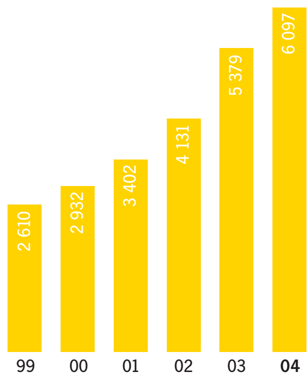
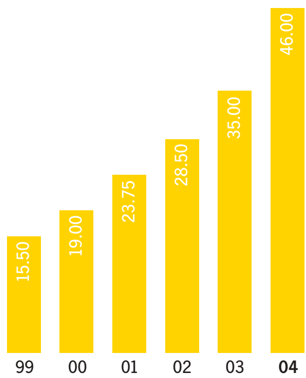
introduction

This report covers the financial results of FirstRand Limited ('FirstRand'), its wholly-owned subsidiaries FirstRand Bank Holdings Limited ('the Banking Group') and Momentum Group Limited, and its 66%-owned subsidiary Discovery Holdings Limited. Comprehensive reports relating to these subsidiaries are included in this circular and should be read in conjunction with this report.

Financial Highlights



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



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

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

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

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

Headline earnings reconciliation

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

Balance sheet / as at 30 June

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

Summarised cash flow statement / for the year ended 30 June

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

Assets under management / at 30 June

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

Sources of profit / for the year ended 30 June

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

Notes:

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

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

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

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

† Less than R500 000

Financial performance

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

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

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

The group's performance in summary is:

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

Basis of presentation

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

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

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

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

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

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

Corporate governance

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

Accounting policies

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

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

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

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

Operating environment

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

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

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

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

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

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

Strategic issues

During the year the following strategic issues were addressed.

Ansbacher disposal

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

Ownership transaction

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

Operating performance

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

FirstRand Banking Group

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

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

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

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

Growth in operating expenses was contained at 10.1%.

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

Retail Businesses

FNB Retail

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

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

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

HomeLoans

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

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

WesBank

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

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

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

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

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

African Subsidiaries

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

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

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

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

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

Insurance

First Link

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

OUTsurance

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

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

Corporate businesses

FNB Corporate

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

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

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

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

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

Rand Merchant Bank

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

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

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

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

Wealth businesses

RMB Private Bank

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

Ansbacher

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

Momentum Group

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

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

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

Insurance operations

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

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

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

Asset management operations

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

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

Investment income on shareholders' assets

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

Discovery Group

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

Discovery is evolving into four key insurance businesses:

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

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

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

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

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

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

FirstRand capital strategy

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

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

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

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

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

Decisions in this regard will be communicated to shareholders.

Capital centre's financial performance

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

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

FirstRand Banking Group

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

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

Momentum shareholder funds

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

FirstRand Limited

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

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

Changes in accounting policies

Business combinations

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

Consolidation of Share Trusts

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

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

Acquired trademarks, patents and similar intangible assets

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

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

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

Impact of the changes in accounting policy on opening equity

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

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

Impact of changes in accounting policy on current period income

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

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

Share-based expenses

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

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

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

Share incentive scheme

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

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

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

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

Prospects

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

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

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

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

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

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

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

Dividend

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

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

Final dividend declaration

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

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

By order of the Board

AH Arnott / Company Secretary

14 September 2004

Directors

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

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Restatement of prior year numbers

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

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

Restatement of prior year numbers continued

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