These functions also track the daily profits and losses against risk exposures and monitor the attribution of profits and losses by risk factor to ensure that risk exposures do not go undetected and that profits and losses are explained.

The market risk management processes are well vested and have functioned effectively over past years. The daily risk monitoring and internal audit processes have not identified significant process deficiencies. Process shortcomings which may be identified are corrected and the progress with corrective actions is monitored by the risk managers and the market risk committee.

The market risk control processes have been strengthened by the roll-out of continuous audits and ongoing daily auditing of selected trade types and changes to counterpart, settlement, transaction and accounting records.

Effectiveness of market risk control of trading activities

Net income generated by trading activities relative to risk exposure	Very good
Containment of exposures within risk limits	Excellent
Profit and losses in line with risk exposures and identified risk factors	Yes
Highest market risk exposure (one day 99% VaR)	R29 million
Average market risk exposure	R23 million
General risk control of trading activities	Excellent

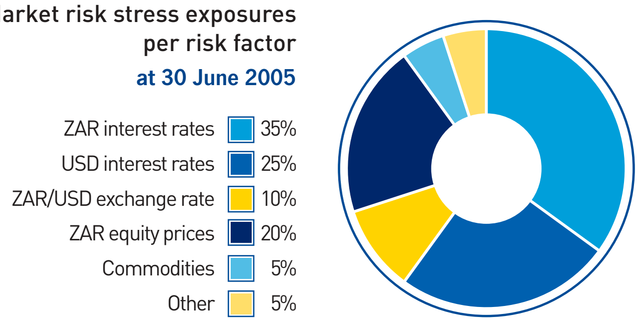
Key initiatives

- incorporation of risk adjusted performance management measures into strategic risk decision-making structures;
- refinement of stress loss methodology for the equities and special projects international business units to more accurately reflect the stress in complex financial products;
- refinement of consolidated market risk measurement; and
- refinement of profit and loss attribution by risk factor.

Market risk exposures are controlled by means of stress exposure limits. Stress conditions are represented by a systemic disaster scenario where correlations between the different market risk factors break down. The disaster scenario has been deliberately set to reflect the illiquid conditions and ballooning spreads experienced during a systemic breakdown in the markets.

The following pie chart shows the distribution of stress exposures per risk factor across the bank's trading activities at the end of the financial year.

Market risk stress exposures per risk factor
at 30 June 2005

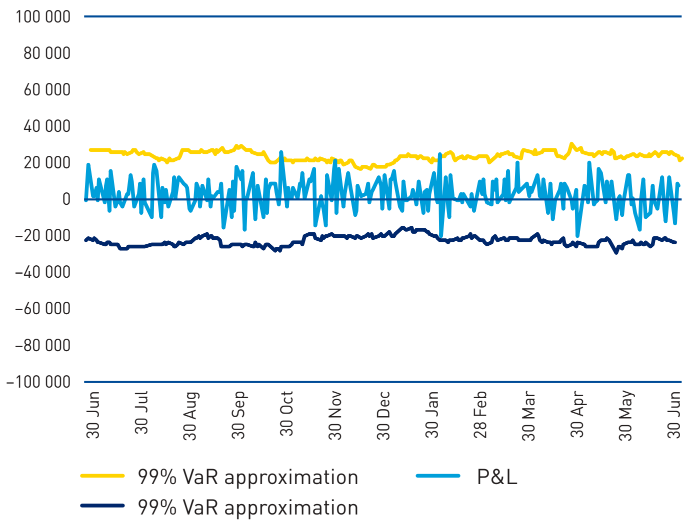


QUANTIFICATION OF MARKET RISK EXPOSURES

A Value at Risk methodology is applied in the aggregation of market risk exposures across the different trading activities and across the individual market risk factors.

The following graph shows an approximation of the value at risk for the year under review. The daily value at risk depicted below is scaled from the daily stress loss for trading activities. Comparing these approximated daily value at risk figures to trading income indicates that a sound risk/return ratio, or equivalently, that a good quality of earnings was achieved.

Value at Risk (99% 1-day) (Rand) – 1 July 2004 to 30 June 2005



OPERATIONAL RISK

The risk of loss due to criminal activities, the failure of a process, system or human error or external events

Operational risk management in the Banking Group

The management of operational risk covers many diverse activities such as the security of people and assets, process efficiency, systems capacity and availability, information security, legal risk, business continuation, prevention of criminal activities, key management processes and insurance. Comprehensive programmes are in place to identify operational defects and to implement process improvements. The Banking Group has also made good progress with the development of the quantification of operational risk using various statistical distributions and extreme value theories.

The following sections provide an overview of operational risk management in the Banking Group.

Risk management

Operational Risk Management Framework	Approved
Independent operational risk management function to develop, implement and co-ordinate operational risk management strategies, processes and systems	In place
Operational risk management processes and systems	Good, being refined

Operational losses

Losses due to criminal activities	Small decline
Losses due to process or systems failures relative to size of operations and benchmarks	Low
Process losses (routine processes)	Lower than last year's figure; low in relative value terms
Reporting of operational losses	Good

Key initiatives

- refinement of operational loss reporting and operational risk management processes;
- alignment of internal audit processes with the risk management functions and the risk management framework; and
- alignment with Basel II requirements.

The following table shows the history of operational losses indexed to 100 with the year to 30 June 2000 as the base. The figures for 2000 and 2001 are for criminal losses only, while losses in the routine process have been recorded formally since 2002.

Index of operational losses

Financial year to 30 June	2000	2001	2002	2003	2004	**2005**
Banking fraud and forgery	67	37	29	30	21	**25**
Robberies and burglaries	12	19	15	12	32	**17**
Card fraud	11	16	11	15	19	**24**
Transit losses	1	2	0	0	1	**0**
Money differences	7	7	7	3	2	**1**
Other	1	0	0	0	0	**0**
International fraud	1	14	0	0	0	**0**
Credit fraud	0	0	16	11	7	**6**
Losses due to criminal activities	100	95	78	72	81	**74**
Routine process losses			9	20	40	**33**
Total operational losses	100	95	88	92	121	**107**
Total assets indexed	100	122	181	195	208	**225**

Losses due to criminal activities were 8.6% lower than last year. Losses due to banking and credit card fraud were higher, while losses due to burglaries and robberies and debit card fraud were lower.

Similarly, process losses were lower than last year. Losses due to money differences in the branches were higher, although small in relative terms, while losses due to other processing errors were lower than last year.

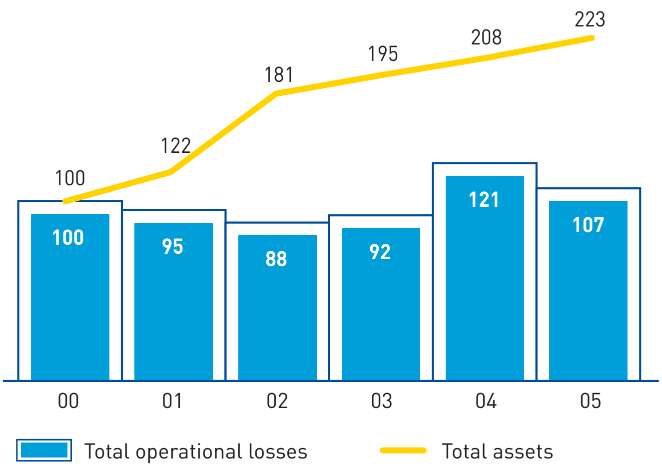
The upgrade of the alarm systems in the branches is almost complete. The Banking Group continues to improve protection, control and response procedures to counter the threat of criminal gangs which target the financial sector.

The indexed operational losses in the table show that the Banking Group has been very successful in containing criminal losses relative to the growth in assets. Losses due to criminal activities declined by 26% over the period while assets grew by 123%. Process losses in the routine process categories for which fairly accurate statistics exist over the term covered by the indices, are low in relative and absolute terms. Total operational losses increased by 7% over the period since the 2000 financial year relative to the growth in assets of 123%. Recorded processing errors and other operational losses are expected to increase as loss recording improves to build a reliable history for purposes of comparison.

Not all operational losses are shown as processing errors. The identification and recording of operational losses in the credit and market trading operations are being improved in order to identify operational weaknesses to correct. However, such losses in the credit businesses are still recorded as credit defaults because similar losses had not been separately identified in the past and form part of the historical credit default database which is used to calculate economic risk capital. Operational losses in the trading businesses are recorded as other operational losses.

The following graph illustrates the level of operational losses indexed relative to the growth in assets. The containment of operational losses in the categories in the table is most pleasing, but subject to the caveat that loss reporting is continuously being refined.

Index of operational losses vs index of total assets
(R million)



INFORMATION SECURITY

The risk of financial loss and reputational damage resulting from the exploitation of information security deficiencies by criminals who continue to seek such deficiencies, continues to increase. The implementation of best practice controls in conjunction with an intensive security awareness program, in a consistent manner across the Banking Group, is the most effective way to combat these risks.

External attacks

During the year under review, there have been no attacks on the bank's internet websites that have had significant success and the effect of new viruses and worms has been contained to the point where only minor inconveniences have been experienced.

Identity theft

Identity theft has become a major source of concern and the South African banking community, including FirstRand customers, has become the target of syndicates based overseas, who use the technique of "phishing" to obtain customers identification and authentication details which are then used to transfer funds illegally from the customer's accounts.

Criminals achieve this by setting up bogus websites that replicate the bank's e-business sites and entice customers who may dial into these sites, to enter their security information. Alternatively, e-mails are sent to customers requesting that the customer replies, giving security details on the pretext that this is required by the bank for a legitimate purpose.

While it is impossible to prevent this type of attack, FirstRand has taken steps to educate customers on how to recognise "phishing" attempts and has created awareness of exactly what to do and what not to do when communicating with the bank. The FNB internet banking service sends SMS messages of movements over their accounts to those customers who have registered for the "In Contact" service to enable customers to identify any unauthorised transactions as soon as possible. It also offers a device that generates a unique code each time a customer transacts through the website. These additional security measures prevent losses even when the customer's identity and password have been compromised.

While no major loss or damage has been experienced, the Group remains ever vigilant and continues to research new threats and how to deal with them. Commitment to good governance is high and a comprehensive compliance reporting system ensures consistent security across the various business areas.

INSURANCE RISK

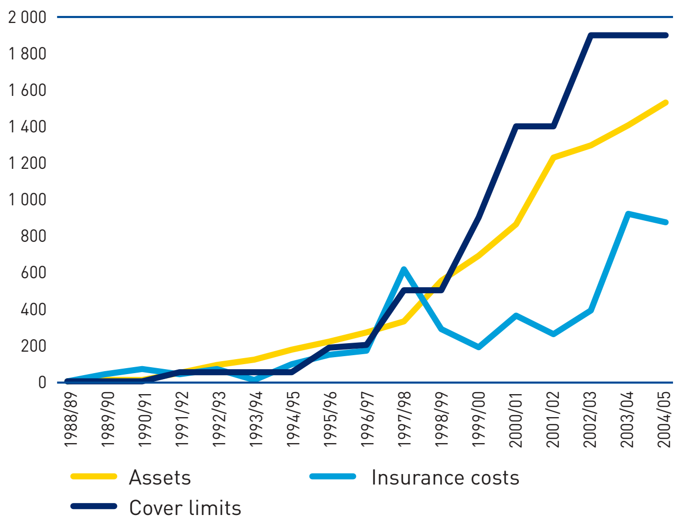
The risk that unexpected losses which are not business related losses, are not adequately covered by insurance

Insurance risk management

Key features of the past year:

- maintenance of appropriate Bankers Bond, Computer Crime, Professional Indemnity, Directors' & Officers' Liability, Assets and Liability cover levels;
- enhanced cost effective insurance/risk financing structures implemented;
- insurance cover readily available in the market at improved rates;
- reduction in total insurance costs;
- insurance policies, cover and limits are reviewed and benchmarked regularly; and
- all cover is placed at FirstRand Group level to maximise on economies of scale.

Financial Institutions Programme – increase in assets, insurance cost and cover limit (Base 1988/89)



The graph shows the index of asset growth against the indices of insurance cover limits and insurance costs. Insurance costs include both the primary layers retained by the Group and the cost of reinsurance.

The indices show that the level of insurance cover has been maintained in line with the growth in balance sheet assets. Similarly, insurance costs have not risen by as much as the growth in assets.

The increase in relative cost in 2003/04 was largely due to the impact of the tragedy which occurred on 11 September 2001 in New York and numerous other international insured loss events on the international insurance markets which impacted the Group as insurance programmes were renewed. A marginal decrease in total cost was achieved in the year under review.

All Group insurance policies have been renewed successfully at acceptable terms.

BUSINESS CONTINUATION AND DISASTER RECOVERY RISK

The risk of loss of data or the ability to continue business processes or activities due to unforeseen events

Business Continuity Management Cycle maintained for the annual review of strategies, measures, plans (biannual) and execution of appropriate testing was maintained	Yes
Test objectives met for all mission critical and key support processes.	Successfully tested
Effectiveness of the new remote site for mainframe and front-end core banking systems continuity and core network recovery.	Successfully tested

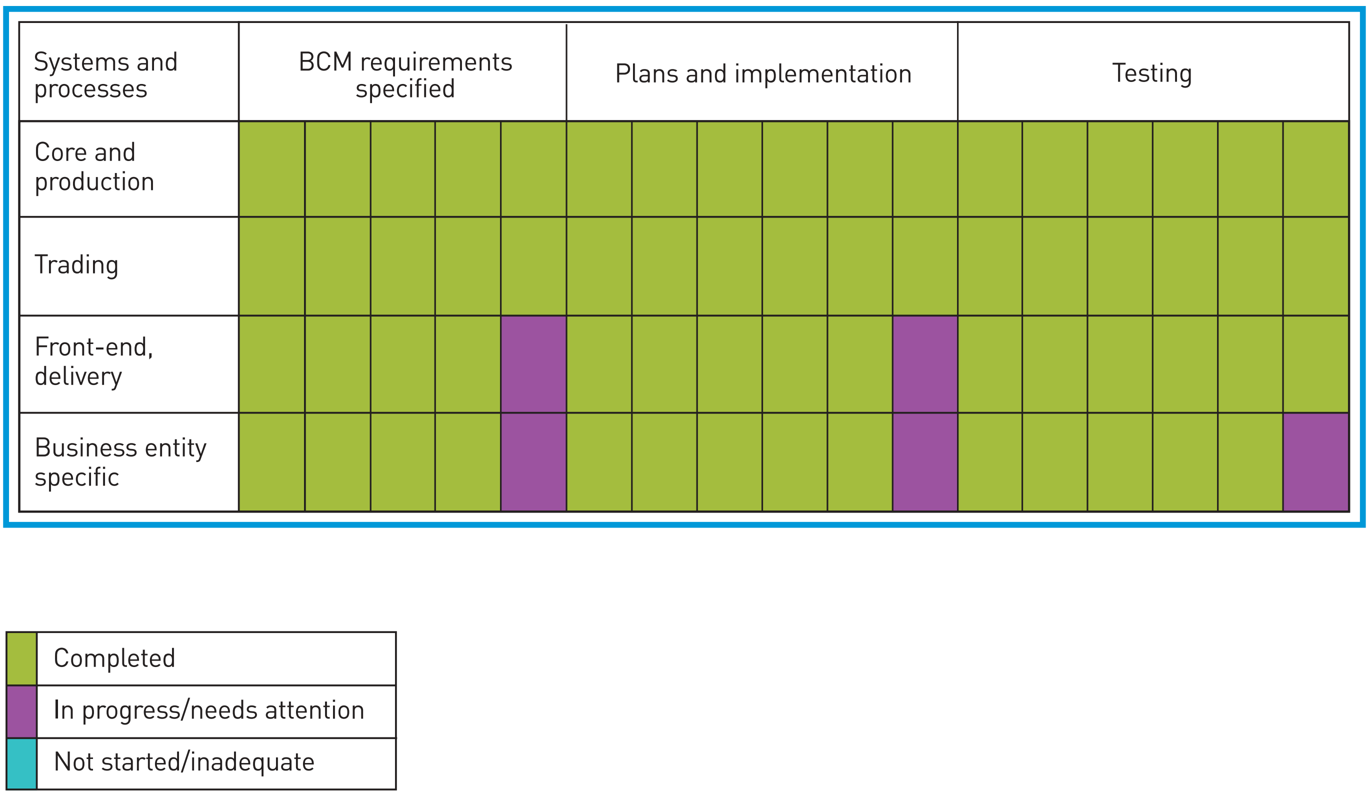
Key initiatives

- implement basic Business Impact Analysis;
- implement secondary tier static backup for Core Mainframe Systems; and
- implement technological basis for more remote backup site.

No effort was spared in improving an already effective Core Banking Systems continuity strategy, resulting in the approval of a substantial investment in infrastructure to provide a world-class solution to possible data corruption in the mirrored disk systems. The "shadow" third disk solution allows for quick recovery from a logical attack on mission-critical mainframe systems and was implemented during July and August 2005. It also provides for the efficient and comprehensive storage and recovery of systems data and subsequent archiving.

Extensive organisational changes rendered some continuation plans ineffective. In response, a huge effort was made by many business entities which resulted in a consolidation and streamlining of business continuation strategies and better testing. Training carried out during the year resulted in heightened awareness and acceptance of Business Continuity Management as a business enabler.

Business Continuity Status (systems and processes)



LEGAL RISK

The risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by a failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk management in the Bank

Legal Risk Management Framework implemented	Yes
Identification of the sources of legal risk by business units	Ongoing
Implementation of action plans by business units to monitor legal risks and to ensure that these are obviated or appropriately managed	Ongoing
Remedial actions by business units where legal defect is detected	Yes
Litigation database maintained	Yes
Adequate management of claims and litigation	Yes
Implementation of a contract management system	In progress
Implementation of an intellectual property management framework and management system	In progress
Identification of potential issues arising from proposed legislation and judgements and actions to address these	Comprehensive monitoring in place

Key initiatives

- to finalise implementation of the contract management system and intellectual property management framework and management system;
- to continue to highlight the necessity for business units to be aware of and to identify significant legal risks and to manage the impact of these with appropriate processes and procedures; and
- through audit processes, ensure that legal risk is being effectively managed in business units. Where deficiencies are identified, to assist business units to introduce appropriate processes.

COMPLIANCE RISK

The risk of legal or regulatory sanction, material financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its banking activities.

Compliance management

Deployment and resourcing of compliance functions	In place
Group-wide compliance awareness	Continuing awareness programmes
Implementation of Compliance Risk Management Framework	Continuous refinement
Identification of areas of high and medium compliance risk by business units	Implemented
Implementation of action plans by business units to monitor compliance risks to ensure they are obviated or appropriately addressed	In progress
Regular compliance reporting to Banking Group board, main risk and audit committees and regulators	Yes
Remedial action taken by business units where compliance defects and breaches are detected	Yes
Requisite compliance training of all staff	Yes, continuous
Ongoing awareness training, implementation of new legislation and updating of existing legislation	Yes

Key initiatives

- implementation of the CURA compliance module for updating, managing and monitoring of compliance risk throughout the Banking Group locally and offshore;
- refining of reporting methodology;
- embedding implementation of the Compliance Risk Management Framework throughout the Group;
- development/sourcing of and implementation of specialist compliance training material for all compliance staff; and
- development and implementation of a Records Management Framework throughout the Banking Group.

INTERNAL AUDIT

The internal auditors perform comprehensive process, systems and business audits across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self-assessments. All audit reports are reviewed at the appropriate audit committees of the business units. Major issues are escalated to higher levels of review.

Action plans to address identified process weaknesses are agreed with management of the relevant business unit and progress monitored by the risk committees, as appropriate.

Capital management

FRAMEWORK FOR CAPITAL MANAGEMENT

Objectives of capital management

Active capital management is one of the five growth pillars in the strategy of FirstRand. Through the framework and its associated processes, capital management aims to add shareholder value. This is done through the proactive management of the **level of capital,** the **investment of capital** and the **allocation of capital** as indicated in the diagram below which is consistent with the FirstRand Limited Capital Management Framework.

	Level of capital	Investment of capital	Allocation of capital
Objectives	• Minimise economic risk exposure • Optimise cost of capital through choice of capital instruments	• Invest the capital base to maximise wealth within acceptable earnings at risk and economic risk	• Strategic decision making • Risk adjusted performance measurement • Pricing and reserving for expected and unexpected losses
Principles	• Internal capital adequacy assessment process • Capitalise at highest of economic capital or regulatory capital plus appropriate buffer	• Profile managed by specialist business unit • Rolling investment profile • Invest in government assets or provide funds to funding pool	• Bottom-up calculation on risk adjusted basis • Credit, market, investment, interest rate, operational and other residual risks
Focus	Capitalise in line with economic risk exposure of FirstRand Banking Group	Invest capital to produce optimal risk adjusted return	Align managers' and shareholders' interest

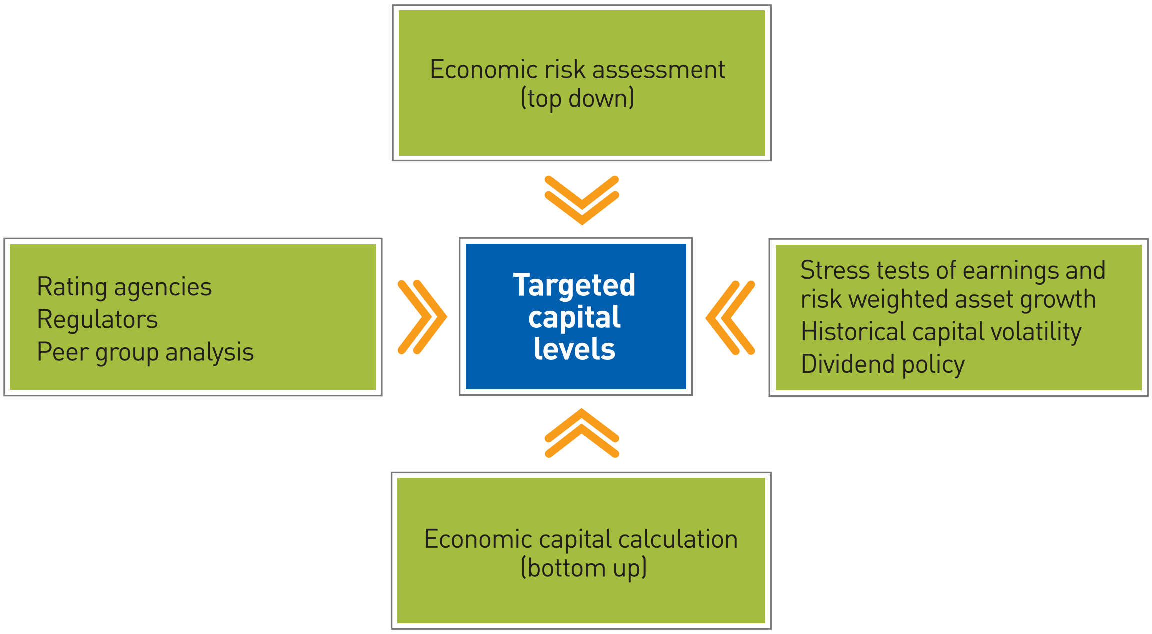
Capital management

| Continued |

LEVEL OF CAPITAL – CAPITAL ADEQUACY

The level of capitalisation should be appropriate to support the business to meet its stated performance targets. To this end, the Banking Group should be capitalised to minimise its economic risk exposure. *Economic risk exposure is defined as the risk of losses of a magnitude which threatens the continuation or sustainability of an entity or the perception of sustainability.*

To determine the targeted level of capital, the Banking Group has a rigorous internal capital adequacy assessment process. This process results in the targeted capital levels expressed as a buffer relative to the minimum of regulatory capital requirements. This process can be illustrated as follows:



The capital adequacy target ranges for 2005/2006 for the Banking Group have been set at 11.5% to 12% and for FirstRand Bank at 11% to 11.5%. These targets are reviewed regularly, taking account of the economic cycle, growth forecasts and economic risk and capital assessments.

The capital composition (between debt and equity) is optimised, taking into account the requirements of the regulators and rating agencies. The focus of this process is to ensure the most efficient cost of capital.

Investment of capital

The investment of the Banking Group's book capital is managed as a separate portfolio by a specialist business unit within the Banking Group. The objective of this business unit is to maximise wealth within acceptable risk limits. This objective is met through the investment of capital in a desired interest rate investment profile which optimises risk adjusted return. The capital investment is typically spread between one to five years in order to minimise income and mark-to-market volatility and maximise returns.

Allocation of capital

Allocation of capital on a risk adjusted basis has been performed since June 2003. Economic capital is calculated per main business unit for:

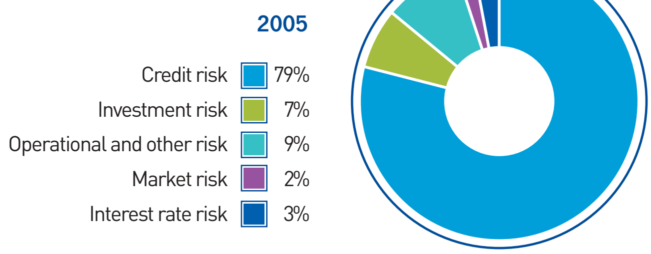
- credit risk;
- market risk;
- equity investment risk;
- banking book interest rate risk;
- operational risk; and
- other residual risks.

The economic capital allocation methodology closely follows the Basel II advanced approaches' principles. *This process has contributed extensively to the awareness, implementation and optimisation of portfolios for Basel II throughout the Banking Group.*

The Banking Group uses economic capital allocation widely. It is a key input into deal pricing, risk management, the measurement of business performance on a risk adjusted basis, and strategic decisions regarding the capitalisation of FirstRand Bank and the Banking Group.

The following graph indicates the economic capital analysis per risk type for 2005:

Economic capital per risk type



Economic profit

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

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

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

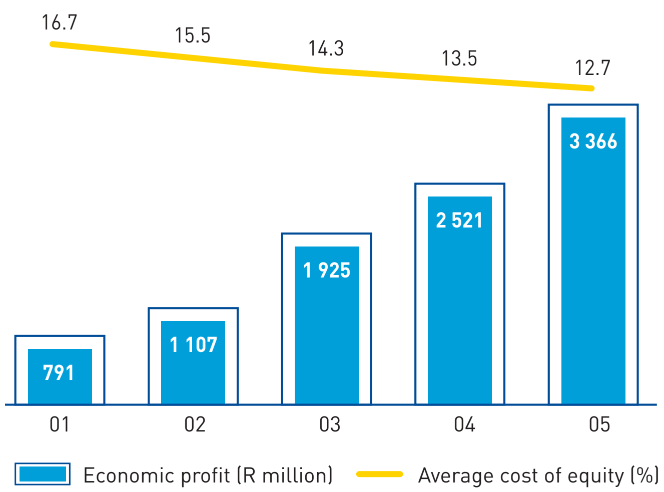
Net economic profit

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

* *Headline earnings excluding translation gains and losses.*

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

Growth in economic profit (EP) and cost of equity



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

Return on equity

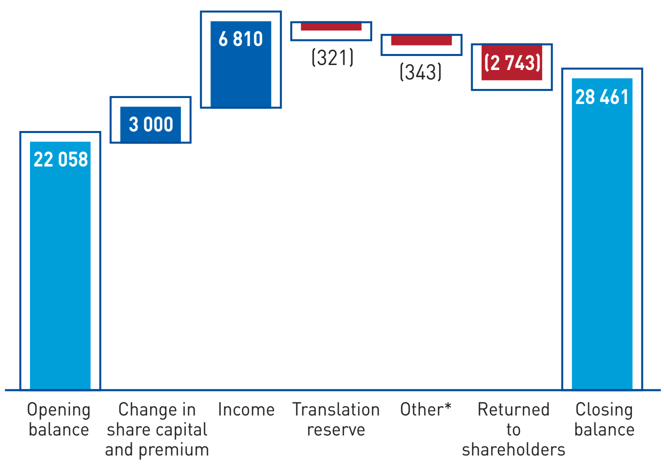
The Banking Group achieved a return on average ordinary shareholders' equity ("ROE") of 27.6% (2004: 26.4%) during the year under review (based on headline earnings excluding translation gains and losses). The section below deals with the ROE percentages for the business units.

Analysis of shareholders' equity and reserves

Total shareholders' equity and reserves per the Banking Group balance sheet totalled R28 461 million as at 30 June 2005 (R22 058 million in 2004) after the issue of R3 billion non-redeemable non-cumulative preference shares during November 2004. The average ordinary shareholders' equity and reserves for the year amounted to R22 537 million (2004: R19 550 million).

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

Total shareholders' funds
(R million)



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

Segmental ROE

Business unit performance is measured internally using a number of metrics, including ROE and economic profit.

For purposes of segmental ROE reporting, ordinary shareholders' funds have been attributed to business units based on the higher of their regulatory capital (including targeted regulatory capital buffers) or economic capital utilisation. Regulatory capital is calculated using the regulatory rules currently applied by the South African Reserve Bank ("SARB") and other regulators. Economic capital utilisation, in contrast, is calculated for both regulated and unregulated businesses and incorporates an assessment of the capital required for the risk incurred by the business, as per the methodology described in the previous section.

Capital management

| Continued |

The tables below provide a summary of the ROEs for the main business units, based on headline earnings (excluding translation gains and losses):

Return on equity

R million	Headline earnings	ROE
For the year ended 30 June 2005		
FNB	**2 930**	**35.5%**
RMB	**1 317**	**31.5%**
WesBank	**1 008**	**17.8%**
FirstRand Africa and Emerging Markets	**313**	**28.6%**
Group Support Services*	**660**	
Total	**6 228**	**27.6%**
For the year ended 30 June 2004		
FNB	2 581	35.8%
RMB	958	25.5%
WesBank	759	17.9%
FirstRand Africa and Emerging Markets	288	30.2%
Group Support Services *	580	
Total	5 166	26.4%

* *Includes Ansbacher.*

Note

Group Support Services includes the income and expenses on capital transactions as well as the income from associates, eg Outsurance.

Capital held at the centre (Group Support Services) includes Group balance sheet management transactions such as the BEE deal, discontinued businesses' capital, excess capital above targeted buffers, capital not available for gearing such as AC 133 reserves and capital from associates.

CAPITAL ADEQUACY

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

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

FirstRand Banking Group

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

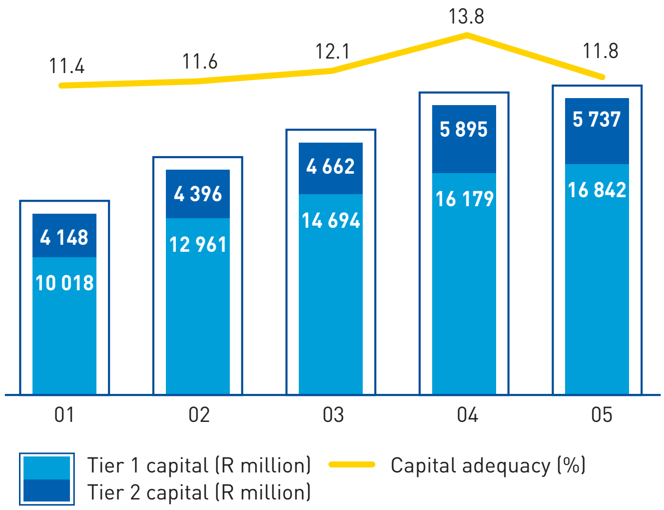
Ansbacher capital and risk weighted assets was included in 2004 and not in 2005. The 2004 capital adequacy ratio excluding Ansbacher capital and risk weighted assets amounted to 13.5%.

FirstRand Bank Limited

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

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

Banking Group regulatory capital position



Due to the buoyant market conditions, the high growth rate in risk weighted assets and the revised dividend cover ratio adopted in 2004, the capital adequacy has decreased and is now broadly in line with the capital adequacy target range set by the Banking Group. As was reported in the interim financial statements, FirstRand Limited issued R3 billion non-cumulative non-redeemable preference shares during November 2004 in order to facilitate its BEE transaction. The proceeds of this issue were invested in FirstRand Bank Limited on 31 December 2004. For capital adequacy purposes, the application of these funds to the BEE transaction impaired capital upon the final conclusion of the transaction in the first half of 2005.

Further information on the capital adequacy position of the Banking Group and FirstRand Bank is set out on pages 217 and 218.

Basel II

The South African Reserve Bank ("SARB") has indicated its intention to implement Basel II in South Africa on 1 January 2008. This will significantly change the way in which regulatory capital requirements are calculated for the Banking Group, the way that supervisory review is conducted on the Banking Group's internal capital adequacy assessment processes and also require a more detailed level of risk and capital adequacy disclosures.

The following section provides an indication of the Basel II implementation targets of the Banking Group, an explanation of the differences between the capital calculation under Basel I and Basel II under the various approaches available, the implementation progress of the Banking Group under the various approaches and also the expected capital impact of Basel II on the Banking Group.

BANKING GROUP BASEL II IMPLEMENTATION TARGETS

Following the good progress made during the past two financial years with the Basel II implementation, the Banking Group has revised its external Basel II targets for non-retail exposures and operational risk upwards and is now targeting the following approaches for the implementation of Basel II:

	Africa and International Subsidiaries	FirstRand Bank (retail and non-retail)
Credit risk approach	Standardised	Advanced internal ratings based ("IRB")*
Operational risk approach	Standardised or alternative standardised	Advanced measurement approach**

** FirstRand Bank ("the Bank") is targeting the advanced approach for non-retail businesses for implementation on or before 1 January 2009 and for implementation in 2008 for the retail businesses. Good progress has been made in the Bank on the refinement of internal loss given default ("LGD") measurement in the Corporate and SME businesses. The current focus is on further refinement of the calibration of LGD models and measurement, as well as improvement of specialised lending rating models.*

*** The building blocks for the advanced measurement approach are currently being implemented with the targeted transition date on or before 1 January 2009.*

CAPITAL CALCULATION CHANGES BROUGHT ABOUT BY BASEL II

Credit risk

The following table highlights the capital calculation differences between Basel I and the available Basel II approaches:

BASEL APPROACHES	CAPITAL CALCULATION
Basel I	Exposure x risk weight {0%, 20%, 50% or 100%} x 10%
Basel II Standardised approach	Exposure x risk weight {derived from external rating agency ratings} x 10%*
Basel II Internal Rating Based approaches	Exposure x risk weight {derived from internal risk ratings assigned} x 10%*
Wholesale lending Foundation and Advanced IRB approach	Separate risk weight calculation formulae for: • Corporates, banks, sovereigns • SMEs treated as Corporate • Specialised lending
Retail lending Advanced IRB approach	Separate risk weight calculation formulae for: • Residential mortgages • Qualifying revolving retail • Other retail (including SMEs treated as Retail)

** The minimum capital adequacy percentage specified by Basel II is 8%.*
The SARB has not yet indicated whether the 10% currently required in South Africa will be changed under Basel II.

It was indicated above that the advanced IRB approach is targeted for FirstRand Bank Limited, which represents the majority of the Banking Group's exposures. Under this approach the internal risk ratings assigned by banks to their exposures and internal assessments of PD, LGD and exposure at default ("EAD") drive the capital requirement of the Banking Group.

In general, a higher estimate of PD, LGD or EAD indicates a higher risk estimate of an exposure and will require a higher level of capital. The calculation of capital using these parameters therefore ensures appropriate levels of risk sensitivity which aid with the alignment of Basel II (regulatory) capital to economic or risk adjusted capital.

The Basel II framework sets out a number of qualitative requirements for the implementation of the IRB approaches. These include appropriate governance structures, requirements on the data to use for parameter estimates and "use test" specifications. The integrated risk framework established by Basel II is designed to reward appropriate risk management within banking groups.

The Bank has substantially completed the calibration and validation of its internal credit rating models for the assessment of PD. It is currently enhancing its LGD and EAD models for non-retail exposures to enable it to meet the requirements of the advanced IRB approach. The LGD and EAD models in the retail businesses have been developed, and minor refinements are ongoing. The credit risk section of the risk management report provides further detail regarding credit risk practices, as well as credit distributions for the Bank as at year end.

Operational risk

A new capital charge for operational risk is introduced by Basel II. Basel II allows four different approaches for the calculation of regulatory capital for operational risk:

BASEL APPROACHES	DESCRIPTION
Basic Indicator	Capital calculated using 15% of average gross income over 3 years
Standardised	Capital calculated using various factors (between 12% – 18%) per business type, applied to average gross income over 3 years
Alternative standardised	Capital calculated as for standardised approach, except that the capital for retail and commercial banking is linked to the size of advances
Advanced measurement approach	Capital calculated using the banks' internal operational risk measurement system using a combination of internal and external loss data, scenario analysis and bank-specific business environment and internal control factors

The Banking Group has substantially completed the implementation of the qualitative requirements to comply with the standardised and alternative standardised approaches. It has successfully completed a series of internal trial runs to calculate capital under the Advanced Measurement Approach ("AMA") using internal loss data. The focus is currently on further enhancement of its AMA calculations to also incorporate external data and scenario analysis. Further details of the operational risk management processes are provided in the risk management report.

Pillar II capital requirements

Pillar II of Basel II requires banks to implement a rigorous internal capital adequacy assessment process, which is to be reviewed by the Regulator. The Banking Group designed and implemented its internal capital assessment processes based on the Basel II guidance currently available. Refer to the Capital Management section on page 143 for further detail on the process followed.

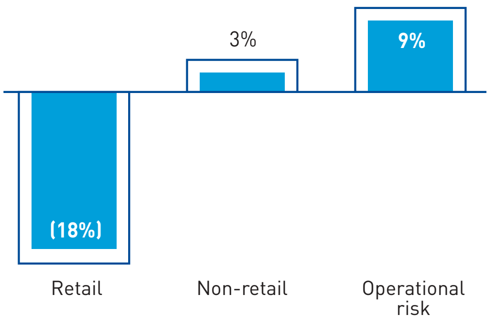
EXPECTED CAPITAL IMPACT OF BASEL II

Since March 2003 the Banking Group has conducted quarterly impact studies on the impact of Basel II on the bank's regulatory capital requirements, the volatility of the new capital requirements and the process impact of Basel II. The Banking Group has also participated in the two global impact studies namely QIS 3 (in 2002/3) and QIS 4 (in 2004/5) initiated by the Basel Committee and coordinated in South Africa by the SARB.

Based on the various internal impact studies conducted by the Banking Group, it estimates the overall capital impact under Basel II to be substantially neutral, with a possibility of a small reduction in its regulatory capital requirement. This impact assessment is based on the conservative assumption that the overall "all in" capital adequacy requirement of Pillar I and Pillar II would remain at 10%. It should be noted that the Banking Group will only be able to provide a final assessment of the capital impact once the SARB has clarified remaining national discretion items, including its approach to the setting of minimum capital requirements (8% or higher), the approach to Pillar II and consolidated supervision.

The expected impact per exposure group, assuming an unchanged capital adequacy requirement of 10%, is as follows:

Impact of Basel II vs Basel I (assuming 10% of RWA capital requirement)
(Asset class/exposure type)



Analysis of percentage change in the Banking Group's capital requirement.

From the graph it is evident that the biggest change in capital requirement is likely to result from a reduction in the requirement for retail assets. In the case of the Banking Group the reduction is largely driven by the recognition of collateral and efficient recovery processes on the instalment finance products of WesBank, as well as a reduction in capital for mortgages in FNB. The increase in capital requirement for non-retail exposures is mainly driven by the more onerous capital requirements on certain off-balance sheet products (including unutilised facilities), and certain long-dated lending exposures. The probable overall reduction in the credit risk capital will be balanced by the introduction of operational risk capital.

In the interpretation of the graph it should be noted that a number of uncertainties still exist regarding the final capital calculation under Basel II. Specifically the following is mentioned:

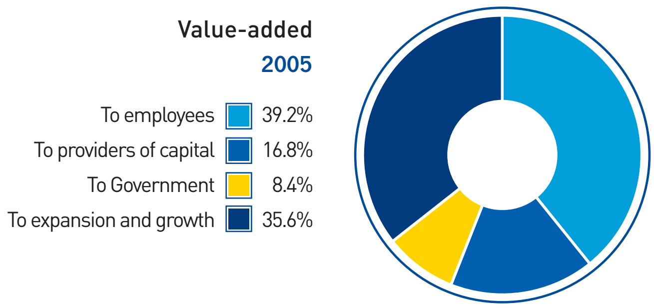
- QIS 4 and the graph data was completed for the foundation IRB approach for non-retail exposures, advanced IRB approach for retail exposures, and alternative standardised approach for operational risk. The target (as previously mentioned) for non-retail exposures and operational risk was revised subsequently to QIS 4, based on internally conducted cost/benefit analyses, to the advanced IRB approach for credit risk and the advanced measurement approach for operational risk. This revision is expected to have a more favourable impact on the level of capital required for non-retail exposures and operational risk;
- The minimum capital adequacy percentage and the way that Pillar II will be implemented in South Africa have not yet been clarified. This may influence the final amount of capital which banks are required to hold;
- The SARB application of Basel II national discretion items has not yet been finalised; and
- The graph has been primarily based on the impact analysis conducted during 2005. The data refinements and optimisation initiatives currently underway, and the overall economic cycle may influence these estimates going forward.

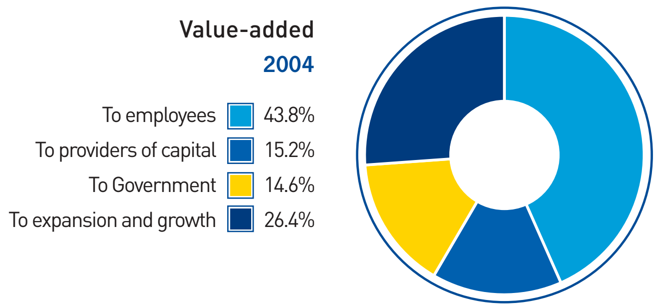
OTHER IMPACTS

The substantial changes to the regulatory capital regime brought about by Basel II have significant process and systems impacts on banks. The Banking Group has progressed well with the changes in processes and systems, but a significant amount of work will still be performed before 2008 in the further upgrading of its risk systems. The overall cost impact of Basel II, estimated at R100 – R150 million will, however, be spread over a number of years.

Value-added statement for the year ended 30 June

	2005		2004	
	R million	%	R million	%
Value-added				
Income earned by providing banking services	23 417		22 412	
Cost of services	(14 626)		(14 338)	
Value-added by banking services	8 791		8 074	
Non-operating income	12 932		9 278	
Non-operating expenditure	(5 383)		(4 201)	
Value-added by banking services	16 340		13 151	
To employees				
Salaries, wages and other benefits	6 408	39.2	5 756	43.8
To providers of capital				
Dividends to shareholders	2 743	16.8	1 995	15.2
To Government				
Normal taxation	921	5.6	1 484	11.3
Value-added tax	321	2.0	267	2.0
Regional services levy	48	0.3	56	0.4
Capital gains tax	20	0.1	1	–
Other	66	0.4	113	0.9
To expansion and growth				
Retained income	4 067	24.9	2 753	20.8
Depreciation	598	3.7	546	4.2
Deferred taxation	1 148	7.0	180	1.4
	16 340	100.0	13 151	100.0





Directors' responsibility statement

The directors of FirstRand Bank Holdings Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the FirstRand Banking Group, a division of FirstRand Limited, at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed. Suitable accounting policies have been applied, and reasonable estimates have been made. The board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Group's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears on page 152.

The directors have reviewed the Banking Group's budget and cash flows for the year to 30 June 2006. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the Banking Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The consolidated financial statements for the year ended 30 June 2005, which appear on pages 153 to 216, have been approved by the board of directors and are signed on its behalf by:

JP Burger
Chief Financial Officer

PK Harris
Chief Executive Officer

Sandton
19 September 2005

Report of the independent auditors

TO THE DIRECTORS OF FIRSTRAND LIMITED

We have audited the consolidated financial statements of the FirstRand Banking Group, a division of FirstRand Limited (as defined in the introduction paragraph to the accounting policies on page 153), set out on pages 153 to 216, for the year ended 30 June 2005. These financial statements are the responsibility of the directors of FirstRand Bank Holdings Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

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

An audit includes:

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

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

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the FirstRand Banking Group at 30 June 2005 and the results of its operations and cash flows for the year then ended in accordance with Generally Accepted Accounting Practice in South Africa.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
19 September 2005

Accounting policies

INTRODUCTION

The audited financial statements of the Banking Group, a division of FirstRand Limited ("FirstRand"), comprise the financial position, results and cash flow of the banking interests of FirstRand, and should be read in conjunction with the financial statements of FirstRand.

The Banking Group adopts the following accounting policies in preparing its consolidated financial statements.

1. BASIS OF PRESENTATION

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

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

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

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. The Banking Group adjusts comparative figures to conform to changes in presentation in the current year.

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

The Banking Group adopted AC 501 with effect from 1 July 2004. Further details regarding the effect of the change in accounting policy is set out in note 28 below. The restatement of prior year numbers due to the change in accounting policy as well as in respect of certain other reclassifications to improve disclosure, is set out in note 29 below.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Banking Group, directly or indirectly, has the power to exercise control over the operations for its own benefit, and which it does not intend to dispose of within a short term (12 months). The Banking Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

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

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

3. ASSOCIATED COMPANIES

Associated companies are companies in which the Banking Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control, and which it does not intend to dispose of within a short term (12 months).

The Banking Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The Banking Group eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Banking Group's share of earnings of associated companies. The Banking Group's reserves include its share of post-acquisition movements in reserves of associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Banking Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any unimpaired goodwill at the reporting date. Negative goodwill is taken to income in the year of acquisition.

The Banking Group discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

The Banking Group increases the carrying amount of investments with its share of the associated company's income when equity accounting is resumed.

Investments acquired and held exclusively with the view to disposal in the near future are not accounted for using the equity accounting method, but carried at fair value in terms of the requirements of AC 133.

4. JOINT VENTURES

The Banking Group accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method the Banking Group includes its share of a joint venture's individual income or expense, assets and liabilities and cash flows in the relevant components of its financial statements.

5. REVENUE RECOGNITION

5.1 Interest income

The Banking Group recognises interest income, excluding that arising from trading activities, on an accrual basis, applying the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the financial asset, save for mortgage origination costs which are expensed in the year incurred.

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC 133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount of the advance. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances. Dividends received on these instruments are included in interest income.

5.2 Trading income

The Banking Group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of AC 133), both realised and unrealised, in income as incurred.

5.3 Fee and commission income

The Banking Group recognises fee and commission income on an accrual basis when the service is rendered.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

5.4 Services rendered

The Banking Group recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.

When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

5.5 Dividends

The Banking Group recognises dividends on the "last day to trade" for listed shares, and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

6. FOREIGN CURRENCY TRANSLATION

6.1 General

The Banking Group presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Banking Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

6.2 Independent entities

Assets and liabilities of foreign subsidiary companies, regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year end. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

6.3 Integral operations

Non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Banking Group's operations, are translated into South African Rand at historical rates, with monetary assets and liabilities translated at rates of exchange ruling at year end. Resultant gains and losses are recognised in the income statement.

6.4 Other

The Banking Group translates capital, reserves and any goodwill or fair value adjustments arising on the acquisition of foreign operations at historical rates. Income statement items are translated at the average rate for the year.

The Banking Group converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

7. BORROWING COSTS

The Banking Group capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed when incurred.

8. DIRECT AND INDIRECT TAXATION

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax.

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

Indirect taxes are disclosed separately from direct tax in the income statement.

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

9. RECOGNITION OF ASSETS, LIABILITIES AND PROVISIONS

9.1 Assets

The Banking Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets

The Banking Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Banking Group's control.

9.3 Liabilities and provisions

The Banking Group recognises liabilities, including provisions when:

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

9.4 Contingent liabilities

The Banking Group discloses a contingent liability where:

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

9.5 Sale and repurchase agreements and lending of securities

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the reverse repos using the effective yield method. Securities lent to counterparties are retained in the financial statements of the Banking Group.

The Banking Group does not recognise securities borrowed in the financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded as a liability at fair value.

10. DERECOGNITION OF ASSETS AND LIABILITIES

The Banking Group derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. OFFSETTING FINANCIAL INSTRUMENTS

The Banking Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set-off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously; and
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability is denominated in the same currency.

12. CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks;
- balances guaranteed by central banks; and
- balances with other banks.

13. FINANCIAL INSTRUMENTS

13.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associated companies, property and equipment, deferred taxation, taxation payable and intangible assets.

The Banking Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered to or by it.

13.2 Financial assets

13.2.1 Originated advances

The Banking Group classifies advances as "Originated" where it provides money directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the transaction in determining the effective yield of the advance.

The Banking Group expenses origination costs in the year incurred.

All advances are recognised when cash is advanced to borrowers.

13.2.2 Purchased advances and receivables and investment securities

The Banking Group classifies purchased advances and receivables and investment securities as held-to-maturity, available-for-sale or elected fair value assets.

Purchased advances and receivables (including sub-participations acquired after providing the original loan) and investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as "Held-to-maturity". The Banking Group classifies purchased advances and receivables and investment securities where the intention is to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Available-for-sale" or as "At elected fair value". Management determines the appropriate classification at the time of purchase.

The Banking Group initially recognises purchased advances and receivables and investment securities at cost (which includes transaction costs, excluding mortgage origination costs). It subsequently remeasures available-for-sale and elected fair value advances and receivables and investment securities at fair value, based on quoted bid prices where the underlying markets for the instruments are liquid and well developed. Alternatively, it derives fair value from cash-flow models or other appropriate valuation models where markets are illiquid or do not reflect the true market value based on the underlying risks of the instrument.

The Banking Group estimates fair values for unquoted equity instruments using applicable price: earnings ratios or cash-flow models. It estimates the fair value of debt instruments with reference to applicable underlying interest rate yield curves and estimated future cash flows on the applicable instruments.

The Banking Group recognises unrealised gains and losses arising from changes in the fair value of advances and receivables classified as available-for-sale, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Banking Group recognises fair value adjustments on loans and advances classified as elected fair value in trading income. Interest income on these assets is included in interest income.

The Banking Group carries held-to-maturity advances and receivables and investments at amortised cost using the effective yield method, less any impairment.

The Banking Group classifies purchased advances and receivables acquired in terms of a business combination, where such advances and receivables were classified as "Originated" by the seller, as "Originated".

13.3 Impairments for credit losses

13.3.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Financial assets are assessed on an annual basis to determine whether there is objective evidence of impairment.

13.3.2 Impairment of originated advances

The Banking Group creates a specific impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

The Banking Group creates further portfolio impairments in respect of performing advances where there is objective evidence that components of the advances portfolio contain losses at the balance sheet date, which will only be specifically identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The portfolio impairments are based upon historical patterns of losses in each component of the performing portfolio, the credit ratings allocated to the borrowers and take account of the current economic climate in which the borrowers operate.

When an advance is uncollectible, it is written off against the related impairment. Subsequent recoveries are credited thereto.

The Banking Group writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan loss reserve requirements that exceed the specific and portfolio impairment amounts are dealt with in a General Risk Reserve as an appropriation of retained earnings.

The Banking Group reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

Property in possession is included in advances and is shown at the lower of cost and net realisable value.

13.3.3 Impairment of other financial assets carried at amortised cost

The Banking Group calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

13.4 Trading securities (including instruments at elected fair value)

The Banking Group includes in "Trading securities", securities that are:

- acquired for generating a profit from short-term fluctuations in price or dealer's margin; or
- included in a portfolio in which a pattern of short-term profit-taking exists; or
- designated as such on initial recognition.

The Banking Group initially recognises trading securities at cost (which includes directly attributable transaction costs) and subsequently remeasures them at fair value based on quoted bid prices. It includes all related realised and unrealised gains and losses in trading income. It reports interest earned on trading securities as non-interest income. Dividends received are included in dividend income.

The Banking Group determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant.

For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of long-term debt or investment securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

13.5 Derivative financial instruments and hedging

The Banking Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at cost (including transaction costs) and subsequently remeasures these instruments at their fair value.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate. The Banking Group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The Banking Group recognises fair value changes of derivatives that are designated and qualify as fair value hedges in the income statement along with the corresponding change in fair value of the hedged risk of the hedged asset or liability.

If the hedge no longer meets the accounting criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged financial instrument is amortised to net profit or loss over the period to maturity.

The transitional adjustment in respect of the unhedged portion of available-for-sale equity securities remains in equity until the disposal of the instrument.

The Banking Group recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the Cash flow hedging reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, the Banking Group transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

On the date a derivative is entered into, the Banking Group designates certain derivatives as either:

- a hedge of the fair value of a recognised asset or liability ("fair value hedge"), or
- a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment ("cash flow hedge").

The Banking Group applies hedge accounting for a derivative instrument when the following criteria are met:

- formal documentation identifying the hedging instrument, hedged item, hedging objective, hedging strategy and relationship between the hedged item and the hedge, is prepared before hedge accounting is applied;
- the hedge documentation shows that the hedge is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

13.6 Embedded derivatives

The Banking Group treats derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

14. COMMODITIES

Commodities are carried at the lower of cost or net realisable value and are valued on a weighted average basis. Net realisable value is determined with reference to open market value in arms-length transactions.

15. PROPERTY AND EQUIPMENT

The Banking Group carries property and equipment at cost less accumulated depreciation.

It depreciates property and equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold premises and capitalised leased assets	Shorter of estimated life or period of lease
Freehold property	50 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

The Banking Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in income on disposal.

16. ACCOUNTING FOR LEASES – WHERE A GROUP COMPANY IS THE LESSEE

The Banking Group classifies leases as property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Banking Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

The Banking Group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

The Banking Group recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

17. ACCOUNTING FOR LEASES – WHERE A GROUP COMPANY IS THE LESSOR

17.1 Finance leases

The Banking Group recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

17.2 Operating leases

The Banking Group includes property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar property and equipment. Rental income is recognised on a straight-line basis over the lease term.

17.3 Instalment credit agreements

The Banking Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable thereunder, less unearned finance charges, in advances.

It calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

18. INTANGIBLE ASSETS

18.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Banking Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on associated companies is included in the carrying value of the associated company.

The Banking Group discontinued the amortisation of goodwill with effect from 1 July 2004. An impairment test was performed on the carrying value of goodwill on 1 July 2004. Any adjustments to the carrying amount of goodwill were made against retained income. The comparative financial information includes an amortisation charge for goodwill.

An annual impairment test is performed on goodwill and any impairment calculated is expensed to the income statement. For impairment purposes goodwill is allocated to the lowest components of the business that are expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit ("CGU") represents a grouping of assets no higher than a primary business or reporting segment as contemplated in note 25 below.

Impairment testing procedures

The recoverable amount of each CGU is determined on the basis of a value in use calculation, unless the fair value less costs to sell is readily obtainable for a CGU.

Future expected cash flows:

- The first impairment test on 1 July 2004 was based on the budgeted number for the year ended 30 June 2005.
- Subsequent tests will be based on the budgeted numbers for the financial year ahead.
- The budgeted profit before tax number will be used as a starting point, adjusted for non-cash items.
- For the years thereafter the numbers will be extrapolated for two years based on growth rates determined by the relevant CGU management.
- Where a growth rate other than a steady or declining rate is used, the relevant CGU management needs to justify this rate.
- Cash flows after this initial three year period will be extrapolated and using a growth rate within the Government's target inflation rate.

Discount rate:

The discount rate used to discount future expected cash flows will be the relevant pre-tax weighted average cost of capital ("WACC") for the appropriate geographical segments where the respective CGUs operate e.g. South African, Africa or International.

Accounting treatment

The Banking Group compares the recoverable amount of the cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit, and
- then, to the other assets of the unit on a *pro rata* basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset can not be reduced below the highest of:

- its net selling price (if determinable);
- its value in use (if determinable); and
- zero.

Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Banking Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

18.2 Computer software development costs

The Banking Group generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Banking Group exceeding the costs incurred for more than one accounting period, the Banking Group capitalises such costs and recognises them as an intangible asset.

The Banking Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

18.3 Other intangible assets

The Banking Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts.

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

However, the Banking Group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

The Banking Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

19. DEFERRED TAXATION

The Banking Group calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Banking Group recognises deferred tax assets if the directors of FirstRand Bank Holdings Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and other post-retirement benefits and tax losses carried forward.

20. EMPLOYEE BENEFITS

20.1 Post-employment benefits

The Banking Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Banking Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Banking Group employees. Qualified actuaries perform annual valuations.

The Banking Group writes off current service costs immediately, while it expenses past service costs, experience adjustments, and plan amendments over the expected remaining working lives of employees. Actuarial gains and losses are expensed on the basis set out in note 20.5 below. The costs are written off immediately in the case of retired employees.

20.2 Post-retirement medical benefits

In terms of certain employment contracts, the Banking Group provides for post-retirement health care benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Banking Group created an independent fund in 1998 to fund these obligations. AC 116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Banking Group recognises all expenses for post-retirement medical benefits, as well as all investment income of the Fund, in the income statement.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

20.3 Termination benefits

The Banking Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

20.4 Leave pay provision

The Banking Group recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. A portion of the actuarial gains or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

The Banking Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

21. BORROWINGS

The Banking Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is brought to account on an effective interest rate basis.

The Banking Group separately measures and recognises the fair value of the equity component of an issued convertible bond in equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the Banking Group purchases its own debt, the debt is presented on a net basis in the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

22. SHARE CAPITAL

22.1 Share issue costs

Costs directly related to the issue of new shares or options are shown as a deduction from equity.

22.2 Dividends paid

Dividends on ordinary shares are recognised against equity in the period approved by the Company's shareholder. Dividends declared after the balance sheet date are not recognised but disclosed as a post-balance sheet event.

23. ACCEPTANCES

Acceptances comprise undertakings by the Banking Group to pay bills of exchange drawn on customers. The Banking Group accounts for and discloses acceptances as a contingent liability.

24. RELATED PARTY TRANSACTIONS

In accordance with the requirements of AC 126 – Related party disclosure, transactions with related parties of the Banking Group that eliminate on consolidation are not disclosed.

25. SEGMENT REPORTING

The Banking Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"); or
- products or services within a particular economic environment ("geographical segment"), subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

26. FIDUCIARY ACTIVITIES

The Banking Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

27. POLICIES RELATING TO INSURANCE OPERATIONS IN FNB NAMIBIA ("THE INSURANCE OPERATIONS")

27.1 Revenue and expense recognition

Premium income

The Insurance operations reflect premium income relating to insurance business net of reinsurance premiums. Premiums on investment contracts are excluded from the income statement with effect from 1 July 2002.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

Premiums on short-term insurance business written are accounted for in the period the risk incepts. Unearned premiums are carried forward and are calculated by estimating the proportion of annual premiums that relate to future periods.

Policyholder benefits

The Insurance operations show policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

Life insurance operating profits

The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104 (1998).

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life funds.

Gains or losses arising from the fair valuation of shareholders' assets designated as "Available-for-sale" are accounted for directly to equity.

Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

Marketing and administration expenses

Marketing and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

Claims

Claims are written off in full as incurred. Provision is made for the estimated costs of claims (net of anticipated recoveries under re-insurance arrangements) notified but not settled at the balance sheet date. The provision is calculated on the best available information of historical trends and management's estimates of future claim costs.

27.2 Policyholder contracts

The Insurance operations classify all policyholder contracts that transfer significant insurance risk as insurance contracts. These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts".

28. CHANGE IN ACCOUNTING POLICY

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

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

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

	Audited	
	Year ended 30 June	
R million	**2005**	2004
Adjustment to earnings attributable to ordinary shareholders	(16)	36

29. RESTATEMENT OF PRIOR YEAR NUMBERS

The following line items on the face of the balance sheet, income statement and in the statement of changes of equity have been restated, or due to the change in accounting policy referred to in note 28 above, or for better disclosure purposes:

R million	As previously reported	As restated	Reason for restatement
Balance sheet			
Deferred tax assets	918	964	Recognition of deferred tax assets on STC credits in terms of AC 501
Deferred tax liabilities	1 723	1 666	Refer above
Distributable reserves	16 441	16 544	Refer above
Ordinary shareholders' equity	20 555	20 658	Refer above
Long-term liabilities	5 078	3 678	Reclassifying cumulative redeemable preference shares as equity
Cumulative redeemable preference shares	–	1 400	Refer above
Creditors and accruals	7 715	4 848	Separately disclosing loans to and from Insurance Group
Loans to Insurance Group	–	4 386	Refer above
Loans from Insurance Group	–	7 253	Refer above
Total shareholders' equity	20 555	22 058	Refer above
Total assets	323 454	327 886	Refer above
Total liabilities	302 001	304 930	Refer above
Total liabilities and shareholders' funds	323 454	327 886	Refer above
Income statement			
Indirect taxation	(436)	(400)	Recognition of deferred tax assets on STC credits in terms of AC 501

Income before direct taxation and income after taxation similarly increased by R36 million.

Income statement for the year ended 30 June

R million	Notes	2005	2004
Interest income	2	23 417	22 412
Interest expenditure	3	(13 920)	(13 505)
Net interest income before impairment of advances		9 497	8 907
Impairment of advances	10	(706)	(833)
Net interest income after impairment of advances		8 791	8 074
Non-interest income	4	12 001	8 970
– Transactional income		8 188	6 583
– Trading income		2 238	2 121
– Investment income		497	430
– Other non-interest income		814	206
– Translation gains/(losses)		264	(370)
Net income from operations		20 792	17 044
Operating expenditure	5	(12 389)	(10 503)
Net income from operations		8 403	6 541
Share of earnings of associated companies	15	877	585
Income before discontinued operations		9 280	7 126
Profit on disposal of discontinued operations	34	346	–
Income before taxation		9 626	7 126
Indirect taxation	6.2	(409)	(400)
Income before direct taxation		9 217	6 726
Direct taxation	6.1	(2 115)	(1 701)
Income after taxation		7 102	5 025
Earnings attributable to outside shareholders		(292)	(277)
Earnings attributable to ordinary shareholders		6 810	4 748
Reconciliation of earnings attributable to ordinary shareholders and headline earnings			
Earnings attributable to ordinary shareholders		6 810	4 748
Less: Profit on sale of discontinued operations		(346)	–
Plus: Loss on sale of property and equipment		7	92
Plus: Goodwill impairment/amortisation		–	13
Plus: Goodwill – on associates		–	18
Plus: Loss/minus (profit) on sale of available-for-sale assets		21	(75)
Headline earnings		6 492	4 796

Balance sheet as at 30 June

R million		2005	2004
Assets			
Cash and short-term funds	7	23 403	25 104
Derivative financial instruments	8	27 752	34 415
– qualifying for hedging		811	4 798
– trading		26 941	29 617
Advances	9	226 552	210 414
– originated		180 076	143 167
– held-to-maturity		7 449	8 971
– available-for-sale		1 648	4 499
– fair value advances		37 379	53 777
Investment securities and other investments	11	43 522	36 007
Financial instruments held for trading		20 738	9 670
Investment securities		22 784	26 337
– held-to-maturity		998	957
– available-for-sale		14 223	16 733
– elected fair value		7 563	8 647
Commodities	12	618	702
Non-recourse investments	13	8 181	6 515
Loans to Insurance Group		7 268	4 386
Accounts receivable	14	2 822	2 796
Investment in associated companies	15	2 780	2 208
Property and equipment	16	3 633	3 839
Deferred taxation assets	6.3	522	964
Intangible assets	18	466	451
Assets of insurance operations	19	170	85
Total assets		347 689	327 886
Liabilities and shareholders' funds			
Liabilities			
Deposits		247 084	225 886
– deposit and current accounts	20	238 903	219 371
– non-recourse deposits	13	8 181	6 515
Short trading positions	21	19 919	23 286
Derivative financial instruments	8	25 467	34 427
– qualifying for hedging		249	4 606
– trading		25 218	29 821
Loans from Insurance Group		9 424	7 253
Creditors and accruals	22	7 292	4 848
Provisions	23	1 361	1 347
Taxation		112	1 351
Post-retirement benefit funds' liability	17.2	1 249	1 111
Deferred taxation liabilities	6.3	2 799	1 666
Long-term liabilities	24	3 422	3 678
Liabilities of insurance operations – policyholder liabilities	19	109	77
Total liabilities		318 238	304 930
Outside shareholders' interest		990	898
Shareholders' equity			
Ordinary shares	25	106	106
Share premium	25	1 632	1 632
Non-distributable reserves	26	2 064	2 376
Distributable reserves		20 614	16 544
Total ordinary shareholders' equity		24 416	20 658
Non-redeemable preference shares	25	3 000	–
Total shareholders' equity before cumulative redeemable preference shares		27 416	20 658
Cumulative redeemable preference shares	25	1 045	1 400
Total shareholders' equity		28 461	22 058
Total liabilities and shareholders' funds		347 689	327 886
Contingencies and commitments	27	26 465	23 443

Statement of changes in equity for the year ended 30 June

R million	Share capital and share premium	General risk reserve	Cash flow hedge reserve	Available-for-sale reserve
Balance at 1 July 2003	1 738	901	308	381
AC 501 adjustments for STC				
Restated balance at 31 July 2003	1 738	901	308	381
Cumulative redeemable preference shares issued 24 January 2004				
Currency translation differences				
Non-distributable reserves of associate companies				
Earnings attributable to ordinary shareholders				
Final dividend – 6 November 2003				
Interim dividend – 15 March 2004				
Transfer to General Risk Reserve (impaired capital reserve)		245		
Revaluation of available-for-sale assets				(193)
Revaluation of cash flow hedges			(179)	
Reserves arising on acquisition of subsidiaries				
Movement in other non-distributable reserves				
Effect of change in shareholding in subsidiary				
Balance as at 30 June 2004	1 738	1 146	129	188
Currency translation differences				
Currency translation released on sale of Ansbacher				
Non-distributable reserves of associate companies				
Earnings attributable to ordinary shareholders				
Preference dividend – 30 July 2004				
Final ordinary dividend – 25 October 2004				
Final ordinary dividend – 10 November 2004				
Preference dividend – 31 January 2005				
Preference dividend – 28 February 2005				
Interim ordinary dividend – 29 March 2005				
Interim ordinary dividend – 29 April 2005				
Transfer from General Risk Reserve (impaired capital reserve)		(26)		
Revaluation of available-for-sale assets				(66)
Available-for-sale loss transferred to the income statement				29
Taxation on available-for-sale loss transferred				(8)
Revaluation of cash flow hedges			216	
Reserves arising on acquisition of subsidiaries				
Revaluation of property				
Movement in other non-distributable reserves				
Transfer to other non-distributable reserves				
Issue of non-redeemable preference shares	3 000			
Disposal of subsidiaries		3		
Cumulative redeemable shares redeemed				
Balance as at 30 June 2005	4 738	1 123	345	143

Currency translation reserve	Other non-distributable reserves	Distributable reserves	Total permanent capital	Preference shares issued to FirstRand Companies	Total shareholders' equity
658	392	14 063	18 441		18 441
		67	67		67
658	392	14 130	18 508		18 508
				1 400	1 400
(299)			(299)		(299)
	(1)		(1)		(1)
		4 748	4 748		4 748
		(649)	(649)		(649)
		(1 346)	(1 346)		(1 346)
		(245)			–
			(193)		(193)
			(179)		(179)
	19		19		19
	(24)		(24)		(24)
	168	(94)	74		74
359	554	16 544	20 658	1 400	22 058
92			92		92
(413)			(413)		(413)
	(28)		(28)		(28)
		6 810	6 810		6 810
		(89)	(89)		(89)
		(1 205)	(1 205)		(1 205)
		(18)	(18)		(18)
		(35)	(35)		(35)
		(68)	(68)		(68)
		(1 217)	(1 217)		(1 217)
		(111)	(111)		(111)
		26			–
			(66)		(66)
			29		29
			(8)		(8)
			216		216
	(19)		(19)		(19)
	(1)		(1)		(1)
	(110)		(110)		(110)
	18	(18)			–
			3 000		3 000
	1	(5)	(1)		(1)
				(355)	(355)
38	415	20 614	27 416	1 045	28 461

Cash flow statement for the year ended 30 June

R million	Notes	2005	2004
Cash flows from operating activities	28.1	7 168	7 336
Cash received from customers		34 639	31 535
Interest income		23 421	22 581
Fee and commission income		8 188	6 583
Other income		3 030	2 371
Cash paid to customers and employees		(24 503)	(22 181)
Interest expenditure (excluding debenture interest)		(13 505)	(12 814)
Total other operating expenditure (excluding depreciation)		(10 998)	(9 367)
Cash flows from returns on investments and servicing of finance		(2 968)	(2 018)
Debenture interest paid		(533)	(484)
Dividends from other investments		84	220
Dividends from associated companies		224	241
Dividends paid	28.2	(2 743)	(1 995)
Taxation paid	28.3	(2 302)	(1 264)
Cash flows from banking activities		(7 558)	(11 425)
Increase in income-earning assets		(30 259)	(25 335)
Liquid assets and trading securities		(9 775)	(1 128)
Advances		(20 484)	(24 207)
Increase in deposits and other liabilities		22 701	13 910
Term deposits		12 212	15 566
Current deposit accounts		(6 668)	(2 008)
Deposits from banks		2 862	4 833
Negotiable certificates of deposit		7 959	(9 051)
Savings accounts		260	248
Creditors net of debtors		3 109	(4 138)
Other		2 967	8 460
Net cash outflow from operating activities		(2 692)	(5 353)
Cash flows from investment activities			
Capital expenditure			
– to maintain operations		(1 070)	(1 093)
– to increase operations		(10)	(239)
Purchase of associates		(208)	(106)
Proceeds from sale of property and equipment		71	242
Proceeds from sale of investments		146	17
Proceeds from sale of subsidiary	28.4	1 019	–
Net cash outflow from investment activities		(52)	(1 179)
Cash flows from financing activities			
Net proceeds of long-term liabilities		182	2 384
Redemption of cumulative preference shares		(355)	–
Proceeds from the issue of preference shares		3 000	–
Net cash flow from financing activities		2 827	2 384
Net increase/(decrease) in cash and cash equivalents		83	(4 148)
Cash and cash equivalents at beginning of the year		25 104	29 252
Opening balance cash equivalents sold		(1 784)	–
Cash and cash equivalents at end of the year	7	23 403	25 104
Effect of exchange rate changes on cash and cash equivalents		452	(627)

Notes to the annual financial statements for the year ended 30 June

1. Accounting policies

The accounting policies of the Group are set out on pages 153 to 161.

R million	2005	2004
2. Interest income		
Interest on:		
Advances	19 946	19 679
– originated	17 437	16 445
– held-to-maturity	951	1 003
– available-for-sale	416	831
– fair value advances	1 142	1 400
Cash and short-term funds	1 148	866
Investment securities	1 623	1 039
– held-to-maturity	31	242
– available-for-sale	1 414	559
– fair value investments	178	238
Accrued on impaired advances	260	194
From Insurance Group	54	104
Accrued on off-market advances	14	8
Other	372	522
	23 417	22 412
3. Interest expenditure		
Interest on:		
Deposits from banks and financial institutions	(402)	(499)
Current accounts	(1 926)	(2 329)
Savings accounts	(88)	(85)
Term deposits	(9 147)	(8 630)
Finance leases	(72)	(78)
Debentures	(533)	(484)
To Insurance Group	(29)	(14)
Other	(1 723)	(1 386)
	(13 920)	(13 505)
4. Non-interest income		
Transactional income		
– Banking fee and commission income	7 161	5 782
Card commissions	577	532
Cash deposit fees	716	590
Commissions – bills, drafts and cheques	448	363
Service fees	2 639	2 191
Other	2 781	2 106
– Knowledge based fee and commission income	491	431
– Non-banking fee and commission income	536	370
Transactional income	8 188	6 583

R million	2005	2004
4. Non-interest income *(continued)*		
Trading income		
– Foreign exchange		
Domestic based currency trading	657	745
Foreign based currency trading	(2)	(71)
– Foreign exchange trading	655	674
– Other trading operations	1 583	1 447
Trading income	2 238	2 121
Investment income		
– Profit on realisation of investment banking assets	146	17
– Transfer from revaluation reserve on sale-of-available-for-sale assets	(29)	107
– Dividends received	84	220
– Profit on sale of discontinued operations	346	–
– Income from associated companies (note 15)	877	585
Investment income	1 424	929
– Unrealised profit on assets held against employee liabilities	296	86
Gross investment income	1 720	1 015
– Profit on sale of discontinued operations disclosed separately (note 34)	(346)	–
– Income from associated companies disclosed separately (note 15)	(877)	(585)
Net investment income	497	430
Other non-interest income		
– Other income	792	274
– Loss on sale of property and equipment	(7)	(92)
– Net income from insurance operations disclosed separately (note 4.1)	29	24
Other non-interest income	814	206
Total non-interest income	11 737	9 340
Translation gains/(losses)	264	(370)
Non-interest income	12 001	8 970
4.1 Net income from Namibian insurance operations	29	24
Premium income	73	71
Other income	35	17
Claims and policyholder benefits	(30)	(27)
Insurance funds	(29)	(21)
Other expenditure	(20)	(16)

R million	2005	2004
5. Operating expenditure		
Auditors' remuneration		
– Audit fees	(41)	(61)
– Fees for other services	(8)	(9)
– Technical advice	(4)	(3)
– Other	(4)	(6)
– Prior year under provision	(1)	(1)
	(50)	(71)
Amortisation of intangible assets		
– Goodwill	–	(13)
– Trademarks	(1)	(17)
– Software	(24)	(22)
– Development costs	(1)	(1)
– Other	(15)	(22)
	(41)	(75)
Depreciation		
– Property	(125)	(90)
Freehold buildings	(45)	(29)
Leasehold premises	(80)	(61)
– Equipment	(473)	(456)
Computer equipment	(329)	(277)
Furniture and fittings	(82)	(122)
Motor vehicles	(17)	(12)
Office equipment	(44)	(41)
Capitalised leased assets	(1)	(4)
	(598)	(546)
Other impairments incurred		
– Goodwill	–	(10)
– Property and equipment	(5)	(6)
– Software	(6)	–
	(11)	(16)
Operating lease charges		
– Land and buildings	(347)	(348)
– Equipment	(191)	(175)
– Motor vehicles	(25)	(24)
	(563)	(547)
Professional fees		
– Managerial	(19)	(43)
– Technical	(178)	(154)
– Other	(233)	(201)
	(430)	(398)

R million	2005	2004
5. Operating expenditure *(continued)*		
Direct staff costs		
– Salaries, wages and allowances	(4 638)	(4 311)
– Contributions to employee benefit funds	(781)	(621)
Defined contribution schemes	(760)	(612)
Defined benefit schemes	(21)	(9)
– Social security levies	(48)	(59)
– Other	(309)	(283)
	(5 776)	(5 274)
Staff related costs	(632)	(482)
	(6 408)	(5 756)
Other operating costs	(4 288)	(3 094)
– Insurance	(201)	(163)
– Advertising and marketing	(618)	(443)
– Maintenance	(442)	(396)
– Property	(260)	(130)
– Computer	(370)	(315)
– Stationery	(194)	(198)
– Telecommunications	(359)	(299)
– eBucks customer rewards	(161)	(97)
– Conveyance of cash	(127)	(96)
– Acquisition costs	(312)	(199)
– Other	(1 244)	(758)
Total operating expenditure	(12 389)	(10 503)
6. Taxation		
6.1 Direct taxation		
Normal taxation		
– Current	(443)	(1 202)
Current year	(841)	(1 278)
Prior-year adjustment	398	76
– Deferred	(1 126)	(151)
Current year	(713)	(42)
Prior year adjustment	(469)	(109)
Taxation rate adjustment	56	–
– Share of tax of associates (note 15)	(271)	(187)
	(1 840)	(1 540)
Foreign company and withholding taxation		
– Current	(207)	(95)
Current year	(207)	(93)
Prior year adjustment	–	(2)
– Deferred (current year)	(5)	(65)
Total foreign and withholding taxation	(212)	(160)
Capital gains tax	(20)	(1)
Customer tax adjustment account	(43)	–
Total direct taxation	(2 115)	(1 701)

R million	2005	2004
6. Taxation *(continued)*		
6.2 Indirect taxation		
Secondary taxation on companies		
– Current	(14)	(36)
– Deferred	(17)	36
	(31)	–
Tax equalisation provision	(1)	–
Miscellaneous taxes		
Value-added taxation (net)	(321)	(267)
Regional services levy	(48)	(56)
Stamp duties	(4)	5
Other	(4)	(82)
Total miscellaneous taxes	(377)	(400)
Total indirect taxation	(409)	(400)
Total taxation	(2 524)	(2 101)
Taxation rate reconciliation – South African normal taxation	%	%
Effective rate of taxation	26.2	29.5
Total taxation has been affected by:		
Indirect taxes	(4.2)	(5.6)
Non-taxable income	3.2	6.5
Prior year adjustments	3.1	(0.5)
Taxation rate adjustment	0.6	–
Other permanent differences	0.1	0.1
Standard rate of South African taxation	29.0	30.0
6.3 Deferred taxation		
The movement on the deferred taxation account is as follows:		
Credit balance		
– Balance at the beginning of the year	1 666	1 721
– AC 501 adjustments for STC	–	(25)
– Restated opening balance	1 666	1 696
– Exchange rate difference	(2)	(9)
– Charge to the income statement	1 369	243
– STC charge/(release) to the income statement	16	(32)
– Acquisitions and disposals	–	9
– Taxation rate adjustment	(56)	–
– Other	(194)	(241)
Total credit balance	2 799	1 666

R million	2005	2004
6. Taxation *(continued)*		
6.3 Deferred taxation *(continued)*		
Debit balance		
– Balance at the beginning of the year	**(964)**	(931)
– AC 501 adjustments for STC	**–**	(42)
– Restated opening balance	**(964)**	(973)
– Exchange rate difference	**(2)**	(1)
– Release to the income statement	**(182)**	(26)
– STC charge/(release) to the income statement	**1**	(4)
– Acquisitions and disposals	**–**	(22)
– Other	**625**	62
Total debit balance	**(522)**	(964)
Net balance for the year	**2 277**	702

Deferred taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to set-off. Deferred taxation assets and liabilities and deferred taxation charge/(credit) in the income statement are attributable to the following items:

	Opening balance	Exchange rate	Taxation rate adjustment	Acquisitions and disposals	Taxation charge	Other	Closing balance
Deferred tax liabilities							
Taxation losses	(10)	–	–	–	–	76	**66**
Provision for loan impairment	5	–	22	–	586	(546)	**67**
Provision for post-retirement benefits	(1)	–	(3)	–	(146)	160	**10**
Other provisions	–	–	6	–	(124)	126	**8**
Cash flow hedges	(1)	–	13	–	212	(224)	**–**
On fair value adjustments of financial instruments	(4)	–	4	–	115	(112)	**3**
Instalment credit agreements	83	(3)	(46)	–	(15)	(1 000)	**(981)**
Accruals	–	–	(17)	–	124	(873)	**(766)**
Revaluation of available-for-sale securities to equity	(62)	–	1	–	12	52	**3**
Other	1 656	1	(36)	–	621	2 147	**4 389**
Total deferred taxation liabilities	1 666	(2)	(56)	–	1 385	(194)	**2 799**
Deferred tax assets							
Taxation losses	(44)	(1)	–	–	–	(21)	**(66)**
Provision for loan impairment	(59)	–	–	–	(8)	–	**(67)**
Provision for post-retirement benefits	(9)	–	–	–	(1)	–	**(10)**
Other provisions	(3)	–	–	–	(5)	–	**(8)**
On fair value adjustments of financial instruments	6	–	–	–	(6)	(3)	**(3)**
Instalment credit agreements	975	–	–	–	9	(3)	**981**
Accruals	767	–	–	–	(1)	–	**766**
Revaluation of available-for-sale securities to equity	–	–	–	–	–	(3)	**(3)**
Other	(2 597)	(1)	–	–	(169)	655	**(2 112)**
Total deferred taxation asset	(964)	(2)	–	–	(181)	625	**(522)**
Total deferred taxation	702	(4)	(56)	–	1 204	431	**2 277**

R million	2005	2004
7. Cash and short-term funds		
Coins and bank notes	2 498	2 243
Balances with central banks	4 983	3 681
Balances guaranteed by central banks	4 570	4 656
Balances with other banks	11 352	14 524
	23 403	25 104
Mandatory reserve balances included in above:	5 030	3 671

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank. These deposits bear no or very low interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

8. Derivative financial instruments

The Banking Group uses the following financial instruments for hedging purposes:

Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

Rand overnight deposit swaps are commitments to exchange fixed rate interest flows with floating rate interest flows where the repricing takes place daily on the floating leg based on the daily overnight rates.

Strategy in using hedging instruments

Interest rate derivatives comprising mainly interest rate swaps, rand overnight deposit swaps ("RODS") and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Banking Group faces due to volatile interest rates. The Banking Group accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Banking Group also has assets at variable rates and uses received fixed interest rate derivatives as cash flow hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Banking Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, overtime.

Further information pertaining to the risk management of the Banking Group is set out in note 29.

	2005			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*				
The Banking Group utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Swaps	16 416	422	5 714	63
Currency derivatives				
– Swaps	19	1	–	–
Credit derivatives	2 153	118	2 069	–
Total cash flow hedges	18 588	541	7 783	63
Fair value hedges				
Currency derivatives				
– Swaps	–	–	13	–
Interest rate derivatives				
– Swaps	5 680	270	1 482	126
Credit derivatives	–	–	866	60
Total fair value hedges	5 680	270	2 361	186
Total qualifying for hedge accounting	24 268	811	10 144	249

	2005			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*				
Held for trading				
Currency derivatives				
– Forward rate agreements	70 827	2 787	68 192	2 617
– Swaps	113 197	14 273	108 363	11 185
– Options	1 932	221	1 624	26
	185 956	17 281	178 179	13 828
Interest rate derivatives				
– Forward rate agreements	91 709	214	78 016	190
– Swaps	161 955	5 453	154 267	5 738
– Options	11 611	76	11 309	83
– Other	31 675	55	23 031	39
	296 950	5 798	266 623	6 050
Equity derivatives				
– Options	14 305	1 462	5 416	1 741
– Other	702	18	561	90
	15 007	1 480	5 977	1 831
Commodity derivatives				
– Forward rate agreements	4 336	322	4 359	702
– Swaps	175	5	593	32
– Options	8 952	1 691	9 436	924
– Other	165	5	661	118
	13 628	2 023	15 049	1 776
Credit derivatives	7 495	359	3 064	1 733
Total held for trading	519 036	26 941	468 892	25 218
Total	543 304	27 752	479 036	25 467

R million	2005					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*						
Qualifying for hedge accounting						
Cash flow hedges	–	–	18 588	541	18 588	541
Interest rate derivatives	–	–	16 416	422	16 416	422
Currency derivatives	–	–	19	1	19	1
Credit derivatives	–	–	2 153	118	2 153	118
Fair value hedges	–	–	5 680	270	5 680	270
Interest rate derivatives	–	–	5 680	270	5 680	270
Held for trading	19 459	71	499 577	26 870	519 036	26 941
Currency derivatives	5	5	185 951	17 276	185 956	17 281
Interest rate derivatives	17 572	13	279 378	5 785	296 950	5 798
Equity derivatives	582	45	14 425	1 435	15 007	1 480
Commodity derivatives	1 300	8	12 328	2 015	13 628	2 023
Credit derivatives	–	–	7 495	359	7 495	359
Total	19 459	71	523 845	27 681	543 304	27 752

	2005					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	7 783	63	7 783	63
Interest rate derivatives	–	–	5 714	63	5 714	63
Credit derivatives	–	–	2 069	–	2 069	–
Fair value hedges	–	–	2 361	186	2 361	186
Currency derivatives	–	–	13	–	13	–
Interest rate derivatives	–	–	1 482	126	1 482	126
Credit derivatives	–	–	866	60	866	60
Held for trading	14 690	19	454 202	25 199	468 892	25 218
Currency derivatives	5	5	178 174	13 823	178 179	13 828
Interest rate derivatives	12 475	10	254 148	6 040	266 623	6 050
Equity derivatives	483	(39)	5 494	1 870	5 977	1 831
Commodity derivatives	1 727	43	13 322	1 733	15 049	1 776
Credit derivatives	–	–	3 064	1 733	3 064	1 733
Total	14 690	19	464 346	25 448	479 036	25 467

R million	2004			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*				
The Banking Group utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	500	–	1 100	–
– Swaps	22 830	270	7 497	30
	23 330	270	8 597	30
Currency derivatives				
– Forward rate agreements	47	–	–	–
– Swaps	4 528	4 528	4 576	4 576
	4 575	4 528	4 576	4 576
Total cash flow hedges	27 905	4 798	13 173	4 606
Fair value hedges				
Currency derivatives				
– Swaps	–	–	8	–
Total fair value hedges	–	–	8	–
Total qualifying for hedge accounting	27 905	4 798	13 181	4 606

	2004			
	Assets		Liabilities	
R million	Notional	Carrying value	Notional	Carrying value
8. Derivative financial instruments *(continued)*				
Currency derivatives				
– Forward rate agreements	33 113	2 997	34 348	2 809
– Swaps	58 101	9 435	54 821	7 773
– Options	921	254	1 358	69
– Other	–	–	3 475	(14)
Total currency derivatives	92 135	12 686	94 002	10 637
Interest rate derivatives				
– Forward rate agreements	75 390	68	88 150	76
– Swaps	130 173	8 365	154 958	8 553
– Options	5 495	7	2 497	16
– Other	4 444	3 036	1 395	3 030
Total interest rate derivatives	215 502	11 476	247 000	11 675
Equity derivatives				
– Options	14 186	1 234	4 900	1 845
– Other	271	144	168	108
Total equity derivatives	14 457	1 378	5 068	1 953
Commodity derivatives				
– Forward rate agreements	5 649	370	5 299	875
– Swaps	146	4	453	19
– Options	5 606	1 527	5 540	889
– Other	250	16	384	43
Total commodity derivatives	11 651	1 917	11 676	1 826
Credit derivatives	3 183	2 160	1 459	3 730
Total held for trading	336 928	29 617	359 205	29 821
Total	364 833	34 415	372 386	34 427

R million	2004					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*						
Qualifying for hedge accounting						
Cash flow hedges	4 577	4 530	23 328	268	27 905	4 798
– Interest rate derivatives	2	2	23 328	268	23 330	270
– Currency derivatives	4 575	4 528	–	–	4 575	4 528
Held for trading	15 089	12 609	321 839	17 008	336 928	29 617
– Currency derivatives	4 054	3 967	88 081	8 719	92 135	12 686
– Interest rate derivatives	8 528	7 094	206 974	4 382	215 502	11 476
– Equity derivatives	115	14	14 342	1 364	14 457	1 378
– Commodity derivatives	–	–	11 651	1 917	11 651	1 917
– Credit derivatives	2 392	1 534	791	626	3 183	2 160
Total	19 666	17 139	345 167	17 276	364 833	34 415

	2004					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	4 576	4 576	8 597	30	13 173	4 606
– Interest rate derivatives	–	–	8 597	30	8 597	30
– Currency derivatives	4 576	4 576	–	–	4 576	4 576
Fair value hedges	–	–	8	–	8	–
– Currency derivatives	–	–	8	–	8	–
Held for trading	14 207	11 482	344 998	18 339	359 205	29 821
– Currency derivatives	7 849	4 265	86 153	6 372	94 002	10 637
– Interest rate derivatives	6 281	7 201	240 719	4 474	247 000	11 675
– Equity derivatives	63	2	5 005	1 951	5 068	1 953
– Commodity derivatives	–	–	11 676	1 826	11 676	1 826
– Credit derivatives	14	14	1 445	3 716	1 459	3 730
Total	18 783	16 058	353 603	18 369	372 386	34 427

R million	2005 Originated	2005 Held-to-maturity	2005 Available-for-sale	2005 Fair value	2005 Total	2004 Total
9. Advances						
Sector analysis						
Agriculture	4 564	–	452	321	5 337	5 860
Banks and financial services	6 468	–	1 283	21 348	29 099	38 770
Building and property development	10 985	–	–	96	11 081	7 796
Government, Land Bank and public authorities	736	–	–	5 582	6 318	11 617
Individuals	118 874	6 667	–	96	125 637	98 360
Manufacturing and commerce	21 638	–	–	5 669	27 307	31 719
Mining	3 114	–	–	838	3 952	2 070
Transport and communication	5 630	–	–	1 874	7 504	5 292
Other services	10 951	782	–	1 588	13 321	12 521
Notional value of advances	182 960	7 449	1 735	37 412	229 556	214 005
Contractual interest suspended	(489)	–	–	(5)	(494)	(564)
Gross advances	182 471	7 449	1 735	37 407	229 062	213 441
Impairment of advances (note 10)	(2 395)	–	(87)	(28)	(2 510)	(3 027)
Net advances	180 076	7 449	1 648	37 379	226 552	210 414
Net advances – 2004	143 167	8 971	4 499	53 777	210 414	
Geographic analysis (based on credit risk)						
South Africa	171 084	7 449	1 735	26 488	206 756	175 500
Other Africa	10 845	–	–	1 223	12 068	10 600
United Kingdom	193	–	–	5 634	5 827	15 596
Other	838	–	–	4 067	4 905	12 309
Total value of advances	182 960	7 449	1 735	37 412	229 556	214 005
Contractual interest suspended	(489)	–	–	(5)	(494)	(564)
Gross advances	182 471	7 449	1 735	37 407	229 062	213 441
Impairment of advances (note 10)	(2 395)	–	(87)	(28)	(2 510)	(3 027)
Net advances	180 076	7 449	1 648	37 379	226 552	210 414
Net advances – 2004	143 167	8 971	4 499	53 777	210 414	

	2005					2004
R million	Originated	Held-to-maturity	Available-for-sale	Fair value	Total	Total
9. Advances *(continued)*						
Category analysis						
Overdrafts and managed accounts	26 024	–	–	2 372	28 396	25 611
Loans to other financial institutions	1 454	–	1 283	8 524	11 261	4 357
	27 478	–	1 283	10 896	39 657	29 968
Card loans	7 569	–	–		7 569	5 709
Instalment sales	36 249	–	–	284	36 533	29 283
Lease payments receivable	19 199	–	–	–	19 199	14 921
Property finance	73 349	6 667	–	–	80 016	61 336
– Home loans	69 134	6 667	–	–	75 801	58 321
– Commercial property finance	4 215	–	–	–	4 215	3 015
Personal loans	4 889	–	–	–	4 889	5 971
Preference share advances	1 536	–	–	–	1 536	1 654
Other	12 318	782	452	18 120	31 672	36 631
	182 587	7 449	1 735	29 300	221 071	185 473
Collateralised debt obligations	182	–	–	–	182	4 442
Assets under agreement to resell	191	–	–	8 112	8 303	20 327
Ansbacher advances	–	–	–	–	–	3 763
Notional value of advances	182 960	7 449	1 735	37 412	229 556	214 005
Contractual interest suspended	(489)	–	–	(5)	(494)	(564)
Gross advances	182 471	7 449	1 735	37 407	229 062	213 441
Impairment of advances (note 10)	(2 395)	–	(87)	(28)	(2 510)	(3 027)
Net advances	180 076	7 449	1 648	37 379	226 552	210 414
Net advances – 2004	143 167	8 971	4 499	53 777	210 414	

A maturity analysis of advances is set out in note 29.7 and is based on the remaining periods to contractual maturity from the year end.

Advances relating to synthetic securitisations included in the above categories are:

Procul is a synthetic securitisation transaction amounting to R2.0 billion of WesBank retail instalment sale advances.
In terms of the transaction WesBank has transferred the credit risk up to the value of the reference portfolio to Procul, a bankruptcy remote special purpose vehicle.

Fresco is a synthetic securitisation transaction amounting to R12.5 billion of FirstRand Bank Limited corporate advances.

In terms of the transaction, FirstRand Bank Limited has transferred the credit risk up to the value of the reference portfolio to Fresco, a bankruptcy remote special purpose entity.

Additional information relating to these transactions is set out in note 13 below.

R million	2005 Within 1 year	2005 Between 1 and 5 years	2005 More than 5 years	2005 Total	2004 Total
9. Advances *(continued)*					
Analysis of instalment sales and lease payments receivable					
Lease payments receivable	5 215	15 098	302	20 615	14 964
Suspensive sale instalments receivable	12 197	31 703	37	43 937	35 693
	17 412	46 801	339	64 552	50 657
Less: Unearned finance charges	(2 047)	(5 419)	(1)	(7 467)	(6 453)
	15 365	41 382	338	57 085	44 204

R million	2005 Total impairment	Specific impairment	Portfolio impairment	Income statement
10. Impairment of advances				
Analysis of movement in impairment of advances				
Opening balance	3 027	2 195	832	–
Exchange rate difference	10	10	–	–
Amounts written off	(1 254)	(1 254)	–	–
Unwinding of discounted present value on non-performing loans	(260)	(260)	–	–
Reclassifications		152	(152)	–
Net new impairments created	925	975	(50)	(925)
Impairments created	1 660	1 604	56	(1 660)
Impairments released	(735)	(629)	(106)	735
Recoveries of bad debts	–	–	–	220
Acquisitions	62	62	–	–
Realisation of security	–	–	–	(1)
Closing balance	2 510	1 880	630	(706)

R million	2004 Total impairment	Specific impairment	Portfolio impairment	Income statement
Opening balance	3 302	2 696	606	–
Exchange rate difference	(81)	(81)	–	–
Amounts written off	(1 306)	(1 306)	–	–
Unwinding of discounted present value on non-performing loans	(113)	(113)	–	–
Reclassifications		103	(103)	–
Net new impairments created	1 179	882	297	(1 179)
Impairments created	1 839	1 542	297	(1 839)
Impairments released	(660)	(660)	–	660
Recoveries of bad debts	–	–	–	335
Acquisitions	46	14	32	–
Realisation of security	–	–	–	11
Closing balance	3 027	2 195	832	(833)

R million	2005 Credit risk	2005 Security held	2005 Contractual interest suspended	2005 Specific impairments	2004 Specific impairments
10. Impairment of advances *(continued)*					
Non-performing lendings by sector					
Agriculture	156	121	20	49	41
Banks and financial services	171	18	46	256	309
Building and property development	140	67	44	61	23
Government, Land Bank and public authorities	197		14	27	3
Individuals	1 435	587	201	898	870
Manufacturing and commerce	858	144	117	373	632
Mining	13	2	4	8	6
Transport and communication	58	12	11	52	10
Other services	213	64	38	156	301
Total	3 241	1 015	495	1 880	2 195
Total non-performing lendings 2004	3 766	993	564	2 195	
Non-performing lendings by category					
Overdrafts and managed account debtors	984	301	213	591	748
Card loans	266		22	226	213
Instalment sale	343	60	41	220	162
Lease payments receivable	209	37	24	109	136
Home loans	713	547	125	335	376
Personal loans	84	14	14	101	95
Other	642	56	56	298	465
Total	3 241	1 015	495	1 880	2 195
Total non-performing lendings 2004	3 766	993	564	2 195	

R million	2005 Trading	2005 Held-to-maturity	2005 Available for sale	2005 Elected fair value	2005 Total	2004 Total
11. Investment securities and other investments						
Total						
Negotiable certificates of deposit	736	–	–	107	843	1 257
Treasury bills	2 476	164	721	–	3 361	2 485
Other Government and Government guaranteed stock	6 180	344	11 219	1 141	18 884	18 107
Other dated securities	1 593	–	1 755	858	4 206	7 006
Other undated securities	1 704	–	17	1 396	3 117	231
Other	8 049	490	511	4 061	13 111	6 921
	20 738	998	14 223	7 563	43 522	36 007
Total – 2004	9 670	957	16 733	8 647	36 007	
Listed						
Negotiable certificates of deposit	–	–	–	8	8	107
Treasury bills	–	–	416	–	416	399
Other Government and Government guaranteed stock	4 005	344	11 128	1 141	16 618	16 713
Other dated securities	1 212	–	392	499	2 103	4 217
Other undated securities	1 620	–	–	541	2 161	12
Other	7 742	413	11	621	8 787	2 760
	14 579	757	11 947	2 810	30 093	24 208
Listed – 2004	4 239	477	16 665	2 827	24 208	
Unlisted						
Negotiable certificates of deposit	736	–	–	99	835	1 150
Treasury bills	2 476	164	305	–	2 945	2 086
Other Government and Government guaranteed stock	2 175	–	91	–	2 266	1 394
Other dated securities	381	–	1 363	359	2 103	2 789
Other undated securities	84	–	17	855	956	219
Other	307	77	500	3 440	4 324	4 161
	6 159	241	2 276	4 753	13 429	11 799
Unlisted – 2004	5 431	480	68	5 820	11 799	

R12 206 million (2004: R10 556 million) of the financial instruments held for trading form part of the Banking Group's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators-requirements.

R million	2005	2004
11. Investment securities and other investments *(continued)*		
Analysis of investment securities		
Listed	30 093	24 208
Equities	6 670	2 673
Debt	23 423	21 535
Unlisted	13 429	11 799
Equities	3 156	3 619
Debt	10 273	8 180
	43 522	36 007
Aggregate market value of listed securities	30 093	24 208
Aggregate directors' valuation of unlisted investments	13 429	11 799
	43 522	36 007

Held-to-maturity securities are carried at amortised cost in both years.

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act.

The maturity analysis for investment securities is set out in note 29.7 below.

12. Commodities

	2005	2004
Agricultural stock	377	702
Other	241	–
	618	702

13. Non-recourse investments and deposits

Non-recourse investments

Non-recourse investments represent Government bonds which were acquired to serve as security in terms of the Fresco and Procul Synthetic Collateralised Debt Obligation structures. The Banking Group has no control over these assets. These assets were consolidated as the Banking Group is deemed to control these structures in terms of AC 412. These investments are categorised as trading and carried at fair value, with changes in fair value taken to the income statement. These investments consist of:

	2005	2004
South African Government Bonds		
R153 at fair value	1 270	1 185
R194 at fair value	1 188	1 127
	2 458	2 312
Investment grade commercial paper[1]	6 966	4 203
Less: Banking Group's share thereof	(1 243)	–
	8 181	6 515

Non-recourse deposits

Non-recourse deposits represent multiple class linked notes issued to fund the structures whereby noteholders have no recourse to the Banking Group under any circumstances. These have been issued in various tranches and are priced according to the credit risk of the underlying reference portfolio and the relative credit enhancement applied to the respective tranches. These notes were consolidated in terms of AC 412. The deposits represent notes issued to external parties and are carried at fair value.

	2005	2004
Total fair value of notes issued	8 198	7 555
Less: Notes acquired by the Banking Group	(17)	(1 040)
	8 181	6 515

1. iNdwa Investments Limited, an asset-backed conduit that provides South African institutional investors with short dated investment-grade commercial paper is consolidated. The Banking Group has no obligations toward other investors beyond the amounts already contributed. The Banking Group has no management control or influence over these investments which are recorded at fair value under the available-for-sale category in the above table.

R million	2005	2004
14. Accounts receivable		
Items in transit	386	262
Accrued interest	97	101
Other debtors	2 339	2 433
	2 822	2 796
15. Investment in associated companies		
Listed investments		
Investments at cost less amounts written off	543	204
Unlisted investments		
Investments at cost less amounts written off	1 568	1 398
Income before taxation for the year (note 4)	877	585
Share of profit before taxation	952	603
Impairment	(75)	(18)
Taxation for the year (note 6)	(271)	(187)
Dividends received for the year	(224)	(241)
Retained income for the year	382	157
Exchange differences	(12)	–
Disposals and acquisitions	(276)	21
Share of retained income after amortisation of goodwill at beginning of the year	551	373
Share of retained income after amortisation of goodwill at end of the year	645	551
Share of other reserves	24	55
Total retained income and reserves	669	606
Total carrying value	2 780	2 208
Goodwill included in carrying value above		
Gross amount	67	121
Less: Accumulated impairment losses	(6)	(6)
	61	115
Movement in goodwill		
Opening balance	115	53
Exchange differences	14	(7)
Disposals	(68)	–
Additions	–	87
Amortisation charge	–	(18)
At end of year	61	115
Valuation		
Listed investments at market value	543	582
Unlisted investments at directors' valuation	3 928	2 885
Total valuation	4 471	3 467
Included in listed investments		
Debenture loans	408	–
Included in unlisted investments		
Shareholder loans	832	823

	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year end

15. Investment in associated companies *(continued)*

	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year end
Listed				
Makalani Holdings	Investment holding	625 000 000	5 437 380	30-Jun
Other	Various	Various	Various	Various
Unlisted				
OUTsurance Insurance Company Limited	Insurance	35 031 631	1 584 225 400	30-Jun
Zeda Car Leasing (Pty) Limited	Leasing	100	50	31-Mar
Mobile Acceptances (Pty) Limited	Leasing	700 000	–	31-Dec
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 499	31-Mar
Marsh Holdings SA (Pty) Limited	Insurance brokers	100 000	40 000	31-Dec
Private Equity Associates	Various	Various	Various	Various

	Effective Holding %		Group carrying amount		Group costs less amounts written off	
R million	**2005**	2004	**2005**	2004	**2005**	2004
Listed						
Relyant Retail Limited	**–**	26	**–**	190	**–**	190
Makalani Holdings	**22**	–	**543**	–	**543**	–
Other	**Various**	Various	**–**	53	**–**	14
Total listed			**543**	243	**543**	204
Unlisted						
OUTsurance Insurance Company Limited	**48**	49	**416**	343	**145**	134
Zeda Car Leasing (Pty) Limited	**50**	50	**64**	61	**–**	1
Mobile Acceptances (Pty) Limited	**–**	26	**–**	4	**–**	–
Toyota Financial Services (Pty) Limited	**33**	33	**174**	146	**150**	150
Marsh Holdings SA (Pty) Limited	**40**	40	**1**	20	**16**	9
Private Equity Associates	**Various**	Various	**1 275**	1 229	**918**	915
Other	**Various**	Various	**307**	162	**339**	189
Total unlisted			**2 237**	1 965	**1 568**	1 398
Total listed and unlisted			**2 780**	2 208	**2 111**	1 602

15. Investment in associated companies *(continued)*

Summarised financial information of associated companies:

R million	OUTsurance Insurance Company Limited 2005	OUTsurance Insurance Company Limited 2004	Zeda Car Leasing (Pty) Limited 2005	Zeda Car Leasing (Pty) Limited 2004	Mobile Acceptances (Pty) Limited 2005	Mobile Acceptances (Pty) Limited 2004
Balance sheet						
Non-current assets	**660**	1 420	**21**	1 022	**–**	7
Current assets	**1 176**	105	**1 208**	74	**–**	16
Current liabilities	**(990)**	(847)	**(1 052)**	(915)	**–**	(2)
Non-current liabilities	**(80)**	(69)	**(62)**	(51)	**–**	(5)
Equity	**766**	609	**115**	130	**–**	16
Loans to associates						
– Included in investments	**–**	–	**–**	–	**–**	–
– Ordinary loans	**–**	–	**–**	693	**–**	–
Income statement						
After tax profit attributable to the Banking Group	**182**	112	**16**	7	**3**	–

R million	Toyota Financial Services (Pty) Limited 2005	Toyota Financial Services (Pty) Limited 2004	Marsh Holdings (Pty) Limited 2005	Marsh Holdings (Pty) Limited 2004	McCarthy Limited 2005	McCarthy Limited 2004
Balance sheet						
Non-current assets	**4 831**	3 584	**7**	7	**–**	–
Current assets	**1 796**	1 261	**232**	249	**–**	–
Current liabilities	**(805)**	(173)	**(161)**	(157)	**–**	–
Non-current liabilities	**(5 300)**	(4 233)	**(20)**	(62)	**–**	–
Equity	**522**	439	**58**	37	**–**	–
Loans to associates						
– Included in investments	**–**	–	**–**	–	**–**	–
– Ordinary loans	**3 215**	3 444	**12**	–	**–**	–
Income statement						
Profit attributable to the Banking Group	**27**	10	**(7)**	9	**–**	39

R million	Makalani Holdings Limited 2005	2004	Private Equity Associates 2005	2004	Relyant Retail Limited 2005	2004	Other 2005	2004
15. Investment in associated companies *(continued)*								
Balance sheet								
Non-current assets	**350**	–	**8 701**	3 776	**–**	501	**2 440**	862
Current assets	**2 143**	–	**4 688**	3 462	**–**	1 846	**2 721**	960
Current liabilities	**(8)**	–	**(4 222)**	(1 804)	**–**	(695)	**(1 871)**	(705)
Non-current liabilities	**(1 875)**		**(5 883)**	(1 804)	**–**	(337)	**(2 680)**	(687)
Equity	**610**	–	**3 284**	3 630	**–**	1 315	**610**	430
Loans to associates								
– Included in investments	**–**	–	**832**	823	**–**	–	**–**	–
– Ordinary loans	**–**	–	**–**	–	**–**	–	**118**	–
Income statement								
After tax profit attributable to the Banking Group	**(3)**	**–**	**293**	119	**117**	12	**253**	108

The most recent audited annual financial statements of associates are used by the Banking Group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the Banking Group, the effect of such events are adjusted for. Where the last financial statement date of an associate was more than six months before the financial statement date of the Banking Group, the Banking Group uses the unaudited management accounts of the associate. The Banking Group has applied this principle consistently since adopting the equity accounting method for associates.

R million	Cost 2005	Accumulated depreciation and impair-ments 2005	Net book value 2005	Cost 2004	Accumulated depreciation and impairments 2004	Net book Value 2004
16. Property and equipment						
Property						
Freehold land and buildings	**1 265**	**(431)**	**834**	1 562	(440)	1 122
Leasehold premises	**1 476**	**(236)**	**1 240**	1 452	(198)	1 254
	2 741	**(667)**	**2 074**	3 014	(638)	2 376
Equipment						
Computer equipment	**2 414**	**(1 486)**	**928**	2 299	(1 438)	861
Furniture and fittings	**813**	**(429)**	**384**	816	(410)	406
Motor vehicles	**104**	**(49)**	**55**	95	(46)	49
Office equipment	**362**	**(173)**	**189**	288	(143)	145
Capitalised leased assets	**8**	**(5)**	**3**	6	(4)	2
	3 701	**(2 142)**	**1 559**	3 504	(2 041)	1 463
Total	**6 442**	**(2 809)**	**3 633**	6 518	(2 679)	3 839

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets
16. Property and equipment *(continued)*							
Movement in property and equipment – net book value							
Net book value at 1 July 2003	1 124	1 135	676	344	41	133	2
Foreign currency adjustments on translation	(54)	(9)	(11)	(4)	(1)	(2)	–
Changes in group structure	49	2	8	2	3	6	–
Additions	98	197	530	192	23	51	2
Depreciation charge for period	(29)	(61)	(277)	(122)	(12)	(41)	(4)
Impairments	(6)	–	–	–	–	–	–
Disposals	(68)	(26)	(27)	(16)	(4)	(8)	(1)
Intergroup transfers	(5)	6	(1)	–	–	–	–
Other	13	10	(37)	10	(1)	6	3
Net book value at 30 June 2004	1 122	1 254	861	406	49	145	2
Foreign currency adjustments on translation	11	2	4	2	–	–	–
Additions	262	154	443	77	26	107	1
Depreciation charge for period	(45)	(80)	(329)	(82)	(17)	(44)	(1)
Impairments	–	–	(5)	–	–	–	–
Disposals	(42)	(9)	(4)	(2)	(3)	(18)	–
Disposal of Subsidiary	(478)	(90)	(49)	(17)	–	(1)	–
Other	4	9	7	–	–	–	1
Net book value at 30 June 2005	**834**	**1 240**	**928**	**384**	**55**	**189**	**3**

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

17. Pension and post-retirement benefits

The Banking Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees.
At 30 June 2005, the actuarially determined liability of the Banking Group was R 1 340 million (2004: R 1184 million).

R million	**2005**	2004
17.1 Post-retirement pension		
Pension liability		
Present value of funded liability	**12 429**	9 831
Fair value of plan assets	**(12 425)**	(9 649)
Pension fund deficit	**4**	182
Unrecognised actuarial surplus/(loss)	**6**	(167)
Retirement benefit liability	**10**	15
The amounts recognised in the income statement are as follows:		
Current service cost	**281**	248
Interest cost	**956**	978
Expected return on plan assets	**(952)**	(935)
Net actuarial loss recognised in the year	**(4)**	(43)
Total included in staff costs	**281**	248

R million	2005	2004
17. Pension and post-retirement benefits *(continued)*		
17.1 Post-retirement pension *(continued)*		
Movement in retirement benefit liability:		
Present value at the beginning of the year	15	22
Exchange differences	1	–
Subsidiary balances sold	(5)	–
Amounts recognised in the income statement as above	281	248
Contributions paid	(282)	(255)
Present value at the end of the year	10	15
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	8.0	10.0
Expected return on plan assets (%)	8.0	10.0
Salary inflation (%)	5.0	6.0
Net interest rate used to value pensions, allowing for pension increases (%)	5.0	5.0
The pension liability includes both defined benefit and defined contribution schemes.		
17.2 Post-retirement medical liability		
Present value of unfunded liability	1 340	1 184
Unrecognised actuarial losses	(162)	(88)
Funds transferred to meet liabilities[1]	61	–
Post-retirement medical liability	1 239	1 096
The amounts recognised in the income statement are as follows:		
Current service cost	30	28
Interest cost	113	104
Past service cost	64	–
Actuarial loss recognised	19	–
Total included in staff costs	226	132
Movement in post-retirement medical liability:		
Present value at the beginning of the year	1 096	982
Subsidiary balances acquired	–	32
Subsidiary balances sold	(29)	–
Amounts recognised in the income statement as above	226	132
Contributions paid	(54)	(50)
Present value at the end of the year	1 239	1 096
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	8.0	10.0
Long-term increase in medical subsidies (%)	6.0	8.0
Pension and post-retirement benefits		
Post-retirement pension	10	15
Post-retirement medical liability	1 239	1 096
Total pension and post-retirement benefits	1 249	1 111
Number of employees covered	32 000	30 257

The Banking Group has set aside certain assets against these liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.

1. *The amount transferred to meet the post-retirement medical liability was made in order to meet the increased liability arising from changes to the fund in respect of non-clerical staff being included on the scheme and changes in structure to the contribution tables. The board agreed that a portion of the liability be recognised in this financial year.*

R million	2005	2004
18. Intangible assets		
Goodwill		
Gross amount	313	312
Less: Accumulated amortisation	–	(41)
Less: Impairment losses	(10)	(10)
	303	261
Movement in goodwill – book value		
Opening balance	261	149
Exchange differences	20	(34)
Disposals	(5)	(22)
Additions	27	191
Accumulated amortisation	–	(13)
Impairment losses	–	(10)
	303	261
Software		
Gross amount	114	86
Less: Accumulated amortisation	(73)	(49)
Less: Impairment losses	(6)	–
	35	37
Movement in software – book value		
Opening balance	37	27
Disposals	–	(3)
Additions	28	35
Accumulated amortisation	(24)	(22)
Impairment losses	(6)	–
	35	37
Development costs		
Gross amount	11	7
Less: Accumulated amortisation	(4)	(3)
	7	4
Movement in development costs – book value		
Opening balance	4	–
Disposals	(1)	–
Additions	5	5
Accumulated amortisation	(1)	(1)
	7	4
Trademarks		
Gross amount	130	126
Less: Accumulated amortisation	(18)	(17)
	112	109

R million	2005	2004
18. Intangible assets *(continued)*		
Movement in trademarks – book value		
Opening balance	109	–
Additions	4	126
Accumulated amortisation	(1)	(17)
	112	109
Other		
Gross amount	135	151
Less: Accumulated amortisation	(126)	(111)
	9	40
Movement in other – book value		
Opening balance	40	29
Exchange differences	–	(3)
Disposals	(17)	–
Additions	1	36
Accumulated amortisation	(15)	(22)
	9	40
Total intangible assets		
Goodwill	303	261
Software	35	37
Development costs	7	4
Trademarks	112	109
Other	9	40
	466	451
19. Insurance operations		
Assets		
Investment securities and other investments		
– Originated	13	18
– Available-for-sale	157	67
Total assets	170	85
Liabilities		
Policyholder liabilities under insurance contracts		
– Opening balance/subsidiary balances acquired	77	60
– Operating income transferred from income statement	32	17
Total liabilities	109	77

R million	2005	2004
20. Deposit and current accounts		
From banks and financial institutions	32 927	30 065
– In the normal course of business	20 039	16 404
– Under repurchase agreements	12 888	13 661
From customers	145 515	139 711
– Current accounts	50 308	56 976
– Savings account	2 727	2 467
– Term deposits	92 480	80 268
Other deposits	60 461	49 595
– Negotiable certificates of deposit	31 659	23 700
– Other deposits	28 802	25 895
	238 903	219 371
Geographic analysis (based on counterparty risk)		
South Africa	211 282	195 261
Other Africa	11 644	10 145
United Kingdom	8 773	13 965
Other	7 204	–
	238 903	219 371

A maturity analysis of deposits and current accounts is set out in note 29.7 of this annual report, and is based on the remaining periods to contractual maturity from the year end. Deposits include amounts raised under repurchase agreements with a carrying value of R12 888 million (2004: R13 661 million).

R million	2005	2004
21. Short trading positions		
Government and Government guaranteed	5 514	13 310
Other dated securities	3 997	3 060
Undated securities	10 408	6 916
	19 919	23 286
Analysed as follows:		
Listed	14 336	20 210
Unlisted	5 583	3 076
	19 919	23 286

Short trading positions are carried at fair value. Fair market value for listed securities is quoted market prices, and for unlisted securities is based on the directors' valuation using suitable valuation methods.

R million	2005	2004
22. Creditors and accruals		
Accrued interest	131	249
Accounts payable	1 234	955
Short-term portion of long-term liabilities (note 24)	229	216
Short-term portion of financial leases (note 24)	116	87
Other creditors	5 582	3 341
	7 292	4 848

R million	2005	2004
23. Provisions		
Leave pay		
– Opening balance	666	620
– Exchange differences	1	–
– Additions	1	–
– Charge to the income statement	136	119
– Utilised	(117)	(73)
Closing balance	687	666
Audit fees		
– Opening balance	26	29
– Additions	1	–
– Charge to the income statement	41	61
– Utilised	(47)	(64)
Closing balance	21	26
Other		
– Opening balance	655	327
– Exchange differences	4	–
– Additions	306	–
– Charge to the income statement	564	493
– Utilised	(876)	(165)
Closing balance	653	655
Total provisions	1 361	1 347
24. Long-term liabilities		
Debentures		
100 debentures of R1 million each carrying interest at prime minus 3%[a]	100	100
120 debentures of R1 million each carrying interest at prime minus 2%[b]	120	120
	220	220

Both of the instruments above relate to debentures which are convertible into non-redeemable preference shares.

a RMB Asset Finance Limited has the sole right, at any stage after 30 June 2002, to convert the debentures into non-redeemable preference shares. Interest is payable six monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 3%.

b The holder has the right, at any stage after 30 June 2005, to convert the debentures into non-redeemable preference shares. The debentures will automatically convert into non-redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable six monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.

R million	2005	2004
24. Long-term liabilities *(continued)*		
Preference shares		
Authorised		
500 000 000 (2004: 500 000 000) cumulative redeemable shares with a par value of R0.0001 1 000 000 cumulative redeemable shares with a par value of R0.10		
Issued		
1 500 (2004: 1 500) cumulative redeemable shares with a par value of R0.0001 and a premium of R99 999.9999 per share[c]	**100**	100
10 000 cumulative redeemable shares with a par value of R0.10 and a premium of R9 999.90 per share[d]	**–**	100
	100	200

c These preference shares are redeemable at the Company's discretion on or after 1 June 2003, at the full subscription price. Dividends are paid at a variable rate based on prime which is currently 10.4%.

d These preference shares are redeemable at the Company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime which is currently 9.9%.

	2005	2004
Unsecured debt securities amortising over the period to 2007[e]	**579**	405
Secured loan[f]	**–**	12
Subordinated notes[g]	**1 168**	1 365
Fixed rate bonds[h]	**700**	700
Floating rate bond[i]	**300**	300
Less: Portion repayable within 12 months transferred to current liabilities (note 22)	**(229)**	(216)
	2 518	2 566

e Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.

f This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.

g The subordinated notes are redeemable in six monthly tranches until 2009 and do not bear interest. The notes were issued at a discount to notional value and bear an effective interest rate of 16.5%.

h The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.

i The floating rate bonds mature 31 August 2010 and bear interest at 0.715% above the three month JIBAR rate.

R million	2005	2004
24. Long-term liabilities *(continued)*		
Finance lease liabilities		
Not later than 1 year	179	158
Later than 1 year and not later than 5 years	689	860
	868	1 018
Future finance charges on finance leases	(168)	(239)
Present value of finance lease liability	700	779
Less: Portion repayable within 12 months transferred to current liabilities (note 22)	(116)	(87)
	584	692
	3 422	3 678
25. Ordinary shares and non-redeemable preference shares		
Ordinary shares		
Authorised		
550.0 million shares with a par value of 20 cents per share	110	110
Issued		
530.0 million ordinary shares with a par value of 20 cents per share	106	106
Ordinary share premium	1 632	1 632
Total issued ordinary share capital and share premium	1 738	1 738
Non-redeemable preference shares		
Authorised		
100 million non-cumulative non-redeemable preference shares with a par value of 10 cents per share	10	–
Issued		
3 million non-cumulative non-redeemable preference shares with a par value of 10 cents per share	–	–
The non-redeemable preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by FirstRand Bank Limited.		
Non-redeemable preference share premium	3 000	–
Total issued non-redeemable preference share capital and share premium	3 000	–
Cumulative redeemable preference share premium issued to FirstRand companies		
Authorised		
14 000 cumulative redeemable preference shares with a par value of 10 cents	–	–
Issued		
14 000 cumulative redeemable preference shares with a par value of 10 cents	–	–
These preference shares are redeemable at the Company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime which is currently 7.8%.		
Cumulative non-redeemable preference share premium	1 045	1 400
Total issued non-redeemable preference share capital and share premium	1 045	1 400
Total issued share capital and share premium	5 783	3 138

R million	2005	2004
26. Non-distributable reserves		
Non-distributable reserves in associated companies	**24**	54
Currency translation reserve	**38**	359
Revaluation reserve – available-for-sale instruments	**143**	188
Revaluation reserve – cash flow hedge instruments	**345**	129
General risk reserve (impaired capital reserve)	**1 123**	1 146
Other	**391**	500
	2 064	2 376

A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.

R million	2005	2004
27. Contingencies and commitments		
Contingencies		
Guarantees*	**13 923**	14 540
Acceptances	**479**	110
Letters of credit	**12 063**	8 793
	26 465	23 443

* *Includes undrawn irrevocable facilities*

There are a number of legal or potential claims against the Banking Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or group basis. Provision is made for all liabilities which are expected to materialise.

	2005	2004
Employee benefit contingent liability		
A contingent liability was raised in respect of pension fund holidays taken since 15 December 2001.	**–**	323
Claims		
The Banking Group has contingent liabilities in respect of certain outstanding claims.	**230**	150
The Banking Group has reciprocal claims against other institutions. These claims qualify as contingent assets.	**(214)**	(150)
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	**144**	68
Not contracted for	**573**	215

Funds to meet these commitments will be provided from Banking Group resources.

	2005		
R million	Next year	2nd to 5th year	After 5th year
Group commitments under operating leases			
Office premises	270	558	113
Equipment and motor vehicles	28	34	1
	298	592	114

R million		2004	
	Next year	2nd to 5th year	After 5th year
27. Contingencies and commitments *(continued)*			
Office premises	483	1 274	49
Recoverable under subleases	(5)	(15)	(4)
	478	1 259	45
Equipment and motor vehicles	30	31	2
	508	1 290	47

R million	**2005**	2004
28. Cash flow information		
28.1 Reconciliation of operating profit to cash flow from operating activities		
Net income from operations	**8 403**	6 541
Adjusted for:		
– Depreciation, amortisation and impairment costs	**650**	637
– Impairment of advances	**706**	833
– Unrealised profit on assets held against employee liabilities	**(296)**	(86)
– Other non-cash provisions	**627**	720
– (Gain)/loss on sale of fixed assets and investments	**(139)**	75
– Foreign currency translation reserve	**(264)**	370
– Dividends from associates	**224**	241
– Dividends paid	**(2 743)**	(1 995)
Cash flows from operating activities	**7 168**	7 336
28.2 Dividends paid		
Amounts unpaid at beginning of the year	**–**	–
Charged to distributable reserves	**(2 743)**	(1 995)
Amounts unpaid at end of the year	**–**	–
Total dividends paid	**(2 743)**	(1 995)
28.3 Taxation paid		
Amounts unpaid at beginning of the year	**(1 351)**	(1 091)
Taxation charge per income statement	**(2 524)**	(2 137)
Transfer from deferred taxation to current taxation	**313**	396
Deferred taxation included in tax charge	**1 148**	217
Amounts unpaid at end of the year	**(112)**	1 351
Total taxation paid	**(2 302)**	(1 264)
Direct taxation paid	**(1 925)**	(864)
Miscellaneous taxation paid	**(377)**	(400)
	(2 302)	(1 264)

R million	2005	2004
28. Cash flow information *(continued)*		
28.4 Disposals of subsidiaries		
FirstRand disposed of its entire shareholding in Ansbacher (UK) Group with effect from 1 November 2004. Additional information on this disposal is set out in note 34 below.		
Details of the net assets disposed of are set out below:		
Loans and advances	3 984	–
Investments	1 609	–
Cash and cash equivalents	1 335	–
Other assets	803	–
Total assets	7 731	–
Deposits	5 846	–
Other liabilities	924	–
Total liabilities	6 770	–
Net assets disposed of	961	–
Proceeds from sale	1 019	–
Less: Cash and cash equivalents sold	(1 335)	–
Net cash inflow	(316)	–

29. Risk management

29.1 General

The Risk Report of the Banking Group is contained on pages 127 to 142 ("the Risk Report"). The report sets out in detail the various risks the Banking Group is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Banking Group are approved by the board of directors (as per page 127), while operational policies and control procedures are approved by the relevant risk committees. Details of the Banking Group's risk management structure, the risk management methodologies and the various risk committees are set out on pages 127 to 129 of the Risk Report.

Pages 127 to 130 form part of the audited financial statements.

Strategy in using financial instruments

By its nature the Banking Group's activities are principally related to the use of financial instruments including derivatives. The Banking Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Banking Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Banking Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The board of the Banking Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

29.2 Strategy in using hedges

The Banking Group strategy for using hedges is set out in note 8 above, and is also dealt with in the Risk Report.

29. Risk management *(continued)*

29.3 Credit risk management

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Banking Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further detail on credit risk management is contained on pages 131 to 134 of the Annual Report.

Significant credit exposures at 30 June 2005 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austral-asia	Other	Total
Assets										
Gross advances	**206 756**	**12 068**	**5 827**	**1 063**	**2 659**	**345**	**93**	**722**	**23**	**229 556**
Contingencies	**20 293**	**1 653**	**141**	**2 945**	**317**	**54**	**9**	**436**	**617**	**26 465**
	227 049	**13 721**	**5 968**	**4 008**	**2 976**	**399**	**102**	**1 158**	**640**	**256 021**

Economic sector risk concentrations in respect of advances are set out in note 9.

Significant credit exposures at 30 June 2004 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austral-asia	Other	Total
Assets										
Gross advances	175 500	10 600	15 596	1 727	4 541	4 587	96	436	922	214 005
Contingencies	19 801	1 801	173	541	205	1	17	271	633	23 443
	195 301	12 401	15 769	2 268	4 746	4 588	113	707	1 555	237 448

29.4 Market risk

The Banking Group takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Banking Group applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits. Further details on the market risk management are set out on pages 136 and 137 of the Annual Report.

29. Risk management *(continued)*

29.5 Currency risk management

The Banking Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Banking Group manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2005 is set out below:

R million	Rand	UK£	US$	Eur	Other	Total
Assets						
Cash and short-term funds	13 974	654	7 859	330	586	23 403
Derivative financial instruments	12 587	786	8 534	5 497	348	27 752
– qualifying for hedging	574	1	235	–	1	811
– trading	12 013	785	8 299	5 497	347	26 941
Advances	203 939	545	8 871	1 994	11 203	226 552
– originated	168 374	178	372	5	11 147	180 076
– held-to-maturity	7 449	–	–	–	–	7 449
– available-for-sale	874	–	–	746	28	1 648
– fair value advances	27 242	367	8 499	1 243	28	37 379
Investment securities and other investments	31 747	1 348	6 933	1 682	1 812	43 522
Financial instruments held for trading	15 307	1 053	2 409	1 363	606	20 738
Investment securities	16 440	295	4 524	319	1 206	22 784
– held-to-maturity	418	–	413	–	167	998
– available-for-sale	10 109	207	2 746	166	995	14 223
– at elected fair value	5 913	88	1 365	153	44	7 563
Commodities	405	–	181	–	32	618
Non-recourse investments	8 181	–	–	–	–	8 181
Loans to Insurance Group	6 633	3	632	–	–	7 268
Accounts receivable	2 251	1	248	1	321	2 822
Investment in associated companies	2 600	–	28	–	152	2 780
Property and equipment	3 350	1	16	–	266	3 633
Deferred taxation assets	487	–	–	26	9	522
Intangible assets	198	–	25	–	243	466
Assets of insurance operations	170	–	–	–	–	170
	286 522	3 338	33 327	9 530	14 972	347 689

R million	Rand	UK£	US$	Eur	Other	Total
29. Risk management *(continued)*						
29.5 Currency risk management *(continued)*						
Liabilities						
Deposits	226 887	846	7 869	1 420	10 062	247 084
– deposit and current accounts	218 706	846	7 869	1 420	10 062	238 903
– non-recourse deposits	8 181	–	–	–	–	8 181
Short trading positions	16 797	623	1 351	1 038	110	19 919
Derivative financial instruments	12 092	1 171	8 531	3 154	519	25 467
– qualifying for hedging	94	–	153	2	–	249
– trading	11 998	1 171	8 378	3 152	519	25 218
Loans from Insurance Group	9 312	52	59	1	–	9 424
Creditors and accruals	6 430	55	474	15	318	7 292
Provisions	1 218	28	7	22	86	1 361
Taxation	65	–	12	–	35	112
Post-retirement benefit funds liability	1 211	10	–	–	28	1 249
Deferred taxation liabilities	2 720	–	–	26	53	2 799
Long-term liabilities	2 546	1	336	27	512	3 422
Liabilities of insurance operations – policyholder liabilities	109	–	–	–	–	109
Outside shareholders' interest	580	–	219	–	191	990
Shareholders' equity	22 805	–	3 571	251	1 834	28 461
	302 772	2 786	22 429	5 954	13 748	347 689

29.6 Interest rate risk management

Interest sensitivity of assets, liabilities and off-balance sheet items – repricing analysis.

The Banking Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Banking Group's exposure to interest rate risks. Included in the table are the Banking Group's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

Further details on the interest rate risk management are set out on pages 134 and 135 of the Annual Report.

The table on the following page summarises the Banking Group's exposure to interest rate risk, categorised by contractual repricing date.

R million	Carrying amount 2005	Interest earning/bearing: Demand	Term to repricing: 1-12 months	Term to repricing: 1-5 years	Term to repricing: Over 5 years	Non-interest earning/bearing
29. Risk management *(continued)*						
29.6 Interest rate risk management						
Assets						
Cash and short-term funds	**23 403**	17 869	335	14	68	5 117
Derivative financial instruments	**27 752**	20	13 560	6 797	5 904	1 471
– qualifying for hedging	**811**	–	393	414	–	4
– trading	**26 941**	20	13 167	6 383	5 904	1 467
Advances	**226 552**	97 572	70 802	44 568	13 354	256
– originated	**180 076**	95 992	40 359	33 790	9 713	222
– held-to-maturity	**7 449**	727	3 826	2 304	592	–
– available-for-sale	**1 648**	365	–	–	1 283	–
– fair value advances	**37 379**	488	26 617	8 474	1 766	34
Investment securities and other investments	**43 522**	2 474	15 213	6 951	10 972	7 912
Financial instruments held for trading	**20 738**	2 275	6 741	3 888	2 408	5 426
Investment securities	**22 784**	199	8 472	3 063	8 564	2 486
– held-to-maturity	**998**	1	193	16	34	754
– available-for-sale	**14 223**	98	6 297	504	6 837	487
– at elected fair value	**7 563**	100	1 982	2 543	1 693	1 245
Commodities	**618**	13	–	–	–	605
Non-recourse investments	**8 181**	–	3 778	3 375	1 028	–
Accounts receivable	**2 822**	58	339	5	–	2 420
Loans to Insurance Group	**7 268**	2 378	2 262	404	24	2 200
Investment in associated companies	**2 780**	–	–	–	–	2 780
Property and equipment	**3 633**	–	–	–	–	3 633
Deferred taxation assets	**522**	–	–	–	–	522
Intangible assets	**466**	–	–	–	–	466
Assets of insurance operations	**170**	–	–	–	–	170
	347 689	120 384	106 289	62 114	31 350	27 552

R million	Carrying amount 2005	Interest earning/bearing				Non-interest earning/ bearing
			Term to repricing			
		Demand	1-12 months	1-5 years	Over 5 years	
29. Risk management *(continued)*						
29.6 Interest rate risk management *(continued)*						
Liabilities						
Deposits	**247 084**	130 788	97 072	10 087	4 418	4 719
– deposit and current accounts	**238 903**	130 788	90 694	8 866	3 836	4 719
– non-recourse deposits	**8 181**	–	6 378	1 221	582	–
Short trading positions	**19 919**	238	1 823	2 589	6 087	9 182
Derivative financial instruments	**25 467**	40	16 627	4 204	2 801	1 795
– qualifying for hedging	**249**	–	168	40	–	41
– trading	**25 218**	40	16 459	4 164	2 801	1 754
Loans from Insurance Group	**9 424**	4 068	2 487	2 077	425	367
Creditors and accruals	**7 292**	239	1 263	107	221	5 462
Provisions	**1 361**	–	–	–	–	1 361
Taxation	**112**	–	–	–	–	112
Post-retirement benefit funds liability	**1 249**	–	–	–	–	1 249
Deferred taxation liabilities	**2 799**	–	–	–	–	2 799
Long-term liabilities	**3 422**	–	–	3 061	361	–
Liabilities of insurance operations – policyholder liabilities	**109**	–	–	–	–	109
Outside shareholders' interest	**990**	–	–	–	–	990
Shareholders' equity	**28 461**	–	–	–	–	28 461
	347 689	135 373	119 272	22 125	14 313	56 606
Net interest sensitivity gap		(14 989)	(12 983)	39 989	17 037	(29 054)

29. Risk management *(continued)*

29.7 Liquidity risk management

The Banking Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Banking Group does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Banking Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Banking Group and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out on page 135 of the Annual Report.

The table below sets out the maturity analysis of the Banking Group's balance sheet based on the remaining period from year end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

			Term to maturity		
R million	Carrying amount 2005	Demand	1-12 months	1-5 years	Over 5 years
Assets					
Cash and short-term funds	**23 403**	16 048	202	4 436	2 717
Derivative financial instruments	**27 752**	24	13 131	8 342	6 255
– qualifying for hedging	**811**	–	167	446	198
– trading	**26 941**	24	12 964	7 896	6 057
Advances	**226 552**	20 974	89 836	87 154	28 588
– originated	**180 076**	20 366	61 300	72 941	25 469
– held-to-maturity	**7 449**	(22)	3 782	2 346	1 343
– available-for-sale	**1 648**	–	131	1 507	10
– fair value advances	**37 379**	630	24 623	10 360	1 766
Investment securities and other investments	**43 522**	5 611	12 780	14 843	10 288
Financial instruments held for trading	**20 738**	4 832	6 458	3 887	5 561
Investment securities	**22 784**	779	6 322	10 956	4 727
– held-to-maturity	**998**	480	164	354	–
– available-for-sale	**14 223**	299	4 540	7 914	1 470
– at elected fair value	**7 563**	–	1 618	2 688	3 257
Commodities	**618**	87	469	62	–
Non-recourse investments	**8 181**	–	3 778	3 375	1 028
Loans to Insurance Group	**7 268**	2 390	2 255	604	2 019
Accounts receivable	**2 822**	1 450	1 372	–	–
Investment in associated companies	**2 780**	–	–	812	1 968
Property and equipment	**3 633**	94	34	1 630	1 875
Deferred taxation assets	**522**	–	9	310	203
Intangible assets	**466**	–	15	132	319
Assets of insurance operations	**170**	–	170	–	–
	347 689	46 678	124 051	121 700	55 260

R million	Carrying amount 2005	Demand	Term to maturity 1-12 months	1-5 years	Over 5 years
29. Risk management *(continued)*					
29.7 Liquidity risk management					
Liabilities					
Deposits	**247 084**	110 880	115 065	12 939	8 200
– deposit and current accounts	**238 903**	110 880	108 687	11 718	7 618
– non-recourse deposits	**8 181**	–	6 378	1 221	582
Short trading positions	**19 919**	7 055	1 150	3 498	8 216
Derivative financial instruments	**25 467**	121	16 504	5 826	3 016
– qualifying for hedging	**249**	–	96	57	96
– trading	**25 218**	121	16 408	5 769	2 920
Loans from Insurance Group	**9 424**	129	6 305	2 488	502
Creditors and accruals	**7 292**	2 050	4 585	110	547
Provisions	**1 361**	330	911	53	67
Taxation	**112**	–	45	67	–
Post-retirement benefit funds liability	**1 249**	–	18	–	1 231
Deferred taxation liabilities	**2 799**	793	1 512	494	–
Long-term liabilities	**3 422**	–	–	3 422	–
Liabilities of insurance operations – policyholder liabilities	**109**	–	–	–	109
Outside shareholders' interest	**990**	–	–	–	990
Shareholders' equity	**28 461**	–	–	–	28 461
	347 689	121 358	146 095	28 897	51 339
Net liquidity gap		(74 680)	(22 044)	92 803	3 921

29. Risk management *(continued)*

29.8 Fair value of financial instruments

The following represents the fair values of financial instruments not carried at fair value on the balance sheet.

R million	Carrying amount 2005	Fair value 2005	Unrecognised. gain/(loss) 2005
Assets			
Advances			
– originated	180 076	180 076	–
– held-to-maturity	7 449	7 449	–
Investment securities			
– held-to-maturity	998	998	–
	188 523	188 523	–
Deposit and current accounts	238 903	238 903	–
Long-term liabilities	3 422	3 422	–
	242 325	242 325	–

Fair value has been determined as follows:

- advances – based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;
- long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

30. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R21 494 million (2004 – R14 934 million).

31. Segment information

31.1 Primary segments (business)

Divisions	Segment	Brands	Target segment	Description
FNB	Retail banking	First National Bank FNB Card, BOB FNB HomeLoans FirstLink	Small businesses and individuals	Retail banking, wholesale banking and support services
	Corporate banking	First National Bank	Medium and large corporates	Corporate banking
	Wealth management	RMB Private Bank FNB Trust Services	High net worth individuals	Wealth management Trust services
FirstRand Africa & Emerging Markets	African subsidiaries	FNB Namibia FNB Botswana FNB Swaziland FNB Lesotho	Corporates and individuals	Corporate and retail banking
RMB	Investment banking	Rand Merchant Bank RMB Private Equity RMB International RMB Resources RMB Australia	Large corporates, parastatals and Government	Merchant and investment banking services
OUTsurance	Short-term insurance	OUTsurance	Corporates and individuals	Short-term insurance
WesBank	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Support				Owns the capital of the Banking Group, provides generic banking support

2005 R million	HomeLoans	Card Issuing	Private Banking	FNB Trust	Corporate
31. Segment information					
31.1 Primary segments (business) *(continued)*					
Income statement					
Net interest income before impairment of advances	1 258	508	224	6	941
Impairment of advances	(8)	(140)	(9)	–	(1)
Net interest income after impairment of advances	1 250	368	215	6	940
Non-interest income	241	742	179	131	2 030
Net income from operations	1 491	1 110	394	137	2 970
Operating expenditure	(1 027)	(815)	(316)	(104)	(1 832)
Staff expenses	(313)	(157)	(180)	(67)	(467)
Other operating expenses	(714)	(658)	(136)	(37)	(1 365)
Income/(loss) from operations	464	295	78	33	1 138
Share of earnings of associated companies	–	–	–	–	–
OUTsurance	–	–	–	–	–
Other	–	–	–	–	–
Income before discontinued operations	464	295	78	33	1 138
Profit on disposal of discontinued operations	–	–	–	–	–
Income before taxation	464	295	78	33	1 138
Indirect taxation	(47)	(13)	(7)	(1)	(17)
Income before direct taxation	417	282	71	32	1 121
Direct taxation	(101)	(69)	(17)	(8)	(273)
Income after taxation	316	213	54	24	848
Earnings attributable to outside shareholders	–	–	–	–	–
Earnings attributable to ordinary shareholders	316	213	54	24	848
Income statement includes:					
Depreciation	(8)	(4)	(2)	(1)	(38)
Amortisation	–	–	–	–	–
Impairment charges	–	–	–	–	–
Balance sheet includes:					
Advances	59 033	6 817	12 674	–	17 697
Non-performing loans	508	263	200	–	543
Investment in associates	–	–	–	–	569
Total deposits	–	1 102	2 473	–	47 196
Total assets	58 793	6 612	12 746	100	17 958
Capital expenditure	(35)	(4)	(18)	(1)	(58)
Headline earnings	316	213	54	24	848
Key ratio's					
Cost to income ratio	68.5%	65.2%	78.4%	75.9%	61.7%
Diversity ratio	16.1%	59.4%	44.4%	95.6%	68.3%
Bad debt charge as a % of advances	0.0%	2.1%	0.1%	n/a	0.0%
Non-performing loans as a % of advances	0.9%	3.9%	1.6%	n/a	3.1%
Number of employees	1 588	959	401	424	1 640

All consolidation adjustments have been recorded in Group Support

Notes:

1. *The segmental analysis is based on the management accounts for the respective segments.*
2. *Taxation has been allocated on a pro-rata basis.*

FNB Retail	Total FNB	Merchant Bank	WesBank	Africa & Emerging Markets	Group Support	Ansbacher UK	Translation gain/ (losses)	Total
2 661	5 598	–	2 068	814	960	57	–	9 497
(116)	(274)	–	(316)	(66)	(49)	(1)	–	(706)
2 545	5 324	–	1 752	748	911	56	–	8 791
4 342	7 665	2 269	1 049	542	97	115	264	12 001
6 887	12 989	2 269	2 801	1 290	1 008	171	264	20 792
(4 771)	(8 865)	(641)	(1 511)	(670)	(496)	(206)	–	(12 389)
(2 904)	(4 088)	(348)	(723)	(339)	(785)	(125)		(6 408)
(1 867)	(4 777)	(293)	(788)	(331)	289	(81)	–	(5 981)
2 116	4 124	1 628	1 290	620	512	(35)	264	8 403
11	11	273	114	26	453	–	–	877
–	–	–	–	–	204	–	–	204
11	11	273	114	26	249	–	–	673
2 127	4 135	1 901	1 404	646	965	(35)	264	9 280
–	–	–	–	–	–	346	–	346
2 127	4 135	1 901	1 404	646	965	311	264	9 626
(198)	(283)	(21)	(73)	(5)	(27)	–	–	(409)
1 929	3 852	1 880	1 331	641	938	311	264	9 217
(469)	(937)	(457)	(324)	(166)	(229)	(2)	–	(2 115)
1 460	2 915	1 423	1 007	475	709	309	264	7 102
(1)	(1)	(53)	–	(162)	(76)	–	–	(292)
1 459	2 914	1 370	1 007	313	633	309	264	6 810
(334)	(387)	(39)	(51)	(31)	(72)	(18)	–	(598)
(4)	(4)	–	–	–	(37)	–	–	(41)
–	–	–	–	–	(11)	–	–	(11)
9 823	106 044	52 036	63 318	10 671	(3 007)	–	–	229 062
350	1 864	550	550	293	(16)	–	–	3 241
45	614	20	152	3	1 991	–	–	2 780
67 746	118 517	24 271	83	9 920	94 293	–	–	247 084
14 110	110 319	101 346	64 063	13 041	58 920	–	–	347 689
(627)	(743)	(144)	(80)	(36)	(67)	–	–	(1 070)
1 475	2 930	1 317	1 008	313	697	(37)	264	6 492
68.0%	66.8%	25.2%	46.8%	48.5%	32.8%	119.8%	n/a	55.4%
62.1%	57.8%	100.0%	33.7%	40.0%	9.2%	66.9%	n/a	55.8%
1.2%	0.3%	0.0%	0.5%	0.6%	(1.6%)	n/a	n/a	0.3%
3.6%	1.8%	1.1%	0.9%	2.7%	0.5%	n/a	n/a	1.4%
16 824	21 836	956	3 114	2 450	1 430	–	–	29 786

2004 R million	HomeLoans	Card Issuing	Private Banking	FNB Trust	Corporate
31. Segment information *(continued)*					
31.1 Primary segments (business) *(continued)*					
Income statement *(continued)*					
Net interest income before impairment of advances	1 234	453	178	6	949
Impairment of advances	(11)	(129)	(8)	–	(109)
Net interest income after impairment of advances	1 223	324	170	6	840
Non-interest income	176	585	129	121	1 726
Net income from operations	1 399	909	299	127	2 566
Operating expenditure	(851)	(691)	(239)	(99)	(1 578)
Staff expenses	(288)	(126)	(132)	(59)	(449)
Other operating expenses	(563)	(565)	(107)	(40)	(1 129)
Net income from operations	548	218	60	28	988
Share of earnings of associated companies	–	–	–	–	–
OUTsurance	–	–	–	–	–
Other	–	–	–	–	–
Income before taxation	548	218	60	28	988
Indirect taxation	(29)	(7)	(6)		(25)
Income before direct taxation	519	211	54	28	963
Direct taxation	(125)	(51)	(13)	(7)	(232)
Income after taxation	394	160	41	21	731
Earnings attributable to outside shareholders	–	–	–	–	–
Earnings attributable to ordinary shareholders	394	160	41	21	731
Income statement includes:					
Depreciation	(19)	(3)	(7)	(2)	(35)
Amortisation	(4)	–	–	–	–
Impairment charges	–	–	–	–	–
Balance sheet includes:					
Advances	44 975	5 184	8 981	–	16 007
Non-performing loans	560	266	166	–	645
Investment in associates	–	–	–	2	190
Total deposits	55	995	2 902	–	43 493
Total assets	44 509	5 048	8 189	94	16 032
Capital expenditure	(12)	(9)	(9)	(6)	(31)
Headline earnings	398	160	41	21	731
Key ratio's					
Cost to income ratio	60.4%	66.6%	77.9%	78.0%	59.0%
Diversity ratio	12.5%	56.4%	42.0%	95.3%	64.5%
Bad debt charge as a % of advances	0.0%	2.5%	0.1%	n/a	0.7%
Non-performing loans as a % of advances	1.2%	5.1%	1.8%	n/a	4.0%
Number of employees	1 529	917	325	365	1 564

The segmental analysis is based on the management accounts for the respective segments. Report on page 208.
All consolidation adjustments have been recorded in Group Support.

Notes:

1. *The segmental analysis is based on the management accounts for the respective segments.*
2. *Taxation has been allocated on a pro-rata basis.*

FNB Retail	Total FNB	Merchant Bank	WesBank	Africa & Emerging Markets	Group Support	Ansbacher UK	Translation gain/ (losses)	Total
2 372	5 192	–	1 722	785	1 065	143	–	8 907
(84)	(341)	–	(274)	(57)	(173)	12	–	(833)
2 288	4 851	–	1 448	728	892	155	–	8 074
3 560	6 297	1 703	782	433	(173)	298	(370)	8 970
5 848	11 148	1 703	2 230	1 161	719	453	(370)	17 044
(4 202)	(7 660)	(485)	(1 260)	(616)	(5)	(477)	–	(10 503)
(2 617)	(3 671)	(270)	(633)	(302)	(566)	(314)	–	(5 756)
(1 585)	(3 989)	(215)	(627)	(314)	561	(163)	–	(4 747)
1 646	3 488	1 218	970	545	714	(24)	(370)	6 541
28	28	224	79	22	232	–	–	585
–	–	–	–	–	160	–	–	160
28	28	224	79	22	72	–	–	425
1 674	3 516	1 442	1 049	567	946	(24)	(370)	7 126
(155)	(222)	(18)	(48)	(10)	(38)	(64)	–	(400)
1 519	3 294	1 424	1 001	557	908	(88)	(370)	6 726
(366)	(794)	(343)	(241)	(136)	(208)	21	–	(1 701)
1 153	2 500	1 081	760	421	700	(67)	(370)	5 025
–	–	(32)	(1)	(133)	(111)	–	–	(277)
1 153	2 500	1 049	759	288	589	(67)	(370)	4 748
(314)	(380)	(37)	(31)	(38)	(13)	(47)	–	(546)
(3)	(7)	–	–	(19)	(45)	(4)	–	(75)
(6)	(6)	–	–	(10)	–	–	–	(16)
9 020	84 167	77 320	49 034	9 462	(11 302)	4 760	–	213 441
570	2 207	213	386	374	474	112	–	3 766
382	574	1 319	212	5	98	–	–	2 208
61 106	108 551	35 775	115	8 857	66 189	6 399	–	225 886
12 831	86 703	109 047	49 409	11 839	62 301	8 587	–	327 886
(666)	(733)	(29)	(84)	(44)	(155)	(48)	–	(1 093)
1 230	2 581	958	759	288	643	(63)	(370)	4 796
70.5%	66.5%	25.2%	48.8%	49.7%	0.4%	108.2%	n/a	56.9%
60.2%	54.8%	100.0%	31.2%	35.6%	(19.4%)	67.6%	n/a	50.2%
0.9%	0.4%	0.0%	0.6%	0.6%	(1.5%)	(0.3%)	n/a	0.4%
6.3%	2.6%	0.3%	0.8%	4.0%	(4.2%)	2.4%	n/a	1.8%
16 851	21 551	819	3 209	2 323	509	–	–	28 411

R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
31. Segment information *(continued)*						
31.2 Secondary segments (geographic)						
2005						
Segment revenue	**31 792**	**2 094**	**881**	**448**	**1 426**	**36 641**
Segment expense	**(24 125)**	**(1 437)**	**(576)**	**(301)**	**(576)**	**(27 015)**
Segment assets	**274 582**	**14 774**	**22 127**	**1 765**	**34 441**	**347 689**
Segment liabilities	**252 214**	**18 161**	**22 003**	**1 674**	**24 186**	**318 238**
Segment capital expenditure	**986**	**31**	**–**	**20**	**33**	**1 070**
2004						
Segment revenue	28 844	2 099	152	196	676	31 967
Segment expense	(22 465)	(1 436)	(281)	(112)	(547)	(24 841)
Segment assets	257 283	11 980	31 616	1 423	25 584	327 886
Segment liabilities	246 246	12 787	26 462	1 164	18 271	304 930
Segment capital expenditure	883	30	48	4	128	1 093

	Nature of business	Country of incorporation	Listed/ unlisted	Issued ordinary capital R million	Effective Holding % 2005	Effective Holding % 2004
32. Subsidiaries						
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	28	**100**	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	**60**	60
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	28	**100**	100
FirstCorp Merchant Bank Holdings Limited	Commercial banking	South Africa	Unlisted	10	**100**	100
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	**100**	100
Saambou Bank Limited	Commercial banking	South Africa	Unlisted		**100**	100
Non-banking						
First National Asset Management & Trust Company (Pty) Limited	Asset management and trust services	South Africa	Unlisted	–	**100**	100
RMB Asset Finance Limited	Merchant banking	South Africa	Unlisted	19	**100**	100
FirstRand International Limited	International holding company	Guernsey	Unlisted	–	**100**	100
First Land Developments Limited	Property company	South Africa	Unlisted	1	**100**	100
FNB Equipment Finance (Pty) Limited	Equipment and finance	South Africa	Unlisted	–	**100**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	250	**100**	100
Firstlink Insurance Brokers Holdings (Pty) Limited	Insurance brokers	South Africa	Unlisted	–	**100**	100
RMB Private Equity (Pty) Limited	Investment and financial services	South Africa	Unlisted	–	**94**	88
RMB Private Equity Holdings (Pty) Limited	Investment and financial services	South Africa	Unlisted	–	**88**	–
iNdwa Investments Limited	Investment and financial services	South Africa	Unlisted	–	**n/a**	n/a

R million	Group carrying amount 2005	2004
32. Subsidiaries *(continued)*		
Banking		
First National Bank Holdings (Botswana) Limited	56	56
First National Bank of Namibia Limited	33	9
First National Bank of Swaziland Limited	17	15
FirstCorp Merchant Bank Holdings Limited	54	54
FirstRand Bank Limited	2 104	2 104
Saambou Bank Limited	–	–
Non-banking		
First National Asset Management & Trust Company (Pty) Limited	–	–
RMB Asset Finance Limited	334	334
FirstRand International Limited	1 446	1 446
First Land Developments Limited	1	1
FNB Equipment Finance (Pty) Limited	5	5
FirstRand (International) Mauritius Limited	250	250
Firstlink Insurance Brokers Holdings (Pty) Limited	14	14
RMB Private Equity (Pty) Limited	–	–
iNdwa Investments Limited	–	–

33. Related parties

All related party transactions are at arm's length and incurred in the ordinary course of business.

34. Profit on disposal of discontinued operation

During June 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.

Ansbacher is a multi-jurisdictional, wealth management group, delivering tailored financial solutions internationally. Ansbacher has operations in the United Kingdom, Cayman Islands, Bahamas, Channel Islands and Switzerland. Ansbacher forms part of the Wealth segment of businesses of FirstRand.

In terms of the requirements of AC 115 – "Segment reporting", Ansbacher is classified as a primary business segment, and on a secondary basis, as part of a separate geographical segment (United Kingdom) of the Banking Group.

FirstRand announced on 1 July 2004 that it had reached agreement with Qatar National Bank ("QNB"), a bank listed on the Qatar, to dispose of all of the issued share capital in Ansbacher to QNB, at a premium of £7.5 million to the net asset value of the business of Ansbacher and a potential additional premium of £7.5 million depending on the performance of certain business units of Ansbacher ("the disposal"). The disposal excludes certain investment portfolios in Ansbacher as well as certain businesses which facilitate the South African activities of FirstRand ("the retained businesses"). Final approval for the disposal was received from the various regulatory authorities on 31 October 2004. The disposal became effective on 1 November 2004.

R million	Period ended 31 October 2004	Year ended June 2004
34. Profit on disposal of discontinued operation *(continued)*		
Summarised financial information on Ansbacher (excluding the retained businesses) is set out below:		
Interest income	234	321
Interest expenditure	(177)	(178)
Net interest income before impairment of advances	57	143
Impairment of advances	(1)	12
Net interest income after impairment of advances	56	155
Non-interest income	115	298
Net income from operations	171	453
Operating expenditure	(206)	(477)
Income before taxation	(35)	(24)
Taxation	(2)	(43)
Loss after tax	(37)	(67)
Other information		
Assets	7 731	8 614
Liabilities	6 770	7 075
Capital expenditure	11	48
Depreciation	18	48
Cash flow from operating activities	(469)	203
Cash flow from investing activities	(4)	(111)
Cash flow from financing activities	–	(11)

	2005
A reconciliation of the profit on disposal	
Proceeds on disposal	**1 019**
Net asset value of Ansbacher at date of sale	**(961)**
Disposal expenses	**(125)**
	(67)
Release from currency translation reserve[1]	**413**
Net profit from disposal	**346**

1. *On disposal of a foreign subsidiary classified as an "independent operation" in terms of the requirements of AC 112 of SA GAAP, the accumulated foreign currency translation reserve is released to income.*

Capital adequacy

BANKING GROUP

The registered banks within the Banking Group are subject to regulatory capital requirements. The capital adequacy of the Group is measured in terms of the Banks' Act, 1990. The Banks' Act requires the Banking Group to maintain a minimum level of capital based on the Banking Group's risk weighted assets and off-balance sheet exposures.

R million	2005	2004
Regulatory capital		
Tier 1*	16 842	16 179
Share capital	523	1 195
Share premium	2 612	2 490
Non-redeemable non-cumulative preference shares	3 000	–
Reserves	13 722	13 000
Less: Impairments	(3 015)	(506)
Tier 2	5 737	5 895
Subordinated debt instruments and preference shares	3 712	4 049
Qualifying provisions	2 025	1 846
Total regulatory capital	22 579	22 074
Capital adequacy ratios – Group banking operations		
Tier 1	8.8%	10.1%
Tier 2	3.0%	3.7%
Total	11.8%	13.8%

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

CALCULATION OF RISK WEIGHTED ASSETS

				Risk weighted assets	
	2005	2004	Risk weighting	2005	2004
Banking book	537 506	442 776		183 556	157 322
Cash, own bank and central Government advances	85 606	91 962	0%	–	–
Central Securities Depositary Participation	205 267	137 967	0%	–	–
Public sector body advances and letters of credit	2 338	2 411	5% – 10%	220	241
Other bank advances and letters of credit	31 427	26 910	20%	6 285	5 382
Mortgage advances, remittances in transit and performance related guarantees	71 635	63 655	50%	35 818	31 828
Other advances and lending related guarantees	133 408	114 133	100%	133 408	114 133
Counterparty risk exposure	4 880	4 587	100%	4 880	4 587
Large exposures	2 945	1 151	100%	2 945	1 151
Trading book	8 010	3 082		8 010	3 082
Position risk	6 798	2 430	100%	6 798	2 430
Counterparty risk exposure	1 144	561	100%	1 144	561
Large exposures	68	91	100%	68	91
	545 516	445 858		191 566	160 404

Capital adequacy

| Continued |

FIRSTRAND BANK LIMITED

R million	2005	2004
Regulatory capital		
Tier 1	**12 956**	13 101
Share capital	**4**	4
Share premium	**2 612**	2 490
Non-redeemable non-cumulative preference shares	**3 000**	–
Reserves	**9 961**	10 692
Less: Impairments	**(2 621)**	(85)
Tier 2	**5 323**	5 203
Subordinated debt instruments	**3 503**	3 564
Qualifying provisions	**1 820**	1 639
Total regulatory capital	**18 279**	18 304
Capital adequacy ratios		
Tier 1	**7.9%**	9.7%
Tier 2	**3.2%**	3.8%
Total	**11.1%**	13.5%

CALCULATION OF RISK WEIGHTED ASSETS

				Risk weighted assets	
	2005	2004	Risk weighting	**2005**	2004
Banking book	**496 781**	393 859		**160 924**	132 689
Cash, own bank and central Government advances	**73 259**	75 439	0%	**–**	–
Central Securities Depositary Participation	**205 267**	137 967	0%	**–**	–
Public sector body advances and letters of credit	**2 185**	2 134	5% – 10%	**204**	213
Other bank advances and letters of credit	**27 437**	21 114	20%	**5 487**	4 223
Mortgage advances, remittances in transit and performance related guarantees	**66 799**	57 904	50%	**33 399**	28 952
Other advances and lending related guarantees	**117 175**	94 889	100%	**117 175**	94 889
Counterparty risk exposure	**4 659**	4 412	100%	**4 659**	4 412
Large exposures	**–**	–	100%	**–**	–
Trading book	**3 385**	2 788		**3 385**	2 788
Position risk	**2 400**	2 178	100%	**2 400**	2 178
Counterparty risk exposure	**972**	554	100%	**972**	554
Large exposures	**13**	56	100%	**13**	56
	500 166	396 647		**164 309**	135 477

Credit ratings

	Sovereign rating Republic of South Africa	FirstRand Bank Holdings Limited	FirstRand Bank Limited
Fitch Ratings			
Foreign currency	August 2005	August 2005	August 2005
– Long-term	BBB+	BBB+	BBB+
– Short-term	F2	F2	F2
– Outlook	Stable	Stable	Stable
Local currency	August 2005		August 2005
– Long-term	A		A-
– Outlook	Stable		Positive
National		January 2005	January 2005
– Long-term		AA-(zaf)	AA(zaf)
– Short-term		F1+(zaf)	F1+(zaf)
– Outlook		Stable	Stable
Individual		B/C	B/C
Support		5	2
Standard and Poor's			
Foreign currency	August 2005	August 2005	August 2005
– Long-term	BBB+	BBB	BBB+
– Short-term	A-2	A-2	A-2
– Outlook	Stable	Stable	Stable
Local currency	August 2005	December 2004	December 2004
– Long-term	A+	BBB	BBB+
– Short-term	A-1	A-2	A-2
– Outlook	Stable	Stable	Stable
Moody's Investor Services	January 2005		January 2005
Foreign currency	Baa1		Baa1/Prime-2
Local currency	A2		A1/P-1
Other short-term	P-2		
Bank Financial Strength			C

Margin analysis

	2005		2004	
	Average balance R million	Average margin %	Average balance R million	Average margin %
Margin assets				
Asset-backed mortgages	66 630	2.55	55 010	2.94
Instalment sales and finance leases	48 315	3.69	38 385	4.04
Card debtors	6 079	7.48	4 874	8.12
Overdrafts and managed account debtors	12 321	5.17	11 886	4.47
Personal loans	6 860	6.31	5 063	6.84
Other banking advances	19 478	1.10	11 813	0.53
Cash, short-term funds and other investment securities	67 231	2.82	72 141	2.64
Total for margin assets	226 916	3.14	199 173	3.21
Margin liabilities				
Current and savings deposits	54 986	3.93	47 710	4.16
Call accounts	20 799	1.07	19 213	1.26
Notice deposits	14 473	1.11	13 515	0.91
Fixed deposits	12 885	0.55	12 824	0.49
Banking Group Treasury	123 773		105 911	
Total for margin liabilities	226 916	1.15	199 173	1.21
Margin on average aggregate interest bearing assets and liabilities		4.29		4.42

This table is based on the fully funded margin business of the Banking Group and excludes long-term funding, trading and investment activities. The margins above are actively managed by the Banking Group's Alco desk.

Glossary of terms

DEFINITIONS RELATING TO OPERATIONS

Attributable earnings	Earnings attributable to ordinary shareholders
Headline earnings	Earnings attributable to ordinary shareholders from trading operations, excluding capital profits and losses, the amortisation of goodwill and impairment of assets
Return on average equity (%)	Earnings attributable to ordinary shareholders divided by average ordinary shareholders' funds
Return on average total assets (%)	Earnings attributable to ordinary shareholders divided by average total assets
Interest margin on average total assets (%)	Net interest income (after deducting the income statement charge for bad and doubtful advances) divided by average total assets
Interest margin on average advances (%)	Net interest income (after deducting the income statement charge for bad and doubtful advances) divided by average advances
Efficiency ratio (%)	Operating expenditure divided by total income (cost to income ratio)

OTHER DEFINITIONS

Non-performing loan	A loan on which neither interest payment nor principal repayment is being made. When a bank has such a loan on its books, it can either write it off against profits immediately or make loan loss provisions ready to make such a write-off in the future
Mark-to-market	Valuation at an appropriate market price, with unrealised profit and losses reflected in income
Short trading positions	Trading positions where the Banking Group trades in financial instruments that it does not own with a view of acquiring such instruments at a later stage on terms which are beneficial to the Group
Repo rate	The rate at which the South African Reserve Bank will lend to banks
Organic growth	Non-acquisitive growth

Administration

FirstRand Bank Holdings Limited

(Registration number 1971/009695/06)

Registered office:

1st Floor, 4 Merchant Place
Cnr Fredman Drive & Rivonia Road
Sandton
2196

Postal address:

PO Box 786273
Sandton
2146

Telephone:

National (011) 282-4000
International +27 11 282-4000

Telefax:

National (011) 282-1699
International +27 11 282-1699

Websites:

www.fnb.co.za
www.rmb.co.za
www.ebucks.com
www.wesbank.co.za

Company secretary:

BW Unser

Auditors:

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill
2157

Deloitte & Touche
The Woodlands
20 Woodlands Drive
Woodmead
2199

INSURANCE

Momentum produced excellent results driven by **strong new business inflows**, significant growth in assets under management and a focus on cost efficiencies

momentum

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

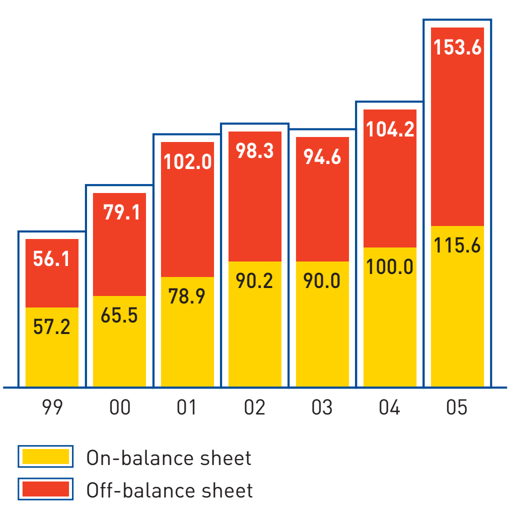
MOMENTUM GROUP
ANNUAL REPORT 2005

Contents

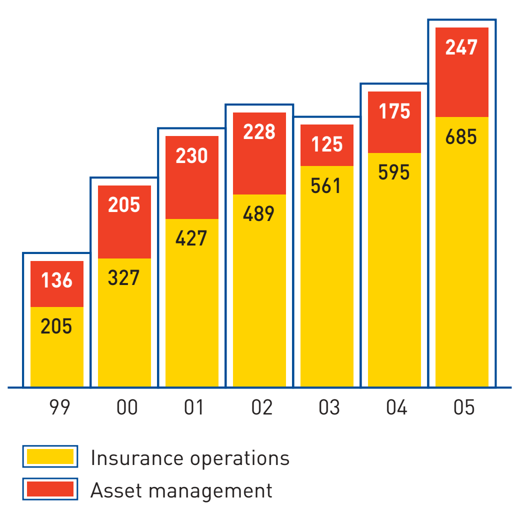
Financial highlights

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

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



Group operating profit growth
(R million)
CAGR: 18%



Seven-year review

	1999 Rm	2000 Rm	2001 Rm	2002 Rm	2003 Rm	2004 Rm	**2005 Rm**	Compound growth %
Group headline earnings								
Insurance operations	205	327	427	489	561	595	**685**	22
Asset management operations	136	205	230	228	125	175	**247**	10
Group operating profit after tax	341	532	657	717	686	770	**932**	18
Investment income on the shareholders' portfolio	226	170	171	190	261	311	**355**	8
Group headline earnings	567	702	828	907	947	1 081	**1 287**	15
Funds received from clients								
Individual life premium income	5 497	7 721	7 957	7 328	8 893	6 648	**6 688**	3
Single premiums	2 111	3 021	3 944	3 021	3 284	2 454	**2 253**	1
Institutional policies	598	1 874	1 021	1 255	2 323	602	**486**	(3)
Recurring premiums	2 788	2 826	2 992	3 052	3 286	3 592	**3 949**	6
Employee benefits premium income	2 807	2 800	3 991	4 297	4 621	4 552	**6 620**	15
Single premiums[1]	1 485	1 661	2 727	2 927	3 242	2 997	**5 023**	23
Recurring premiums	1 322	1 139	1 264	1 370	1 379	1 555	**1 597**	3
Linked product sales[2]	3 728	4 744	2 963	2 920	2 722	4 606	**6 642**	10
Unit trust sales	3 977	6 713	8 055	7 348	5 751	7 097	**11 553**	19
Segregated third party inflows[1]	15 570	10 612	7 233	10 665	4 897	10 268	**15 723**	–
Total funds received from clients	31 579	32 590	30 199	32 558	26 884	33 171	**47 226**	7
Net flow of funds	12 253	11 776	3 607	2 205	327	727	**3 562**	(19)
Group assets under management or administration								
Total assets per balance sheet	57 241	65 482	78 865	90 162	90 021	99 950	**115 611**	12
Off-balance sheet assets managed on behalf of clients	56 152	79 067	102 020	98 328	94 569	104 218	**153 609**	18
Total assets under management or administration	113 393	144 549	180 885	188 490	184 590	204 168	**269 220**	16
Exchange rates								
Rand/US$								
– closing	6.03	6.77	8.07	10.31	7.56	6.18	**6.68**	
– average	5.95	6.40	7.42	9.19	8.89	6.77	**6.19**	
Rand/GBP								
– closing	9.51	10.26	11.35	15.75	12.47	11.20	**11.97**	
– average	9.63	9.88	10.81	14.81	14.12	11.83	**11.50**	
US$ million								
Group headline earnings	95	110	112	99	107	160	**208**	14
Total funds received from clients	5 307	5 092	4 070	3 543	3 024	4 900	**7 629**	6
Net flow of funds	2 059	1 840	486	240	37	107	**575**	(19)
Total assets under management or administration	18 805	21 351	22 414	18 282	24 417	33 037	**40 302**	14
GBP million								
Group headline earnings	59	71	77	61	67	91	**112**	11
Total funds received from clients	3 279	3 299	2 794	2 198	1 904	2 804	**4 107**	4
Net flow of funds	1 272	1 192	334	149	23	61	**310**	(21)
Total assets under management or administration	11 924	14 089	15 937	11 968	14 803	18 229	**22 491**	11

1. Excludes transfers between on- and off-balance sheet business.
2. Includes sales of products on the life insurance balance sheet.

Board of directors and board committees of Momentum Group Limited

LL Dippenaar (56) *Executive*
MCom, CA (SA)
Chairman, Chief Executive Officer of FirstRand, Director of FirstRand Bank Holdings, Director of RMB Holdings, Chairman of Discovery Holdings

HP Meyer (47) *Executive*
BCom, FIA, AMP (Oxford)
Managing Director

DJ Botes (41) *Executive*
BCompt (Hons)
Chief Executive Officer: Middle Market Initiative

JP Burger (46) *Executive*
CA (SA)
Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

GT Ferreira (57) *Non-executive*
BCom (Hons), (B&A), MBA
Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

RB Gouws (62) *Non-executive*
BSc, FFA, FASSA, AMP (Oxford)
Chairman of the actuarial committee

PK Harris (55) *Non-executive*
MCom
Director of FirstRand, Chief Executive Officer of FirstRand Bank Holdings, Director of RMB Holdings

RJ Hutchison (58) *Non-executive*
BCom (Hons), (B&A), MBA

JD Krige (56) *Non-executive*
MCom, FIA, AMP (Harvard)

NB Langa-Royds (43) *Independent Non-executive*
BA (Law), LLB

PV Mjoli (43) *Independent Non-executive until 31 May 2005, executive from 1 June 2005*
MBA, MDP, BCompt (Hons), BCom

P Nzimande (38) *Independent Non-executive*
BProc LLB

Dr JJ Sieberhagen (46) *Executive*
BA Admission, Psychology (Honours), MA: Clinical Psychology, D Phil
Chief Executive Officer: Momentum Distribution Services

S Sithole (43) *Independent Non-executive*
BSc (Political Science) Lincoln University of Pennsylvania, MSc (Industrial Relations) University of London

FJC Truter (50) *Executive*
BCom (Hons), CA (SA), AMP (Oxford)
Director: Strategic Investments

LB van der Merwe (41) *Non-executive*
BCom

BJ van der Ross (58) *Non-executive*
Dip Law (UCT)
Director of FirstRand

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

LB van der Merwe – 1 July 2004
P Nzimande – 1 October 2004

Actuarial committee
RB Gouws (Chairman)
D Brown
S Jurisich
NAS Kruger
HP Meyer

Remuneration committee
RJ Hutchison (Chairman)
LL Dippenaar
NB Langa-Royds

Audit committee
BJ van der Ross (Chairman)
WFE Bragg
HP Meyer
JP Burger
PV Mjoli

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

BASIS OF PREPARATION

The attached annual financial statements relate to the insurance and asset management interests of the FirstRand Group of Companies, and should be read in conjunction with the FirstRand Group financial statements set out on pages 73 to 99.

In order to provide a better understanding of the results of the Momentum Group, these results have been provided on a segmental basis, where appropriate. The segments into which the Group has been divided are:

- Insurance Operations – Includes Momentum Life, the provider of life insurance, investment and retirement products to the upper income market, and Momentum International, the Group's local and international multi-manager and investment research house.
- Asset Management – The results of the asset management companies in the Group, comprising RMBAM, RMB Properties, 87% of Ashburton and 40% of Futuregrowth. These companies provide institutional as well as retail asset management products in South Africa and internationally.
- Investment income on shareholders' assets – The investment income on Momentum's shareholders' portfolio is disclosed separately.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of the Group, as this is the basis on which the Group's affairs are managed.

This report includes information relating to the off-balance sheet activities of the Group, as these are a significant contributor to profit as well as to the assets managed by the Group. Reconciliations between the figures presented in the Group annual financial statements, which represent only the on-balance sheet cash flows and assets of Momentum and its subsidiaries, and the figures presented in this report, which represent all on- and off-balance sheet cash flows and assets, have been provided where necessary.

ACCOUNTING POLICIES

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

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

OVERVIEW FOR THE YEAR

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

The following strategic acquisitions were concluded during the year:

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

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

- **Acquisition of Sage Holdings** – Momentum's acquisition of 100% of the issued shares of Sage Group Limited (Sage) was approved by the Sage shareholders on 2 August 2005. The acquisition was sanctioned by the High Court of South Africa on 16 August 2005, and approved by the Competition Authorities on 24 August 2005. The consideration payable in terms of the scheme is R634 million, or 175 cents per Sage share, comprising an initial payment of 142 cents per share and a subsequent potential maximum payment of 33 cents per share relating to an escrow account. As security for certain contingent taxation related liabilities, an amount of R120 million of the consideration is being held in an escrow account managed by Hofmeyr Herbstein & Gihwala Inc. The Sage acquisition increases Momentum's asset base by 8%, and adds a total of 590 agents to Momentum's current agency force;

- **Disposal of African Life and acquisition of African Life Health** – Momentum recently announced that it has agreed to dispose of its 34%-shareholding in Aflife to Sanlam. This is in line with Momentum's strategy to enter the lower and middle end of the market through the established FNB branch network, rather than through a traditional insurance distribution model. Momentum's separate offer to acquire a 100% shareholding in African Life Health (ALH), a medical schemes administrator, was accepted by Aflife. If Aflife's shareholders approve the Sanlam acquisition unchanged, the total consideration Momentum will receive, net of the acquisition price of ALH, is R696 million. Both of these transactions remain subject to regulatory approval; and
- **Capital raising** – Momentum has, subsequent to the year end, issued R500 million in perpetual preference shares to its holding company, FirstRand. This issue of shares, which was approved by the Financial Services Board (FSB), will enable Momentum to lower its weighted average cost of capital, and will ensure that Momentum is able to continue the policy of backing its statutory capital requirement with cash or near cash instruments, after allowing for the cash outflows arising from the above acquisitions.

OPERATING ENVIRONMENT

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

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

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

SEVEN-YEAR REVIEW

The seven-year review of key financial indicators is set out on page 226. The annual compound growth in group headline earnings totalled 15% over the last seven years, driven mainly by operating profit from insurance operations, which showed an annual compound growth of 22%. In US dollar and sterling terms, group headline earnings have increased annually by 14% and 11% respectively. Group assets under management or administration have shown consistent growth of 16% per annum.

GROUP OPERATING RESULTS

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

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

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

Earnings source

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

Insurance operations

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

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

Retail new business

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

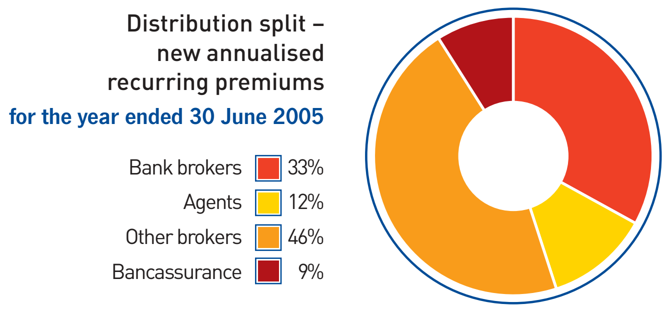
1. Linked investment products sold by Momentum International in the UK.

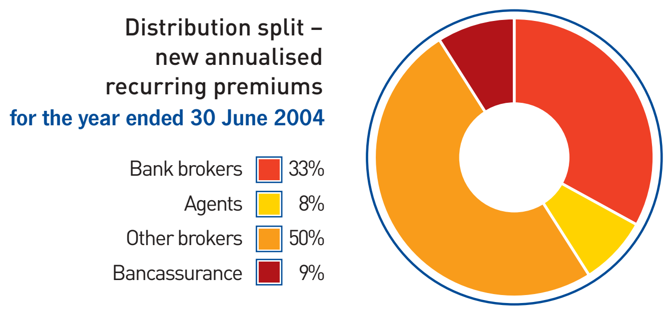
New individual life recurring premium business increased by an excellent 21%. This growth was driven by a number of factors, including:

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

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

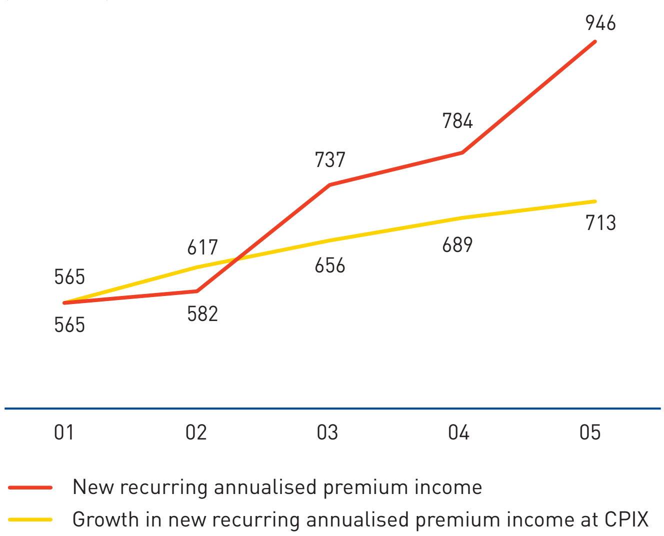
The following graphs provide a breakdown of the individual life new recurring business production by distribution channel:





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

New annualised individual life recurring premium growth
(R million)



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

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

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

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

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

ASSET MANAGEMENT OPERATIONS

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

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

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

Asset management operations – funds under management or administration

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

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

INVESTMENT INCOME ON SHAREHOLDERS' ASSETS

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

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

Shareholders' net assets

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

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

MARKETING AND ADMINISTRATION EXPENSES

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

Marketing and administration expenses

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

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

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

CAPITAL MANAGEMENT

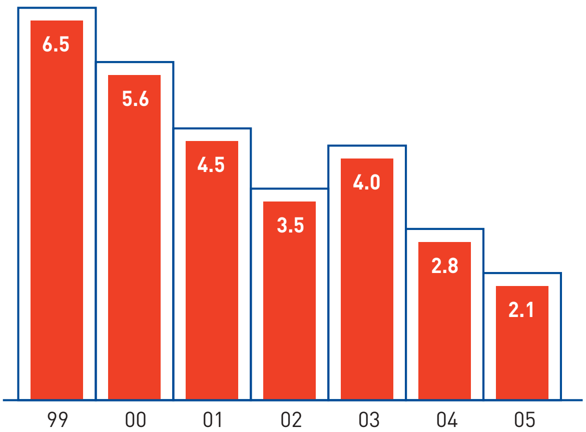
Momentum's capital management policy is to invest the capital backing the capital adequacy requirement (CAR) in cash or near cash instruments, and to invest the remaining capital in equities.

The headline return on equity (ROE) for the year amounted to 24.5%, compared with 24.3% in the previous year. This ROE is in excess of the internal FirstRand target, representing the weighted average cost of capital plus 10%, which currently equals 22.9%. The return on embedded value totalled 27.9% (2004: 16.6%).

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

The following graph illustrates how effective the capital management programme has been in reducing the CAR as percentage of liabilities to policyholders since 1999:

CAR as % of policyholder liabilities



Dividend policy

The FirstRand Group policy is that dividends be sourced from the Insurance and Banking groups in proportion to their contribution to the overall FirstRand Group earnings, based on a dividend cover of 2.5 times.

RESULTS OF THE EMBEDDED VALUE CALCULATION

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

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

Embedded value

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

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

Value of new business

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

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

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

Analysis of movement in embedded value

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

Details regarding the components of the experience assumption changes, the operating experience variations and the investment variations can be found in the embedded value report on page 287.

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

Embedded value profit

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

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

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

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

Economic assumptions

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

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

Allowance was made for the following taxes:

- future tax based on the four fund tax dispensation;
- Capital Gains Tax (CGT) at face value in the liability to policyholders under investment and insurance contracts; and
- Secondary Tax on Companies on future dividends ultimately payable to shareholders.

No allowance was made for CGT on strategic shareholders' assets as these are not held with the intention of ultimate disposal.

GROUP ASSETS UNDER MANAGEMENT OR ADMINISTRATION

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

Assets under management or administration

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

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

New business inflows

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

New business

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

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

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

Total funds received from clients

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

Funds received from clients

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

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

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

The following table provides a reconciliation between the total funds received from clients in the previous table, and the net premium income per note 3 to the annual financial statements.

R million	2005	2004
Total funds received from clients	47 226	33 171
Less: Off-balance sheet inflows	(31 563)	(20 281)
Linked product sales	(4 287)	(2 916)
Collective investments – local	(9 742)	(5 644)
Collective investments – international	(1 811)	(1 453)
Segregated third party inflows	(15 723)	(10 268)
Add: Transfers from off-balance sheet funds	2 452	452
Less: AC 133 adjustments[1]	(12 175)	(6 721)
Total premium income per financial statements	**5 940**	6 621

1. *Represents the premium income relating to investment contracts which is not recognised in the income statement.*

Payments to clients

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

Payments to clients

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

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

The following table provides a reconciliation between the total payments to clients in the previous table, and the policyholder benefits per note 5 to the annual financial statements.

R million	2005	2004
Total payments to clients	43 664	32 444
Less: Off-balance sheet payments	(26 959)	(19 906)
Linked products	(2 866)	(783)
Collective investments – local	(6 735)	(3 841)
Collective investments – international	(1 586)	(1 472)
Segregated third party funds	(15 772)	(13 810)
Add: Transfers to off-balance sheet funds	1 995	698
Less: AC 133 adjustments[1]	(10 413)	(6 579)
Total policyholder benefits per financial statements	8 287	6 657

1. *Represents the benefits paid relating to investment contracts which is not recognised in the income statement.*

Net flow of funds

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

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

Net flow of funds

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

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

ENTERPRISE RISK MANAGEMENT (ERM)

Risk management philosophy

The Momentum board embraces the principles of King II. The Momentum Group's philosophy on risk recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound business practice.

Approach to ERM

The Momentum Group operates a risk management framework, which is based on COSOs (Committee of Sponsoring Organisations of the Treadway Commission) enterprise risk management framework. The underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders. All entities face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value.

Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximised when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploys resources in pursuit of the entity's objectives.

ERM in the Momentum Group encompasses:

- **Aligning risk and strategy –** Management takes into account the subjective assessment of risk in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks;
- **Enhancing risk response decisions –** Enterprise risk management provides the rigour to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance;
- **Reducing operational surprises and losses –** Entities gain enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses;

- **Identifying and managing multiple and cross-enterprise risks** – Every enterprise faces a myriad of risks affecting different parts of the organisation, and ERM facilitates effective response to the interrelated impacts, and integrated responses to multiple risks;
- **Seizing opportunities** – By considering a full range of potential events, management is positioned to identify and proactively realise opportunities; and
- **Improving deployment of capital** – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management help management achieve the entity's performance and profitability targets and prevent loss of resources. Enterprise risk management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences.

Risk governance

The risk governance model is based on three lines of defence. This model distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance:

- The board approves the strategy for managing risk and is responsible for the Group's system of internal control. The Group chief executive has overall responsibility for the management of risks facing the Group and is supported in the management of these risks by management at the operating business units. Management and staff within each business have the primary responsibility for managing risk. They are required to take responsibility for the identification, assessment, management, monitoring and reporting of enterprise risks arising within their respective areas;
- The second line of defence is provided by the Group Chief Risk Officer, supported by the Group ERM function and other specialist in-house functions at company and subsidiary levels, who provide technical support and advice to operating management to assist them with the identification, assessment, management, monitoring and reporting of financial and non-financial risks. The risk function provides objective oversight and co-ordinates ERM activities in conjunction with other specialist risk-related functions. Group ERM is not, however, accountable for the day-to-day management of financial and non-financial risks; and
- The third line of defence is designed to provide independent objective assurance on the effectiveness of the management of enterprise risks across the Group. This is provided to the board through the Group internal audit function, the external auditors and the Group audit committee, supported by audit committees at subsidiaries.

An actuarial committee is also in operation at Momentum Group. The committee has been appointed by the board to ensure that the highly technical actuarial aspects specific to insurance companies are debated and reviewed independently.

The Momentum Group has an internal credit risk function that performs ongoing management of the credit portfolio, which in turn is overseen by the Momentum Group credit committee as well as the Momentum Group risk committee.

A formal ERM charter governs the risk management activities and sets out responsibilities in this regard. The charter has been approved by the Group risk committee.

MANAGEMENT OF SPECIFIC RISKS

Strategic business risks

The primary objective of strategic risk management is to optimise the Group's risk adjusted return on capital and embedded value. To ensure an optimal return, an organisation assumes an acceptable level of risk in conducting its operations. The role of risk management is to enhance the organisation's ability to manage these risks, not necessarily to avoid or eliminate them, and ensure that the overall risk profile remains acceptable. This may involve various risk responses or a combination thereof, namely acceptance, mitigation and/or avoidance of the risk.

Strategic business risks are classified in terms of external and internal risks.

- **External risks** include (but are not limited to) the following categories: regulatory environment, competitors, industry, alliance groups and HIV/AIDS; and
- **Internal risks** include (but are not limited to) the following categories: organisational structure, business portfolio, alignment, trademark/brand name, client service, intermediary service and product innovation.

These strategic business risks are managed by the various executive committees of the business units.

Operational risks

Operational risk is defined as "direct or indirect loss resulting from inadequate or failed internal processes, people or technology". Operational risks include (but are not limited to) the following categories:

- **Process/systems risk** – Automated systems are in the process of being implemented to monitor critical transactions and pro-actively flag potential high risks. These risks are then investigated and followed up by individuals in areas such as business operations, ERM and the forensic investigations department;
- **Information security** – The risk of a loss of confidentiality, integrity or availability of information. Security mechanisms have been implemented to safeguard the organisation against malicious code such as viruses and worms. Intrusion detection systems enable the monitoring of unauthorised activity on the network. No significant losses or service breaks due to information security breaches or deficiencies were experienced during the period under review;

- **Business continuity** – Appropriate business continuation measures have been implemented for key activities. Furthermore, disaster recovery plans are tested annually. The challenge for the Group's business continuity management programme is to maintain the effectiveness of plans amidst constant change of business profiles, system growth and changes, as well as the occasional physical transfer of units to new or alternative sites;
- **Compliance risk** – The risk of non-compliance with statutory requirements including regulations imposed by the FSB. Compliance risk is managed by business unit managers, using compliance officers in the business units, through a combination of training, monitoring and service activities to provide assurance that the various regulations are identified, understood and effectively managed;
- **Legal risk** – There are various legal risks applying to the business including the risk embedded in the contractual arrangements with clients and counterparties, employment, corporate matters and such like. Legal advisors are employed in the business units to assist with the management of the legal risk;
- **Underwriting risk** – The risk that the actual mortality and morbidity will vary from the best estimates of the statutory actuary. The statutory actuary performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality risks above a set retention limit as well as certain non-standard risks are reinsured. All individual applications for mortality or morbidity cover are evaluated against standard underwriting criteria, and are accompanied by compulsory HIV testing. In the case of group cover, certain underwriting concessions apply to reflect the reduced uncertainty when dealing with large groups. With regards to the costing of new risk business, Momentum also receives guidance from its reinsurance partners. It uses a panel of treaty partners in this regard. With respect to underwriting standards, Momentum asks its reinsurance partners to perform independent audits on the Momentum underwriting function on an annual basis; and
- **Fraud risk** – One of the main operational risks to which the Group is exposed, relates to fraud and theft. Group forensic services provide fraud prevention, detection and investigation services to support business unit management in meeting their objectives of minimising fraud risk. The team comprises three full-time investigators, who liaise closely with client service staff to identify fraudulent policyholder claims relating to risk products and fraudulent payment transactions on investment products. Proactive training of client service staff takes place to ensure that fraudulent claims and payments are identified and investigated timeously. The forensic investigation team also advises on improvements to internal control systems.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, irrespective of whether those changes were caused by circumstances particular to the Group itself, or to the investment market in general.

One of the main focus areas within the Group is to maximise returns for policyholders by investment asset selection based on strategic asset allocation. Where specific contractual guarantees have been provided to policyholders, these are protected against market fluctuations by investing in assets matching the liability profile.

- **Currency risk** – Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The majority of currency exposure within the Group results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The majority of these assets are backing linked policyholders' liabilities, in other words the full currency risk is passed to the policyholder;
- **Interest rate risk** – Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The most significant concentration of interest rate risk in the Group resides with the immediate annuity portfolios, where guaranteed annuities are provided to an annuitant. These guaranteed annuities are matched with an appropriate asset profile, with the overall liability profile being matched on a weekly basis to minimise the interest rate mismatching risk. Use is made of the interest rate hedging expertise of Rand Merchant Bank and Futuregrowth to manage the interest rate and cash flow matching of the annuity portfolio.
- **Liquidity risk** – Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts. All policyholder funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the policy contract. The majority of assets invested in are listed financial instruments that are actively traded on the various securities and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice;
- **Credit risk** – Credit risk refers to the risk of loss arising from the obligor's or issuer's inability to service its debt obligations.

Momentum Group invests in a diversified pool of debt securities and closely monitors the risk of default arising from an obligor's or issuer's inability to service its debt obligations. These assets are carried at fair values based upon current market prices that are closely aligned to the nature and term of the debt security. Momentum Group manages its portfolio credit risk using a multidimensional approach. Initially the creditworthiness of the Company is assessed in accordance with our risk acceptance criteria. Pricing and provisioning is determined using the counterparty's "expected default frequency" and "recovery rate" in the event of default. In order to achieve appropriate diversification, limits are scrutinised at industry sector level, the number of single obligor exposures within rating categories, and the weighted average rating of the portfolio. All counterparties are assigned a "rating" using a conservative internal rating model.

The credit portfolio is made up of 150 counterparties, which is spread across 24 different industry sectors.

CONCLUDING REMARKS

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

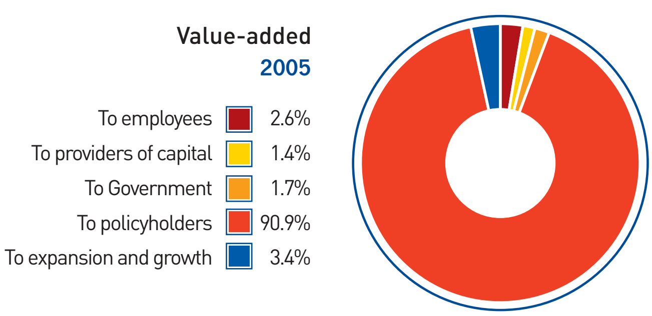
The Group is currently embarking on a number of strategic initiatives to drive organic growth, including a joint venture with FNB to penetrate the middle market, and the growth of the agency force through the Sage acquisition.

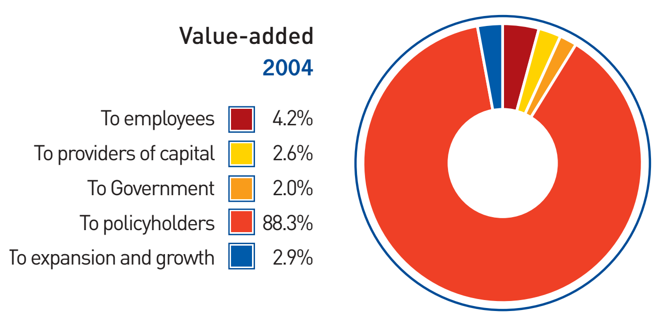
AP Naidu
Chief Financial Officer
Momentum Group

19 September 2005

Value-added statement for the year ended 30 June

	2005 R million	2005 %	2004 R million	2004 %
Value-added				
Premium income on insurance contracts	5 940		6 621	
Premium income on investment contracts	12 175		6 721	
Fees for asset manager services rendered	1 491		1 280	
Investment and other operating income	19 909		8 704	
Commissions paid to agents and brokers	(1 046)		(876)	
Payments to suppliers of material and services	(656)		(509)	
Value-added by insurance and asset management services	37 813		21 941	
To employees				
Salaries, wages and other benefits	969	2.6	916	4.2
To providers of capital				
Dividends paid to shareholders	542	1.4	573	2.6
To Government	645	1.7	439	2.0
Normal taxation	155		140	
Value-added tax	130		115	
Retirement fund taxation	72		93	
Capital gains tax	270		72	
Other	18		19	
To policyholders				
Policyholder claims and benefits	34 359	90.9	19 372	88.3
Insurance contracts	8 287		6 657	
Investment contracts	10 413		6 579	
Adjustment to liabilities under investment and insurance contracts	15 659		6 136	
To expansion and growth	1 298	3.4	641	2.9
Retained income	816		492	
Depreciation	50		57	
Deferred taxation	432		92	
	37 813	100.0	21 941	100.0





Directors' responsibility statement

The directors of Momentum Group Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of Momentum Group Limited and its subsidiary and associated companies (Momentum Group) at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed, suitable accounting policies have been applied and reasonable estimates have been made. The board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Group's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 242.

The directors have reviewed the Momentum Group's budget and cash flows for the year to 30 June 2006. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the Momentum Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The financial statements for the year ended 30 June 2005, which appear on pages 243 to 286, have been approved by the board of directors and are signed on its behalf by:

LL Dippenaar
Chairman

HP Meyer
Managing Director

Sandton
19 September 2005

Report of the independent auditors

TO THE DIRECTORS OF FIRSTRAND LIMITED

We have audited the annual financial statements of Momentum Group Limited and its subsidiary and associate companies (Momentum Group), set out on pages 243 to 286 for the year ended 30 June 2005. These financial statements are the responsibility of the directors of Momentum Group Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Momentum Group at 30 June 2005, and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and the Companies Act.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
19 September 2005

Statement of actuarial values of assets and liabilities as at 30 June

R million	Notes	2005	2004 Pro forma	2004 Published
Total assets	2	**111 110**	96 309	96 624
Assets as per company balance sheet		**111 890**	96 827	96 827
Adjustment for prudential regulatory purposes		**(780)**	(518)	(203)
Total liabilities	4	**106 600**	92 329	91 928
Actuarial value of policyholder liabilities as per the financial soundness method		**96 698**	81 604	81 604
Adjustment for prudential regulatory purposes		**565**	401	–
Current and other liabilities as per company balance sheet		**9 337**	10 324	10 324
Surplus	5	**4 510**	3 980	4 696
Capital adequacy requirement	6	**2 041**	1 979	2 245
Ratio of surplus to capital adequacy requirement		**2.2**	2.0	2.1

Note: The pro forma numbers reflect the prudential regulatory adjustments on a basis that is consistent with the values as at 30 June 2005.

CERTIFICATION OF FINANCIAL POSITION

I hereby certify that:

- the valuation of Momentum Group Limited as at 30 June 2005, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Notes;
- the statutory actuary's report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note PGN103 and, read together with the annual financial statements, fairly presents the financial position of the Company; and
- the Company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

NAS Kruger
BCom FFA FASSA
Statutory Actuary of Momentum Group Limited

Centurion
19 September 2005

Notes to the statement of actuarial values of assets and liabilities

for the year ended 30 June

1. INTRODUCTION

This statement of actuarial values of assets and liabilities provides a description of the actuarial valuation methods and assumptions used for the financial soundness valuation of Momentum Group Limited ("Momentum").

2. VALUE OF ASSETS

The value of assets represents the assets per the Company balance sheet of Momentum, adjusted for the prudential regulatory requirements of the Financial Services Board (FSB) in respect of subsidiaries and associate companies.

3. VALUATION ASSUMPTIONS

This section describes the best-estimate valuation assumptions used for purposes of the financial soundness valuation of the policyholder liabilities. The compulsory margins set out in the professional guidance note PGN104 of the Actuarial Society of South Africa, as well as certain discretionary second-tier margins described below, were added to the best-estimate assumptions for purposes of the liability valuation.

Investment return

The investment return assumption of 9.5% per annum before tax (2004: 11,5% per annum) was derived from the yields on South African Government stocks as at 30 June 2005 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return, by adding the following premiums/(discounts) to the gilt yield of 8.4% per annum (2004: 10.5% per annum) derived as described above:

	% premium/(discount)	
	2005	2004
Equities	**2.0**	2.0
Properties	**1.0**	1.0
Government bonds	**0.0**	0.0
Other fixed interest bonds	**0.5**	0.5
Cash	**(2.0)**	(2.0)

Discretionary bonuses

Future additions of bonuses to with-profit policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and taxation.

Expense inflation rate

The assumed future expense inflation assumption of 6.0% per annum (2004: 7.5% per annum) was determined based on an assumed long-term differential of 3.5% per annum (2004: 4.0% per annum) relative to the assumed future investment return assumption of 9.5% per annum. The differential (real rate of interest at which future renewal expenses are discounted) was reduced from 4.0% per annum to 3.5% per annum as a result of the reduction in real interest rates over the recent past.

Expenses

The maintenance expense assumptions were based on the results of internal expense investigations that covered the financial year ended 30 June 2005. The expense assumptions are at a level sufficient to support the existing business on a going concern basis. Corporate action (mergers or acquisitions) after the valuation date has not explicitly been taken into account in setting the future maintenance expense assumptions at 30 June 2005.

Mortality, morbidity and discontinuance rates

The assumptions used regarding future mortality, morbidity and discontinuance rates were consistent with the results of recent internal experience investigations, adjusted for anticipated changes in experience where appropriate. The mortality and morbidity investigations covered the period 1998 to 2003, whereas the investigation into discontinuance rates covered the period 2000 to 2004. The impact of the assumption changes following the investigations is shown later in the report.

Allowance was made for the expected impact of AIDS using models developed by the Actuarial Society of South Africa, adjusted for Momentum's practice and policy design.

Second-tier margins

Momentum holds second-tier margins where the prescribed margins do not constitute sufficiently prudent allowance for possible adverse experience, and to recognise profits in line with product design and company practice. The main second-tier margins allowed for in the valuation are as follows:

- Additional bonus stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing smoothed-bonus liabilities. These bonus stabilisation reserves are in addition to the policyholder bonus stabilisation reserves described later, and are not earmarked for distribution to policyholders in the normal course of events;
- Investment stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing fixed liabilities;
- For the closed Lifegro portfolio, appropriate reserves are held to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take-over agreement;
- The cost-of-capital charges levied against smoothed-bonus portfolios are not capitalised, but are recognised as and when they are levied;
- Experience stabilisation reserves are held to serve as a buffer against fluctuations in demographic experience; and
- Reserves are created on structured transactions to recognise profits appropriately over the term of the transactions.

Tax

Allowance was made for future tax based on the four fund tax dispensation and for capital gains tax on policyholders' funds at full face value.

4. LIABILITY VALUATION METHODOLOGY

The actuarial valuation of the policy liabilities was determined using the financial soundness valuation method in accordance with the guidelines of the Actuarial Society of South Africa. For prudential regulatory purposes, a further adjustment was made to eliminate negative liabilities in respect of certain classes of policies. Assets and policy liabilities have been valued using methods and assumptions that are consistent with each other.

The result of the valuation methodology and assumptions is that profits are released appropriately over the term of each policy to avoid the premature recognition of profits that may give rise to losses in future years.

Guarantees and potential losses

Liabilities include provisions to meet maturity, mortality and disability guarantees and to meet losses in respect of expected lapses and surrenders. A separate reserve is held for minimum investment guarantees on maturity, and it is calculated using stochastic modelling techniques in accordance with professional guidance note PGN110 of the Actuarial Society of South Africa.

Individual smoothed-bonus and market-related business

Liabilities for individual smoothed-bonus and market-related business are set equal to the policies' fund accounts plus the difference between the present value of projected future risk benefits and maintenance expenses and the present value of projected future risk premiums and other charges. Allowance is made for future growth in fund accounts at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and taxation.

Policyholder bonus stabilisation reserves

Smoothed bonus liabilities are adjusted by policyholder bonus stabilisation reserves. The policyholder bonus stabilisation reserves for the closed Lifegro portfolio and Southern pre-84 segregated portfolio are set equal to the policyholders' full future entitlement to the assets in these portfolios. The policyholder bonus stabilisation reserves of the remaining smoothed-bonus portfolios consist of accrued investment surpluses/(shortfalls) in these portfolios. All the policyholder bonus stabilisation reserves were positive as at 30 June 2005.

Individual and group linked business

Liabilities for linked business are set equal to the fair value of the underlying assets.

Immediate annuities and pensioner outsourcing business

Liabilities for immediate annuities and pensioner outsourcing business are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at 30 June 2005.

Group risk business

The liabilities for Permanent Health Insurance (and other annuity type) claimants and funeral paid-up benefits are calculated using a prospective cash flow method. Other group risk liabilities are valued using appropriate percentages of premiums derived from past claims run-off patterns.

Guaranteed endowments

The liabilities of endowments with guaranteed maturity values are calculated as the present value of the maturity values and future maintenance expenses using the yields to maturity implied by the fair value of the underlying matching assets adjusted to allow for tax.

Conventional policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums. It is assumed that the current bonus rates would be maintained in future.

Negative liabilities

Negative liabilities in respect of whole-life policies were eliminated for prudential regulatory purposes.

5. RECONCILIATION OF SURPLUS

The change in Momentum's surplus for the year ended 30 June 2005 can be analysed as follows:

R million	2005	2004
Surplus at the beginning of the year	4 696	4 032
Adjustment to value of subsidiaries as per FSB requirements	(315)	–
Elimination of negative liabilities for regulatory purposes	(401)	–
Surplus at the beginning of the year after adjustments	3 980	4 032
Surplus at the end of the year	4 510	4 696
Increase in surplus over the year	530	664

The increase in surplus is due to the following factors:

R million	Note	2005	2004
Operating profit (after tax)		929	767
Investment income on surplus assets (after tax)	5.1	355	311
Reconciling item to attributable earnings	5.2	71	91
Attributable earnings (after tax)		1 355	1 169
Capital appreciation on surplus assets	5.3	(145)	62
Changes in valuation assumptions	5.4	26	6
Elimination of negative liabilities for regulatory purposes	5.5	(164)	–
Dividends		(542)	(573)
Total change in surplus		530	664

Notes 5.1 to 5.5 relate to the year ended 30 June 2005.

5.1 Investment income on the surplus assets comprises interest, dividends and net rental income, after provision for taxation.

5.2 The reconciling item to attributable earnings arose from a profit on sale of "available-for-sale" assets.

5.3 Capital appreciation on surplus includes unrealised capital appreciation. It also includes a negative change of R262 million in the adjustment of subsidiaries for prudential regulatory purposes.

Notes to the statement of actuarial values of assets and liabilities

for the year ended 30 June | Continued |

5.4 Overall, the changes in the valuation basis increased the surplus by R26 million. The changes in basis consisted of the following items:

- The reallocation of future maintenance expenses between the main product lines resulted in a reduction in the expense reserve and an increase in surplus of R128 million. The bulk of the reduction is attributable to a lower expense assumption in respect of annuities;
- An additional liability of R100 million was raised to allow for intended improvements to early termination and premium cessation benefits during the next financial year;
- The termination assumptions of policies were revised following the results of an internal investigation, resulting in a decrease of R44 million in the surplus;
- The combined impact of changes in the economic assumptions (interest rates and expense inflation) decreased the surplus by R85 million;
- Policyholder tax liabilities were reduced by R125 million, resulting in an increase in surplus;
- The impact of economic and other basis changes on Momentum Collective Benefits' business resulted in a reduction in surplus of R10 million; and
- The combined impact of miscellaneous items and changes in methodology increased the surplus by R12 million.

The combined impact of the aforementioned changes in the valuation basis is summarised below:

R million	
Future maintenance expenses	128
Improvements in termination and premium cessation values	(100)
Termination assumptions	(44)
Change in economic assumptions	(85)
Change in policyholder tax liabilities	125
Changes in respect of Momentum Collective Benefits	(10)
Miscellaneous items and methodology changes	12
Total	**26**

5.5 The total amount of the eliminated negative liabilities as at 30 June 2005 amounted to R565 million, which consisted of R401 million as at 30 June 2004 (pro forma), plus a net increase of R164 million mainly attributable to new risk business written during the year.

6. CAPITAL ADEQUACY REQUIREMENTS

Capital adequacy requirements are necessary to provide a cushion against the impact of possible adverse deviations in actual future experience from that assumed in the financial soundness valuation. The capital adequacy requirements, which were determined in accordance with the professional guidance note PGN104 of the Actuarial Society of South Africa, were calculated as R2 041 million (30 June 2004 pro forma: R1 979 million). The surplus is sufficient to cover the capital adequacy requirements 2.2 times (30 June 2004 pro forma: 2.0 times).

The ordinary capital adequacy requirements (OCAR) exceeded the termination capital adequacy requirements (TCAR) and thus the capital adequacy requirements have been based on the OCAR.

For purposes of grossing up the intermediate ordinary capital adequacy requirements (IOCAR) to determine the OCAR, it was assumed that all assets backing the capital adequacy requirements are invested in cash, near-cash or variable rate preference shares.

In accordance with professional guidance note PGN110 of the Actuarial Society of South Africa, allowance has also been made in the capital adequacy requirement for the potential detrimental impact of minimum investment guarantees on smoothed-bonus and market-related individual life policies.

The main contributor to the capital adequacy requirements is the investment resilience component. In determining the investment resilience capital adequacy requirements, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed-interest securities commensurate with a 3% increase in fixed-interest yields would occur immediately. Where an assumed decrease of 3% in fixed interest yields resulted in an increase in CAR, the increase has been taken into account.

In determining the capital adequacy requirements, allowance was made for the anticipated management action that will reduce the financial impact of the assumed adverse circumstances. The most important management actions assumed were the following:

- Bonus rates on smoothed-bonus policies would be reduced by 2% per annum below the investment return net of tax and charges on the relevant portfolios over the ensuing three years, to counteract the effect of the decline in market values mentioned above; and
- The capital adequacy requirements reflect the release of certain second-tier margins as a buffer against the potential impact of the adverse scenarios envisaged.

The impact of the above management actions on CAR is shown below:

R million	2005	pro forma 2004	2004
CAR before management action	**2 896**	3 655	3 655
Impact of management action:	**(855)**	(1 676)	(1 676)
Reduction in future bonuses	**(255)**	(576)	(576)
Offsetting second-tier margins	**(600)**	(1 100)	(1 100)
CAR after management action	**2 041**	1 979	1 979
Pro rata share of CAR of African Life	**–**	–	266
CAR	**2 041**	1 979	2 245

The Momentum Group Limited board has approved the management actions assumed in the CAR calculation, and I am satisfied that these actions would be taken if the adverse scenarios were to materialise.

Group accounting policies

INTRODUCTION

The audited financial statements of the Momentum Group comprise the operating results and financial position of the insurance interests of FirstRand, and should be read in conjunction with the financial statements of FirstRand.

The Momentum Group adopts the following accounting policies in preparing its consolidated financial statements.

1. Basis of presentation

The Momentum Group prepares its audited consolidated financial statements on a going concern basis using the historical cost basis, except for:

- Financial assets classified as available-for-sale and valued at fair value;
- Derivative financial instruments valued at fair value;
- Financial assets and liabilities elected to be carried at fair value;
- Investment properties valued at fair value; and
- Policyholder liabilities under insurance contracts which are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa.

Financial assets and liabilities classified as originated loans are carried at amortised cost.

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

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. Where necessary and permitted, the Momentum Group adjusts comparative figures for changes in accounting policies.

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

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Momentum Group, directly or indirectly, has a long-term interest and the power to exercise control over the operations for its own benefit, and which it does not intend to dispose of within a short-term (12 months). The Momentum Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

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

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

3. Associated companies

Associated companies are companies in which the Momentum Group holds a long-term equity interest of between 20% and 50%, and over which it has the ability to exercise significant influence, but does not control, and which it does not intend to dispose of within a short-term (12 months).

The Momentum Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective dates of acquisition to the effective dates of disposal. The Momentum Group eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Momentum Group's share of earnings of associated companies. The Momentum Group's reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Momentum Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any unimpaired goodwill at the reporting date. Negative goodwill is taken to income in the year of acquisition.

The Momentum Group discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking. The Momentum Group increases the carrying amount of investments with its share of the associate's income when equity accounting is resumed.

4. Financial instruments

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associated companies, policy loans, property and equipment, deferred taxation, taxation payable, intangible assets, investment properties and policyholder liabilities under insurance contracts.

The Momentum Group classifies all investments held to meet policyholder liabilities, with the exception of policy loans and certain held-to-maturity preference shares, as held at fair value.

These investments are initially recognised at cost, including transaction cost, and subsequently valued at fair value, with fair value movements reflected in the income statement. Policy loans are carried at amortised cost. Investments in the shareholders' portfolio, with the exception of loans to the share trusts and certain held-to-maturity preference shares, are classified as available-for-sale assets with changes in fair value recognised directly in equity. When these assets are sold, the realised profit is reflected in the income statement, but it is excluded from headline earnings. The loans to the share trusts are classified as originated loans and are carried at amortised cost.

Listed equity investments and unit trust investments are carried at fair value using quoted market and repurchase prices respectively. Unlisted investments are carried at fair value using directors' valuations, based on accepted valuation methodologies. These methodologies include percentage of assets under management and price to earnings ratios.

The Momentum Group classifies all policyholder contracts that transfer significant insurance risk as insurance contracts. Significant insurance risk exists if there is a plausible scenario in which an event affecting the policyholder or other beneficiary will cause a significant change in the present value of the Momentum Group's net cash flows arising from that contract. Insurance risk is insignificant if the occurrence of the insured event would require the insurer to make a payment of a trivial amount. These contracts are valued in terms of the FSV basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts". Reserves and capital requirements in respect of guaranteed minimum benefits payable at maturity of policy contracts on the books of Momentum have been determined using a stochastic investment return model, as per PGN110 issued by the Actuarial Society of South Africa.

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. These contracts are disclosed on the balance sheet as "Policyholder liabilities under investment contracts". The premium income and benefit payments relating to these investment contracts have been excluded from the income statement and accounted for directly against the liability. The fair value adjustment to investment contracts and the fees earned from these products have been disclosed separately in the income statement.

The Momentum Group treats derivatives embedded in other financial instruments as separate derivatives when:

- Their risks and characteristics are not closely related to those of the host contract; and
- The host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

5. Revenue and expense recognition

5.1 Premium income

The Momentum Group reflects premium income relating to insurance business net of reinsurance premiums. Premiums on investment contracts are excluded from the income statement.

All individual life and employee benefits premiums are accounted for when they become due and payable.

5.2 Investment income

Investment income comprises interest, dividends and net rental income.

The Momentum Group recognises dividends on the "last day to trade" for listed shares, and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest and other investment income are accounted for on an accrual basis.

5.3 Fees for asset manager services rendered

The Momentum Group recognises fees for asset manager services rendered on an accrual basis when the service is rendered.

5.4 Policyholder benefits

The Momentum Group shows policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

5.5 Life insurance operating profits

The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104.

The operating surpluses arising from life insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the policyholder liabilities.

Gains or losses arising from the fair valuation of shareholders' assets designated as "available-for-sale" are accounted for directly to equity.

5.6 Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

5.7 Administration expenses

Administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

6. Foreign currency translation

6.1 General

The Momentum Group presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Momentum Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

6.2 Independent entities

Assets and liabilities of foreign subsidiary companies regarded as independent entities are translated to South African Rand at rates of exchange ruling at year end. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

6.3 Integral operations

Non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Momentum Group's operations, are translated into South African Rand at historical rates, with monetary assets and liabilities translated at rates of exchange ruling at year end. Resultant gains and losses are recognised in the income statement.

6.4 Other

For both independent entities and integral operations, the Momentum Group translates capital and reserves at historical rates. Income statement items are translated at the weighted average rate for the year.

The Momentum Group converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary financial assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

7. Borrowing costs

The Momentum Group capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed as incurred.

8. Direct and indirect taxation

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

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

Indirect taxes are disclosed separately from direct tax in the income statement.

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

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

9. Recognition of assets, liabilities and provisions

9.1 Assets

The Momentum Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets

The Momentum Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Momentum Group's control.

9.3 Liabilities and provisions

The Momentum Group recognises liabilities, including provisions when:

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

The Momentum Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

9.4 Contingent liabilities

The Momentum Group recognises a contingent liability where:

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

10. Derecognition of assets and liabilities

The Momentum Group derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. Offsetting financial instruments

The Momentum Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- There is a legally enforceable right to set-off;
- There is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- The maturity date for the financial asset and liability is the same; and
- The financial asset and liability are denominated in the same currency.

12. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

- Cash on hand;
- Money at call and short notice; and
- Balances with banks.

13. Impairments

The Momentum Group reviews property and equipment, goodwill and intangible assets for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

14. Property and equipment

The Momentum Group carries property and equipment at cost less accumulated depreciation.

It depreciates property and equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	50 years
Freehold property	50 years
Computer equipment	3 years
Furniture and fittings	3 years
Motor vehicles	5 years
Office equipment	3 years

The Momentum Group impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and is recorded as income on disposal.

15. Investment properties

The Momentum Group classifies investment properties as properties held to earn rental income and/or for capital appreciation. It carries investment properties at fair value based on valuations by professional valuators. Valuations are carried out annually. Fair value movements are taken to the income statement in the year in which they arise. When investment properties become owner occupied, the Momentum Group reclassifies it to property and equipment and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

The Momentum Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

16. Accounting for leases – where a group company is the lessee

The Momentum Group classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. The Momentum Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar owned fixed assets.

The Momentum Group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

The Momentum Group recognises an expense, in the period in which termination takes place, any penalty payment to the lessor for early termination of an operating lease.

17. Accounting for leases – where a group company is the lessor

17.1 Finance leases

The Momentum Group recognises under debentures and other loans, assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

17.2 Operating leases

The Momentum Group includes properties leased out under operating leases under investment properties in the balance sheet. It does not depreciate these investment properties. Rental income is recognised when due in terms of the lease contract.

18. Intangible assets

18.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Momentum Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on associated companies is included in the carrying value of the associated company.

The Momentum Group discontinued the amortisation of goodwill with effect from 1 July 2004. An impairment test was performed on the carrying value of goodwill on 1 July 2004. Any adjustments to the carrying amount of goodwill were made against retained income. The comparative financial information includes an amortisation charge for goodwill.

An annual impairment test is performed on goodwill and any impairment calculated is expensed to the income statement. For impairment purposes goodwill is allocated to the lowest components of the business that are expected to benefit from synergies of the combination and at which management monitor goodwill ("cash generating unit"). Each cash generating unit ("CGU") represents a grouping of assets no higher than a primary business or reporting segment as contemplated in note 23 below.

Impairment testing procedures

The recoverable amount of each CGU is determined on the basis of a value in use calculation, unless the fair value less cost to sell is readily obtainable for a CGU.

Future expected cash flows:

- The first impairment test on 1 July 2004 was based on the budgeted number for the year ended 30 June 2005;
- Subsequent test will be based on the budgeted numbers for the financial year ahead;
- The budgeted profit before tax number will be used as a starting point, adjusted for non-cash items;
- For the years thereafter the numbers will be extrapolated for two years based on growth rates determined by the relevant CGU management;
- Where a growth rate other than a steady or declining rate is used, the relevant CGU management needs to justify this rate; and
- Cash flows after this initial three-year period will be extrapolated, using a growth rate within the Government's target inflation rate;

Discount rate

The discount rate used to discount future expected cash flows would be the relevant pre-tax weighted average cost of capital ("WACC") for the appropriate geographical segments where the respective CGUs operate e.g. South Africa, Africa or International.

Accounting treatment

The Momentum Group compares the recoverable amount of the larger cash-generating unit to its carrying amount (including the carrying amount of allocated goodwill) and recognises any impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit on a *pro rata* basis based on the carrying amount of each asset in the unit.

In allocating an impairment loss as mentioned above, the carrying amount of an asset cannot be reduced below the highest of:

- its net selling price (if determinable);
- its value in use (if determinable); and
- zero.

Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Momentum Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

18.2 Computer software development costs

The Momentum Group generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Momentum Group exceeding the costs incurred for more than one accounting period, the Momentum Group capitalises such costs and recognises them as an intangible asset.

The Momentum Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on an annual basis. Carrying value is written down to the estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

18.3 Other intangible assets

The Momentum Group does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts. It charges costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

However, the Momentum Group capitalises material acquired trademarks, concessions, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

The Momentum Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairment. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value on an annual basis. Carrying value is written down to an estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

19. Deferred taxation

The Momentum Group calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Momentum Group recognises deferred tax assets if the directors of Momentum Group Limited consider it probable that future taxable income will be available against which the unused tax losses can be used.

Temporary differences arise primarily from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and other post-retirement benefits and tax losses carried forward.

20. Employee benefits

20.1 Post-employment benefits

The Momentum Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Momentum Group companies, taking account of the recommendations of independent actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Momentum Group employees. Actuaries perform annual valuations.

The Momentum Group expenses service costs immediately, while it expenses past service costs, experience adjustments, and plan amendments over the expected remaining working lives of employees. Actuarial gains and losses are expensed on the basis set out in note 20.5 below. The costs are written off immediately in the case of retired employees.

20.2 Post-retirement medical benefits

In terms of certain employment contracts, the Momentum Group provides for post-retirement health care benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. AC 116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Momentum Group recognises all expenses for post-retirement medical benefits, as well as all investment income of the Fund, in the income statement.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Actuaries perform annual valuations.

20.3 Termination benefits

The Momentum Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

20.4 Leave pay provision

The Momentum Group recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. A portion of the actuarial gains or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

The Momentum Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

20.6 Pension fund surplus

The Momentum Group converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1995. At that point, an actuarial surplus was converted into a realised surplus. It recognises all income and expenditure with regard to the pension fund surplus in the income statement.

The South African Government promulgated new pension fund legislation with effect from December 2001 which, *inter alia,* sets out laws for the fair division of pension fund surpluses. There was no surplus available for distribution as at the effective date of this legislation.

21. Share capital

21.1 Share issue costs

Costs directly related to the issue of new shares or options are shown as a deduction from equity.

21.2 Dividends paid

Dividends on ordinary shares are recognised against equity in the previous period approved by the Company's shareholder. Dividends declared after the balance sheet date are not recognised but disclosed as a post-balance sheet event.

22. Related party transactions

All related party transactions are at arm's length and conducted in the ordinary course of business.

In accordance with the requirements of AC 126 – Related party disclosure, transactions with related parties of the Momentum Group that eliminate on consolidation are not disclosed.

23. Segment reporting

The Momentum Group defines a segment as a distinguishable component or business that provides either:

- Unique products or services ("business segment"); or
- Products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10 per cent or more of the aggregate of all the segments, are reported separately.

24. Fiduciary activities

The Momentum Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

25. Scrip lending

The Momentum Group enters into scrip lending transactions, which are subject to repurchase agreements, and as such the loan agreement is recorded at the same value as the underlying asset and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Group's accounting policy relating to equities, as set out under investments above.

The Momentum Group accounts for dividends received on scrip out on loan as well as fees received for scrip lending transactions as investment income in the income statement.

Income statement for the year ended 30 June

R million	Notes	2005	2004
Group operating profit after tax		**932**	739
Revenue	2	**7 431**	7 901
Net premium income	3	**5 940**	6 621
Fees for asset manager services rendered		**1 491**	1 280
Investment income attributable to policyholders	4	**4 924**	5 045
Policyholder benefits	5	**(8 287)**	(6 657)
Administration expenses	6	**(1 675)**	(1 482)
Commissions		**(1 046)**	(876)
Fair value adjustment to policyholder liabilities under investment contracts		**(7 795)**	(3 137)
Realised and unrealised investment surpluses		**14 768**	3 371
Direct taxation	8	**(893)**	(362)
Indirect taxation	8	**(146)**	(134)
Transfer to policyholder liabilities under insurance contracts	21	**(6 102)**	(2 857)
Earnings attributable to outside shareholders		**(247)**	(73)
Income on the shareholders' portfolio		**426**	326
Investment income attributable to shareholders	4	**393**	346
Profit on sale of available-for-sale assets		**71**	15
Taxation on investment income	8	**(38)**	(35)
Earnings attributable to ordinary shareholders	7, 9	**1 358**	1 065

Balance sheet as at 30 June

R million	Notes	2005	2004
Assets			
Cash and cash equivalents		13 014	14 495
Government and public authority stocks		14 592	12 941
– available-for-sale		91	497
– at elected fair value		14 501	12 444
Debentures and other loans		8 906	8 481
– available-for-sale		565	523
– at elected fair value		8 341	7 958
Policy loans		530	554
Equity investments	10	54 785	41 599
– held-to-maturity		824	749
– available-for-sale		703	1 313
– at elected fair value		53 258	39 537
Derivative assets – held for trading	25	11 975	11 070
Investments in associated companies	11	978	605
Investment properties	12	4 159	3 648
Investment assets		108 939	93 393
Loans and receivables	13	5 491	5 682
Taxation		118	174
Deferred taxation	14	40	55
Intangible assets	15	619	230
Property and equipment	16	404	416
Total assets		115 611	99 950
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	17	4 177	3 962
Provisions	18	178	159
Taxation		50	–
Derivative liabilities – held for trading	25	4 797	6 356
Deferred taxation	14	797	304
Retirement benefit liabilities	19	267	291
Long-term liabilities	20	2 744	2 498
Policyholder liabilities		96 718	81 580
Policyholder liabilities under insurance contracts	21	48 368	42 207
Policyholder liabilities under investment contracts	22	48 350	39 373
Total liabilities		109 728	95 150
Outside shareholders' interest		145	21
Shareholders' funds			
Share capital and share premium	23	1 041	1 041
Reserves	24	4 697	3 738
Total shareholders' funds		5 738	4 779
Total liabilities and shareholders' funds		115 611	99 950

Cash flow statement for the year ended 30 June

R million	Notes	2005	2004
Cash flows from operating activities			
Cash generated by operations	31	3 634	823
Working capital changes	32	424	683
		4 058	1 506
Dividends received		753	1 102
Net interest received		3 766	3 698
Taxation paid	33	(539)	(907)
Dividends paid	34	(542)	(573)
Net cash inflow from operating activities		7 496	4 826
Cash flows from investment activities			
Investment activities			
Government and public authority stocks		(800)	(1 041)
Debentures and other loans		60	1 413
Policy loans		24	27
Equity investments		(5 548)	(5 196)
Derivative instruments		(2 476)	(764)
Property investments		202	(778)
Subsidiaries acquired	35	(278)	–
Associated companies acquired		(243)	–
Proceeds on disposal of Discovery Holdings	36	–	740
Net purchase of property and equipment		(26)	(82)
Net cash outflow from investment activities		(9 085)	(5 681)
Cash flows from financing activities			
Proceeds from increase in long-term liabilities		99	92
Net cash inflow from financing activities		99	92
Net decrease in cash and cash equivalents		(1 490)	(763)
Cash and cash equivalents at the beginning of the year		14 495	15 258
Cash and cash equivalents acquired		9	–
Cash and cash equivalents at the end of the year		13 014	14 495

Statement of changes in equity for the year ended 30 June

R million	Share capital (Note 23)	Share premium (Note 23)	Retained earnings (Note 24)	Non-distributable reserves (Note 24)	Total shareholders' funds
Balance at 1 July 2003	**9**	**1 032**	**2 251**	**89**	**3 381**
Currency translation differences	–	–	–	34	34
Revaluation of investment assets	–	–	–	150	150
Movement in other reserves	–	–	–	(3)	(3)
Profit on sale of available-for-sale assets transferred to the income statement	–	–	–	(15)	(15)
Proceeds on sale of Discovery	–	–	740	–	740
Earnings attributable to shareholders	–	–	1 065	–	1 065
Final dividend – 16 September 2003	–	–	(389)	–	(389)
Interim dividend – 2 March 2004	–	–	(184)	–	(184)
Balance at 30 June 2004	**9**	**1 032**	**3 483**	**255**	**4 779**
Balance at 1 July 2004	**9**	**1 032**	**3 483**	**255**	**4 779**
Currency translation differences	–	–	–	(52)	(52)
Revaluation of investment assets	–	–	–	247	247
Movement in other reserves	–	–	–	19	19
Profit on sale of available-for-sale assets transferred to the income statement	–	–	–	(71)	(71)
Earnings attributable to shareholders	–	–	1 358	–	1 358
Final dividend – 1 September 2004	–	–	(285)	–	(285)
Interim dividend – 18 February 2005	–	–	(257)	–	(257)
Transfer to non-distributable reserves	–	–	(1)	1	–
Balance at 30 June 2005	**9**	**1 032**	**4 298**	**399**	**5 738**

R million	2005	2004
1. Accounting policies		
The accounting policies of the Group are set out on pages 247 to 253.		
2. Revenue		
Revenue comprises fee income plus premium income on insurance contracts. Fee income generated by investment business and the asset management operations is disclosed as fees for asset manager services rendered, whilst premium income received on insurance contracts is disclosed as net premium income.		
3. Net premium income		
Individual life	4 900	5 219
Single premiums	371	679
Recurring premiums	3 894	3 544
Annuities	635	996
Employee benefits	1 040	1 402
Single premiums and investment lump sums	546	616
Recurring premiums	494	786
Total premium income	5 940	6 621
Funds retained through the extension of the policy term amounted to R6 million (2004: R388 million). These funds are not included in the individual life single premium income figures above.		
4. Investment income		
Investment income earned in respect of:		
Dividends – listed shares	543	601
Dividends – unlisted shares	173	465
Net rental income from properties	466	384
Interest	3 766	3 698
Fees, investment charges and other income	272	166
Income from associates	111	77
– Dividends received	37	36
– Equity accounted earnings	74	41
	5 331	5 391
Disclosed as follows:		
Investment income attributable to policyholders	4 924	5 045
Investment income on the shareholders' portfolio	393	346
Momentum's portion of associate's profit on sale of available-for-sale assets	14	–
	5 331	5 391

R million	2005	2004
5. Policyholder benefits		
Individual life business		
Benefits in respect of individual life policies	6 171	4 517
Death	618	570
Disability	90	88
Maturities	4 078	2 530
Surrenders	1 385	1 329
Lump sum annuities	1 216	1 224
Annuities paid	1 204	1 205
Commutations	12	19
Total benefits paid in respect of individual life business	7 387	5 741
Employee benefits business		
Benefits in respect of risk business		
Death	393	424
Disability	233	208
Maturities	2	2
Scheme terminations and member withdrawals	201	143
Annuities	71	139
Total benefits paid in respect of employee benefits business	900	916
Total benefits paid	8 287	6 657
6. Administration expenses		
Net income after tax is stated after charging the following:		
Auditors' remuneration		
Audit fees – current year	9	8
Fees for other services	7	1
	16	9
Professional fees		
Actuarial	1	1
Technical and other	32	35
	33	36
Depreciation		
Leased assets		
Land and buildings	6	5
Computer equipment	15	7
Own assets		
Land and buildings	1	2
Computer equipment	8	18
Office equipment	2	7
Furniture and fittings	17	18
Motor vehicles	1	–
	50	57
Operating lease charges		
Land and buildings	34	35
Computer and office equipment	16	13
Motor vehicles	1	1
	51	49

R million	2005	2004
6. Administration expenses *(continued)*		
Total of minimum lease payments under non-cancellable operating leases		
Payable within:		
One year	37	15
Between one and five years	175	55
Later than five years	143	38
	355	108
Staff costs		
Salaries, wages and allowances	852	795
Contribution to pension and other staff funds	87	90
Social security levies	11	4
Other	19	27
	969	916

7. Earnings attributable to shareholders

Attributable earnings basis

Earnings attributable to ordinary shareholders amounted to R1 358 million (2004: R1 065 million).

Headline earnings basis

The calculation of headline earnings is based on earnings attributable to ordinary shareholders adjusted for items of a non-trading nature.

R million	2005	2004
Headline earnings reconciliation		
Attributable earnings	1 358	1 065
Add: Goodwill amortised	–	31
Less: Profit on disposal of available-for-sale assets	(71)	(15)
Headline earnings	1 287	1 081
Headline earnings		
Insurance operations	685	595
Asset management operations	247	175
Group operating profit after tax	932	770
Investment income on the shareholders' portfolio	355	311
Headline earnings	1 287	1 081

8. Taxation

R million	2005	2004
Direct taxation attributable to life and asset management operations	893	362
Indirect taxation attributable to life and asset management operations	146	134
Direct taxation attributable to investment income on the shareholders' portfolio	38	35
Total taxation	1 077	531

R million	2005	2004
8. Taxation *(continued)*		
Charge for the year		
SA normal taxation	348	134
Current taxation	155	140
Current year	307	342
Adjustment for prior years	(152)	(202)
Deferred taxation	193	(6)
Current year	69	(13)
Adjustment for prior years	122	7
Change in tax rate	2	–
SA capital gains taxation	509	170
Current taxation	270	72
Deferred taxation	249	98
Change in tax rate	(10)	–
Retirement fund taxation	72	93
Secondary tax on companies	2	–
Stamp duty	1	2
Value-added tax	130	115
Other taxes and levies	15	17
Total taxation	1 077	531
Total direct shareholders' taxation	323	261
Total direct policyholders' taxation	608	136
Total indirect taxation	146	134
Total taxation	1 077	531
Shareholders' taxation rate reconciliation	%	%
Effective rate of taxation (total direct shareholders' taxation/earnings before taxation)	19.2	19.7
Shareholders' taxation has been affected by:		
Non-taxable income	4.7	5.8
Disallowable expenses	(0.2)	(1.1)
Prior year adjustments	1.8	3.0
Change in tax rate	0.5	–
Special transfers and other taxes	3.5	2.7
Other permanent differences	(0.5)	(0.1)
Standard rate of taxation	29.0	30.0

Current taxation is determined by applying the four fund method of taxation applicable to life insurers.

Other taxes and levies consist of skills development levies, Regional Services Council levies and Financial Services Board levies.

R million	Insurance operations	Asset management operations	Total
9. Segmental analysis			
Primary segments (business)			
30 June 2005			
Revenue	6 652	779	7 431
Net premium income	5 940	–	5 940
Fees for asset manager services rendered	712	779	1 491
Investment income	5 298	19	5 317
Policyholder benefits	(8 287)	–	(8 287)
Administration expenses	(1 300)	(375)	(1 675)
Commissions	(944)	(102)	(1 046)
Fair value adjustment to policyholder liabilities under investment contracts	(7 795)	–	(7 795)
Profit on sale of available-for-sale assets	69	2	71
Realised and unrealised investment surpluses	14 756	12	14 768
Income before taxation	8 449	335	8 784
Taxation	(995)	(82)	(1 077)
Net income after taxation before transfer to policyholder liabilities under insurance contracts	7 454	253	7 707
Transfer to policyholder liabilities under insurance contracts	(6 102)	–	(6 102)
Net income after taxation	1 352	253	1 605
Earnings attributable to outside shareholders	(243)	(4)	(247)
Earnings attributable to ordinary shareholders	1 109	249	1 358
Profit on sale of available-for-sale assets	(69)	(2)	(71)
Headline earnings	1 040	247	1 287
Liabilities	109 148	725	109 873
Assets	114 580	1 031	115 611

R million	Insurance operations	Asset management operations	Total
9. Segmental analysis *(continued)*			
Primary segments (business)			
30 June 2004			
Revenue	7 303	598	7 901
Net premium income	6 621	–	6 621
Fees for asset manager services rendered	682	598	1 280
Investment income	5 373	18	5 391
Policyholder benefits	(6 657)	–	(6 657)
Administration expenses	(1 172)	(310)	(1 482)
Commissions	(795)	(81)	(876)
Fair value adjustment to policyholder liabilities under investment contracts	(3 137)	–	(3 137)
Profit on sale of available-for-sale assets	15	–	15
Realised and unrealised investment surpluses	3 384	(13)	3 371
Income before taxation	4 314	212	4 526
Taxation	(467)	(64)	(531)
Net income after taxation before transfer to policyholder liabilities under insurance contracts	3 847	148	3 995
Transfer to policyholder liabilities under insurance contracts	(2 857)	–	(2 857)
Net income after taxation	990	148	1 138
Earnings attributable to outside shareholders	(69)	(4)	(73)
Earnings attributable to ordinary shareholders	921	144	1 065
Goodwill amortised	–	31	31
Profit on sale of available-for-sale assets	(15)	–	(15)
Headline earnings	906	175	1 081
Liabilities	94 400	771	95 171
Assets	99 028	922	99 950

R million	South Africa	Europe	Total
9. Segmental analysis *(continued)*			
Secondary segments (geographical)			
30 June 2005			
Revenue	7 046	385	7 431
Net premium income	5 940	–	5 940
Fees for asset manager services rendered	1 106	385	1 491
Investment income	5 313	4	5 317
Policyholder benefits	(8 287)	–	(8 287)
Administration expenses	(1 404)	(271)	(1 675)
Commissions	(952)	(94)	(1 046)
Fair value adjustment to policyholder liabilities under investment contracts	(7 780)	(15)	(7 795)
Profit on sale of available-for-sale assets	70	1	71
Realised and unrealised investment surpluses	14 750	18	14 768
Income before taxation	8 756	28	8 784
Taxation	(1 066)	(11)	(1 077)
Net income after taxation before transfer to policyholder liabilities under insurance contracts	7 690	17	7 707
Transfer to policyholder liabilities under insurance contracts	(6 102)	–	(6 102)
Net income after taxation	1 588	17	1 605
Earnings attributable to outside shareholders	(243)	(4)	(247)
Earnings attributable to ordinary shareholders	1 345	13	1 358
Profit on sale of available-for-sale assets	(70)	(1)	(71)
Headline earnings	1 275	12	1 287
Liabilities	108 937	936	109 873
Assets	114 625	986	115 611

R million	South Africa	Europe	Total
9. Segmental analysis *(continued)*			
Secondary segments (geographical)			
30 June 2004			
Revenue	7 557	344	7 901
Net premium income	6 621	–	6 621
Fees for asset manager services rendered	936	344	1 280
Investment income	5 401	(10)	5 391
Policyholder benefits	(6 657)	–	(6 657)
Administration expenses	(1 286)	(196)	(1 482)
Commissions	(795)	(81)	(876)
Fair value adjustment to policyholder liabilities under investment contracts	(3 137)	–	(3 137)
Profit on sale of available-for-sale assets	15	–	15
Realised and unrealised investment surpluses	3 404	(33)	3 371
Income before taxation	4 502	24	4 526
Taxation	(517)	(14)	(531)
Net income after taxation before transfer to policyholder liabilities under insurance contracts	3 985	10	3 995
Transfer to policyholder liabilities under insurance contracts	(2 857)	–	(2 857)
Net income after taxation	1 128	10	1 138
Earnings attributable to outside shareholders	(69)	(4)	(73)
Earnings attributable to ordinary shareholders	1 059	6	1 065
Goodwill amortised	–	31	31
Profit on sale of available-for-sale assets	(15)	–	(15)
Headline earnings	1 044	37	1 081
Liabilities	94 481	690	95 171
Assets	99 382	568	99 950

R million	2005	2004
10. Equity investments		
Listed – at market value	49 679	36 442
Unlisted – at directors' valuation	5 106	5 157
	54 785	41 599

The thirteen largest equity holdings of Momentum Group comprise the following (in alphabetical order):

ABSA Group, Anglo American plc, Barloworld, BHP Billiton plc, Imperial Holdings, Liberty Group, MTN Group, Remgro, RMB Holdings, SAB Miller, Sanlam, Standard Bank, Tiger Brands

Investments in listed shares were distributed as follows:	%	%
Mining	10	10
Gold	1	1
Financial	20	23
Industrial	22	20
Overseas instruments	19	20
Unit trusts	25	22
Other	3	4
	100	100

R million	2005	2004
11. Investments in associated companies		
African Life Assurance Company Limited	727	596
Futuregrowth Asset Management (Pty) Limited	14	9
Freestone Property Fund	200	–
Tembisa Plaza Share Block (Pty) Limited	37	–
	978	605

African Life Assurance Company Limited (African Life) is a listed long-term insurance company. Momentum Group Limited holds directly 33.4% (2004: 33.4%) of the issued share capital of African Life in its shareholders' portfolio. The market value of this investment as at 30 June 2005 was R845 million (2004: R518 million). The earnings attributable to ordinary shareholders for the year ended 31 March 2005 were R299 million (2004: R171 million).

Futuregrowth Asset Management (Pty) Limited (Futuregrowth) provides investment and asset management services to local and international clients. FirstRand Asset Management (Pty) Limited (FRAM) holds 40% (2004: 40%) of the issued share capital of Futuregrowth. The earnings attributable to ordinary shareholders for the year ended 30 June 2005 amounted to R20 million (2004: R16 million). The directors' valuation of FRAM's 40% shareholding of Futuregrowth is R18 million (2004: R27 million).

Freestone Property Fund (Freestone) is a property unit trust. Momentum Group Limited holds 40% (2004: nil) of the issued participatory interests of Freestone. The loss attributable to participatory interest holders for the year ended 30 June 2005 amounted to R27 million (2004: profit of R63 million). The market value of this investment as at 30 June 2005 was R280 million (2004: Rnil).

Tembisa Plaza Share Block (Pty) Limited operates as a share block in repect of Tembisa Plaza, a shopping centre in Tembisa. The centre is held as a long-term investment to earn rentals. The earnings attributable to ordinary shareholders for the four months ended 28 February 2005 (the first four months of operations) amounted to R22 million (2004: Rnil).

R million	African Life Assurance Company Limited	Futuregrowth Asset Management (Pty) Limited	Freestone Property Fund	Tembisa Share Block (Pty) Limited
11. Investments in associated companies *(continued)*				
The assets and liabilities of Momentum Group's investments in associated companies are summarised below:				
2005				
Assets				
Investments	11 909	21	1 310	64
Loans and receivables	952	54	15	–
Intangible assets	98	–	–	–
Property and equipment	147	1	–	–
Total assets	13 106	76	1 325	64
Liabilities and shareholders' funds				
Current liabilities	476	40	86	–
Derivative liabilities	–	–	8	–
Deferred taxation	62	–	–	4
Long-term liabilities	26	–	1 270	38
Policyholder liabilities	10 133	–	–	–
Outside shareholders' interest	425	–	–	–
Shareholders' funds	1 984	36	(39)	22
Total liabilities and shareholders' funds	13 106	76	1 325	64
2004				
Assets				
Investments	13 109	10	746	6
Loans and receivables	960	26	4	1
Intangible assets	81	–	–	–
Property and equipment	116	1	–	–
Total assets	14 266	37	750	7
Liabilities and shareholders' funds				
Current liabilities	287	14	40	–
Deferred taxation	193	–	–	–
Long-term liabilities	26	–	756	7
Policyholder liabilities	11 754	–	–	–
Outside shareholders' interest	394	–	–	–
Shareholders' funds	1 612	23	(46)	–
Total liabilities and shareholders' funds	14 266	37	750	7

R million	2005	2004
12. Investment properties		
Completed investment properties		
Market value at the beginning of the year	3 648	2 753
Additions		
Acquisitions	142	971
Capitalised subsequent expenditure	27	57
Disposals	(332)	(250)
Net gain from fair value adjustments	603	117
Market value at the end of the year	4 088	3 648
Investment properties under development		
Balance at the beginning of the year	–	–
Capitalised subsequent expenditure	71	–
Cost at the end of the year	71	–
Total investment properties	4 159	3 648
Investment properties can be split as follows:		
Office buildings	2 265	2 228
Shopping malls	1 340	905
Industrial buildings	404	401
Vacant land	23	29
Listed property equities	123	81
Other	4	4
Total investment properties	4 159	3 648

Investment properties are acquired for letting to external tenants with the intention to generate future rental income. Properties are independently valued on the basis of determining the open market value of each property on a six-monthly basis. The latest revaluation was done as at 30 June 2005.

The carrying amount of unlet or vacant investment properties as at 30 June 2005 was R21 million (2004: R29 million). Freestone, a listed property fund in which Momentum holds 40% of the participatory interests, has entered into purchase agreements for properties to the value of R30 million.

Schedules of freehold property and equity investments are open for inspection at the offices of the various group companies in terms of the provisions of the Companies' Act, 1973.

R million	2005	2004
13. Loans and receivables		
Accrued investment income	3 870	4 141
Unsettled trades	531	586
Trade debtors	312	105
Premium debtors	95	220
Prepayments	8	7
Properties held for resale	–	114
Other debtors	675	509
	5 491	5 682

All the loans and receivables above are current assets.

R million	2005	2004
14. Deferred taxation		
Balance at the beginning of the year	**(249)**	(154)
Charge for the year	**(508)**	(95)
Relating to current year	**(393)**	(88)
Relating to prior years	**(123)**	(7)
Change in tax rate	**8**	–
Balance at the end of the year	**(757)**	(249)
Deferred taxation asset	**40**	55
Deferred taxation liability	**(797)**	(304)
	(757)	(249)

	Opening balance	Change in tax rate	Debit to the income statement	Debit to non-distributable reserves	Closing balance
Deferred taxation comprises:					
Capital Gains Tax on unrealised investment surpluses	(303)	10	(425)	(76)	(794)
Provisions	51	(2)	(11)	–	38
Taxation losses	2	–	(1)	–	1
Other	1	–	(3)	–	(2)
	(249)	8	(440)	(76)	(757)

	2005	2004
15. Intangible assets		
Goodwill	**442**	223
Client contracts	**75**	–
Computer software	**102**	–
Deferred acquisition cost asset	**–**	7
	619	230
Goodwill		
Gross amount	**442**	869
Less: Accumulated amortisation	**–**	(646)
Carrying amount at the end of the year	**442**	223
Gross amount at the beginning of the year	**869**	936
Accumulated amortisation offset against gross amount	**(646)**	–
Acquisitions	**201**	–
Exchange differences	**18**	(52)
Consolidation of share trusts	**–**	16
Goodwill realised with change in accounting policy	**–**	(31)
Gross amount at the end of the year	**442**	869
Accumulated amortisation at the beginning of the year	**646**	615
Accumulated amortisation offset against gross amount	**(646)**	–
Amortisation charge	**–**	31
Accumulated amortisation at the end of the year	**–**	646

R million	2005	2004
15. Intangible assets *(continued)*		
Client contracts		
Gross amount	79	–
Less: Accumulated amortisation	(4)	–
Carrying amount at the end of the year	75	–
Gross amount at the beginning of the year	–	–
Client contracts valued with the acquisition of Advantage Asset Managers (Pty) Limited	79	–
Gross amount at the end of the year	79	–
Accumulated amortisation at the beginning of the year	–	–
Amortisation charge	4	–
Accumulated amortisation at the end of the year	4	–
Computer software		
Gross amount	102	–
Less: Accumulated amortisation	–	–
Carrying amount at the end of the year	102	–
Gross amount at the beginning of the year	–	–
Subsidiary balances acquired	102	–
Gross amount at the end of the year	102	–
Accumulated amortisation at the beginning of the year	–	–
Subsidiary balances acquired	–	–
Amortisation charge	–	–
Accumulated amortisation at the end of the year	–	–
Deferred acquisition cost asset		
Gross amount	7	7
Less: Accumulated amortisation	(7)	–
Carrying amount at the end of the year	–	7
Gross amount at the beginning of the year	7	–
Deferred acquisition costs capitalised during the year	–	7
Gross amount at the end of the year	7	7
Accumulated amortisation at the beginning of the year	–	–
Amortisation charge	(7)	–
Accumulated amortisation at the end of the year	(7)	–

R million	2005 Cost	2005 Accumulated depreciation	2005 Net book value	2004 Cost	2004 Accumulated depreciation	2004 Net book value
16. Property and equipment						
Leased assets						
Land and buildings	**318**	**(33)**	**285**	318	(27)	291
Computer equipment	**34**	**(26)**	**8**	34	(11)	23
Total leased assets	**352**	**(59)**	**293**	352	(38)	314
Owned assets						
Land and buildings	**19**	**(7)**	**12**	14	(6)	8
Computer equipment	**289**	**(261)**	**28**	273	(253)	20
Office equipment	**22**	**(18)**	**4**	18	(15)	3
Furniture and fittings	**164**	**(97)**	**67**	157	(87)	70
Motor vehicles	**5**	**(5)**	**–**	5	(4)	1
Total owned assets	**499**	**(388)**	**111**	467	(365)	102
Total property and equipment	**851**	**(447)**	**404**	819	(403)	416

	Total	Land and buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles
Movement in property and equipment – cost						
Cost at the beginning of the year	819	332	307	18	157	5
Subsidiary balances acquired	16	4	5	3	4	–
Foreign currency adjustments	2	1	1	–	–	–
Additions	34	–	13	1	20	–
Disposals	(20)	–	(3)	–	(17)	–
Cost at the end of the year	851	337	323	22	164	5
Movement in property and equipment – accumulated depreciation						
Balance at the beginning of the year	403	33	264	15	87	4
Subsidiary balances acquired	5	–	2	1	2	–
Foreign currency adjustments	2	–	1	1	–	–
Depreciation charge for the year	50	7	23	2	17	1
Disposals	(13)	–	(3)	(1)	(9)	–
Balance at the end of the year	447	40	287	18	97	5

	2005	2004
17. Current liabilities		
Unsettled trades	**2 117**	2 289
Accrued benefit payments	**640**	565
Creditors	**1 420**	1 108
	4 177	3 962

R million	Balance at the beginning of the year	Subsidiary balances acquired	Additional provision	Utilisation of provision	Balance at the end of the year
18. Provisions					
2005					
Provision for leave pay	22	5	2	(1)	28
Provision for bonuses	53	1	63	(52)	65
Provision for auditors' remuneration	5	–	8	(6)	7
Other	79	–	24	(25)	78
	159	6	97	(84)	178

	Balance at the beginning of the year	Additional provision	Utilisation of provision	Unutilised amounts reversed	Balance at the end of the year
2004					
Provision for leave pay	13	9	–	–	22
Provision for bonuses	38	52	(37)	–	53
Provision for auditors' remuneration	5	6	(6)	–	5
Other	43	50	(12)	(2)	79
	99	117	(55)	(2)	159

	2005	2004
19. Retirement benefit liabilities		
Post-retirement medical aid liability	267	291

Post-retirement medical aid liability

In certain instances, the Group provides for medical aid contributions beyond the date of normal retirement. The present value of expected future medical aid contributions relating to existing pensioners has been determined and the liability provided. The present value of expected future medical aid contributions relating to current employees is charged against expenditure over the service period of such employees.

The post-retirement medical aid liability is valued once a year. The latest valuation was done as at 30 June 2005. The actuaries have stated that the plan is in a sound financial position.

	2005	2004
Present value of unfunded liability at the beginning of the year	291	289
Other movements	–	(22)
Current service cost	2	2
Net actuarial (profit)/loss recognised in the year	(4)	14
Interest cost	28	27
Benefits paid	(50)	(19)
Present value of unfunded liability at the end of the year	267	291
The principal actuarial assumptions are:		
Discount rate	8.25%	10.00%
Long-term increase in health costs	6.25%	8.00%
Number of employees who selected early retirement	None	None

19. Retirement benefit liabilities *(continued)*

Staff pension funds

All full-time employees in the Momentum Group are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act. Both the Momentum Life Pension Fund and Southern Staff Pension Fund are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of the Momentum Life Pension Fund and Southern Staff Pension Fund were as at 1 July 2002 and 1 April 2002 respectively, and both funds were found to be in a sound financial position. The recommended employer contribution rate to the Momentum Life Pension Fund is 10% of pensionable salaries in order to meet the ongoing accrual of benefits. From 1 April 2000, all full-time employees who were members of the Southern Staff Pension Fund joined the FirstRand Insurance Group Pension Fund, a defined contribution scheme.

Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the funds.

The assets of these schemes are held in administered trust funds separated from the Group's assets. For the Southern Staff Pension Fund assets consist primarily of inflation-linked securities, listed shares and fixed income securities. For the Momentum Life Pension Fund, the scheme assets consist primarily of inflation-linked securities.

R million	2005	2004
Defined benefit pension fund liability		
Present value of funded liability	(668)	(695)
Fair value of plan assets	743	702
	75	7
Unrecognised actuarial (losses)/gains	(29)	31
Present value of net funded liability	46	38
Surplus not recognised	(46)	(38)
Defined benefit pension fund liability recognised in the balance sheet	–	–
The amounts recognised in the income statement are as follows:		
Current service cost	(1)	(1)
Past service cost	–	(15)
Interest cost	(81)	(91)
Expected return on plan assets	83	93
Net actuarial loss recognised in the year	(3)	(16)
Contributions paid	10	–
Movement for the year	8	(30)
(Deficit)/surplus not recognised	(8)	30
Total included in staff costs	–	–
Movement in liability		
Present value at the beginning of the year	38	68
Movement for the year as above	8	(30)
Present value at the end of the year	46	38
The principal actuarial assumptions are:		
Discount rate	8.25%	10.00%
Expected return on plan assets	8.75%	10.25%
Future salary increases	4.50%	6.00%
Net interest rate used to value pensions, allowing for pension increases	3.60%	3.00%
Number of employees who selected early retirement	None	None

R million	2005	2004
20. Long-term liabilities		
Capitalised lease commitments	305	318
Debt component of compulsorily convertible debentures	154	191
Property finance loans	172	846
FirstRand Bank Limited	1 074	403
Outside participatory interest holders – Emira Property Fund	1 027	696
Other long-term loans	12	44
	2 744	2 498

The debentures are convertible into 3% non-redeemable non-cumulative preference shares of the Company at the option of the debenture holders at any time after 30 June 2008. Any debentures not converted by 30 June 2021 will be compulsorily converted on that date. The debentures bear interest, payable six monthly in arrears, at an effective rate of 18.3% per annum.

The capitalised lease commitments are secured by assets with a net book value of R293 million (2004: R314 million) as disclosed in note 16 to these financial statements.

The lease commitments are repayable in monthly instalments at an effective interest rate of 13.2% per annum.

Total of minimum lease payments (R million)	
Payable within:	
One year	51
Between one and five years	268
Later than five years	166
	485
Present value of minimum lease payments (R million)	
Payable within:	
One year	48
Between one and five years	181
Later than five years	76
	305

The total short-term portion of long-term liabilities amounted to R93 million (2004: R82 million).

R million	2005	2004
21. Policyholder liabilities under insurance contracts		
The movements in the policyholder liabilities under insurance contracts for the year were as follows:		
Balance at the beginning of the year	42 207	39 674
Reclassification from/(to) policyholder liabilities under investment contracts	28	(324)
Transfer from cell owner to policyholder liabilities under insurance contracts	31	–
Transfer from income statement	6 102	2 857
Balance at the end of the year	48 368	42 207
	%	%
Actuarial liabilities under unmatured policies comprise the following:		
Linked (market related) business		
Individual life	33.7	32.7
Smoothed-bonus business		
Individual life	21.2	21.6
With-profits reversionary bonus business	4.9	4.6
Non-profit business		
Individual life	7.3	9.9
Employee benefits	5.0	4.9
Annuity business	27.9	26.3
	100.0	100.0

The above percentages are based on the actuarial valuations of Momentum Group Limited, Momentum Ability Limited and FirstLife Assurance (Pty) Limited at 30 June 2005 and 30 June 2004.

R million	2005	2004
22. Policyholder liabilities under investment contracts		
Balance at the beginning of the year	39 373	36 342
Reclassification (to)/from policyholder liabilities under insurance contracts in the current year	(28)	324
Movement for the year	9 005	2 707
Net premium income on investment contracts	12 175	6 721
Policyholder benefits on investment contracts	(10 413)	(6 579)
Fees for asset manager services rendered	(552)	(572)
Fair value adjustment to policyholder liabilities under investment contracts	7 795	3 137
	48 350	39 373

	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
30 June 2005					
The maturity profile of policyholder liabilities under investment contracts are set out below:					
Linked (market related) business					
Individual life	26 958	2 839	13 064	2 081	8 974
Employee benefits	15 212	4 015	5 704	3 122	2 371
Smoothed-bonus business					
Individual life	616	41	406	64	105
Employee benefits	4 663	1 259	1 789	979	636
Annuity business	901	30	368	41	462
Policyholder liabilities under investment contracts	48 350	8 184	21 331	6 287	12 548

R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
22. Policyholder liabilities under investment contracts *(continued)*					
30 June 2004					
The maturity profile of policyholder liabilities under investment contracts are set out below:					
Linked (market related) business					
Individual life	22 270	3 323	10 371	2 015	6 561
Employee benefits	11 724	3 082	4 378	2 397	1 867
Smoothed-bonus business					
Individual life	479	8	332	53	86
Employee benefits	3 880	1 047	1 488	815	530
Annuity business	1 020	56	489	43	432
Policyholder liabilities under investment contracts	39 373	7 516	17 058	5 323	9 476

	2005	2004
23. Share capital and share premium		
The Company's authorised and issued share capital and share premium are made up as follows:		
Share capital		
Authorised		
225 000 000 ordinary shares of 5 cents each	**11**	11
Issued		
189 695 508 ordinary shares of 5 cents each	**9**	9
The unissued shares are under the control of the directors until the conclusion of the next annual general meeting.		
Share premium	**1 032**	1 032
Share capital and share premium	**1 041**	1 041
24. Reserves		
Retained earnings		
Retained earnings at the beginning of the year	**3 483**	2 251
Earnings attributable to ordinary shareholders	**1 358**	1 065
Proceeds on sale of Discovery	**–**	740
Dividend for the year	**(542)**	(573)
Transfer to non-distributable reserves	**(1)**	–
Retained earnings at the end of the year	**4 298**	3 483
Non-distributable reserves		
Revaluation of investment assets	**331**	155
Currency translation reserve	**54**	106
Other	**14**	(6)
Total non-distributable reserves	**399**	255
Total reserves	**4 697**	3 738
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	**255**	89
Revaluation of investment assets	**247**	150
Profit on sale of available-for-sale assets transferred to the income statement	**(71)**	(15)
Currency translation reserve	**(52)**	34
Other	**20**	(3)
Total non-distributable reserves	**399**	255

25. Financial instruments

Fair values

The carrying amounts of all assets backing policyholder liabilities (with the exception of policy loans and certain held-to-maturity preference shares) reflect the fair values of the assets concerned. Similarly, the actuarial valuation of policyholder liabilities under investment contracts represents the fair value of the contractual liability under unmatured policies.

Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders, with the exception of certain held-to-maturity preference shares and the share trust loans.

Derivative instruments

The Group makes use of derivative instruments in order to achieve the following:

– exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets;
– in order to provide a hedge against a known liability.

Under no circumstances are derivative contracts entered into purely for speculative purposes.

The Group's asset managers have been mandated to enter into derivative contracts on an agency basis, with agreed internal controls being instituted to ensure adherence to exposure limits. These controls include the regular monitoring of sensitivity analyses designed to measure the behaviour and exposure to derivative instruments under conditions of market stress.

R million	2005	2004
Derivative assets		
Interest-bearing instruments		
Over the counter	7 505	5 596
Term to maturity less than one year	3 401	1 152
Term to maturity between one and five years	2 184	493
Term to maturity longer than five years	1 920	3 951
Equity instruments		
Over the counter	4 470	5 474
Term to maturity less than one year	1 932	2 180
Term to maturity between one and five years	1 169	3 294
Term to maturity longer than five years	1 369	–
	11 975	11 070
Derivative liabilities		
Interest bearing instruments		
Traded on the South African Futures Exchange		
Term to maturity between one and five years	12	–
Over the counter	1 607	4 696
Term to maturity less than one year	97	1 833
Term to maturity between one and five years	847	1 558
Term to maturity longer than 5 years	663	1 305
Equity instruments		
Over the counter	3 178	1 660
Term to maturity less than one year	2 120	998
Term to maturity between one and five years	1 058	662
	4 797	6 356

R million	Future contracts	Options	Swaps	Credit derivatives	Total
25. Financial instruments *(continued)*					
30 June 2005					
Absolute value					
The notional amounts of derivative instruments outstanding at 30 June 2005 are set out below:					
Currency	–	89	–	–	89
Equity	61	6 285	–	2 082	8 428
Bonds	–	47	7 726	274	8 047
Forward rate agreements	103	–	–	–	103
	164	6 421	7 726	2 356	16 667
Fair value					
The fair value of derivative instruments outstanding at 30 June 2005 is set out below:					
Assets					
Currency	–	89	–	–	89
Equity	61	3 826	–	1 369	5 256
Bonds	–	47	6 434	145	6 626
Forward rate agreements	4	–	–	–	4
	65	3 962	6 434	1 514	11 975
Liabilities					
Equity	–	2 465	–	713	3 178
Bonds	–	–	1 462	145	1 607
Interest rate	–	–	12	–	12
	–	2 465	1 474	858	4 797

R million	Future contracts	Options	Swaps	Credit derivatives	Forward rate agreements	Total

25. Financial instruments *(continued)*

30 June 2004

Absolute value

The notional amounts of derivative instruments outstanding at 30 June 2004 are set out below:

R million	Future contracts	Options	Swaps	Credit derivatives	Forward rate agreements	Total
Currency	–	42	–	–	–	42
Equity	51	5 799	–	882	–	6 732
Bonds	–	43	10 126	387	–	10 556
Forward rate agreements	–	–	–	–	1	1
	51	5 884	10 126	1 269	1	17 331

Fair value

The fair value of derivative instruments outstanding at 30 June 2004 is set out below:

R million	Future contracts	Options	Swaps	Credit derivatives	Forward rate agreements	Total
Assets						
Currency	–	43	–	–	–	43
Equity	248	4 623	–	603	–	5 474
Bonds	–	44	5 121	387	–	5 552
Forward rate agreements	–	–	–	–	1	1
	248	4 710	5 121	990	1	11 070
Liabilities						
Equity	73	1 298	–	289	–	1 660
Bonds	–	–	4 696	–	–	4 696
	73	1 298	4 696	289	–	6 356

Risk management and capital adequacy

The risk and assurance management function is responsible to ensure that material financial risks related to transactions in financial instruments are mitigated by adequate controls and compliance with group policies. The currency risk, interest rate risk, market risk, credit risk, liquidity risk and underwriting risk to which the Momentum Group is exposed, are discussed in the Chief Financial Officer's report set out on pages 228 to 239.

Currency risk

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Momentum Group, are included in the Group balance sheet:

R million	GBP	US$	Euro	Total
Shareholders' assets and liabilities as at 30 June 2005				
Assets				
Cash and cash equivalents	130	22	75	227
Debentures and other loans	34	–	–	34
Derivative assets	4	–	–	4
Investment assets	168	22	75	265
Loans and receivables	179	120	–	299
Intangible assets	8	241	–	249
Property and equipment	23	–	1	24
Total assets	378	383	76	837
Liabilities				
Current liabilities	201	34	18	253
Provisions	7	–	–	7
Taxation	6	1	–	7
Long-term liabilities	9	447	–	456
Total liabilities	223	482	18	723

R million	GBP	US$	Total
25. Financial instruments *(continued)*			
Shareholders' assets and liabilities as at 30 June 2004			
Assets			
Cash and cash equivalents	31	20	51
Debentures and other loans	29	–	29
Equity investments	43	104	147
Investment assets	103	124	227
Loans and receivables	63	31	94
Intangible assets	7	223	230
Property and equipment	17	–	17
Total assets	190	378	568
Liabilities			
Current liabilities	151	22	173
Taxation	7	2	9
Long-term liabilities	45	463	508
Total liabilities	203	487	690

Interest rate risk

The following assets will be affected by changes in market interest rates:

		Maturity date			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
2005					
Assets backing policyholder liabilities:					
Cash and cash equivalents	10 163	9 702	353	108	–
Government and public authority stocks	14 501	831	1 803	1 751	10 116
Debentures and other loans *	8 341	1 391	3 316	2 460	1 174
	33 005	11 924	5 472	4 319	11 290

* *Included in debentures and other loans is the following lease debtor (R million):*

Lease payments receivable	1 071
Less: unearned finance charges	(211)
Net lease debtor	860
Total of minimum lease payments (R million)	
Receivable within:	
One year	508
Between one and five years	563
	1 071
Present value of minimum lease payments (R million)	
Receivable within:	
One year	406
Between one and five years	454
	860

R million	Total	Maturity date: Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
25. Financial instruments *(continued)*					
Shareholder assets:					
Cash and cash equivalents	**2 851**	**2 813**	**38**	**–**	**–**
Government and public authority stocks	**91**	**44**	**28**	**19**	**–**
Debentures and other loans	**565**	**34**	**–**	**–**	**531**
	3 507	**2 891**	**66**	**19**	**531**

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R25 million.

R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
2004					
Assets backing policyholder liabilities:					
Cash and cash equivalents	12 162	9 362	2 748	52	–
Government and public authority stocks	12 452	1 428	2 871	1 304	6 849
Debentures and other loans *	7 957	2 017	4 240	1 259	441
	32 571	12 807	9 859	2 615	7 290

* *Included in debentures and other loans is the following lease debtor (R million):*

Lease payments receivable	637
Less: unearned finance charges	(52)
Net lease debtor	585
Total of minimum lease payments (R million)	
Receivable within:	
One year	604
Between one and five years	33
	637
Present value of minimum lease payments (R million)	
Receivable within:	
One year	559
Between one and five years	26
	585

R million	Total	Maturity date: Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Shareholder assets:					
Cash and cash equivalents	2 333	2 226	83	9	15
Government and public authority stocks	489	447	42	–	–
Debentures and other loans	524	30	46	–	448
	3 346	2 703	171	9	463

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R24 million.

26. Scrip lending arrangements

Momentum has mandated its asset managers to enter into scrip lending arrangements on its behalf. The market value of scrip out on loan is monitored on a daily basis. No significant exposure to credit risk, liquidity risk or cash flow risk has resulted from the scrip lending activities of Momentum.

Because any scrip out on loan is subject to a repurchase agreement, the loan agreement is recorded at the same value as the underlying scrip and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Group's accounting policy relating to the specific class of asset.

Fees earned from scrip lending and dividends received on scrip out on loan are accounted for under investment income.

The following table represents details of the equities on loan at 30 June:

R million	**2005**	2004
Market value	**3 297**	1 951
Value of collateral	**4 644**	2 420
– cash	**3 666**	1 359
– bonds, fixed deposits and money market	**552**	716
– equities	**426**	345
Collateral cover %	**141%**	124%

27. Change in accounting policy

Momentum Group changed its accounting policy for the year ended 30 June 2004 to consolidate share trusts for the first time.

The effect of the change in accounting policy has been:

– A reduction of retained income as at 30 June 2003 of R57 million.
– A reduction of net profit after tax as set out below:

Net profit before tax	**–**	(18)
Tax	**–**	–
Net profit after tax	**–**	(18)
Earnings attributable to outside shareholders	**–**	2
Earnings attributable to ordinary shareholders	**–**	(16)

28. Related parties

Holding company

The holding company of Momentum Group Limited is FirstRand Limited, which in turn has two major shareholders being Remgro Limited and RMB Holdings Limited. The most significant related parties of Momentum Group Limited are FirstRand Bank Holdings Limited, Discovery Holdings Limited, FirstRand Asset Management (Pty) Limited, Momentum MultiManagers (Pty) Limited, Momentum Wealth (Pty) Limited, Momentum Property Investments (Pty) Limited, Momentum Collective Investments (Pty) Limited, Lekana Employee Benefit Solutions (Pty) Limited, Momentum Ability (Pty) Limited, Sovereign Health (Pty) Limited, Advantage Asset Managers (Pty) Limited, Community Property Holdings Limited, Emira Property Fund, RMB International MultiManagers, RMB International Investment Services and Momentum Leben. Subsidiaries and associate companies of these companies are also related parties, as well as African Life and Freestone Property Fund, associated companies of Momentum Group Limited.

Property leases

Certain group companies have entered into property lease agreements with Momentum Group's property management subsidiary, RMB Properties (Pty) Limited. These leases are based on market related terms and conditions.

Assets under management

FirstRand Asset Management (Pty) Limited, a subsidiary of Momentum Group Limited, has been mandated to manage assets on behalf of certain related parties of the Group. The total assets under management on behalf of related parties amounted to R51 660 million at 30 June 2005 (2004: R61 792 million). Advantage Asset Managers (Pty) Limited, a subsidiary of Momentum Group Limited, managed assets on behalf of related parties amounting to R5 262 million as at 30 June 2005 (2004: R2 998 million).

28. Related parties *(continued)*

Distribution of products

Momentum Distribution Services ("MDS"), a division of Momentum Group Limited, distributes the products of Momentum Wealth (Pty) Limited in addition to those of Momentum Group Limited. Fees from this related party for the distribution of products for the year ended 30 June 2005 amounted to R13 million (2004: R8 million).

29. Contingencies and commitments

No material capital commitments existed at 30 June 2005 other than disclosed in the notes and no material claims had been instituted against Momentum Group Limited or any of its subsidiaries.

Commitments under derivative instruments

Option contracts, financial futures contracts and interest rate swap agreements have been entered into in the normal course of business in order to achieve the required hedging of policyholder liabilities. In terms of the Group's accounting policies, these instruments are stated at fair value or, where not listed, at valuation. Both realised and unrealised profits and losses are included in the income statement and subsequently transferred to or from policyholder liabilities under insurance contracts.

30. Post-balance sheet events

Acquisition of Sage Holdings

Momentum Group Limited's acquisition of 100% of the issued shares of Sage Holdings Limited was approved by the Sage shareholders on 2 August 2005. The transaction was sanctioned by the High Court of South Africa on 16 August 2005, and approved by the Competition Authorities on 24 August 2005. The consideration payable in terms of the scheme is R634 million, or 175 cents per Sage share, comprising an initial payment of 142 cents per share and a subsequent potential maximum payment of 33 cents per share. As security for certain potential contingent taxation related liabilities, an amount of R120 million of the cash consideration is being held in an escrow account managed by Hofmeyr Herbstein & Gihwala Inc. The Sage acquisition increases Momentum's policy base by 25%, and adds a total of 590 agents to Momentum's current agency force.

Disposal of African Life and acquisition of African Life Health

Momentum recently announced that it has agreed to dispose of its 34% shareholding in African Life to Sanlam. This is in line with Momentum's strategy to reach the lower and middle end of the market through the established FNB branch network, rather than through a traditional insurance distribution model. Momentum's separate offer to acquire a 100% shareholding in African Life Health, a medical schemes administrator, was accepted by African Life. If African Life shareholders approve the Sanlam acquisition unchanged, the total consideration Momentum will receive, net of the acquisition price of African Life Health, is R696 million. Both of these transactions remain subject to regulatory approval.

Issue of preference shares

In August 2005, Momentum issued non-redeemable, non-cumulative, non-participating preference shares amounting to R500 million to FirstRand Limited, after approval had been granted by the Financial Services Board. The dividends on these preference shares are calculated as 68% of the prime lending rate quoted by FirstRand Bank Limited. These preference shares reduced Momentum's cost of capital, and the proceeds were utilised to finance some of Momentum's corporate activities during the year, including the acquisition of Sage referred to above.

Declaration of final dividend

On 30 August 2005, Momentum declared a final dividend of R303 million for the year ended 30 June 2005, which was not provided for in the financial statements.

R million	**2005**	2004
31. Cash generated by operations		
Income after taxation	**1 605**	1 138
Earnings attributable to outside shareholders	**(247)**	(73)
Earnings attributable to ordinary shareholders	**1 358**	1 065
Adjustments for non-cash items and taxation:		
Non-cash changes in long-term investment values	**(9 458)**	(1 843)
Dividends received	**(753)**	(1 102)
Net interest received	**(3 766)**	(3 698)
Transfer to policyholder liabilities under insurance contracts and other non-cash items	**15 176**	5 870
Taxation	**1 077**	531
Cash generated by operations	**3 634**	823

R million	2005	2004
32. Working capital changes		
Net decrease in loans and receivables	217	480
Net increase in current liabilities	207	203
Net working capital changes	424	683
33. Taxation paid		
Balance at the beginning of the year	174	(294)
Taxation charged for the year in the income statement	(645)	(439)
Balance at the end of the year	(68)	(174)
Taxation paid	(539)	(907)
34. Dividends paid		
Final dividend declared on:		
– 1 September 2004 in respect of the year ended 30 June 2004	(285)	–
– 16 September 2003 in respect of the year ended 30 June 2003	–	(389)
Interim dividend declared on:		
– 18 February 2005 in respect of the period ended 31 December 2004	(257)	–
– 2 March 2004 in respect of the period ended 31 December 2003	–	(184)
Dividends paid	(542)	(573)

R million

35. Subsidiaries acquired

The following subsidiaries were acquired during the year ended 30 June 2005:

RMB International Channel Islands was acquired effective 1 July 2004.
The fair value of the assets and liabilities as at the date of acquisition were as follows:

Cash and cash equivalents	5
Loans and receivables	11
Property and equipment	5
Current liabilities	(7)
Long-term liabilities	(11)
Net asset value as at date of acquisition	3
Cash consideration	11
Goodwill	8

Advantage Asset Managers (Pty) Limited was acquired effective 12 January 2005.
The fair value of the assets and liabilities as at the date of acquisition were as follows:

Intangible asset	79
Outside shareholders' interest	(112)
Net asset value as at date of acquisition	(33)
Cash consideration	72
Goodwill	105

Sovereign Health (Pty) Limited was acquired effective 1 June 2005.
The fair value of the assets and liabilities as at the date of acquisition were as follows:

Cash and cash equivalents	4
Loans and receivables	16
Intangible assets	102
Property and equipment	6
Current liabilities	(13)
Provisions	(6)
Long-term liabilities	(2)
Net asset value as at date of acquisition	107
Cash consideration	195
Goodwill	88

The total amount paid in cash for subsidiaries acquired is:

RMB International Channel Islands	(11)
Advantage Asset Managers (Pty) Limited	(72)
Sovereign Health (Pty) Limited	(195)
	(278)

36. Proceeds on disposal of Discovery Holdings

Effective 1 July 2003, Momentum Group Limited's investment in Discovery Holdings was sold to FirstRand Limited for R740 million. The full proceeds on sale of Discovery were treated as a capital injection in Momentum as at 1 July 2003.

	Effective % holding		Investment by holding company: Amounts owing by/(to) subsidiaries		Group carrying amount		Directors' valuation (including loan account)	
	2005 %	2004 %	2005 Rm	2004 Rm	2005 Rm	2004 Rm	2005 Rm	2004 Rm
37. Analysis of significant investments in subsidiaries and associates								
Subsidiaries (directly held):								
Listed								
Emira Property Fund	**46**	56	**–**	–	**861**	885	**942**	830
Unlisted								
Southern Life Special Investments (Pty) Limited	**100**	100	**(1 105)**	(339)	**1 089**	932	**(16)**	593
Momentum Property Investments (Pty) Limited	**100**	100	**30**	81	**508**	324	**538**	405
Momentum Life Assurers Limited	**100**	100	**(36)**	(36)	**36**	36	**–**	–
Momentum Wealth (Pty) Limited	**100**	100	**20**	38	**51**	39	**71**	77
Momentum Healthcare (Pty) Limited	**100**	100	**442**	247	**(238)**	(242)	**204**	5
Community Property Holdings Limited	**100**	100	**382**	233	**38**	3	**420**	236
Momentum Collective Investments (Pty) Limited	**100**	100	**2**	5	**13**	19	**15**	24
Momentum Ability Limited	**100**	100	**–**	–	**13**	13	**13**	13
FirstLife Assurance (Pty) Limited	**100**	100	**5**	5	**5**	3	**10**	8
Lekana Employee Benefit Solutions (Pty) Limited	**70**	70	**44**	63	**41**	32	**85**	95
Momentum International MultiManagers (Pty) Limited	**90**	73	**3**	10	**91**	9	**112**	35
FirstRand Asset Management (Pty) Limited	**100**	100	**265**	294	**(17)**	(172)	**1 901**	1 479
			52	601	**2 491**	1 881	**4 295**	3 800
Associates:								
Listed								
African Life Assurance Company Limited	**34**	34	**–**	–	**727**	596	**845**	518
Freestone Property Fund	**40**	–	**–**	–	**200**	–	**280**	–
Unlisted								
Futuregrowth Asset Management (Pty) Limited	**40**	–	**(6)**	(2)	**14**	9	**18**	27
Tembisa Plaza Share Block (Pty) Limited	**40**	–	**–**	–	**37**	–	**37**	–
			(6)	(2)	**978**	605	**1 180**	545

Embedded value of Momentum Group Limited

This section of the annual report sets out the embedded value and the value of new insurance business of Momentum Group Limited ("Momentum").

DEFINITION OF EMBEDDED VALUE

An embedded value is an estimate of the economic value of the Company, excluding any goodwill that may be attributed to the value of future new business.

The embedded value is defined as:

- the shareholders' net assets (adjusted to reflect the directors' valuations of subsidiaries and associates as reflected in note 37 to the financial statements);
- plus the value of in-force insurance business less the opportunity cost of holding the capital adequacy requirements in respect of the in-force insurance business.

The value of the in-force insurance business is calculated as the present value of the projected stream of future after-tax profits of the insurance business in-force at the calculation date. The opportunity cost of holding capital adequacy requirements reflects the fact that the expected long-term investment return on the assets backing the capital adequacy requirements is less than the return assumed to be required by the shareholders, as reflected by the risk discount rate.

Embedded value results

R million	30 June 2005	30 June 2004
Shareholders' net assets[1]	7 639	6 196
Value of in-force insurance business	4 180	3 470
– Present value of future profits[2]	4 909	4 096
– Opportunity cost of capital	(729)	(626)
Embedded value	**11 819**	9 666

1. *The directors' valuations of FirstRand Asset Management, Advantage Asset Managers and African Life form part of the shareholders' net assets as reflected above. More details regarding the directors' valuations of subsidiaries and associate companies are disclosed in note 37 to the annual financial statements.*
2. *The present value of future profits of R4 909 million includes an amount of R282 million in respect of linked products, of which R65 million relates to products that were not written on Momentum's balance sheet.*

Value of new business

The value of new business is a measure of the value-added to the Company as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected stream of future after-tax profits of the new insurance business sold during the financial year, after allowing for initial expenses. The value of new business is also appropriately reduced by the opportunity cost of holding the capital adequacy requirements for new business.

Value of new business

R million	30 June 2005	30 June 2004
Present value of future profits:	421	326
– Individual life[1]	388	278
– Collective Benefits	29	36
– Lekana	4	12
Opportunity cost of capital adequacy requirements	(53)	(38)
Value of new business net of cost of CAR	**368**	288
Notional premiums[2]	**1 973**	1 667
Margin (%)	**18.7**	17.3

1. *The individual life present value of future profits of R388 million includes an amount of R40 million in respect of linked products, of which R11 million relates to products that were not written on Momentum's balance sheet.*
2. *Notional premiums are defined as annualised recurring premiums plus 10% of single premiums.*

Value of new business as a percentage of notional premiums

R million	Value of new business	Notional premiums	Margin %
Present value of future profits:	421	1 973	21.3
– Individual life	388	1 844	21.0
– Collective Benefits	29	109	26.6
– Lekana	4	20	20.0
Opportunity cost of capital adequacy requirements	(53)	–	(2.7)
Value of new business net of cost of CAR	368	1 973	18.7

The value of new business can be expressed as a percentage of discounted future recurring premiums plus single premiums.

Value of new business as a percentage of single premiums plus discounted future recurring premiums

R million	Value of new business	Discounted premiums	Margin %
Present value of future profits:	421	13 933	3.0
– Individual life	388	12 983	3.0
– Collective Benefits	29	749	3.9
– Lekana	4	201	2.0
Opportunity cost of capital adequacy requirements	(53)	–	(0.4)
Value of new business net of cost of CAR	368	13 933	2.6

RECONCILIATION OF NEW BUSINESS INFLOWS

The following table provides a reconciliation between the total new business shown in the report of the Chief Financial Officer and the new business inflows used in the calculation of the value of new business:

New business inflows

R million	Annualised recurring premiums	Lump sum inflows
Total new business inflows	1 157	41 532
Less items not valued:		
– Employee benefit premium income (investment only business)		(3 832)
– Linked product inflows – Momentum International		(2 494)
– Unit trust inflows – local		(9 742)
– Unit trust inflows – offshore		(1 811)
– Segregated third party inflows		(15 587)
– Policy alterations and other		(467)
Add additional item valued:		
– Term extensions on maturing policies[1]	4	524
New business inflows included in value of new business	1 161	8 123

1. Only client-initiated term extensions have been included in the new business embedded value calculation for F2005, whereas all term extensions including automatic term extensions (delayed maturities) had been included in the past.

RECONCILIATION OF SHAREHOLDERS' NET ASSETS WITH STATUTORY SURPLUS

The following table shows a reconciliation between the statutory surplus and the shareholders' net assets for embedded value purposes:

Reconciliation of shareholders' net assets

R million	30 June 2005	30 June 2004
Statutory surplus	4 510	4 696
Adjustment for directors' valuation of strategic investments	2 564	1 500
Impact of elimination of negative reserves	565	–
Shareholders' net assets	7 639	6 196

EMBEDDED VALUE PROFITS

Embedded value profits represent the change in embedded value over the year, adjusted for any capital raised and dividends paid. The embedded value profits for the twelve months ended 30 June 2005 are set out below:

Embedded value profits

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

The value of new business comprises the economic value of the new business written during the year, determined at the point of sale.

The expected return on new business is determined by applying the current year's risk discount rate to the value of new business for half a year and releasing the expected cost of the capital adequacy requirements in respect of new business over the year.

The expected return on existing business is determined by applying the previous year's risk discount rate to the value of in-force business at the beginning of the year and releasing the expected cost of the capital adequacy requirements over the year.

The operating experience variations represent the positive impact of differences between the actual experience and the assumptions used in the embedded value calculations. The operating variance of R202 million includes the following variations:

- R115 million from Individual Life business, which includes R91 million from favourable mortality experience, R1 million in respect of favourable terminations experience, R20 million in respect of favourable experience on premium indexation and alterations and R3 million in respect of financial structures;
- R12 million from favourable risk experience on Momentum Collective Benefits business;
- R45 million in respect of favourable tax experience;

- R38 million in respect of working capital portfolio profits; and
- Negative R8 million in respect of other items.

The impact of the experience assumption changes of R72 million consisted mainly of the following:

- In respect of individual life and annuity business, an impact of R163 million, which is mainly attributable to changes to future renewal expense assumptions;
- In respect of intended improvements to early termination and premium cessation benefits, a negative impact of R100 million; and
- An impact of R9 million in respect of other items.

Investment return on shareholders' net assets comprises investment income and capital appreciation.

The investment variations item represents the impact of the higher investment returns on the policyholder portfolios compared with the returns assumed in the embedded value calculation.

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

Embedded value profit

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

SENSITIVITY TO THE RISK DISCOUNT RATE

The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future insurance profits of Momentum. The sensitivity of the embedded value and the value of new business to changes in the risk discount rate, is illustrated below:

Value of in-force

	Risk discount rate		
R million	10.0%	11.0%	12.0%
Present value of future profits	5 189	4 909	4 655
Opportunity cost of capital	(630)	(729)	(815)
Value of in-force insurance business	4 559	4 180	3 840

Value of new business

	Risk discount rate		
R million	10.0%	11.0%	12.0%
Present value of future profits	453	421	392
Opportunity cost of capital	(41)	(53)	(64)
Value of new business	412	368	328

ASSUMPTIONS

The embedded value calculations comply with the Actuarial Society of South Africa's Professional Guidance Note PGN107. The same best-estimate assumptions were used for the embedded value calculations and the financial soundness valuation of Momentum. The main assumptions used in the embedded value calculations are described below:

Economic assumptions

The economic assumptions used were as follows:

	30 June 2005	30 June 2004
Risk discount rate	**11.0**	13.1
Investment returns (before tax)	**9.5**	11.5
Expense inflation rate	**6.0**	7.5

The investment return assumption of 9.5% per annum (30 June 2004: 11.5% per annum) was derived from the yields on South African Government stocks at 30 June 2005 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return by adding the following premiums/-(discounts) to the gilt yield of 8.4% per annum (30 June 2004: 10.5% per annum) derived as described above.

Embedded value of Momentum Group Limited

| Continued |

	% premium /(discount)	
	30 June 2005	30 June 2004
Equities	**2.0**	2.0
Properties	**1.0**	1.0
Government stocks	**0.0**	0.0
Other fixed interest stocks	**0.5**	0.5
Cash	**(2.0)**	(2.0)

The future expense inflation assumption of 6.0% per annum (30 June 2004: 7.5% per annum) was based on an assumed long-term differential of 3.5% (30 June 2004: 4.0%) relative to the assumed future investment return assumption of 9.5% per annum (30 June 2004: 11.5% per annum).

In the calculation of the opportunity cost of holding the capital adequacy requirements it was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 55% cash or near-cash and 45% variable rate preference shares.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent experience investigations. Allowance was made for the expected impact of AIDS using models developed by the Actuarial Society of South Africa, adjusted for Momentum's practice and policy design.

Expenses

The maintenance expense assumptions were based on the results of internal expense investigations that covered the financial year ended 30 June 2005. The expense assumptions are at a level sufficient to support the existing business on a going concern basis.

Premium indexation arrangements

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business, by using an expected take-up rate based on the results of recent experience investigations. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on the new business written during the financial year ended 30 June 2005.

Directors' valuations

The directors' valuation of FirstRand Asset Management (100%) as at 30 June 2005 excludes the value of any profits derived by managing assets on the balance sheet of Momentum. The value of asset management profits in respect of assets on the balance sheet of Momentum was included in the value of in-force insurance business and the value of new business.

The directors' valuation of Momentum MultiManagers (90.2%), which owns 50% of Advantage Asset Managers, includes profits on business written on Momentum's balance sheet.

The directors' valuation of African Life was equated to Momentum's share (34%) of the market value of African Life as at 30 June 2005.

The directors' valuations are disclosed in note 37 to the annual financial statements.

Reserving bases

It was assumed that the current bases of calculating the policyholder liabilities would continue unchanged in future.

Surrender and paid-up bases

It was assumed that the current surrender and paid-up bases and practices would be maintained in future, except for the intended improvements mentioned earlier.

Tax

Allowance was made for future tax based on the four fund tax dispensation and for Capital Gains Tax at face value in the policyholders' portfolios. No allowance was made for Capital Gains Tax on strategic shareholders' assets, as these are not held with the intention of ultimate disposal.

The opportunity cost of holding the capital adequacy requirements was based on projected after tax returns on the assets backing the capital adequacy requirements.

Allowance was made for Secondary Tax on Companies on future dividends ultimately payable to shareholders at a rate of 4.8% (30 June 2004: 3.0%) per annum of net expected future profits. The STC assumption is based on the expected future cash dividends according to the dividend policy of Momentum taking into account expected future STC credits.

Sensitivities

This section illustrates the effect of different assumptions, other than in respect of the risk discount rate, on the value of in-force insurance business and the value of new business. For each sensitivity illustrated, all other assumptions have been left unchanged.

Value of in-force insurance business

R million	Value of in-force business	Change	% change
Base value of in-force insurance business	4 180		
Renewal expenses increase by 10%	4 000	(180)	(4.3)
Expense inflation increases from 6.0% to 7.0%	4 089	(91)	(2.2)
Policy discontinuance rates increase by 10%	4 065	(115)	(2.8)
Mortality and morbidity experience deteriorates by 10%	3 395	(785)	(18.8)
Investment returns reduce from 9.5% to 8.5%	4 113	(67)	(1.6)

Value of new business

R million	Value of new business	Change	% change
Base value of new business	368		
Renewal expenses increase by 10%	345	(23)	(6.3)
Expense inflation increases from 6.0% to 7.0%	356	(12)	(3.3)
Policy discontinuance rates increase by 10%	331	(37)	(10.1)
Mortality and morbidity experience deteriorates by 10%	244	(124)	(33.7)
Investment returns reduce from 9.5% to 8.5%	378	10	2.7
New business acquisition expenses increase by 10%	336	(32)	(8.7)
New business volumes drop by 20%	215	(153)	(41.6)

The sensitivities reflect the impact on the present value of future profits of deteriorations in experience. The effect of equivalent improvements in experience would be to increase the present value of future profits by an amount approximately equal to the decreases shown above.

No allowance was made for compensating management actions, except for employee benefits risk benefits where it is assumed that the deterioration in mortality experience will be countered by a corresponding increase in premiums after a delay of one year, and for a reduction in bonuses consistent with the reduction in investment returns.

The sensitivity of the cost of capital to a 1% increase/(decrease) in investment returns is of a similar magnitude than the sensitivity of the opportunity cost of capital to a 1% decrease/(increase) in the risk discount rate shown earlier. The sensitivity of the opportunity cost of capital to other assumption changes is small.

REVIEW BY THE INDEPENDENT ACTUARIES

Deloitte have reviewed the methodology and assumptions underlying the calculation of the embedded value and the value of new insurance business. They are satisfied that, based on the information supplied to them by Momentum Group, the methodology and assumptions are appropriate for the purpose of including the embedded value in this report, that these have been determined in accordance with generally accepted actuarial principles and in accordance with guidance note PGN107 of the Actuarial Society of South Africa, that the approach has been applied consistently across the different business units and that the methodology and assumptions have been applied consistently over the year.

Glossary of terms

Embedded value
Embedded value equals the net asset value of the Company, plus the present value of the projected stream of future after-tax profits on in-force insurance contracts, less the cost of capital at risk.

Capital Adequacy Requirement (CAR)
This is the minimum amount of capital an insurer is required to hold, as determined by the Registrar of Insurance.

CAR cover
The CAR cover refers to the multiple by which an insurer's free assets cover its CAR, expressed as a ratio of free assets to CAR.

Financial Soundness Valuation
Methodology intended to provide a prudently realistic picture of the overall financial position of the long-term insurer, allowing explicitly for actual premiums that will be received and future experience that may be expected in respect of interest rates, expenses, mortality, morbidity and other relevant factors.

First-tier margins
Compulsory margins to introduce a minimum degree of prudence in the actuarial valuation basis, to allow for possible adverse deviations in the rendering of services and the exposure to risks during the expected future "lifetime" of insurance contracts on the books of the insurer.

Second-tier margins
Discretionary margins included in cases where the statutory actuary believes that the compulsory (first-tier) margins are insufficient to allow for future contingencies and the risk of adverse experience.

Four fund tax dispensation
Long-term insurers are taxed in terms of the four funds trustee principle as set out in the Income Tax Act. The four funds are the untaxed policyholder fund, the individual policyholder fund, the Company policyholder fund and the corporate fund.

Administration

MOMENTUM GROUP LIMITED
(Registration number 1904/002186/06)

Registered office
Momentum
268 West Avenue
Centurion
0157

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0046

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National (012) 671-8911
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Website
www.momentum.co.za

Company secretary
Francois Jooste

Statutory actuary
Nicolaas Kruger

Auditors
PricewaterhouseCoopers Inc
2 Eglin Road
Sunninghill
2157

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

Discovery

DISCOVERY GROUP
ANNUAL REPORT 2005

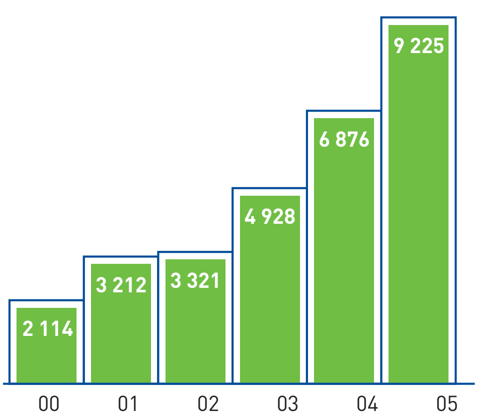
This report reflects the operating results and financial position of Discovery which holds the health and certain related insurance interests of the FirstRand Limited group of companies. Discovery is 62.3% held by FirstRand (2004: 63.3%) and is listed on the JSE Limited. This report should be read in conjunction with the report on FirstRand Limited.

Contents

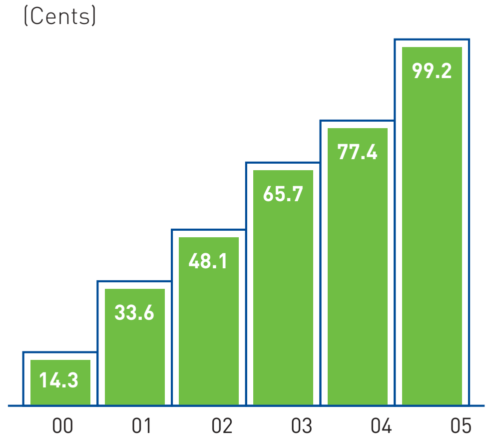
Financial highlights

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

Embedded value
(R million)



Diluted headline earnings per share before abnormal items
(Cents)



Six-year facts for the year ended 30 June

	2000	2001	2002	2003	2004	2005	Compound growth %
Embedded value (Rm)	2 114	3 212	3 321	4 928	6 876	**9 225**	34
New business API (Rm)	1 322	2 177	2 339	3 148	3 213	**4 342**	27
Key ratios							
Return on average equity (%)	21	30	38	39	24	**20**	
Return on average assets (%)	5	8	11	13	11	**13**	
Debt to equity ratio (%)	–	–	–	26	13	**3**	
Termination capital adequacy requirement before the application of directive 145 (times)	1.9	1.6	1.3	2.5	2.2	**1.8**	
Capital adequacy requirement after the application of directive 145 (times)	–	–	–	–	10.2	**12.9**	
Exchange rates							
Rand/US$							
– Closing	6.77	8.07	10.31	7.56	6.18	**6.68**	
– Average	6.40	7.42	9.19	8.89	6.77	**6.19**	
Rand/GBP							
– Closing	10.26	11.35	15.75	12.47	11.20	**11.97**	
– Average	9.88	10.81	14.81	14.12	11.83	**11.50**	
Share statistics							
Number of ordinary shares in issue							
– Weighted average (000's)	378 285	388 417	390 411	391 714	504 051	**519 188**	
– End of period (000's)	384 979	386 026	390 625	397 800	532 416	**548 957**	
Price/diluted headline earnings (times)	78.7	32.5	12.2	8.7	16.6	**22.2**	
Share price (cents per share):							
– High	1 310	1 300	1 140	900	1 425	**2 550**	
– Low	745	1 000	640	590	695	**1 210**	
– Closing	1 125	1 090	720	745	1 283	**2 200**	
Market capitalisation (Rm)	4 331	4 207	2 812	2 964	6 831	**12 077**	

Six-year review of the statement of gross inflows under management

for the year ended 30 June

R million	2000	2001	2002	2003	2004	2005	Compound growth %
Gross inflows under management	3 559	5 494	7 739	10 946	14 345	**17 295**	37
Less: Collected on behalf of third parties	1 310	2 117	3 877	7 190	10 647	**13 266**	59
Less: Money Market contributions	221	559	357	–	–	**–**	
Gross income of Group	2 028	2 818	3 505	3 756	3 698	**4 029**	15

Six-year review of the income statement for the year ended 30 June

R million	2000	2001	2002	2003	2004	**2005**	Compound growth %
Gross income of Group	2 028	2 818	3 505	3 756	3 698	**4 029**	15
Outward reinsurance premiums	(144)	(252)	(211)	(342)	(293)	**(378)**	21
Net income	1 884	2 566	3 294	3 414	3 405	**3 651**	14
Policyholder benefits	(1 331)	(1 679)	(1 948)	(1 646)	(1 078)	**(841)**	(9)
Recoveries from reinsurers	123	206	226	280	237	**262**	16
Net policyholder benefits	(1 208)	(1 473)	(1 722)	(1 366)	(841)	**(579)**	(14)
Commissions	(115)	(87)	(276)	(438)	(576)	**(715)**	44
Operating and administration expenses	(363)	(747)	(1 096)	(1 437)	(1 495)	**(1 734)**	37
Vitality benefits	(44)	(132)	(167)	(227)	(314)	**(412)**	56
Deferred acquisition costs	–	–	–	–	–	**1**	
Transfer to liabilities under investment contracts	(24)	(14)	24	–	–	**–**	
Transfer (to)/from assets/liabilities under insurance contracts	(46)	47	180	404	529	**574**	
Profit from operations	84	160	237	350	708	**786**	56
Local operations	117	224	347	519	842	**1 021**	54
Foreign operations	(33)	(64)	(110)	(169)	(134)	**(235)**	48
Investment income	39	61	87	125	130	**124**	26
Realised and unrealised investment gains and losses	60	51	45	(77)	68	**157**	21
Fair value adjustment to liabilities arising from investment contracts	(61)	(56)	(51)	62	(77)	**(122)**	15
Financing costs	–	–	(1)	(25)	(47)	**(54)**	
Foreign exchange loss	–	–	–	(17)	(62)	**(8)**	
Profit before abnormal items and taxation	122	216	317	418	720	**883**	49
Abnormal items	–	–	64	120	–	**–**	
Profit before taxation	122	216	381	538	720	**883**	49
Taxation	(61)	(80)	(142)	(182)	(299)	**(307)**	38
– Operating profit	(61)	(80)	(123)	(146)	(299)	**(307)**	38
– Abnormal items	–	–	(19)	(36)	–	**–**	
Profit after taxation	61	136	239	356	421	**576**	57
Minority share of loss	–	1	–	6	(3)	**9**	
Net profit attributable to ordinary shareholders	61	137	239	362	418	**585**	57
Basic earnings per share before abnormal items (cents)							
– undiluted	16.0	35.1	50.0	71.0	83.0	**112.6**	48
– diluted	16.7	35.3	49.1	67.3	79.7	**108.0**	45
Basic earnings per share (cents)							
– undiluted	16.0	35.1	61.4	92.5	83.0	**112.6**	48
– diluted	16.7	35.3	59.8	86.8	79.7	**108.0**	45
Headline earnings per share before abnormal items (cents)							
– undiluted	13.6	33.4	49.0	69.3	80.5	**103.3**	50
– diluted	14.3	33.6	48.1	65.7	77.4	**99.2**	47
Headline earnings per share (cents)							
– undiluted	13.6	33.4	60.4	90.8	80.5	**103.3**	50
– diluted	14.3	33.6	58.8	85.2	77.4	**99.2**	47
Weighted number of shares in issue (000's)	378 285	388 417	390 411	391 714	504 051	**519 188**	7
Diluted weighted number of shares (000's)	391 541	400 381	416 264	432 123	536 025	**553 227**	7

Six-year review of the balance sheet at 30 June

R million	2000	2001	2002	2003	2004	2005	Compound growth %
Assets							
Cash and cash equivalents	347	507	459	1 469	998	**1 075**	
Government and public authority stocks							
– available-for-sale	28	22	42	54	130	**146**	
– at fair value through profit and loss	30	38	33	54	52	**40**	
Equity investments							
– available-for-sale	152	149	201	217	602	**922**	
– at fair value through profit and loss	425	443	475	224	251	**337**	
Investment in associate	2	13	4	4	2	**4**	
Investment assets	984	1 172	1 214	2 022	2 035	**2 524**	
Loans and receivables	185	596	507	291	430	**557**	
Deferred taxation	–	77	17	7	10	**13**	
Assets arising from insurance contracts	–	83	345	772	1 318	**1 881**	
Intangible assets	26	14	32	36	38	**45**	
Equipment	103	140	193	221	201	**196**	
Total assets	1 298	2 082	2 308	3 349	4 032	**5 216**	32
Liabilities and shareholders' funds							
Liabilities							
Current liabilities	256	557	569	547	578	**896**	
Provisions	2	11	9	16	22	**30**	
Taxation	3	213	39	44	43	**17**	
Deferred taxation	11	–	43	26	128	**323**	
Liabilities arising from insurance contracts	135	171	141	9	6	**–**	
Liabilities arising from reinsurance contracts	–	–	–	16	36	**31**	
Financial liabilities	485	554	579	1 527	716	**577**	
– Investment contracts at fair value through profit and loss	485	554	579	370	400	**483**	
– Borrowings at amortised cost	–	–	–	1 157	316	**94**	
Total liabilities	892	1 506	1 380	2 185	1 529	**1 874**	16
Outside shareholders' interest	1	67	184	67	67	**67**	
Shareholders' funds							
Share capital and share premium	423	424	427	429	1 276	**1 336**	
Reserves	(18)	85	317	668	1 160	**1 939**	
Total shareholders' funds	405	509	744	1 097	2 436	**3 275**	
Total liabilities and shareholders' funds	1 298	2 082	2 308	3 349	4 032	**5 216**	

Board of directors and board committees of Discovery Holdings Limited

Laurie Dippenaar (56) *Chairman of Discovery Holdings*
MCom, CA (SA)
Chief Executive Officer of FirstRand, Director of FirstRand Bank Holdings, Director of RMB Holdings

Brian Brink (53) *Non-executive Director of Discovery Holdings*
BSc (Med), MBBCh, DA (SA)

Johan Burger (46) *Non-executive Director of Discovery Holdings*
BCom (Hons), CA (SA)
Chief Financial Officer of FirstRand and Financial director of FirstRand Bank Holdings

Judy Dlamini (46) *Non-executive Director of Discovery Holdings*
MBChB, MBA, Diploma in Occupational Health

Steven Epstein (62) *Non-executive Director of Discovery Holdings*
JD, Columbia University Law School, BA, Tufts University
Appointed 20 February 2005

Adrian Gore (41) *Chief Executive Officer of Discovery Holdings*
BSc (Hons), FFA, ASA, MAAA, FASSA

Monty Hilkowitz (65) *Non-executive Director of Discovery Holdings*
FIA

Neville Koopowitz (41) *Managing Director of Vitality, Marketing Director of Discovery*
BCom, CFP

Herschel Mayers (45) *Managing Director of Discovery Life*
BSc (Hons), FIA, FASSA

John Robertson (57) *Chief Operating Officer of Discovery Holdings*
BCom, CTA, CA (SA), HDipTax

Barry Swartzberg (40) *Managing Director of Discovery Health*
BSc, FFA, ASA, FASSA, CFP

Stewart Whyte (43) *Chief Operating Officer of Destiny Health*

Sindi Zilwa (38) *Non-executive Director of Discovery Holdings*
BCompt(Hons), CTA, CA (SA), Advanced Taxation Certificate, Certified Financial Planner (IFP-SA), Advanced Diploma in Financial Planning (UOFS)

Audit committee

JP Burger (Chairman)
AH Arnott
SV Zilwa

Remuneration committee

LL Dippenaar (Chairman)
NJ Dlamini
M Olivier

Actuarial committee

A Rayner (Chairman)
RD Williams
HP Mayers
S Matisonn
B Swartzberg
JP Burger
SV Zilwa

Executive committee

A Gore (Chairman)
NS Koopowitz
HP Mayers
JM Robertson
B Swartzberg
R Farber
HD Kallner
K Kropman
S Matisonn
K Mayet
A Pollard
K Rabson
J van Rooyen
J Broomberg
P Tlhabi

Discovery Holdings Limited is a majority-owned subsidiary of FirstRand Limited, listed in the insurance sector of the JSE Limited. The consolidated figures in this report include the operations of Discovery Health, Discovery Life, Discovery Vitality, the Destiny group of companies and PruHealth. All operations take place within 100%-owned subsidiaries, with the exception of the Destiny group of companies in which Discovery Holdings Limited has a 98% interest (with management owning the balance) and PruHealth in which Discovery Holdings Limited has a 50% interest held indirectly via a wholly-owned subsidiary, Discovery Offshore Holdings Limited.

BASIS OF PREPARATION

The attached annual financial statements relate to the Discovery Holdings group of companies ("Discovery"). In order to provide a better understanding of Discovery's results, the results have been provided on a segmental basis on page 326. The segments into which Discovery has been divided are:

Health South Africa – the provision of administration and managed care services to Discovery Health Medical Scheme and several smaller closed schemes.

Health United States of America – the provision and administration of health insurance products to employer groups and individuals in the United States of America, together with Guardian Life Insurance Company of America ("Guardian") and Tufts Health Plan of Boston, Massachusetts ("Tufts").

Health United Kingdom – the provision and administration of health insurance products to employer groups and individuals in the United Kingdom, together with the Prudential Assurance Company Limited.

Life – the provision of a risk-only life assurance product in the South African market. Subsequent to the year end, Discovery began selling investment products in the South African market.

Vitality – the provision of health and lifestyle benefits with selected partners to medical scheme members and Discovery Life policyholders. This includes the results from offering KeyClub benefits to KeyCare members.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of Discovery, as this is the basis on which the Group's affairs are managed.

ACCOUNTING POLICIES

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

REVIEW OF GROUP RESULTS

Discovery continued to produce strong, consistent earnings growth, despite significant investment into new products and opportunities. Headline earnings increased by 32% to R536 million for the year ended 30 June 2005. Unrealised gains on available-for-sale investments of R158 million for the year have been taken directly to reserves and are not included in earnings.

In the year to 30 June 2005, the Group incurred a foreign exchange loss of R8 million and interest costs of approximately R52 million on the rand denominated borrowings made by Destiny Health. This loan was repaid in January 2005 and replaced by a dollar denominated working capital facility to cover Destiny's cash flow requirements.

In the financial year, the Group incurred costs of R11 million towards the development and launch of its retirement funding product suite. The Group began accepting new business in respect of this product in August 2005. Even though we are confident that this investment will yield profits far in excess of these costs in future years, the Group has continued to adopt the policy of expensing set-up costs of new operations.

SIX-YEAR REVIEW

The six-year review of key financial indicators is set out on page 296. It is pleasing to note that profit from operations has increased by a compound growth of 56% per annum since 2000 from R84 million to R786 million due to the strong growth in all of Discovery's operations.

Gross inflows under management, which in our belief is the most appropriate measure of our scale of operations, have shown compound growth of 37% per annum. This is driven by growth in all business areas.

GROUP OPERATING RESULTS

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

Earnings source

R million	June 2005	June 2004	% change
Health South Africa	563	522	8
Vitality	38	50	(24)
Life	421	271	55
Health United States of America	(87)	(106)	18
Health United Kingdom	(148)	(28)	(428)
Holdings	(1)	(1)	–
Group operating profit	786	708	11

INVESTMENT INCOME ON THE SHAREHOLDERS' ASSETS

Strong investment market performance resulted in an increase in shareholder equity investments from R602 million to R922 million.

CAPITAL MANAGEMENT

Discovery follows the philosophy of investing the Group's capital in business projects which offer strong organic growth in earnings and maximise the return on capital over the long term.

Of the Group entities, Discovery Life Limited, Destiny Health Insurance Company Inc. ("DHIC") and PruHealth are regulated and have minimum capital requirements.

In line with the philosophy of investing capital efficiently, Discovery Life has embarked on a programme of reinsurance. More information on this reinsurance is contained in the section headed "Reinsurance programme" later on in this report.

DHIC is required to hold capital equal to one quarter of its annualised premium income. As at 30 June 2005, DHIC held approximately US$15 million (2004: US$14 million) for this purpose. Following the implementation of Destiny's alliance with Guardian, new business has primarily been written on the Guardian licence, limiting the growth in the capital requirements going forward.

The capital requirements of PruHealth have been funded equally by each of the joint venture partners. As at 30 June 2005, PruHealth was required to hold GBP12.7 million in capital. At that date, PruHealth held GBP21.7 million in available capital to meet this requirement.

FINANCIAL SERVICES BOARD DIRECTIVE 145

In November 2004, the Financial Services Board issued directive 145 regarding the treatment of negative reserves. This directive provides clarity regarding the treatment of negative reserves as well as the calculation of the Termination Capital Adequacy Requirement (TCAR) relating to negative reserves. The directors believe that the application of this directive more appropriately represents the financial soundness of Discovery Life and have applied it in the statutory returns of Discovery Life.

Following the application of this directive, the capital adequacy requirements of Discovery Life are R77 million (2004: R64 million), and the qualifying excess of assets over liabilities is R988 million (2004: R653 million). This results in a capital adequacy cover of 12.9 times (2004: 10.2 times).

DIVIDEND POLICY

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

EMBEDDED VALUE

The embedded value of Discovery, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business less an allowance for the cost of capital, was R9.2 billion at 30 June 2005 (2004: R6.9 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the consolidated balance sheet on page 319.

The analysis of the main components of the Group embedded value is set out on page 355.

Discovery's embedded value increased by 34% to R9 225 million in the year to 30 June 2005. The main driver behind this increase was exceptionally strong new business written with an embedded value of R602 million. A total of R60 million of new share capital was issued in terms of the share incentive scheme.

The embedded value of new business is set out in the following table:

Embedded value of new business

Embedded value of new business for the year ended 30 June

R million	2005	2004	% change
Health and Vitality			
Gross profit from new business at point of sale	**229**	155	
Cost of capital	**–**	–	
Net profit from new business at point of sale	**229**	155	48
Life			
Gross profit from new business at point of sale	**676**	583	
Cost of capital	**(157)**	(131)	
Net profit from new business at point of sale	**519**	452	15
Destiny Health			
Gross profit from new business at point of sale	**36**	36	
Cost of capital	**(1)**	(6)	
Net profit from new business at point of sale	**35**	30	17

The composition of the embedded value profit and the methodology and assumptions made in calculating the embedded value of Discovery is reflected on pages 355 to 357 of this annual report.

Reconciliation of embedded value earnings

The movement in the embedded value in the year under review can be reconciled to the accounting earnings of the Group as follows:

R million	**Embedded value**	Change in value of in-force	Cost of capital	Impact on income statement	Statement of changes in equity
Total profit from new business at point of sale	**783**	941	(158)	–	–
Profit from existing business					
– Expected return	**602**	76	(5)	531	–
– Changes in methodology and assumptions	**307**	399	(22)	(70)	–
– Experience variances	**363**	273	17	73	–
PruHealth start-up costs	**(120)**	–	–	(120)	–
Adjustment for minority interest in Destiny Health	**4**	(5)	–	10	(1)
Adjustment for Guardian profit share in Destiny Health	**(28)**	(28)	–	–	–
Foreign exchange rate movements	**43**	23	(1)	(8)	29
Interest on loan capital	**(50)**	–	–	(50)	–
Return on shareholders' funds	**377**	–	–	219	158
	2 281	1 679	(169)	585	186

DISCOVERY LIFE PREFERENCE SHARES

Upon the commencement of the life insurance business, Discovery Life issued preference shares to the management team. The terms of such preference shares are intended to achieve the result that the individuals (who subscribed for the preference shares) will be placed in the same financial position after the expiry of three, four and five years respectively had they subscribed for ordinary shares in Discovery Life at the date that the life business commenced operation. The redemption value of these shares is thus determined as 15% of the shareholder value created by the life business.

The preference shares are redeemable over three years, commencing with the end of the financial year ended 30 June 2004. Upon redemption, the preference shareholders are required to invest the amount received in a fresh issue of Discovery shares.

The first tranche of 33% of the preference shares was redeemable on 30 June 2004. By agreement with all the preference shareholders, this tranche was redeemed on 31 August 2004 at a premium of R108.44 per share. The preference shareholders subscribed for 4 270 530 ordinary shares in Discovery Holdings at a price of R12.57 per share, being the weighted average price for the 30 days ended 30 June 2004.

The second tranche of 33% of the preference shares was redeemed on 30 June 2005 at the same premium. Using the proceeds of this redemption, the preference shareholders subscribed for an additional 4 270 530 ordinary shares in Discovery Holdings at a price of R12.57 per share.

It is anticipated that the third and final tranche will be redeemed on 30 June 2006. A further 4 270 530 Discovery shares will be issued on the redemption of this third tranche. These shares have been included in the calculation of the fully diluted earnings per share of the Group.

FOREIGN EXCHANGE LOSSES

In January 2005, Destiny Health repaid its South African rand denominated loan from RMB International (Dublin) Limited, from the investment of R350 million by Discovery Holdings into Destiny. Destiny had previously incurred foreign exchange losses on this facility.

DESTINY ALLIANCES

During the financial year ended 30 June 2004, Destiny commenced writing business with its two alliance partners, Guardian and Tufts. These alliances are structured such that Destiny and its partners are each paid an administration and distribution charge related to the services performed. The balance of any profit, including the risk portion is shared between the partners.

REINSURANCE PROGRAMME

Discovery carefully monitors the insurance risks inherent in its insurance businesses. Where these risks can be shared with third parties on commercially beneficial terms, Discovery enters into reinsurance contracts.

Health South Africa

The Discovery Health Medical Scheme and the closed schemes that Discovery Health administers, retain the insurance risks relating to medical expenses. Prior to 31 December 2003, Discovery shared in these risks through quota share and stop loss reinsurance agreements. These contracts were not renewed in 2004 and Discovery currently has no exposure to health claims in South Africa.

Life

Discovery Life actively manages the exposure to the risks inherent in the writing of life insurance business. The largest risk faced by Discovery Life is the risk that policyholders cancel their contracts and the Company is not able to recover the significant upfront costs invested in writing these contracts.

To reduce its exposure to the risk of a significant number of lapses, Discovery Life has entered into various reinsurance agreements with international reinsurers. As a result of these contracts, Discovery Life had reinsurance in place for the lapse risk arising on approximately 25% of its business in-force at 30 June 2005 (2004: 40%).

With effect from 1 July 2004, a quota share agreement was entered into, effectively reinsuring 50% of the risk profits of the business in-force as at 31 December 2003 for a fixed period of approximately six years. Discovery Life received R200 million in terms of this contract in July 2004. The unearned portion of this has been included in current liabilities.

Health United States of America

Prior to the launch of the Guardian and Tufts alliances, Destiny wrote health insurance for its own account. In order to reduce the exposure to adverse claims experience on the small number of lives covered, Destiny made use of quota share insurance from Clarendon.

With the launch of the alliances, Destiny shares the risk profit and losses with its alliance partners. Furthermore, the people who have been insured through these alliances have had better claims experience than the pre-alliance members. As a result, it is considered that it is not necessary to obtain quota share reinsurance on the portion of the risks borne by Destiny.

Destiny makes use of individual excess of loss insurance to cover any individual claims over US$300 000 per life insured with an aggregate deductible of US$625 000 per annum. Destiny has continued to use this cover for its portion of risks borne from the Guardian and Tufts alliances.

PRUHEALTH JOINT VENTURE

Discovery has established a joint venture ("JV") in the United Kingdom ("UK") with Prudential Assurance Company Limited ("Prudential"). Prudential is a wholly-owned subsidiary of Prudential plc, and a major financial services group in the UK. The JV provides private medical insurance products in the UK and operates under the name of PruHealth.

Report of the Chief Financial Officer

| Continued |

Discovery's share of the projected capital required by this JV is GBP35 million. The capital required will be injected over a period of time and Discovery anticipates that it will be able to meet this capital requirement from existing cash resources and future cash flows.

To date, Discovery has invested GBP23.35 million into PruHealth to meet its capital requirements and operating losses.

BALANCE SHEET

Discovery's shareholder funds are invested into the different business operations as follows:

R million	
Health South Africa and Vitality	527
Life	2 649
International operations	99
	3 275

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 R563 million is as a result of the significant increase in profitable new business written by Discovery Life.

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

Value-added statement for the year ended 30 June

	2005		2004	
	R million	%	R million	%
Value-added				
Net income of group	3 660		3 402	
Investment income	159		121	
Financing costs	(54)		(47)	
Foreign exchange loss	(8)		(62)	
Commission paid	(650)		(576)	
Payments to suppliers of material and services	(1 226)		(1 039)	
	1 881		1 799	
Value allocated				
To employees				
Salaries, wages and other benefits	780	42	587	33
To Government	281	15	289	16
Normal taxation[1]	178		215	
Value-added tax	78		62	
Capital gains tax	5		2	
Other	20		10	
To policyholders[2]	5	0	312	17
Policyholder claims	579		841	
Transfer from assets/liabilities arising from insurance contracts	(574)		(529)	
Retention for expansion and growth	815	43	611	34
Retained income	585		418	
Depreciation	112		111	
Deferred taxation	118		82	
	1 881	100	1 799	100

Value-added
2005

To employees	42%
To Government	15%
To expansion and growth	43%
To policyholders	0%

Value-added
2004

To employees	33%
To Government	16%
To expansion and growth	34%
To policyholders	17%

Notes:

1. *The value allocated to normal taxation has reduced as a result of a reclassification to deferred tax following the application of the FSB directive 145 regarding the treatment of negative reserves.*
2. *The value allocated to policyholders has reduced as a result of the termination of quota share reinsurance payable to the Discovery Health Medical Scheme, effective 1 January 2004.*

Directors' responsibility statement

Directors' responsibility to the members of Discovery Holdings Limited and its subsidiaries ("Discovery")

The directors of Discovery are required by the Companies Act (Act 61 of 1973) as amended ("Companies Act"), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying annual financial statements, South African Statements of Generally Accepted Accounting Practice have been used and reasonable estimates have been made. The annual financial statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2006. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

The directors are responsible for Discovery's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery maintains internal financial controls to provide assurance regarding:

- safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of annual financial statements.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery's external auditors, PricewaterhouseCoopers Inc, have audited the annual financial statements and their unqualified report appears on page 307.

The annual financial statements of Discovery for the year ended 30 June 2005, which appear on pages 308 to 352, have been approved by the board of directors on 12 September 2005 and are signed on its behalf by:

A Gore
Chief Executive Officer

JM Robertson
Chief Operating Officer

Certificate by the company secretary

It is hereby certified that, in terms of section 268G(d) of the Companies Act, Discovery Holdings Limited has for the year ended 30 June 2005 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary

Report of the independent auditors

To the members of Discovery Holdings Limited

We have audited the annual financial statements and group annual financial statements of Discovery Holdings Limited and its subsidiaries set out on pages 308 to 352 for the year ended 30 June 2005. These annual financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these annual financial statements based on our audit.

SCOPE

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

An audit includes:

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

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

AUDIT OPINION

In our opinion, the annual financial statements and group annual financial statements fairly present, in all material respects, the financial position of the Company and the Group at 30 June 2005 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the South African Companies Act.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
12 September 2005

Statutory actuary's report for the year ended 30 June

Statement of assets, liabilities, excess assets and capital requirements of Discovery Life Limited

R million	2005	2004
Published reporting basis		
Assets under insurance contracts	1 881	1 317
Other assets	2 012	1 521
Total value of assets as per balance sheet of Discovery Life Limited	3 893	2 838
Value of policy liabilities	515	442
Current and non-current liabilities	750	418
Total value of liabilities	1 265	860
Excess assets	2 628	1 978
Statutory basis		
Assets under insurance contracts	–	–
Other assets	2 012	1 521
Less: Intangible assets, prepaid expenses and outstanding premiums (Schedule 3)	(12)	(8)
Value of assets on statutory basis	2 000	1 513
Value of policy liabilities	515	411
Current liabilities and non-current liabilities	497	449
Total value of liabilities	1 012	860
Excess assets	988	653
Capital adequacy requirements	76.6	64.0
Ratio of excess assets to capital adequacy requirements	12.9	10.2

Certification of statutory financial position

I hereby certify that:

- the statutory valuation of Discovery Life Limited as at 30 June 2005 including this Statutory Actuary's Report, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa Professional Guidance Notes;
- the Company was financially sound on the Statutory Basis as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

RD Williams
Statutory Actuary

12 September 2005

R million	2005	2004
Analysis of change in excess assets on published reporting basis		
Excess assets at end of reporting period	2 628	1 978
Excess at start of reporting period	1 978	1 644
Change in excess over the reporting period	650	334
The change in excess assets is due to the following factors:		
Investment earnings generated by excess assets over liabilities		
Investment income (net of tax)	44	54
Capital appreciation (realised and unrealised)	211	68
Total investment earnings on excess assets over liabilities	255	122
Operating profit on insurance business	257	276
Change in valuation methods or assumptions	62	(78)
Change in business model	(7)	46
Financing costs	(24)	(32)
Total earnings	543	334
Dividends paid	–	–
Capital raised	107	–
Total change in excess assets	650	334
Reconciliation to reported earnings		
Total earnings as per table above	650	334
Reported earnings in annual financial statements (income statement)	385	279
Difference	265	55
The difference for 2005 arises due to realised and unrealised gains on investments of R158 million plus shares issued during the year of R107 million, both of which are reported in the statement of changes in equity.		
Reconciliation of excess assets between published reporting basis and statutory basis		
Excess assets on published reporting basis	2 628	1 978
Excess assets on statutory basis	988	653
Difference	1 640	1 325
The difference arises due to the following being disregarded on the statutory basis, in terms of Directive 145 A.i. (LT) and Schedule 3 of the Insurance Act, 1998.		
Assets under insurance contracts (negative reserves)	1 881	1 317
Intangible assets, prepaid expenses and outstanding premiums (Schedule 3)	12	8
Deferred tax on policyholder funds	(253)	–
Total	1 640	1 325

Changes in published reporting valuation methods and assumptions

The valuation basis was adjusted to reflect changes in products and operating conditions. Actuarial assumptions were adjusted from the prior year's basis in respect of the following items:

a) Lapse rates were increased in line with past and anticipated experience.

b) Renewal expense assumptions were set in line with experience investigations.

c) Interest rates were reduced by 1.5% to 8% and variables linked to interest rates (inflation and take up of automatic contribution increases) were adjusted consistently.

d) The tax rate was reduced by 1% in line with the reduction in company tax.

e) Discretionary margins were adjusted to achieve consistency between benefits and avoid capitalisation of future profits.

For existing business at 30 June 2004, the total decrease in reserves at 30 June 2005 due to the above items was R61.5 million.

Published reporting valuation methods and assumptions

The statement of actuarial value of assets, liabilities, excess assets and capital requirements is in respect of the financial statements of Discovery Life Limited ("Discovery Life"). The segmental information in the Group financial statements splits the statutory accounts of the various subsidiaries into Discovery's product lines and therefore is not directly comparable to the statutory financial statements.

The valuation was performed using the Financial Soundness Valuation method and was conducted in accordance with PGN 104. Investment contracts without discretionary features have been valued in terms of IAS39 (AC 133). Assets and policy liabilities were valued on consistent bases.

Published reporting liability valuation method and assumptions

Insurance contracts

In the calculation of liabilities, provision has been made for:

- the best estimate of the future experience; plus
- the margins prescribed by PGN 104; plus
- where necessary discretionary margins to ensure that profits emerging from the business are recognised over the duration of the policies, to prevent premature recognition of profits that may give rise to losses in later years.

All assumptions used were based on an analysis of past experience and expected future experience. The most recent experience investigation was at June 2005.

The valuation model is continuously updated to incorporate new product developments.

The best-estimate assumptions relating to future mortality, morbidity and withdrawal rates were based on the market experience of similar products and compared for reasonability to standard tables and experience since inception of the life product. The mortality assumption includes an estimate of the future effect of HIV/AIDS.

The best-estimate assumption relating to maintenance expenses was based on an expense investigation and allowance was made for the expected increase in maintenance expenses at 4% p.a.

Future gross investment returns were set at 8% based on the average interest rate, weighted by discounted cash flows. The discount rate was set at the same rate.

Automatic future premium and benefit increases on individual policies were not taken into account in calculating the liabilities.

For policies with the sum insured linked to investment or currency indices, the real growth rate above CPI was assumed to be 4.5% p.a., and it was assumed that a percentage of policyholders delink from the chosen index each year.

For group business an IBNR reserve of three monthly premiums was established, plus a claims in payment reserve. Provisions were also established for unpaid claims on individual business.

Cognisance was taken of policyholder reasonable benefit expectations in that all contractual benefits have been allowed for in the valuation.

Investment contracts without discretionary participation features

In the calculation of liabilities for investment contracts that provide investment management services, e.g. market-related investment contracts, the account balance has been held as the value of the liability. No negative rand reserves have thus been held for these contracts.

Published reporting asset valuation methods and assumptions

All assets have been valued at market/fair value as described in the notes to the accounts of Discovery Life Limited.

Statutory capital adequacy requirements

The capital adequacy requirement (CAR) is the additional amount required, over and above the actuarial liabilities, to enable the Company to meet material deviations in the main parameters affecting the business. The CAR was calculated according to guidelines issued by the Actuarial Society of South Africa. The following main assumptions have been used to calculate the investment resilience CAR:

- The notional assets allocated by management were assumed; and
- Outstanding claims, creditors and tax were matched by cash, debtors and equities.

The intermediate ordinary CAR (IOCAR) was assumed to be invested in cash and equities. A grossing up factor of 0.79 was applied to obtain the OCAR.

No offsetting management actions have been assumed in calculating the CAR.

The termination CAR (TCAR) was zero because all negative liabilities were set to zero in accordance with Directive 145 A.i. (LT) of the Financial Services Board. The OCAR exceeded the TCAR, and the minimum CAR, and thus the CAR has been based on the OCAR.

The directors present their sixth annual report, which forms part of the audited financial statements of the Company and of the Group for the year ended 30 June 2005.

NATURE OF BUSINESS

Discovery Holdings Limited ("the Company") is listed in the insurance sector of the JSE Limited and is the holding company of:

- Discovery Life Limited ("Discovery Life");
- Discovery Health (Proprietary) Limited ("Discovery Health");
- Vitality Healthstyle (Proprietary) Limited ("Vitality");
- Vitality Healthstyle Travel (Proprietary) Limited (ceased trading effective 1 February 2004);
- Discovery Nominees (Proprietary) Limited (dormant);
- Destiny Health Inc ("Destiny Health"), which is incorporated in the United States of America;
- Destiny Management Company LLC, which is incorporated in the United States of America;
- Destiny Health Insurance Company, which is incorporated in the United States of America;
- Destiny Health Administrators Inc. (dormant), which is incorporated in the United States of America;
- Discovery Offshore Holdings Limited, which is incorporated in England and Wales. This company holds Discovery's interest in Prudential Health ("PruHealth"); and
- Discovery Insurance Intermediary Services Limited, which is incorporated in England and Wales.

Discovery Holdings and its subsidiaries are referred to herein as "Discovery". The subsidiaries are wholly-owned with the exception of Destiny Health in which Discovery has a 98% interest.

Discovery Life is a long-term insurer in South Africa. Discovery Life offers a suite of risk benefit products to the individual and group life markets. Discovery Life, until January 2004, offered reinsurance of medical scheme risks. Discovery Health is a specialised administrator offering various services to medical schemes, Discovery Life, Destiny Health and PruHealth. Vitality offers a rewards programme incentivising its members to lead healthy lives and rewarding lifestyles. Destiny Health offers health insurance in the state of Illinois in the United States of America.

Discovery announced its UK joint venture in April 2004 with Prudential Assurance Company Limited heralding its entry into the UK private health insurance market. PruHealth commenced business on 4 October 2004.

GENERAL REVIEW

The financial position and results are reflected on pages 308 to 352. The Group's attributable share of profits and losses from subsidiary companies for the year ended 30 June is set out below:

R million	2005	2004	% change
Aggregate profits after taxation from local subsidiaries	832	648	28
Loss from Destiny Health net of minority share of loss	(131)	(202)	
Loss from PruHealth after taxation	(116)	(28)	
	585	418	40

SHARE CAPITAL

The authorised share capital is 1 000 000 000 ordinary shares of 0.1 cent per share. The issued share capital of the Company at 30 June 2005 was 548 956 741 ordinary shares of 0.1 cent per share. The following shares were issued in the current year:

- On 30 September 2004, 8 000 000 shares were issued at R14.40 to the Discovery Holdings share incentive trust; and
- On each of 31 August 2004 and 30 June 2005, 4 270 530 shares were issued to the preference shareholders of Discovery Life Limited. (Refer Note 24.2)

The share incentive trust holds 3.8% of the share capital of the Company for the benefit of trust participants.

Shareholders will be requested at the forthcoming annual general meeting of shareholders to place the unissued shares under the control of the directors until the next annual general meeting.

Discovery Life Limited had issued 1 500 000 preference shares to certain directors and employees at a par value of 1 cent per share. These shares are redeemable as set out in note 24.2 of the financial statements. As at 30 June 2005, 1 005 000 of these preference shares have been redeemed.

DIVIDENDS

No dividends have been declared in the current year.

DIRECTORATE AND SECRETARY

Details of the directors, their emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 350 to 352. SB Epstein was appointed as a director on 17 February 2005.

Messrs SB Epstein and MI Hilkowitz retire by rotation at the forthcoming annual general meeting of shareholders and are eligible and available for re-election.

Mr MJ Botha continues in office as company secretary. His details are reflected on page 360.

DIRECTORS' INTERESTS IN CONTRACTS

No material contracts involving directors' interests were entered into in the current year. All of the executive directors have signed restraints of trade which prevent them from competing with Discovery for one year after their employment with Discovery ends. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's associate and subsidiaries are set out in note 1 to the Discovery Holdings Limited's company financial statements. During the year under review, no changes were made to the memorandum and articles of association of any of the subsidiary companies.

BORROWING POWERS

The directors may exercise all the powers of the Company to borrow money. In terms of the articles of association, the borrowing powers of the Company are unlimited. In terms of the Long-Term Insurance Act, 1998, Discovery Life may not encumber its assets or directly or indirectly borrow.

AUDITORS

PricewaterhouseCoopers Inc will continue in office in accordance with section 270(2) of the Companies Act.

HOLDING COMPANY

FirstRand Limited holds an interest of 62.29% (2004: 63.31%) in the issued ordinary share capital of the Company.

EVENTS AFTER BALANCE SHEET DATE

Subsequent to the year end, Discovery entered into an agreement to conclude a Black Economic Empowerment ("BEE") transaction pursuant to which shares equivalent to approximately 7.0% of Discovery's current issued share capital (or 6.54% of the issued share capital pursuant to the proposed BEE transaction) will be issued to BEE groups comprising a broad base of historically disadvantaged individuals, a Discovery Foundation, and Discovery employees.

Discovery adopts the following accounting policies in preparing its consolidated financial statements.

1. BASIS OF PRESENTATION

Discovery prepares its consolidated financial statements which have been audited on a going concern basis using the historical cost basis, except for:

- financial assets and liabilities where fair value basis of accounting is adopted. These financial assets and liabilities include financial assets classified as available-for-sale; derivative financial instruments; and financial assets and liabilities classified as held at fair value through profit and loss; and
- financial assets and liabilities classified as originated loans which are carried at amortised cost.

The consolidated financial statements are prepared in accordance with and comply with South African Statements of Generally Accepted Accounting Practice ("SA GAAP").

The preparation of financial statements in conformity with SA GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Although estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. CONSOLIDATION

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

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

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

The subsidiaries are accounted for at cost in the Company annual financial statements.

3. ASSOCIATED COMPANIES

Associated companies are companies in which Discovery holds a long-term equity interest and over which it has the ability to exercise significant influence, but does not control.

Discovery includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective dates of acquisition to the effective dates of disposal. Discovery eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include Discovery's share of earnings of associated companies. Discovery's reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are included in the carrying value of the investment in associated companies.

Discovery carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any unamortised excess or deficit of the purchase price over the fair value of the attributable assets of the associated company at date of acquisition.

Discovery discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

Discovery increases the carrying amount of investments with its share of the associated company's income when equity accounting is resumed.

The most recent audited financial statements of the associate companies have been taken into account. If the most recent available audited financial statements are for an accounting period which ended more than six months prior to the Group's year end, then the most recently published financial information of the associate company is utilised.

4. JOINT VENTURES

Discovery accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method Discovery includes its share of a joint venture's individual income or expense, assets and liabilities and cash flows in the relevant components of its financial statements.

5. GROSS INFLOWS UNDER MANAGEMENT

Gross inflows under management include all Life premiums, Vitality contributions and benefit sales, Medical Scheme contributions, pre-funding contributions, administration fees, short-term health insurance and 100% of the business conducted together with its joint venture partners.

6. INCOME AND EXPENSE RECOGNITION

6.1 Gross income

Gross income of the Group includes premium income, administration fees, fees on investment contracts and Vitality contributions and benefit sales.

6.1.1 Premium income

Individual life premiums, Group life premiums and reinsurance premiums are accounted for when they become due and payable. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for related direct insurance.

6.1.2 Administration fees

Administration fees are accounted for on the accrual basis.

6.1.3 Fees on investment contracts

Discovery recognises policy fees on investment contracts on an accrual basis when the service is rendered.

6.1.4 Vitality contributions and benefit sales

Vitality contributions and benefit sales are accounted for on the accrual basis.

6.2 Policyholder benefits

Discovery accounts for policyholder benefit payments and related reinsurance recoveries when claims are intimated.

6.3 Commission

Commission payments are net of reinsurance commission received. Commissions are expensed as incurred.

6.4 Operating and administration expenses

Operating and administration expenses include administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

6.5 Deferred acquisition costs

The direct costs of acquiring short-term health insurance new business which are incurred during the year but which are expected to be recoverable out of future revenue margins are deferred and disclosed as an asset in the balance sheet, gross of tax. The costs are deferred over 12 months.

6.6 Investment income

Investment income comprises interest and dividends. Discovery accounts for dividends as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares. Dividend income includes shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

Interest and other investment income are accounted for on an accrual basis.

6.7 Financing costs

Financing costs are expensed when incurred.

7. FOREIGN CURRENCY TRANSLATION

7.1 General

Discovery presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Discovery entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

7.2 Independent entities

Assets and liabilities of foreign subsidiary companies, regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year end. Capital and reserves are translated at historical rates and income statement items are translated at the average rate for the year. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

7.3 Other

Discovery converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

Discovery recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the hedging reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, Discovery transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

8. TAXATION

Taxation includes South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax.

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

9. RECOGNITION OF ASSETS, LIABILITIES AND PROVISIONS

9.1 Assets

Discovery recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets

Discovery discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within Discovery's control.

9.3 Liabilities and provisions

Discovery recognises liabilities, including provisions when:

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

9.4 Contingent liabilities

Discovery discloses a contingent liability where:

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

10. DERECOGNITION OF ASSETS AND LIABILITIES

Discovery derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. OFFSETTING FINANCIAL INSTRUMENTS

Discovery offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off;
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability is denominated in the same currency.

12. CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise:

- cash on hand;
- money at call and short notice; and
- balances with banks.

13. FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include all financial assets and liabilities, including derivative instruments, but exclude investments in subsidiary and associated companies, deferred taxation, intangible assets, equipment, provisions, taxation, assets/liabilities arising from insurance contracts and reinsurance contracts.

Discovery classifies all investments held to meet policyholder liabilities (policyholder contracts that do not transfer significant insurance risk), as held at fair value through profit and loss. These investments are initially recognised at cost, including transaction cost, and subsequently valued at fair value, with fair value movements reflected in the income statement. These contracts are disclosed on the balance sheet as "Investment contracts at fair value through profit and loss". The premium income and benefit payments in respect of these investment contracts, have been excluded from the income statement and accounted for directly against the liability. Fees earned from these products are included in gross income of the Group.

Investments in the shareholders' portfolio, with the exception of loans receivable, are classified as available-for-sale assets with changes in fair value recognised directly in equity. Listed equity investments and unit trust investments are carried at fair value. Fair values are based on regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the balance sheet date. Unlisted investments are carried at fair value using directors' valuations based on accepted valuation methodologies.

Loans receivable are classified as originated loans and are carried at amortised cost. Loans receivable are written down only where, in the opinion of the directors, there is an impairment. Where a loan receivable is impaired, the impairment is recognised in the income statement in the period in which it is identified.

14. ASSETS/LIABILITIES ARISING FROM INSURANCE/REINSURANCE CONTRACTS

Discovery classifies all policyholder contracts that transfer significant risk as insurance contracts. These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Assets/liabilities arising from insurance/reinsurance contracts".

15. EQUIPMENT

Discovery carries equipment at cost less accumulated depreciation.

It depreciates equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The average periods of depreciation used are as follows:

Leasehold property	Shorter of estimated life or period of lease
Computer equipment	3 years
Computer software packages	3 years
Furniture and fittings	6 years
Gym equipment	10 years
Motor vehicles	4 years
Office equipment	5 years

Discovery impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in income on disposal.

16. ACCOUNTING FOR LEASES

Discovery classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The equipment acquired is depreciated over the useful life of the asset, on a basis consistent with similar owned fixed assets.

Discovery classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a systematic basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

17. INTANGIBLE ASSETS

17.1 Computer software development costs

Where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for Discovery exceeding the costs incurred for more than one accounting period, Discovery capitalises such costs and recognises them as an intangible asset.

Discovery carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

17.2 Other intangible assets

Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts. It charges costs incurred on trademarks, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

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

18. DEFERRED TAXATION

Discovery calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying relevant tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities is recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of equipment, revaluation of certain financial assets and liabilities and tax losses carried forward.

19. DEFERRED INCOME

Income received in advance in respect of contracts for which future expenditure will be incurred, is recognised over the estimated period of the contract.

20. EMPLOYEE BENEFITS

20.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees.

Contributions to these funds are expensed as incurred.

20.2 Post-retirement medical benefits

Discovery has no liability for the post-retirement medical benefits of employees.

20.3 Termination benefits

Discovery recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

20.4 Leave pay provision

Discovery recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Employee share options

Share options are granted to eligible employees. No compensation cost or obligation is recognised in the financial statements other than through the calculation of diluted earnings per share. When the options are exercised, share capital and share premium are increased by the proceeds received for the par value and premium, net of transaction costs, respectively.

21. RELATED PARTY TRANSACTIONS

All related party transactions are at arm's length and incurred in the ordinary course of business.

In accordance with the requirements of AC 126 – Related party disclosure, transactions with related parties of Discovery that eliminate on consolidation are not disclosed.

22. SEGMENT REPORTING

Discovery defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"); or
- products or services within a particular economic environment ("geographical segment"), subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

Income statement for the year ended 30 June

R million	Notes	2005	2004
Gross income of Group		4 029	3 698
Outward reinsurance premiums		(378)	(293)
Net income	3	3 651	3 405
Policyholder benefits		(841)	(1 078)
Recoveries from reinsurers		262	237
Net policyholder benefits	4	(579)	(841)
Commissions		(715)	(576)
Operating and administration expenses	5	(1 734)	(1 495)
Vitality benefits		(412)	(314)
Deferred acquisition costs		1	–
Transfer from assets/liabilities arising from insurance contracts	16	574	529
Profit from operations		786	708
Local operations		1 021	842
Foreign operations		(235)	(134)
Investment income	6	124	130
Realised and unrealised investment gains and losses		157	68
Fair value adjustment to liabilities arising from investment contracts	21	(122)	(77)
Financing costs	7	(54)	(47)
Foreign exchange loss	8	(8)	(62)
Profit before taxation		883	720
Taxation	9	(307)	(299)
Profit after taxation		576	421
Minority share of loss		9	(3)
Net profit attributable to ordinary shareholders		585	418
Basic earnings per share (cents)	10		
– undiluted		112.6	83.0
– diluted		108.0	79.7
Headline earnings per share (cents)	10		
– undiluted		103.3	80.5
– diluted		99.2	77.4
Weighted number of shares in issue (000's)		519 188	504 051
Diluted weighted number of shares (000's)		553 227	536 025

Balance sheet at 30 June

R million	Notes	2005	2004
Assets			
Cash and cash equivalents		1 075	998
Government and public authority stocks			
– available-for-sale		146	130
– at fair value through profit and loss		40	52
Equity investments	12		
– available-for-sale		922	602
– at fair value through profit and loss		337	251
Investment in associate	13	4	2
Investment assets		2 524	2 035
Loans and receivables	14	557	430
Deferred taxation	15	13	10
Assets arising from insurance contracts	16	1 881	1 318
Intangible assets	17	45	38
Equipment	18	196	201
Total assets		5 216	4 032
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	19	896	578
Provisions	20	30	22
Taxation		17	43
Deferred taxation	15	323	128
Liabilities arising from insurance contracts	16	–	6
Liabilities arising from reinsurance contracts	16	31	36
Financial liabilities		577	716
– Investment contracts at fair value through profit and loss	21	483	400
– Borrowings at amortised cost	22	94	316
Total liabilities		1 874	1 529
Outside shareholders' interest	23	67	67
Shareholders' funds			
Share capital and share premium	24	1 336	1 276
Reserves	25	1 939	1 160
Total shareholders' funds		3 275	2 436
Total liabilities and shareholders' funds		5 216	4 032

Cash flow statement for the year ended 30 June

R million		2005	2004
Cash flow from operating activities		**420**	92
Cash generated by operations	32.1	**575**	337
Working capital changes	32.2	**10**	(119)
		585	218
Dividends received		**23**	14
Interest received		**84**	88
Interest paid		**(93)**	(14)
Taxation paid	32.3	**(179)**	(214)
Cash flow from investing activities		**(216)**	(504)
Investment purchases	32.4	**(757)**	(565)
Proceeds on disposal of investments	32.5	**674**	176
Purchase of equipment		**(106)**	(93)
Purchase of intangible assets		**(30)**	(26)
Decrease in loans receivable		**3**	4
Cash flow from financing activities		**(134)**	(39)
Proceeds from shares issued	32.6	**71**	878
Share issue costs written off against share capital		**(1)**	(30)
Dividends paid to Destiny Health preference shareholders		**(1)**	(2)
Minority share buy-back		**(1)**	(9)
Decrease in borrowings	32.7	**(202)**	–
Repayment of short-term loan		**–**	(876)
Net increase/(decrease) in cash and cash equivalents		**70**	(451)
Cash and cash equivalents at beginning of year		**998**	1 469
Effects of exchange rate changes on cash and cash equivalents		**7**	(20)
Cash and cash equivalents at end of year	32.8	**1 075**	998

Statement of changes in equity for the year ended 30 June

R million	Share capital	Share premium	Retained earnings	Non-distributable reserves	Total
	(note 24)	(note 24)	(note 25)	(note 25)	
30 June 2004					
Balance at 1 July 2003	1	428	634	34	1 097
Issue of capital	*	877	–	–	877
Share issue expenses	–	(30)	–	–	(30)
Net profit for the period	–	–	418	–	418
Dividends paid to Destiny Health preference shareholders	–	–	(1)	–	(1)
Realised loss on minority share buy-back	–	–	(5)	–	(5)
Unrealised gains on investments	–	–	–	69	69
Realised gains on investments transferred to income statement	–	–	–	(14)	(14)
Transfer to hedging reserve	–	–	–	8	8
Translation of foreign entities	–	–	–	17	17
Balance at 30 June 2004	1	1 275	1 046	114	2 436
30 June 2005					
Balance at 1 July 2004	1	1 275	1 046	114	2 436
Issue of capital	*	61	–	–	61
Share issue expenses	–	(1)	–	–	(1)
Net profit for the period	–	–	585	–	585
Dividends paid to Destiny Health preference shareholders	–	–	(1)	–	(1)
Realised loss on minority share buy-back	–	–	(1)	–	(1)
Unrealised gains on investments	–	–	–	211	211
Realised gains on investments transferred to income statement	–	–	–	(53)	(53)
Transfer to hedging reserve	–	–	–	9	9
Translation of foreign entities	–	–	–	29	29
Balance at 30 June 2005	**1**	**1 335**	**1 629**	**310**	**3 275**

* *Amount is less than R500 000.*

R million	2005	2004
1. Accounting policies		
The accounting policies of the Group are set out on pages 313 to 317.		
2. Turnover		
Turnover is a concept not relevant to the business of insurance.		
Refer to accounting policy note 6.1 for gross income.		
3. Net income		
Health	2 175	2 304
Recurring premium and administration fee income	2 231	2 438
Outward reinsurance premiums	(56)	(134)
Individual life	864	639
Recurring premiums	1 125	753
Outward reinsurance premiums	(261)	(114)
Vitality	521	402
Contributions	376	296
Benefit sales	145	106
Group life	91	60
Recurring premiums	152	105
Outward reinsurance premiums	(61)	(45)
	3 651	3 405
Gross income of Group	4 029	3 698
Outward reinsurance premiums	(378)	(293)
Net income	3 651	3 405
4. Net policyholder benefits		
Health	356	644
Gross claims	399	798
Less: Reinsurance recoveries	(43)	(154)
Individual life	173	170
Death	189	150
Disability	145	72
Less: Reinsurance recoveries	(162)	(54)
Transfer to IBNR	1	2
Group life	50	27
Death	46	29
Disability	49	9
Less: Reinsurance recoveries	(46)	(22)
Transfer to IBNR	1	11
	579	841
Policyholder benefits	841	1 078
Recoveries from reinsurers	(262)	(237)
Net policyholder benefits	579	841

R million	2005	2004
5. Operating and administration expenses		
Operating and administration expenses include the following:		
Auditors' remuneration		
Audit fees – current year	5	5
Audit fees – prior year	(1)	–
Fees for other services	3	2
	7	7
Professional fees		
Actuarial fees	5	9
Technical and other	59	74
	64	83
Depreciation on equipment (note 18)		
Furniture and fittings	19	15
Office equipment	6	9
Computer equipment	41	48
Computer software packages	42	35
Motor vehicles	1	1
Leasehold improvements	3	3
	112	111
Amortisation of intangible assets (note 17)		
Software development	23	23
Repairs and maintenance expenditure		
Computer repairs and maintenance	15	12
Furniture and equipment maintenance	1	2
Office repairs and maintenance	4	6
Software maintenance	45	27
	65	47
Operating lease charges		
Land and buildings	57	52
Computer and office equipment	83	68
	140	120
Bad debts	10	11
Bad debts recovered	(3)	(1)
Foreign exchange losses/(gains)	2	(1)
Equity accounted (profit)/loss of associated company	(2)	4
Staff costs		
Salaries, wages and allowances	751	567
Defined contribution provident fund contributions	29	20
Social security levies	5	2
Other	42	23
	827	612

R million	2005	2004
6. Investment income		
Investment income on shareholder assets and assets held for insurance contracts:	105	107
Interest	85	95
Dividends	23	14
Investment charges	(3)	(2)
Investment income on assets held to back liabilities arising from investment contracts:	19	23
Interest	9	15
Dividends	10	8
	124	130
7. Financing costs		
Interest expense:		
On short-term advances	4	14
On non-current liabilities	50	33
	54	47
8. Foreign exchange loss		
Foreign exchange loss on borrowings	8	62
The exchange loss arises on the loan entered into by Destiny with RMB International (Dublin) Limited. As the loan has been repaid this foreign exchange loss is now realised. Refer note 22.2.		
9. Taxation		
Charge for the year:		
South African normal taxation	296	297
Current tax	138	215
Current year	168	200
Adjustment to prior years	(30)	15
Deferred tax	158	82
Current year	129	82
Adjustment resulting from reduction in tax rate	5	–
Adjustment to prior years	24	–
South African capital gains taxation	5	2
Current tax	5	2
Secondary tax on companies	6	–
Total taxation	307	299

%	2005	2004
9. Taxation *(continued)*		
Shareholders' taxation rate reconciliation		
Effective taxation rate	34.8	41.5
Destiny Health losses	(4.6)	(8.3)
Prudential Health losses	(2.1)	(0.7)
Capital profits and dividend income	2.4	1.1
Change in prior year estimate	(0.4)	(2.1)
Secondary tax on companies	(0.7)	–
Disallowed expenditure	(0.2)	(1.0)
Deferred tax adjustment resulting from reduction in tax rate	0.5	–
Other permanent differences	(0.7)	(0.5)
Standard rate of taxation	29.0	30.0

Current taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers.

Destiny Health has federal tax losses of US$83 million (R554 million) (2004: US$55 million (R340 million)) to carry forward against future taxable income. These tax losses have not been recognised in the financial statements and are available for set-off against future taxable profits.

10. Earnings per share

Attributable earnings

Earnings per share is based on net profit after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.

Earnings attributable to ordinary shareholders amounted to R585 million (2004: R418 million) and the weighted average number of ordinary shares in issue during the year amounted to 519 187 719 (2004: 504 050 711).

Headline earnings

Headline earnings per share is based on the net profit after tax attributable to ordinary shareholders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.

Headline earnings reconciliation

R million	2005	2004
Net profit attributable to ordinary shareholders	585	418
Adjusted for realised profit on available-for-sale financial instruments net of capital gains tax	(49)	(13)
Headline earnings	536	405

Undiluted

The calculation is based on 519 187 719 (2004: 504 050 711) weighted average ordinary shares in issue during the year ended 30 June 2005.

Diluted

The weighted average ordinary shares in issue is adjusted for the subscription by the "A" cumulative redeemable preference shareholders of that number of ordinary shares that equates to the redemption value of their preference shares (note 24.2) and for the shares issued from the share incentive trust which have not been delivered to participants.

	2005	2004
10. Earnings per share *(continued)*		
The diluted weighted average ordinary shares are calculated as follows:		
Weighted average ordinary shares in issue as per earnings per share calculation	519 187 719	504 050 711
Subscription by "A" cumulative redeemable preference shareholders	9 219 663	12 845 782
Weighted average ordinary shares in the share incentive trust	24 819 887	19 128 265
	553 227 269	536 024 758

The calculation is based on earnings as for the basic and headline undiluted earnings per share calculations with the addition of investment income after tax of R13 million (2004: R9 million) on the proceeds from shares which have not been delivered to participants.

	Health						
R million	South Africa	United States of America	United Kingdom	Life	Vitality	Holdings	Total
11. Segment information							
11.1 Primary segments (business)							
The business segments of Discovery are Health, Life and Vitality							
30 June 2005							
New business annualised premium income	2 776	809	35	629	93	–	4 342
Gross inflows under management	14 571	914	11	1 278	521	–	17 295
Income statement							
Gross income of Group	1 688	537	5	1 278	521	–	4 029
Outward reinsurance premiums	(3)	(53)	–	(322)	–	–	(378)
Net policyholder benefits	(4)	(349)	(3)	(223)	–	–	(579)
Commissions	–	(42)	(1)	(617)	(55)	–	(715)
Operating and administration expenses	(1 118)	(180)	(150)	(269)	(428)	(1)	(2 146)
Deferred acquisition costs	–	–	1	–	–	–	1
Transfer from assets/liabilities arising from insurance contracts	–	–	–	442	–	–	442
	563	(87)	(148)	289	38	(1)	654
Return on assets arising from insurance contracts	–	–	–	132	–	–	132
Profit from operations	563	(87)	(148)	421	38	(1)	786
Investment income and realised profits							159
Financing costs							(54)
Foreign exchange loss							(8)
Profit before taxation							883
Cash flow statement							
Cash generated by operations	691	(42)	(150)	25	52	(1)	575
Cash flow from financing activities	–	(194)	–	–	–	60	(134)

R million	Health South Africa	Health United States of America	Health United Kingdom	Life	Vitality	Holdings	Total
11. Segment information *(continued)*							
11.1 Primary segments (business) *(continued)*							
30 June 2004							
New business annualised premium income	2 122	494	–	535	62	–	3 213
Gross inflows under management	12 550	534	–	858	403	–	14 345
Income statement							
Gross income of Group	2 057	380	–	858	403	–	3 698
Outward reinsurance premiums	(45)	(90)	–	(158)	–	–	(293)
Net policyholder benefits	(476)	(168)	–	(197)	–	–	(841)
Commissions	–	(39)	–	(510)	(27)	–	(576)
Operating and administration expenses	(1 014)	(189)	(28)	(251)	(326)	(1)	(1 809)
Transfer from assets/liabilities arising from insurance contracts	–	–	–	431	–	–	431
	522	(106)	(28)	173	50	(1)	610
Return on assets arising from insurance contracts	–	–	–	98	–	–	98
Profit from operations	522	(106)	(28)	271	50	(1)	708
Investment income and realised profits							121
Financing costs							(47)
Foreign exchange loss							(62)
Profit before taxation							720
Cash flow statement							
Cash generated by operations	655	(103)	(28)	(248)	62	(1)	337
Cash flow from financing activities	–	(12)	–	–	–	(27)	(39)

As the business segments utilise common premises, equipment and systems, it is not considered meaningful to allocate these assets and liabilities by business segment nor to provide cash flow information from investing activities or from working capital changes in this manner.

R million	South Africa	United States of America	United Kingdom	Total
11. Segment information *(continued)*				
11.2 Secondary segments (geographical)				
Health insurance business is conducted in South Africa, the United States of America and the United Kingdom. All other activities are conducted in South Africa.				
30 June 2005				
New business annualised premium income	3 498	809	35	4 342
Gross inflows under management	16 370	914	11	17 295
Income statement				
Gross income of Group	3 487	537	5	4 029
Outward reinsurance premiums	(325)	(53)	–	(378)
Net policyholder benefits	(227)	(349)	(3)	(579)
Commissions	(672)	(42)	(1)	(715)
Operating and administration expenses	(1 816)	(180)	(150)	(2 146)
Deferred acquisition costs	–	–	1	1
Transfer from assets/liabilities arising from insurance contracts	442	–	–	442
	889	(87)	(148)	654
Return on assets arising from insurance contracts	132	–	–	132
Profit from operations	1 021	(87)	(148)	786
Investment income				159
Financing costs				(54)
Foreign exchange loss				(8)
Profit before taxation				883
Cash flow statement				
Cash flow from operating activities	741	(156)	(165)	420
Cash flow from investing activities	(200)	(14)	(2)	(216)
Cash flow from financing activities	60	(194)	–	(134)
Balance sheet				
Segment assets	4 823	269	124	5 216
Segment liabilities	1 592	262	20	1 874
30 June 2004				
New business annualised premium income	2 719	494	–	3 213
Gross inflows under management	13 811	534	–	14 345
Income statement				
Gross income of Group	3 318	380	–	3 698
Outward reinsurance premiums	(203)	(90)	–	(293)
Net policyholder benefits	(673)	(168)	–	(841)
Commissions	(537)	(39)	–	(576)
Operating and administration expenses	(1 592)	(189)	(28)	(1 809)
Transfer from assets/liabilities arising from insurance contracts	431	–	–	431
	744	(106)	(28)	610
Return on assets arising from insurance contracts	98	–	–	98
Profit from operations	842	(106)	(28)	708
Investment income				121
Financing costs				(47)
Foreign exchange loss				(62)
Profit before taxation				720
Cash flow statement				
Cash flow from operating activities	196	(76)	(28)	92
Cash flow from investing activities	(415)	(89)	–	(504)
Cash flow from financing activities	(27)	(12)	–	(39)
Balance sheet				
Segment assets	3 794	238	–	4 032
Segment liabilities	1 049	480	–	1 529

R million	2005	2004
12. Equity investments		
Listed at market value		
– available-for-sale	817	552
– at fair value through profit and loss	327	244
Foreign unit trusts		
– available-for-sale	105	50
– at fair value through profit and loss	10	7
	1 259	853
Equity investments		
– available-for-sale	922	602
– at fair value through profit and loss	337	251
	1 259	853

The ten largest equity holdings comprise the following (in alphabetical order):

ABSA Group Limited, Anglo American plc, BHP Billiton plc, MTN Group Limited, Remgro Limited, RMB Holdings Limited, Sanlam Limited, South African Breweries plc, Standard Bank Group Limited, Tiger Brands Limited

Investments in listed equities were distributed as follows:

%	2005	2004
Financial	34	36
Non-cyclical consumer goods	12	10
Resources	11	10
Cyclical services	9	9
Non-cyclical services	7	9
Basic industries	5	5
General industrial	4	6
Overseas instruments	7	4
Unit trusts	7	7
Other	4	4
	100	100

13. Investment in associate

Discovery has an investment in an associate company Healthbridge (Proprietary) Limited ("Healthbridge"), a provider of electronic commerce communication infrastructure. The investment consists of 300 shares of R1 each representing 30% of the issued ordinary share capital (2004: 30%).

R million	2005	2004
Unlisted shares at cost	*	*
Loans	23	23
Share of post-acquisition deficit	(17)	(19)
Impairment of net investment	(2)	(2)
Carrying value	4	2
Directors' valuation	4	2

* *The unlisted shares cost R300 and are held by the Company.*

Summarised financial information of associate company at 30 June:

	Healthbridge	
R million	2005	2004
Balance sheet		
Non-current assets	–	1
Current assets	21	12
Non-current liabilities	(69)	(69)
Current liabilities	(8)	(7)
Equity	(56)	(63)
Income statement		
Gross income	51	41
Net profit for the 12 months ended 30 June	7	1
Accumulated deficit at 30 June	(56)	(63)

Healthbridge prepares its financial statements to 30 September. As the most recent audited financial statements of Healthbridge are for a period ended more than six months before the Company's year end, unaudited results covering the period from its financial year end have been used in determining the loss attributable to Discovery.

The cash flow requirements of Healthbridge are funded by the three main shareholders, Discovery Holdings Limited, Dimension Data Holdings Limited and Medscheme Holdings (Proprietary) Limited.

Discovery's share of the accumulated deficit of Healthbridge of R17 million has been accounted for as the loan has been subordinated. As the share of the deficit is not material, the amount is disclosed in operating and administration expenses. A further impairment has been raised to reduce the carrying amount of the investment to the net realisable value based on the net asset value of Healthbridge.

R million	2005	2004
14. Loans and receivables		
14.1 Current		
Discovery Health Medical Scheme	197	197
Reinsurance debtors	104	67
Deposits held by reinsurer	79	–
Premium debtors	55	39
Joint venture debtors	31	8
Closed scheme debtors	14	5
Prepayments	12	9
Commission debtors	10	13
Forward exchange contract asset	3*	–
Other debtors	111	53
	616	391
Impairment	(60)	(38)
	556	353

* *The forward exchange contract has been entered into to hedge administration fees receivable from PruHealth.*

14.2 Non-current		
Deposits held by reinsurer	–	66
Add: Interest received	–	7
	–	73
Other	1	4
	1	77
Total loans and receivables	557	430
15. Deferred taxation		
Balance at beginning of year	(118)	(19)
Income statement charge	(158)	(82)
Capital gains taxation on market value adjustments:		
– Shareholders	(29)	(13)
– Financial assets held at fair value through profit and loss	(5)	(4)
Balance at end of year	(310)	(118)
Deferred taxation is made up as follows:		
Deferred tax asset	13	10
Deferred tax liability	(323)	(128)
	(310)	(118)

R million	Opening balance	Tax rate reduction	Charge for the year	Closing balance
15. Deferred taxation *(continued)*				
Deferred taxation comprises:				
Difference between wear and tear and depreciation	(15)	1	–	(14)
Provisions	7	–	4	11
Capital gains tax	(18)	1	(34)	(51)
Other deductible temporary differences				
– Prepayments	(6)	–	3	(3)
– Income received in advance	–	–	1	1
– Other	(2)	–	(1)	(3)
Value of company policyholder fund liabilities in excess of assets	3	–	(2)	1
Difference between accounting and tax balances arising from insurance contracts	(87)	3	(168)	(252)
	(118)	5	(197)	(310)

All South African entities are in a tax paying position. Destiny operations have significant tax losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US. A receivable has been accounted for on 50% of the PruHealth losses for which Group tax relief is available to Prudential plc in the UK. No deferred tax asset has been accounted for on the balance of the PruHealth losses.

R million	**2005**	2004
16. Assets and liabilities arising from insurance contracts		
The movements in balances arising from insurance contracts during the year were as follows:		
Assets arising from insurance contracts		
Individual life		
Balance at the beginning of the year	**1 318**	772
Transfer to income statement	**563**	546
Balance at the end of the year	**1 881**	1 318
Liabilities arising from insurance contracts		
Group life		
Balance at the beginning of the year	**(6)**	(9)
Transfer to income statement	**6**	3
Balance at the end of the year	**–**	(6)
Liabilities arising from reinsurance contracts		
Individual life		
Balance at the beginning of the year	**(36)**	(16)
Transfer to/(from) income statement	**5**	(20)
Balance at the end of the year	**(31)**	(36)

R million	2005	2004
17. Intangible assets		
Systems development		
Year ended 30 June		
Opening carrying amount	**38**	36
Foreign exchange differences		
– Cost	**1**	(1)
– Accumulated amortisation	**(1)**	–
Additions	**30**	26
Amortisation charge	**(23)**	(23)
Closing carrying amount	**45**	38
At 30 June		
Cost	**141**	110
Accumulated amortisation	**(96)**	(72)
Carrying amount	**45**	38

R million	Furniture and fittings	Office equipment	Computer equipment	Computer software packages	Motor vehicles	Leasehold improvements	Gym equipment	Total
18. Equipment								
Year ended 30 June 2004								
Opening carrying amount	58	17	85	53	1	7	–	221
Foreign exchange differences								
– Cost	(1)	(1)	(2)	–	–	–	–	(4)
– Depreciation	–	1	1	–	–	–	–	2
Additions	16	3	20	48	3	3	–	93
Disposals								
– Cost	–	–	(1)	–	–	(1)	–	(2)
– Accumulated depreciation	–	–	1	–	–	1	–	2
Depreciation charge	(15)	(9)	(48)	(35)	(1)	(3)	–	(111)
Closing carrying amount	58	11	56	66	3	7	–	201
At 30 June 2004								
Cost	95	61	235	168	5	11	–	575
Accumulated depreciation	(37)	(50)	(179)	(102)	(2)	(4)	–	(374)
Carrying amount	58	11	56	66	3	7	–	201
Year ended 30 June 2005								
Opening carrying amount	**58**	**11**	**56**	**66**	**3**	**7**	**–**	**201**
Foreign exchange differences								
– Cost	**–**	**1**	**1**	**–**	**–**	**–**	**1**	**3**
– Depreciation	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Additions	**25**	**1**	**19**	**31**	**1**	**28**	**–**	**105**
Disposals								
– Cost	**–**	**–**	**(2)**	**–**	**(1)**	**–**	**–**	**(3)**
– Accumulated depreciation	**–**	**–**	**2**	**–**	**1**	**–**	**–**	**3**
Depreciation charge	**(19)**	**(6)**	**(41)**	**(42)**	**(1)**	**(3)**	**–**	**(112)**
Closing carrying amount	**64**	**7**	**34**	**55**	**3**	**32**	**1**	**196**
At 30 June 2005								
Cost	**120**	**63**	**253**	**199**	**5**	**39**	**1**	**680**
Accumulated depreciation	**(56)**	**(56)**	**(219)**	**(144)**	**(2)**	**(7)**	**–**	**(484)**
Carrying amount	**64**	**7**	**34**	**55**	**3**	**32**	**1**	**196**

R million	2005	2004
19. Current liabilities		
Deferred income	**265**	54
Outstanding claims	**259**	159
Payables and accrued liabilities	**210**	182
Personal medical funds	**65**	32
Payroll creditors	**30**	21
Value-added tax	**16**	13
Group Life IBNR	**12**	11
Individual Life IBNR	**8**	7
Reinsurance payable	**8**	43
Forward exchange contract liability	**–**	6
Other creditors	**23**	50
	896	578
20. Provisions		
Provisions for leave pay		
At 1 July	**22**	16
Charged to income statement	**8**	6
At 30 June	**30**	22
21. Financial liabilities – investment contracts at fair value through profit and loss		
The movements during the year were as follows:		
Balance at the beginning of the year	**400**	370
Premium income	**19**	23
Policyholder benefits	**(39)**	(60)
Fees on policyholder funds	**(14)**	(6)
Capital gains tax	**(5)**	(4)
Fair value adjustment to liabilities arising from investment contracts	**122**	77
Balance at the end of the year	**483**	400
22. Borrowings at amortised cost		
22.1 Current		
HSBC Bank	**94**	–
	94	–
22.2 Non-current		
Loan from RMB International (Dublin) Limited	**–**	315
Other	**–**	1
	–	316
Total borrowings at amortised cost	**94**	316

On 25 April 2005 Destiny Health entered into a revolving credit facility in an aggregate principal amount up to but not exceeding US$20 million with HSBC Bank. The loan carries an interest rate of LIBOR plus 1.25%. The loan matures on 25 April 2006 and is guaranteed by Discovery Holdings Limited. At 30 June 2005, US$14 million was outstanding under this facility.

On 20 June 2003 Destiny Health entered into a subordinated convertible loan agreement to mature 30 June 2008, with RMB International (Dublin) Limited ("RMBI"), in the amount of R279 million. The terms of the loan were renegotiated to effect repayment on 18 January 2005.

R million	2005	2004
23. Outside shareholders' interest in Destiny Health		
At 1 July	67	67
Ordinary shares issued to outside shareholders	10	2
Buy-back of ordinary shares from outside shareholders	(1)	(5)
Share of loss of Destiny Health	(9)	3
At 30 June	67	67
Outside shareholders' comprises:		
Preference shares	67	67
Ordinary shares	12	3
Share of translation reserve	1	1
Share of loss of Destiny Health	(13)	(4)
	67	67

Destiny Health issued the following Series A preference shares on 12 December 2000:

– 3 million preference shares issued to Hannover Life Reassurance Africa Limited at US$1 per share.

– 6 million preference shares issued to Hannover Life Reassurance (Ireland) Limited at US$1 per share.

No voting rights are attached to these shares. An annual dividend is payable at a rate of 1.5% per annum.

Destiny Health has the right to redeem the preference shares or to convert such shares at its option into ordinary shares after three years following initial issuance. Each share of Series A preference shares is convertible into one ordinary share. To the extent that the shares are not converted or redeemed after a three-year period, Destiny Health must convert into ordinary shares or redeem the preference shares after five years following the initial issuance.

The preference shares rank prior to ordinary shares upon liquidation.

	Number of shares	Ordinary shares R million	Share premium R million	Total R million
24. Share capital and share premium				
24.1 Ordinary share capital and share premium				
At 1 July 2003	397 800 296	1	595	596
Issued during the year:				
– Rights offer	134 615 385	*	875	875
Share issue expenses		–	(30)	(30)
At 30 June 2004 – Company share capital	532 415 681	1	1 440	1 441
Consolidation of share incentive trust	(19 128 265)	*	(165)	(165)
At 30 June 2004 – Group share capital	513 287 416	1	1 275	1 276
At 1 July 2004	532 415 681	1	1 440	1 441
Issued during the year	16 541 060	*	223	223
Share issue expenses		–	(1)	(1)
At 30 June 2005 – Company share capital	548 956 741	1	1 662	1 663
Consolidation of share incentive trust	(20 717 144)	*	(219)	(219)
Shares issued at no value on redemption of preference shares	–	*	(108)	(108)
At 30 June 2005 – Group share capital	**528 239 597**	**1**	**1 335**	**1 336**

* *Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 000 000 000 ordinary shares of 0.1 cents.

The unissued share capital is under the control of the directors of the Company until the forthcoming annual general meeting of shareholders.

24. Share capital and share premium *(continued)*

24.2 Preference share capital

In June 2001, Discovery Life issued 1 500 000 "A" cumulative redeemable preference shares of 1 cent each to certain directors and employees. The total authorised number of preference shares is 1 500 000 of 1 cent each.

Following agreement between the Company and the preference shareholders, the first and second tranches of one third each of the preference shares were redeemed on 31 August 2004 and 30 June 2005 respectively. Both tranches were redeemed at a premium of R108.44 per share. The remaining third of the preference shares are redeemable on 30 June 2006.

On redemption date, the preference shareholders are obliged to invest the full amount of cash received from Discovery Life in Discovery Holdings ordinary shares. Discovery Holdings is, in turn, obliged to invest an equivalent amount in new ordinary shares of Discovery Life.

Following the redemption of the first two tranches, the preference shareholders subscribed for 8 541 060 ordinary shares in Discovery Holdings at a price of R12.57 per share. From a group perspective, no cash has been received from the issue of these shares and therefore on consolidation, the proceeds of these share issues have been eliminated.

"A" cumulative redeemable preference shareholders shall not be entitled to receive any dividends.

The "A" cumulative preference shares rank ahead of the ordinary shares in the event of a liquidation.

	2005 Shares	2004 Shares
24.3 Discovery Holdings share incentive trust		
Number of ordinary shares allocated at the beginning of the year	**19 128 265**	19 924 009
Number of ordinary shares issued during the year	**8 000 000**	–
Number of ordinary shares delivered to participants during the year	**(6 411 121)**	(795 744)
Number of ordinary shares allocated at the end of the year	**20 717 144**	19 128 265

The Discovery Holdings share incentive scheme is a "deferred implementation" incentive scheme. Options are exercised at the market share price ruling on the date the options are allocated and must be exercised on that date. Shares offered to participants are issued to the trust on the same date.

For options allocated prior to 2004, of the shares offered at option date, delivery may only be taken by the participant two, three, four and five years after the option is exercised at a rate of 25% per annum. Any shares not taken delivery of by the end of the fifth year from the date the option is exercised, must be delivered to the participant.

For options allocated in 2004, of the shares offered at option date, delivery may only be taken by the participant two, three and four years after the option is exercised at a rate of 33.3% per annum. Any shares not taken delivery of by the end of the fourth year from the date the option is exercised, must be delivered to the participant.

No payment is required from the participant until delivery of the shares is taken. Payment for the shares must be made before delivery of the shares can be taken. The trust has not offered loans to participants. All staff are eligible to participate in the share incentive scheme.

R million	2005	2004
25. Reserves		
Retained earnings		
Retained earnings at the beginning of the year	1 046	634
Earnings attributable to ordinary shareholders	585	418
Dividends paid to Destiny Health preference shareholders	(1)	(1)
Realised loss on minority share buy-back	(1)	(5)
Retained earnings at the end of the year	1 629	1 046
Non-distributable reserves		
Investment reserve	209	51
Currency translation reserve	98	69
Hedging reserve	3	(6)
Total non-distributable reserves	310	114
Total reserves	1 939	1 160
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	114	34
Unrealised gains on investments	211	69
Realised gains on investments transferred to income statement	(53)	(14)
Translation of foreign entities	29	17
Transfer to hedging reserve	9	8
Balance at the end of the year	310	114

26. Financial instruments

Risks from financial instruments held by the Group

The main risks arising from Discovery's financial instruments and transactions are foreign currency risk, investment/liquidity risk, credit risk, interest rate risk and market risk. The board of directors reviews the compliance with Discovery's stated policies. An investment committee is responsible for monitoring currency risk, investment/liquidity risk, credit risk, interest rate risk and market risk on a monthly basis.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group manages short-term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Discovery, are included in the Group balance sheet:

R million	Rand	GBP	US$	Euro	Other	Total
26. Financial instruments *(continued)*						
30 June 2005						
Insurance and investment contracts						
Assets						
Cash and cash equivalents	379	–	5	1	–	385
Investments at fair value through profit and loss:						
– Government and public authority stocks	26	1	6	5	2	40
– Equity investments	294	10	13	9	11	337
Investment assets	699	11	24	15	13	762
Liabilities						
Outstanding claims	218	2	59	–	–	279
Financial liabilities						
– Investment contracts at fair value through profit and loss	483	–	–	–	–	483
Total liabilities	701	2	59	–	–	762
Shareholders						
Assets						
Cash and cash equivalents	485	112	92	1	–	690
Investments available-for-sale:						
– Government and public authority stocks	25	1	113	5	2	146
– Equity investments	784	11	34	82	11	922
Investment in associate company	4	–	–	–	–	4
Investment assets	1 298	124	239	88	13	1 762
Loans and receivables	482	10	65	–	–	557
Deferred taxation	13	–	–	–	–	13
Assets arising from insurance contracts	1 881	–	–	–	–	1 881
Intangible assets	38	–	7	–	–	45
Equipment	191	2	3	–	–	196
Total assets	3 903	136	314	88	13	4 454
Equity and liabilities						
Current liabilities	493	18	106	–	–	617
Provisions	27	–	3	–	–	30
Taxation	17	–	–	–	–	17
Deferred taxation	323	–	–	–	–	323
Liabilities arising from reinsurance contracts	31	–	–	–	–	31
Borrowings at amortised cost	–	–	94	–	–	94
Total liabilities	891	18	203	–	–	1 112
Outside shareholders' interest	–	–	67	–	–	67
Share capital and share premium	1 336	–	–	–	–	1 336
Reserves/(losses)	2 709	(133)	(637)	–	–	1 939
Total equity and liabilities	4 936	(115)	(367)	–	–	4 454

R million	Rand	GBP	US$	Euro	Total
26. Financial instruments *(continued)*					
30 June 2004					
Insurance and investment contracts					
Assets					
Cash and cash equivalents	280	–	–	–	280
Investments at fair value through profit and loss:					
– Government and public authority stocks	38	–	14	–	52
– Equity investments	225	3	14	9	251
Investment assets	543	3	28	9	583
Liabilities					
Outstanding claims	146	–	31	–	177
Liabilities arising from insurance contracts	6	–	–	–	6
Financial liabilities					
– Investment contracts at fair value through profit and loss	400	–	–	–	400
Total liabilities	552	–	31	–	583
Shareholders					
Assets					
Cash and cash equivalents	624	–	94	–	718
Investments available-for-sale:					
– Government and public authority stocks	35	–	95	–	130
– Equity investments	539	2	10	51	602
Investment in associate company	2	–	–	–	2
Investment assets	1 200	2	199	51	1 452
Loans and receivables	382	–	48	–	430
Deferred taxation	10	–	–	–	10
Assets arising from insurance contracts	1 318	–	–	–	1 318
Intangible assets	37	–	1	–	38
Equipment	195	–	6	–	201
Total assets	3 142	2	254	51	3 449
Equity and liabilities					
Current liabilities	269	–	132	–	401
Provisions	22	–	–	–	22
Taxation	43	–	–	–	43
Deferred taxation	128	–	–	–	128
Liabilities arising from reinsurance contracts	36	–	–	–	36
Borrowings at amortised cost	315	–	1	–	316
Total liabilities	813	–	133	–	946
Outside shareholders' interest	–	–	67	–	67
Share capital and share premium	1 276	–	–	–	1 276
Reserves/(losses)	1 699	–	(539)	–	1 160
Total equity and liabilities	3 788	–	(339)	–	3 449

26. Financial instruments *(continued)*

Investment/liquidity risk

Liquidity risk is the risk that Discovery will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts.

Discovery is required to ensure that its investment return on assets is sufficient to cover policyholders' benefits and that the maturity of the assets and liabilities are matched. Discovery has an actuarial committee which determines the nature and spread of investments required to meet the liabilities, taking into account the prudential requirements set by the regulatory authorities.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will default on their obligation to Discovery, thereby causing financial loss.

Discovery does not have a significant concentration of credit risk. The risk of cash and cash equivalents is managed through dealings with the major banks. Accounts receivable are spread among a number of medical schemes, customers and geographic areas. An appropriate level of provision is maintained.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in Government and utility stocks and money market securities and deposits are managed by professional portfolio managers.

The following assets will be affected by changes in market interest rates:

		Maturity date			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
2005					
Insurance and investment contracts:					
Cash and cash equivalents	385	385	–	–	–
Government and public authority stocks	40	16	10	6	8
	425	401	10	6	8
Shareholders:					
Cash and cash equivalents	690	690	–	–	–
Government and public authority stocks	146	123	9	6	8
	836	813	9	6	8
2004					
Insurance and investment contracts:					
Cash and cash equivalents	280	280	–	–	–
Government and public authority stocks	52	14	22	14	2
	332	294	22	14	2
Shareholders:					
Cash and cash equivalents	718	718	–	–	–
Government and public authority stocks	130	95	12	21	2
	848	813	12	21	2

26. Financial instruments *(continued)*

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

All market securities are managed by institutional portfolio managers.

Capital adequacy risk

Capital adequacy risk is the risk that there will be insufficient reserves to provide for adverse variations in actual future experience as compared with that which has been assumed in the financial soundness valuation.

Capital adequacy requirements of Discovery Life, on the financial basis, totalling R1 507 million (2004: R883 million) were covered 1.75 times at 30 June 2005 (2004: 2.2 times). On the statutory basis the capital adequacy requirements were R77 million (2004: R64 million) and were covered 12.9 times (2004: 10.2 times).

Underwriting risk

Underwriting risk is the risk that the actual exposure to mortality and morbidity risks will exceed the best-estimate of the statutory valuator.

The statutory valuator performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality and morbidity risks above a set retention limit are reinsured. All applications for mortality and morbidity cover are evaluated against strict underwriting criteria and are accompanied by compulsory HIV testing, in the case of cover above set limits.

27. Related parties

Major shareholder

The major shareholder of Discovery Holdings Limited is FirstRand Limited which is incorporated in South Africa. The major shareholder of FirstRand Limited is RMB Holdings Limited which is incorporated in South Africa.

Transactions with share trusts

Interest free loans to share trusts amounted to R219 million at 30 June 2005 (2004: R165 million).

Transactions with directors

Directors' emoluments are detailed below and on page 350 to 352. Transactions with directors are entered into in the normal course of business.

R million	2005	2004
Directors' emoluments paid		
Executive directors		
Salaries, pension and medical aid contributions	15.5	14.0
Non-executive directors		
Fees for services as directors	0.8	0.5
	16.3	14.5
Less: paid by subsidiaries	(16.3)	(14.5)
Paid by holding company	–	–

27. Related parties *(continued)*

Transactions with entities in the RMB Holdings Limited Group

First National Bank, a division of FirstRand Bank Limited

Discovery has certain bank accounts with First National Bank. All bank charges and interest are calculated on an arm's length basis. Funds held at First National Bank at 30 June 2005 totalled R268 million (2004: R73 million).

Discovery Health administers call accounts on behalf of First National Bank. These call accounts comprise funds deposited by Discovery Health's clients to be used for (but not limited to) payment of their daily medical expenses not covered by DHMS and the managed closed medical schemes. These call accounts amounted to R154 million at year end (2004: R218 million). These call accounts are neither assets nor liabilities of Discovery as it acts solely as administrator.

During the year under review, Discovery launched a joint venture with FNB card division whereby members of the Vitality programme are offered substantial discounts on a Discovery branded credit card. In terms of the joint venture, Discovery markets the card, manages the loyalty and related aspects of the card and operates a call centre to interact with cardholders. FNB provide the banking licence required, provides all necessary credit and takes the credit risk on the card. In terms of this venture, Discovery received R46 million in fees from FNB to fund the marketing spend, loyalty programme and the card call centre.

Rand Merchant Bank, a division of FirstRand Bank Limited

Discovery has certain call accounts with Rand Merchant Bank. All bank charges and interest are calculated on an arm's length basis. Funds held at Rand Merchant Bank at 30 June 2005 totalled R1 million (2004: R1 million).

Rand Merchant Bank International (Dublin) Limited ("RMBI")

On 20 June 2003, RMBI loaned Destiny Health R279 million and a further US$10 million in the current year (refer to note 22.2). Interest charged during the year totalled R29 million (2004: R33 million). Both loans were repaid during the current year resulting in an early settlement penalty of R25 million and realised forex losses of R70 million. Of these forex losses R62 million was accounted for in the prior year.

RMB Asset Management (Proprietary) Limited

Discovery utilises RMB Asset Management to manage its investment portfolios. Investment management commission percentages are fixed on an arm's length basis. Discovery paid RMB Asset Management fees of R3 million (2004: R2 million). The total assets under management amounted to R1 409 million (2004: R1 023 million).

Investments held in entities in the Group

Included in Discovery Life's investments held at available-for-sale, are holdings in RMB Holdings Limited of 1 278 870 shares (2004: 1 257 870 shares) and FirstRand Limited of 1 717 059 shares (2004: 2 866 718 shares).

Included in Discovery Life's investments held at fair value through profit and loss, are holdings in RMB Holdings Limited of 478 967 shares (2004: 529 167 shares) and FirstRand Limited of 643 196 shares (2004: 1 191 732 shares).

Transactions with other related parties

Prudential Health Limited ("PruHealth")

In October 2004, Discovery launched PruHealth as a joint venture with Prudential Assurance Company Limited. In terms of the joint venture arrangement, Discovery provides administration and other services to the joint venture. During the year under review, Discovery received fees for these services of R74 million.

Discovery Health Medical Scheme ("DHMS")

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed health care fee respectively. These fees are determined on an arm's length basis and totalled R1 532 million (2004: R1 280 million) net of VAT. Discovery offers the members of DHMS access to the Vitality programme.

Interest paid to DHMS amounted to R1 million (2004: R5 million).

DHMS owe Discovery R197 million (2004: R197 million) at year end.

Managed medical schemes

Discovery Health administers the following closed medical schemes:
– Anglovaal Group Medical Scheme
– CSIR Medical Scheme
– Edcon Medical Aid Scheme
– IBM (SA) Medical Aid Society
– Tsogo Sun Medical Scheme
– LA Health
– Quantum Medical Aid Society
– Retail Medical Scheme

Discovery Consulting Services

Discovery has established a network of 31 franchises in order to establish a national footprint for its products. Discovery has paid R167 million (2004: R121 million) in fees to the franchises.

R million	2005	2004
28. Capital commitments		
Approved but not contracted for	155	172

These capital commitments relate to telecommunication, software packages, software development, leasehold improvements, computer and other equipment. The capital commitments are to be incurred in the forthcoming year and are to be funded from internally generated funds.

29. Future lease commitments

Discovery has various operating lease agreements for equipment and offices. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.

Discovery leases all land and buildings under operating leases. The remaining periods of the leases are from five months to seven years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:

R million	2005	2004
Due within one year	98	63
Due within two to five years	325	271
Due after five years	199	248
	622	582

Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from three months to three years. The future minimum commitments are as follows:

R million	2005	2004
Due within one year	59	52
Due within two to five years	58	40
	117	92

30. Contingencies

The Group is exposed to various actual or potential claims. No material claims have been instituted against Discovery Holdings Limited or any of its subsidiaries.

31. Comparative figures

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

In line with industry practice, automatic premium increases have been excluded from the new business annualised premium income for the Group Life business. This has effectively reduced new business annualised premium income for the Life business segment in the Segment information for the year ended 30 June 2004, from R554 million to R535 million (refer note 11).

R million	2005	2004
32. Cash flow information		
32.1 Cash generated by operations		
Operating profit before taxation	883	720
Adjusted for:		
Transfer from assets/liabilities under insurance contracts	(574)	(529)
Depreciation	112	111
Amortisation	23	23
Investment income	(124)	(130)
Realised and unrealised investment gains and losses	(157)	(68)
Fair value adjustment to liabilities arising from investment contracts	122	77
Financing costs	54	47
Foreign exchange loss	8	62
Provisions	29	16
Deferred income	173	(5)
Share of post-acquisition deficit in associate	(2)	2
Impairment of loan	–	2
Deferred acquisition costs	(1)	–
Translation differences	32	9
Other	(3)	–
	575	337
32.2 Working capital changes		
Increase in receivables and prepayments	(126)	(137)
Increase in trade and other payables	136	18
	10	(119)
32.3 Taxation paid		
Balance at beginning of the year	(43)	(44)
Taxation charged for the year in the income statement	(307)	(299)
Adjustment for movement in deferred taxation	158	82
Taxation charged for the year to the investment liability	–	4
Taxation recoverable from corporate relief – PruHealth	(7)	–
Interest received	3	–
Balance at end of the year	17	43
	(179)	(214)
32.4 Investment purchases		
Government and public authority stocks	407	152
Equity investments	350	413
	757	565
32.5 Proceeds on disposal of investments		
Government and public authority stocks	406	64
Equity investments	268	112
	674	176
32.6 Proceeds for shares issued		
Share capital issued during the year	–	875
Deferred delivery shares taken up	61	2
Proceeds from issue of ordinary shares in Destiny Health	10	1
	71	878

R million	2005	2004
32. Cash flow information *(continued)*		
32.7 Decrease in borrowings		
Balance at the end of the year	**94**	316
Less: Accrued and unpaid interest on loan to Destiny Health	**(54)**	(33)
Less: Foreign exchange loss	**(8)**	(62)
Add: Foreign exchange translation	**(9)**	60
Add: Interest paid and foreign exchange loss realised	**91**	–
Less: Balance at the beginning of the year	**(316)**	(281)
Decrease in borrowings	**(202)**	–

32.8 Cash and cash equivalents

Cash and cash equivalents at 30 June 2005 is R1 075 million (2004: R998 million).

Income statement for the year ended 30 June

R million	2005	2004
Operating and administration expenses	(1)	(1)
Investment income	587	1
Financing costs	–	(8)
Reversal of impairment against loan to the share incentive trust	–	11
Fair value adjustment to the loan to share incentive trust	(11)	15
Net profit	**575**	18

Balance sheet at 30 June

R million	Notes	2005	2004
Assets			
Cash and cash equivalents		20	1
Investments in subsidiaries and associates	1	2 002	1 269
		2 022	1 270
Loan to share incentive trust	2	194	151
Total assets		**2 216**	1 421
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	3	–	8
Total liabilities		–	8
Shareholders' funds			
Share capital and share premium	4	1 663	1 441
Reserves		553	(28)
Total shareholders' funds		**2 216**	1 413
Total liabilities and shareholders' funds		**2 216**	1 421

Cash flow statement for the year ended 30 June

R million	Notes	2005	2004
Cash flow from operating activities		**584**	(12)
Cash utilised by operations	5.1	**(1)**	(1)
Working capital changes	5.2	**(2)**	(4)
Investment income		**587**	1
Interest paid		**–**	(8)
Cash flow from investing activities		**(672)**	(182)
Increase in investment in subsidiary	5.3	**(733)**	(185)
Decrease in loan to share incentive trust	5.4	**61**	3
Cash flow from financing activities		**107**	(31)
Proceeds from shares issued	5.5	**108**	875
Repayment of short-term loan		**–**	(876)
Share issue expenses		**(1)**	(30)
Net increase/(decrease) in cash and cash equivalents		**19**	(225)
Cash and cash equivalents at beginning of year		**1**	226
Cash and cash equivalents at end of year		**20**	1

Statement of changes in equity for the year ended 30 June

R million	Share capital	Share premium	Retained earnings	Hedging reserve	Total
30 June 2004					
Balance at 1 July 2003	1	595	(40)	(14)	542
Issue of capital	*	875	–	–	875
Share issue expenses	–	(30)	–	–	(30)
Net profit for the year	–	–	18	–	18
Transfer to hedging reserve	–	–	–	8	8
Balance at 30 June 2004	1	1 440	(22)	(6)	1 413
30 June 2005					
Balance at 1 July 2004	**1**	**1 440**	**(22)**	**(6)**	**1 413**
Issue of capital	*****	**223**	**–**	**–**	**223**
Share issue expenses	**–**	**(1)**	**–**	**–**	**(1)**
Net loss for the year	**–**	**–**	**575**	**–**	**575**
Transfer to hedging reserve	**–**	**–**	**–**	**6**	**6**
Balance at 30 June 2005	**1**	**1 662**	**553**	**–**	**2 216**

* *Amount is less than R500 000.*

Notes to the annual financial statements for the year ended 30 June

	Issued ordinary capital Rm 2005	Rm 2004	Effective percentage holding % 2005	% 2004	Shares at cost Rm 2005	Rm 2004	Amounts owing to subsidiary **** Rm 2005	Rm 2004
1. Investments in subsidiaries and associates								
1.1 Investments in subsidiaries								
Discovery Life Limited	**962**	855	**100**	100	**1 148**	1 041	**–**	2
Discovery Health (Proprietary) Limited	*****	*	**100**	100	*****	*	**–**	–
Vitality Healthstyle (Proprietary) Limited	*****	*	**100**	100	*****	*	**–**	–
Destiny Health Inc[1]	**590**	230	**98**	98	**578**	228	**–**	–
Discovery Nominees (Proprietary) Limited	******	**	**100**	100	******	**	**–**	–
Discovery Offshore Holdings Limited[2]	**276**	***	**100**	100	**276**	***	**–**	–
					2 002	1 269	**–**	2

** Issued ordinary capital and shares at cost are R1 000.*
*** Issued ordinary capital and shares at cost are R1.*
**** Issued ordinary capital and shares at cost are £1.*
***** The amounts owing to a subsidiary are included in the balance sheet with current liabilities.*
1. Incorporated in the United States of America.
2. Incorporated in England and Wales.

1.2 Investment in associate

Discovery has an investment in an associate company Healthbridge (Proprietary) Limited ("Healthbridge"), a provider of electronic commerce communication infrastructure. The investment consists of 300 shares of R1 each representing 30% of the issued ordinary share capital (2004: 30%). For more information refer to Group note 13.

R million	2005	2004
2. Loan to share incentive trust		
Loan to share incentive trust	**219**	165
Less: Fair value adjustments	**(25)**	(14)
	194	151

The loan will be repaid on delivery of the shares under the share incentive scheme. Refer to Group note 24.3.

3. Current liabilities		
Loan from subsidiary	**–**	2
Forward exchange contract liability	**–**	6
	–	8

	Number of shares	Ordinary shares R million	Share premium R million	Total R million
4. Share capital and share premium				
At 1 July 2003	397 800 296	1	595	596
Issued during the year:				
– Rights offer	134 615 385	*	875	875
Share issue expenses		–	(30)	(30)
At 30 June 2004	532 415 681	1	1 440	1 441
At 1 July 2004	532 415 681	1	1 440	1 441
Issued during the year	16 541 060	*	223	223
Share issue expenses		–	(1)	(1)
At 30 June 2005	**548 956 741**	**1**	**1 662**	**1 663**

* *Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 000 000 000 ordinary shares of 0.1 cents.

The unissued share capital is under the control of the directors of the Company until the forthcoming annual general meeting of shareholders.

R million	2005	2004
5. Cash flow information		
5.1 Cash utilised by operations		
Profit attributable to ordinary shareholders	**575**	18
Adjusted for:		
Investment income	**(587)**	(1)
Interest paid	**–**	8
Reversal of impairment against loan to the share incentive trust	**–**	(11)
Fair value adjustment against loan to the share incentive trust	**11**	(15)
	(1)	(1)
5.2 Working capital changes		
Decrease in loan from subsidiaries	**(2)**	(4)
5.3 Increase in investment in subsidiary		
Balance at the beginning of the year	**1 269**	1 084
Balance at the end of the year	**(2 002)**	(1 269)
	(733)	(185)
5.4 Decrease in loan to share incentive trust		
Balance at the beginning of the year	**151**	128
Shares issued to the trust	**115**	–
Provision against loan to share incentive trust	**(11)**	26
Balance at the end of the year	**(194)**	(151)
	61	3
5.5 Proceeds for shares issued		
Share capital issued during the year	**108**	875

6. Contingencies

Discovery Holdings Limited has provided a guarantee in favour of HSBC Bank in the amount of US$20 million for the working capital facility of Destiny Health Inc.

Discovery Holdings Limited has provided a guarantee in favour of HSBC Bank in the amount of GBP11.7 million in respect of a guarantee issued by HSBC Bank for the future capital contributions of Discovery Offshore Holdings Limited to Prudential Health Limited.

Directorate

REMUNERATION AND FEES

Payments to directors for the year ended 30 June 2005 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	**Total 2005**
Executive						
A Gore	–	1 373	1 036	172	156	**2 737**
NS Koopowitz	–	1 725	1 130	86	44	**2 985**
HP Mayers	–	1 462	1 130	244	201	**3 037**
JM Robertson	–	1 035	760	181	55	**2 031**
B Swartzberg	–	1 205	829	120	36	**2 190**
SD Whyte	–	1 911	533	129	–	**2 573**
Sub-total	–	8 711	5 418	932	492	**15 553**
Non-executive						
Dr BA Brink[2]	72	–	–	–	–	**72**
JP Burger[3]	120	–	–	–	–	**120**
LL Dippenaar[3]	115	–	–	–	–	**115**
Dr NJ Dlamini	92	–	–	–	–	**92**
SB Epstein	156	–	–	–	–	**156**
MI Hilkowitz	89	–	–	–	–	**89**
SV Zilwa	134	–	–	–	–	**134**
Sub-total	778	–	–	–	–	**778**
Total	778	8 711	5 418	932	492	**16 331**
Less: paid by subsidiaries	(778)	(8 711)	(5 418)	(932)	(492)	**(16 331)**
Paid by holding company	–	–	–	–	–	**–**

Payments to directors for the year ended 30 June 2004 for services rendered were as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	Total 2004
Executive						
A Gore	–	1 275	777	156	159	2 367
NS Koopowitz	–	1 607	937	80	47	2 671
HP Mayers	–	1 385	890	208	141	2 624
JM Robertson	–	928	582	161	78	1 749
B Swartzberg	–	1 119	640	112	41	1 912
SD Whyte	–	2 116	458	131	–	2 705
Sub-total	–	8 430	4 284	848	466	14 028
Non-executive						
Dr BA Brink[2]	36	–	–	–	–	36
JP Burger[3]	98	–	–	–	–	98
LL Dippenaar[3]	84	–	–	–	–	84
Dr NJ Dlamini	72	–	–	–	–	72
RB Gouws	64	–	–	–	–	64
MI Hilkowitz	65	–	–	–	–	65
SV Zilwa	66	–	–	–	–	66
Sub-total	485	–	–	–	–	485
Total	485	8 430	4 284	848	466	14 513
Less: paid by subsidiaries	(485)	(8 430)	(4 284)	(848)	(466)	(14 513)
Paid by holding company	–	–	–	–	–	–

1. "Other benefits" comprises medical aid contributions, travel and other allowances.
2. Directors' fees for services rendered by Dr BA Brink are paid to Anglo American plc.
3. Directors' fees for services rendered by JP Burger and LL Dippenaar are paid to FirstRand Limited.

The remuneration committee has noted that the salaries of certain of the executive directors are below those of senior executives in comparable firms. The matter is currently receiving attention and will be addressed in the next financial year.

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

Discovery Life preference shares

During the 2001 financial year, Discovery Life issued 1 500 000 preference shares to employees at a par value of 1 cent per share. These shares are redeemable as set out in note 24.2 of the financial statements.

Of the total number of preference shares issued, the following were issued to directors:

NS Koopowitz	175 000
HP Mayers	750 000
JM Robertson	30 000

SHARE OPTIONS

Outstanding shares under options offered to and accepted by directors in terms of share incentive schemes are as follows:

Discovery share incentive scheme	Outstanding shares	Strike price cents	Strike date
A Gore	100 000	780	01/03/2007
	200 000	720	01/09/2007
	250 000	1440	30/9/2008
NS Koopowitz	500 000	780	01/03/2007
	150 000	720	01/09/2007
	250 000	1440	30/09/2008
HP Mayers	100 000	780	01/03/2007
	100 000	720	01/09/2007
	250 000	1440	30/9/2008
JM Robertson	100 000	780	01/03/2007
	200 000	720	01/09/2007
	250 000	1440	30/9/2008
B Swartzberg	100 000	780	01/03/2007
	200 000	720	01/09/2007
	250 000	1440	30/09/2008
SD Whyte	100 000	780	01/03/2007
	200 000	720	01/09/2007

Destiny stock option plan	Opening balance	Strike price US$	Strike date	Taken up this year	Benefit derived US$	Closing balance
SD Whyte	60 000	2.00	01/11/2006	30 000	41 400	30 000
	20 000	2.00	01/03/2007	5 000	6 900	20 000
	80 000	2.11	16/09/2007	20 000	25 400	60 000
	52 500	3.38	22/06/2009	–	–	52 500
SB Epstein	25 000	2.00	01/08/2005	18 750	25 875	6 250
	25 000	2.11	16/09/2007	6 250	7 938	18 750

Directorate

| Continued |

DIRECTORS' INTERESTS

According to the Register of Directors' interests, maintained by Discovery in accordance with the provisions of section 140A of the Companies Act, directors of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June 2005.

	Direct beneficial	Indirect beneficial	**Total 2005**	Total 2004
A Gore	434 667	46 847 133	**47 281 800**	51 186 823
NS Koopowitz	471 062	1 200 602	**1 671 664**	682 142
HP Mayers	94 753	4 113 666	**4 208 419**	94 753
JM Robertson	339 973	3 789 727	**4 129 700**	4 593 427
B Swartzberg	3 706 027	18 754 719	**22 460 746**	23 643 874
SD Whyte	2 762 056	–	**2 762 056**	2 859 056
LL Dippenaar	159 938	405 535	**565 473**	565 473
Dr BA Brink	12 000	–	**12 000**	6 692
	7 980 476	75 111 382	**83 091 858**	83 632 240

NS Koopowitz holds 573 913 options to buy Discovery Holdings shares at a strike price of R10.00 on 30 September 2005. NS Koopowitz holds 425 000 options to sell Discovery Holdings shares at a strike price of R11.20 on 27 September 2005 and has granted an option to purchase 425 000 Discovery Holdings shares at a strike price of R18.50 on 27 September 2005.

SD Whyte holds 350 000 options to sell Discovery Holdings shares at a strike price of R16.20 on 2 May 2006, and has granted an option to purchase 350 000 Discovery Holdings shares at a strike price of R19.76 on 2 May 2006.

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12 September 2005

The Directors
Discovery Holdings Limited
155 West Street
Sandton 2146

Dear Sirs and Mesdames

Embedded Value of Discovery Holdings Limited

We have reviewed the consolidated embedded value of Discovery Holdings Limited ("Discovery") for the year ended 30 June 2005, as set out on pages 354 to 359 of these accounts.

Our responsibilities in relation to the embedded value include a review of the reasonableness of the calculation of Discovery's 30 June 2005 embedded value, the value of one year's new business, the methodology and assumptions underlying those calculations, a review of new models and model changes since the previous year end valuation, and the analysis of change in embedded value.

In our opinion the embedded value results in aggregate and in all material respects for each of Discovery Health, Vitality, Discovery Life and Destiny Health are reasonable and have been calculated in accordance with the requirements of PGN 107: Embedded Values and Value of New Business. PGN107 represents best practice guidance issued by the Actuarial Society of South Africa, and relates to long-term insurance business. The embedded value contribution of Prudential Health is based on the Company's net asset value as at 30 June 2005. In those cases where business other than long-term insurance business has been included in the value of in-force for embedded value purposes, similar principles to those contained in PGN107 have been used to value such business. Furthermore we are satisfied that Discovery's analysis of the change in the embedded value over the year to 30 June 2005 is a fair representation of operating experience and other variances.

In our opinion the assumptions used by Discovery are reasonable for the purposes of the embedded value calculation. The assumptions were based on recent experience, and other market benchmarks. Destiny Health continues to enter new markets and in respect of these no credible experience has yet been built up. A range of future experience assumptions is accordingly possible, and as such the assumptions may change frequently until the business matures. The embedded value for Destiny Health will change as these assumptions change. Because the Prudential Health business has not yet matured to a level yielding stable embedded value results, no value has been placed on the current in-force business.

In performing our work, we have relied on information supplied to us by, or on behalf of, Discovery for periods up to 30 June 2005. The information included detail of shareholders' net assets as at 30 June 2005, policy data and other statistical data relating to current and recent operating experience. We have reviewed this information for reasonableness based on our knowledge of the industry but we have not carried out independent checks thereof.

Yours faithfully

Mark Claassen FIA, FASSA
Director: PricewaterhouseCoopers Actuarial and Insurance Management Solutions

Group consolidated embedded value statement for the year ended 30 June 2005

BUSINESS MODEL

The figures in this report represent the consolidated embedded value of Discovery Holdings Limited and its subsidiaries ("Discovery"). The embedded value is broken down by product category, as detailed below:

Health and Vitality

The Discovery Health Medical Scheme ("DHMS") insures members for health care related expenses. Discovery provides administration, managed care and risk management services to DHMS. Profits emerge from medical scheme administration and managed care services provided by Discovery Health (Pty) Limited ("Discovery Health"). The same services offered to DHMS are offered to other closed schemes through Discovery InHouse.

Vitality offers health and lifestyle benefits with selected partners to medical scheme members and Life policyholders. Vitality creates incentives for members and policyholders to improve their health. KeyClub offers similar benefits to members on the KeyCare plans. Vitality and KeyClub membership is voluntary.

Life

Discovery offers a unique, innovative living assurance product that assists policyholders and their families in maintaining their lifestyle when illness, disability or death occurs.

Discovery Life launched the Retirement Optimiser during June 2005 and thereby entered the retirement funding market.

Destiny Health

Destiny Health Inc. ("Destiny Health") is a health insurer owned by Discovery Holdings and operating in the United States of America. Destiny Health has joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.

PruHealth

PruHealth is a joint venture between Discovery and Prudential UK. PruHealth has been providing innovative private medical insurance products to the UK market since October 2004.

EMBEDDED VALUE CALCULATION

An embedded value can be defined as:

- the value of shareholders' funds; plus
- the value of in-force business less an allowance for cost of capital.

Each of these elements is discussed in more detail below:

1. Shareholders' funds

The Discovery shareholders' funds are the audited values of the assets of Discovery in excess of its liabilities (including policy liabilities determined using the Financial Soundness Valuation ("FSV") method).

It therefore represents the consolidated shareholders' funds of the following companies:

- Discovery Life Limited;
- Discovery Health (Pty) Limited;
- Vitality Healthstyle (Pty) Limited;
- Destiny Health Inc.; and
- PruHealth.

2. Value of in-force business less an allowance for the cost of capital

The value of in-force business is calculated as the value of the projected future after-tax profits of the business of Discovery Holdings in-force at the valuation date, discounted at the risk discount rate, less an allowance for the cost of capital. These projections have been performed using best-estimate assumptions of future experience.

This value is calculated by making assumptions about the major influences on the profits of Discovery in the future. For the Health, Vitality and Destiny Health products, the future after-tax profit of in-force business represents the value of future profit elements, while the future after-tax profit for the Life product is the release of valuation margins on individual business and the value of future profit elements on group business. The life value of in-force includes expected future automatic premium increases. For PruHealth, no value has been placed on the current in-force business.

The business of writing life and health insurance requires Discovery Life Limited and Destiny Health to maintain solvency capital. The cost of capital in respect of the in-force business is calculated to equal the amount of solvency capital at the valuation date, less the discounted value, using the risk discount rate, of the expected annual release of this capital over the projection term, allowing for the return after tax and investment management charges on the expected level of solvency capital.

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

EMBEDDED VALUE STATEMENT

Consolidated embedded value

The consolidated embedded value statement is shown in Table 1 below.

Table 1

Group embedded value

at 30 June

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

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

Shareholders' required return

The shareholders' required return, or risk discount rate, is used to calculate the discounted value of future profits. At 30 June 2005, the following discount rates were used:

Health and Vitality – 11.00% per annum

Life – 11.00% per annum

Destiny Health – 10.00% per annum

It is the policy of Discovery to use an active basis, in other words a basis that changes in line with market movements. For Health, Vitality and Life, the risk discount rate was determined with reference to the cashflow-weighted average risk free yield curve at the valuation date. The lower Destiny Health risk discount rate allows for the lower U.S. interest rates and economic environment.

Value of in-force business

The value of in-force business is shown in Table 2 below:

Table 2

at 30 June 2005

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

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

at 30 June 2004

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

EMBEDDED VALUE EARNINGS

The change in embedded value from one year to the next represents the embedded value earnings for Discovery, adjusted for changes to the shareholders' funds.

Table 3

Embedded value earnings

for the year ended 30 June

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

Group consolidated embedded value statement

| Continued |

Components of embedded value earnings

The components of the embedded value earnings are explained below.

Table 4

Components of embedded value earnings

for the year ended 30 June

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

1. In terms of the agreement between Destiny Health and the Guardian Life Insurance Company of America, Guardian will share in 50% of the profits from Destiny Health's non-alliance business once the business written by Guardian reaches the contractual new member threshold. This is modelled to occur in June 2006. Based on Guardian's progress at 30 June 2005 towards achieving this target, the value attributed to Destiny Health's non-alliance business from 30 June 2006 has been reduced by 26.3% (June 2004: 6.8%) in the embedded value calculation.

Profit from new business

The value of one year of new business is determined at the point of sale as the projected future after-tax profits of the business sold during the year, less an allowance for cost of capital and discounted at the risk discount rate.

In calculating the value of new business, Health and Destiny Health new business is defined as individuals and members of new employer groups joining Discovery, irrespective of the size of the employer, and includes additions to first year business. Vitality new business includes all new members joining Vitality over the period. For Life, new business is defined as new policies written.

Table 5

Embedded value of new business

for the year ended 30 June

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

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

The total Health and Vitality new business annualised premium income written over the period was R2 869 million (June 2004: R2 184 million). For Destiny Health, the total new business annualised premium income written over the period was R809 million (June 2004: R494 million).

2. The Life value of new business includes R44 million in respect of the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the report of the Chief financial officer.

3. Life new business annualised premium income of R470 million shown above is net of automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R81 million and servicing increases of R78 million was R629 million.

4. The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums. The majority of policies sold under Life have accelerated premiums, i.e. premiums that *increase over the term of the policies, hence expressing the value of new business as a percentage of the current new business premium, 111% (June 2004: 111%) would overstate the annualised profit margin.*

5. *As most of the new business is written on the Guardian and Tufts insurance licences, Destiny Health is not required to hold statutory capital for this business. An explicit charge for the use of their capital is payable to Guardian and Tufts, and this cost is included in the gross profit from new business.*
6. *The Destiny Health value of new business allows for the actual new business expenses incurred over the twelve month period. Actual new business expenses include infrastructure development costs related to developing new business capacity. No allowance has been made for acquisition cost efficiencies which are expected to occur in the future.*
7. *The value of new business at the valuation date excludes all acquisition costs.*

Expected return

The risk discount rate is the return investors would have expected to earn on the previous year's value of in-force business. This amount is reflected as the expected return of R602 million.

Change in methodology and assumptions

The assumptions used in the embedded value are changed using an active basis to realistically reflect changes in Discovery's operating conditions. The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current year's changes are described in detail in table 6 below (for previous periods refer to previous embedded value statements).

The following table shows the impact of the change in methodology and assumptions:

Table 6

Methodology and assumption changes

for the year ended 30 June 2005

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

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

Experience variances

The embedded value is based on a series of assumptions about the future. To the extent that actual experience differs from these assumptions, then the actual profits will differ from those expected. The experience variance items approximately quantify this difference.

The following table gives a breakdown of the main experience variances for the year ended 30 June 2005:

Table 7

Experience variances

for the year ended 30 June 2005

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

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

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

Group consolidated embedded value statement

| Continued |

RETURN ON SHAREHOLDERS' FUNDS

The return on shareholders' funds of R377 million represents the investment return earned on shareholders' funds after tax and investment management charges. Shareholders' funds include the assets under insurance contracts.

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

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; and
- 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; and
- 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;
- The renewal expense assumption allows for growth in membership over the next 12 months; and
- The value of in-force business for Destiny Health was converted into Rands using the year end exchange rate of R6.6755 per US$.

Table 8

Embedded value assumptions

at 30 June

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

1. *Various additional State taxes also apply.*

SENSITIVITY TO THE EMBEDDED VALUE ASSUMPTIONS

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

Table 9

Embedded value sensitivities

at 30 June 2005

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

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

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

Table 10

Value of new business sensitivities

at 30 June 2005

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

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

Administration

Discovery Holdings Limited

(Registration number 1999/007789/06)
Share code: DSY
ISIN code: ZAE000022331

Registered office

155 West Street, Sandton

Postal address

PO Box 786722, Sandton 2146

Telephone (011) 529-2888
Fax (011) 539-2958

e-mail: AskTheCFO@discovery.co.za

Secretary

MJ Botha

Auditors

PricewaterhouseCoopers Incorporated

Statutory valuator

RD Williams

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
Ground Floor, 70 Marshall Street, Johannesburg 2001

PO Box 61051, Marshalltown 2017

Sponsors (in terms of JSE Limited Listings Requirements)

RMB Corporate Finance, 1 Merchant Place, Cnr Fredman Drive and Rivonia Road, Sandton 2196

FIRSTRAND

The annual general meeting will take place at 09:00 on 22 November 2005 in the FNB Training Centre, Grayston Drive, Sandton

SHAREHOLDERS'
INFORMATION 2005

Contents

Analysis of shareholders as at 30 June 2005

	Number of shareholders	Shares held 000's	%
Shareholders holding more than 5%			
RMB Holdings		1 661 010	29.59
Financial Securities Ltd (Remgro)		481 142	8.57
Public Investment Commissioner		465 211	8.29
FirstRand Empowerment Trust		363 800	6.48
Employee share trusts		280 882	5.00
Sub-total		3 252 045	57.93
Other		2 361 522	42.07
Total		5 613 567	100.00
Shareholder type			
Corporates (RMB Holdings & Remgro)		2 142 152	38.16
Pension funds		1 268 105	22.59
Unit trusts		472 662	8.42
Individuals		441 226	7.86
Insurance companies		402 493	7.17
BEE		363 800	6.48
Employee share trusts		280 882	5.00
Other managed funds		242 247	4.32
Total		5 613 567	100.00
Public and non-public shareholders			
Public	25 392	3 184 720	56.73
Non-public			
– Corporates (RMB Holdings & Remgro)	2	2 142 152	38.16
– Directors and Associates	9	5 813	0.11
– Share Trusts	4	280 882	5.00
Total	25 407	5 613 567	100.00
Geographic ownership			
South Africa		5 101 610	90.88
International		511 957	9.12
Total		5 613 567	100.00

Performance on the JSE as at 30 June 2005

	2005	2004
Number of shares in issue (000's)	**5 613 567**	5 476 375
Market prices (cents per share):		
– Closing	**1 387**	1 019
– High	**1 480**	1 049
– Low	**965**	725
Weighted average market price	**1 244**	877
Closing price/net asset value per share	**2.61**	2.33
Closing price/headline earnings	**9.49**	9.23
Volume of shares traded (millions)	**2 044**	2 256
Value of shares traded (R millions)	**25 423**	19 701
Market capitalisation (R billions)	**77.86**	55.80

Administration

FirstRand Limited

(Registration number 1966/010753/06)
JSE code: FSR   ISIN: ZAE0000 66304 ("FSR")

Company secretary
A H Arnott B Com, CA (SA)

Registered office
4th floor, 4 Merchant Place
Cnr Fredman Drive and Rivonia Road, Sandton 2196

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Sponsor (in terms of JSE Listings Requirements)

RMB (A division of FirstRand Bank) Corporate Finance
1 Merchant Place, Cnr Fredman Drive and Rivonia Road
Sandton 2196

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Auditors

PricewaterhouseCoopers Incorporated
2 Eglin Road, Sunninghill 2157

Transfer secretaries – South Africa

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg 2001

Postal address
PO Box 61051, Marshalltown 2107

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Transfer secretaries – Namibia

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Telefax
International +264 61248531

Notice of annual general meeting

FirstRand Limited

(Incorporated in the Republic of South Africa)
(Registration number 1966/010753/06)
JSE code: FSR
ISIN: ZAE000066304
("FirstRand" or "the Company")

Notice is hereby given that the eighth annual general meeting of FirstRand Limited will be held in the auditorium, FNB Training Centre, Grayston Drive, Sandton on Tuesday, 22 November 2005 at 09:00 to, if approved, pass the following resolutions with or without modification:

1. Ordinary resolution number 1

Approval of annual financial statements

Resolved that the audited annual financial statements of the Company and the Group for the year ended 30 June 2005 be accepted and approved.

2. Ordinary resolution number 2

Final dividend

To note and confirm the final dividend of 28.50 cents per ordinary share declared on 20 September 2005.

3. Ordinary resolution number 3

Election of directors

To appoint Directors in the positions of the under-mentioned directors who retire in terms of the Company's Articles of Association and who, being eligible, offer themselves for re-election:

3.1 Paul Kenneth Harris (55)
Executive Director
Date of appointment: May 1998

Educational qualifications
- MCom

Directorships
- FirstRand Bank Holdings
- Momentum Group
- Remgro
- RMB Holdings

Member
- FirstRand: Executive committee

3.2 Michael Wallis King (68)
Independent Non-executive Director
Date of appointment: May 1998

Educational qualifications
- CA (SA)
- FCA

Directorships
- African Rainbow Minerals
- FirstRand Bank Holdings
- Sturrock & Robson Holdings
- Tongaat Hulett Group

Member
- FirstRand – Audit committee – chairman
- FirstRand – Directors' affairs and governance committee
- FirstRand – Remuneration committee

3.3 Khehla Cleopas Shubane (49)
Independent Non-executive Director
Date of appointment: May 1998

Educational qualifications
- BA (Hons)
- MBA

Directorships
- FCB South Africa
- Newhco
- Nurcha
- RMB Holdings

Member
- FirstRand – Directors' affairs and governance committee

4. Ordinary resolution number 4

Appointment of directors

To ratify the appointment of directors who were appointed during the year and who retire in terms of the Company's Articles of Association and being eligible offer themselves for re-election.

4.1 Yunus Ismail Mahomed
Independent Non-executive Director
Date of appointment: May 2005

Educational qualifications
- BProc
- MBA

Directorships
- Kagiso Media Limited
- Various private companies

Member
- FirstRand – Directors' affairs and governance committee

4.2 Aser Paul Nkuna
Independent Non-executive Director
Date of appointment: May 2005

Educational qualifications
- AMP (Wits Business School)

Directorships
- BP South Africa
- Credit Management Solutions
- Dairyworld
- Mathomo
- Primedia Broadcasting
- SA Airways
- SA Teemane Holdings
- Ster-Kinekor
- Tracker Investment Holdings

Membership
- FirstRand – Directors' affairs and governance committee

4.3 Sonja Emilia Ncumisa Sebotsa
Independent Non-executive Director
Date of appointment: May 2005

Educational qualifications
- LLB (Hons) LSE
- MA (McGill)
- SFA

Directorships

- Adcorp Holdings
- Makalani Holdings
- Paracon Holdings
- Willis South Africa

Membership

- FirstRand – Directors' affairs and governance committee

5. Ordinary resolution number 5

Approval of directors' remuneration for the year to June 2005

Resolved that the remuneration of the directors as reflected in page 112 to the financial statements be approved.

6. Ordinary resolution number 6

Approval of directors' fees for the year to June 2006

Resolved that the fees of the directors as reflected below be approved for the year to June 2006.

FirstRand Board	*Per annum*
Chairman	R600 000
Director	R113 000
Audit committee	
Chairman	R68 000
Member	R34 000
Remuneration committee	
Chairman	R68 000
Member	R34 000
Directors' affairs and governance committee	
Chairman	R22 500
Member	R11 250
Financial Sector Charter Compliance committee	
Chairman	R45 000
Member	R22 500
Ad hoc meetings (in exceptional circumstances)	R2 100 per hour

7. Ordinary resolution number 7

Approval of reappointment of auditors

Resolved that PricewaterhouseCoopers Inc be reappointed as auditors of the Company until the next annual general meeting.

8. Ordinary resolution number 8

Approval of auditors' remuneration

Resolved that the directors fix and pay the auditors' remuneration for the year ended 30 June 2005.

9. Ordinary resolution number 9

Place unissued shares under the control of the directors

Resolved that all the unissued shares in the Company be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that they be and are hereby authorised to allot and issue shares in the Company upon such terms and conditions as the directors in their discretion deem fit, subject to the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), the Articles of Association of the Company ("the Articles") and the JSE Limited ("JSE") Listings Requirements. The issuing of shares granted under this authority will be limited to FirstRand's existing contractual obligations to issue shares, any scrip dividend and/or capitalisation award and shares required to be issued for the purpose of carrying out the terms of the various FirstRand share incentive schemes.

10. Ordinary resolution number 10

General issue of shares for cash

Resolved that the board of directors of the Company be hereby authorised, by way of a renewable general authority, to issue equity shares in the authorised but unissued share capital of the Company for cash as and when they in their discretion deem fit, subject to the Companies Act and the Listings Requirements of the JSE, when applicable, and the following limitations, namely that:

- this authority shall be valid until the Company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- the equity shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- the equity shares must be issued to public shareholders as defined by the JSE Listings Requirements and the Namibian Stock Exchange Listing Requirements and not related parties;
- the equity shares which are the subject of the issue for cash may not exceed 10% in the aggregate in any one financial year of the number of equity shares in issue of that class;
- a maximum discount at which the equity shares may be issued is 10% of the weighted average traded price of the Company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the Company; and
- a paid press announcement giving full details, including the impact on net asset value and earning per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements.

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders present or represented by proxy.

11. Special resolution number 1

Authority to repurchase Company shares

Resolved that in terms of the Company's Articles of Association, the Company's directors be hereby authorised, by way of a general authority, to repurchase issued shares in the Company or to permit a subsidiary of the Company to purchase shares in the Company, as and when deemed appropriate, subject to the following initiatives:

- that this authority shall be valid until the Company's next annual general meeting provided that it shall not extend beyond fifteen (15) months from the date of this annual general meeting;
- that any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or agreement between the Company and the counterparty;
- that a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the Company or its subsidiaries have repurchased in aggregate 3% of the initial number of shares in issue, as at the time that the general authority was granted, and for each 3% in aggregate of the initial number of shares which is acquired thereafter;
- that a general repurchase may not in the aggregate in any one financial year exceed 10% of the number of shares in the Company's issued share capital at the time this authority is given provided that a subsidiary of the Company may not hold at any one time more than 10% of the number of issued shares of the Company;
- that no repurchases will be effected during a prohibited period;
- that at any point in time, the Company may only appoint one agent to effect repurchases on the Company's behalf;
- that the Company may only undertake a repurchase of securities if, after such repurchase the spread requirements of the Company comply with the JSE Listings Requirements;
- that, in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted be 10% above the weighted average traded price of the shares as determined over the five (5) days prior to the date of repurchase;
- the sponsor to the Company provides a letter to the JSE on the adequacy of working capital in terms of section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE; and
- that such repurchase shall be subject to the Companies Act and the applicable provisions of the JSE Listings Requirements.

The board of directors of the Company ("the board") has no immediate intention to use this authority to repurchase Company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

Having considered the effect in the event that the maximum allowed repurchase is effected, the directors are of the opinion that:

- the Company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of the notice of the annual general meeting;
- the assets of the Company and the Group will be in excess of the liabilities of the Company and the Group for a period of 12 months after the date of the notice of the annual general meeting. The assets and liabilities have been recognised and measured for this purpose in accordance with the accounting policies used in the latest audited annual group financial statements;
- the Company's and the Group's ordinary share capital and reserves will, after such payment, be sufficient to meet their needs for a period of 12 months following the date of the notice of the annual general meeting; and
- the Company and the Group will, after such payment, have sufficient working capital to meet their needs for a period of 12 months following the date of the notice of the annual general meeting.

Reason for and effect of the special resolution number 1

The reason for special resolution number 1 is to grant the Company's directors a general authority, up to and including the date of the following annual general meeting of the Company, to approve the Company's purchase of shares in itself, or to permit a subsidiary of the Company to purchase shares in the Company. The effect of special resolution number 1 is to grant a general authority to the Company's directors accordingly.

For purposes of considering the special resolution and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the annual report, in which this notice of annual general meeting is included, at the places indicated:

- Directors and management – refer pages 54 to 59 of this report;
- Major shareholders – refer page 363 of this report;
- No material changes to report on;
- Directors' interest in securities – refer page 114 of this report;
- Share capital of the Company – refer page 107 of this report;
- The directors, whose names are set out on pages 54 to 57 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable queries in this regard; and
- Litigation – save as reported in note 27 to the financial statements of the FirstRand Banking Group on page 198, there are no legal or arbitration proceedings (including

any such proceedings that are pending or threatened of which the Company is aware) which may have or have had in the previous 12 months, a material effect on the Group's financial position.

By order of the board of directors.

AH Arnott
BCom, CA (SA)
Company Secretary

19 September 2005

Important notes regarding attendance at the annual general meeting

GENERAL

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the Transfer Secretaries of the Company that their shares are in fact registered in their name.

CERTIFICATED MEMBERS

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the registered office of the Company/Company's transfer secretaries by 9:00 on Friday, 18 November 2005.

DEMATERIALISED SHAREHOLDERS

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depositary Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

On a show of hands, every member of the Company present in person or represented by proxy shall have one vote only. On a poll, every member of the Company shall have one vote for every share held in the Company by such member.

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Form of proxy

For use at the annual general meeting – ordinary shareholders

FirstRand Limited
(Incorporated in the Republic of South Africa)
(Registration number 1966/010753/06)
JSE code: FSR ISIN: ZAE000066304
("FirstRand" or "the Company")

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered members who hold ordinary shares of the Company and who are unable to attend the 2005 annual general meeting of the Company to be held in the FNB Training Centre, Grayston Drive, Sandton on Tuesday, 22 November 2005 at 09:00 ("the annual general meeting").

I/We,

Of (address)

Being the holder/s of

ordinary shares in the Company, hereby appoint (see instruction overleaf)

1. or, failing him/her

2. or, failing him/her

3. the chairperson of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company and at any adjournment thereof, as follows (see instruction overleaf).

	Insert an "X" or the number of votes exercisable (one vote per ordinary share)		
	In favour of	**Against**	**Abstain**
Ordinary resolution number 1 Approval of annual financial statements			
Ordinary resolution number 2 Final dividend			
Ordinary resolution number 3 Election of directors			
3.1 Paul Kenneth Harris			
3.2 Michael Wallis King			
3.3 Khehla Cleopas Shubane			
Ordinary resolution number 4 Appointment of directors			
4.1 Yunus Ismail Mahomed			
4.2 Aser Paul Nkuna			
4.3 Sonja Emilia Ncumisa Sebotsa			
Ordinary resolution number 5 Approval of directors' remuneration for the year to June 2005			
Ordinary resolution number 6 Approval of directors' fees for the year to June 2006			
Ordinary resolution number 7 Approval of reappointment of auditors			
Ordinary resolution number 8 Approval of auditors' remuneration			
Ordinary resolution number 9 Place unissued shares under the control of directors			
Ordinary resolution number 10 General issue of shares for cash			
Special resolution number 1 Authority to repurchase company shares			

Signed at on 2005

Signature/s

Assisted by
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

Notes

USE OF PROXIES

A member who holds ordinary shares in FirstRand ("member") is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Every member present in person or by proxy and entitled to vote at the annual general meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the Company shall have one vote.

INSTRUCTIONS ON SIGNING AND LODGING THE PROXY FORM:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

4. To be valid the completed proxy forms must be forwarded to reach the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107), fax number (011) 688 5221 or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 12, Kaiserkrone Centre, Post Street Mail, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 61 24-8531 by no later than 09:00 on Friday, 18 November 2005. Proxy forms may only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.

6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.

8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

Shareholders’ diary

Reporting

Financial year end	30 June
Announcement of results for 2005	20 September 2005
Annual report posted by	31 October 2005
Annual general meeting	22 November 2005

Dividends

Final for 2005

– Declared	20 September 2005
– Last day to trade cum-dividend	14 October 2005
– First day to trade ex-dividend	17 October 2005
– Record date	21 October 2005
– Payment date	24 October 2005

Interim for 2006

– Declared	February 2006
– Payable	March 2006

contents overleaf

www.firstrand.co.za

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