FIRSTRAND

Interim results

for the six months ended 31 December 2003

FIRSTRAND

1966/010753/06 Share code: FSR ISIN code: ZAE 000014973 ("FSR")

Unaudited interim results announcement

for the six months ended 31 December 2003

Contents

FirstRand Group

Financial highlights	1
Statement of headline earnings and dividends	2
Headline earnings reconciliation	2
Balance sheet	3
Summarised cash flow statement	4
Statement of changes in equity	4
Assets under management or administration	5
Sources of profit	5
The period under review	6

FirstRand Banking Group*

Financial highlights	11
Income statement	12
Balance sheet	13
The period under review	14

Momentum

Financial highlights	25
Income statement	26
Balance sheet	27
The period under review	28

Discovery

Financial highlights	37
Group consolidated income statement	38
Group consolidated balance sheet	39
The period under review	40

This circular is available on our website at: www.firstrand.co.za
E-mail questions to: asktheCFO@firstrand.co.za

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

FirstRand Group page 1

FirstRand Banking Group page 11

Momentum page 25

Discovery page 37

Introduction

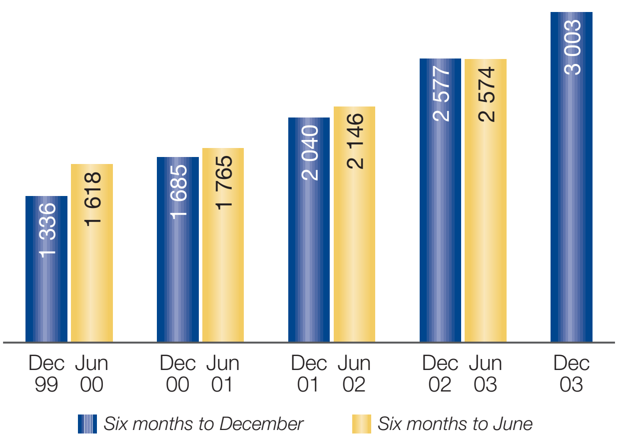
This report covers the consolidated results of FirstRand Limited (FirstRand), its wholly owned subsidiaries FirstRand Bank Holdings Limited (the Banking Group) and Momentum Group Limited (Momentum) and its 63% held subsidiary Discovery Holdings Limited (Discovery).

Comprehensive reports relating to each of these subsidiaries are included in this circular and should be read in conjunction with this report.

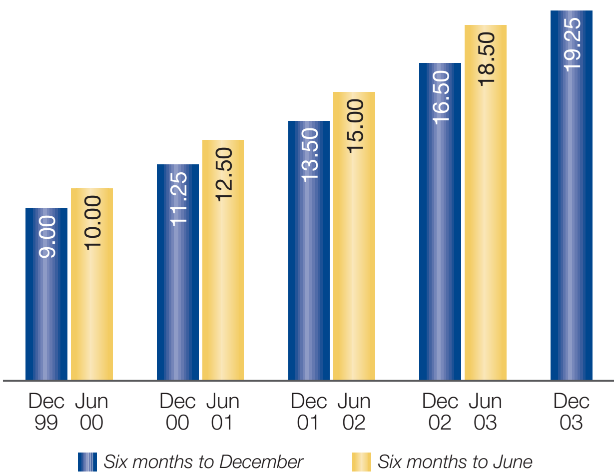
Financial highlights

Headline earnings (%)	**+26%**
Core headline earnings (%)	**+17%**
Dividend per share (%)	**+17%**
Total assets under management or administration (R billion)	**R518.5 billion**

Core headline earnings (R million)



Dividends per share (cents)



Statement of headline earnings and dividends

R million	Unaudited six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Banking Group	**2 308**	1 722	34	3 820
Core operations	**2 524**	2 084	21	4 352
Foreign currency translation losses	**(216)**	(362)	40	(532)
Momentum Group	**502**	460	9	947
Discovery Holdings	**85**	51	67	169
FirstRand Limited	**(108)**	(18)	>(100)	(39)
Headline earnings	**2 787**	2 215	26	4 897
Add: Foreign currency translation losses	**216**	362	(40)	532
Core headline earnings	**3 003**	2 577	17	5 429
Dividends declared (Rm)	**1 051**	898	17	1 909
Return on average equity (based on core headline earnings) (%)	**26.2**	27.8		27.8
Return on average equity (based on headline earnings) (%)	**23.9**	22.3		23.7
Number of shares in issue (million)	**5 460.3**	5 445.3		5 460.3
Weighted average number of shares in issue (million)	**5 460.3**	5 445.3		5 448.2
Weighted average number of shares for diluted earnings per share (million)	**5 540.4**	5 534.5		5 524.1
Core headline earnings per share (cents)	**55.0**	47.3	16	99.6
Headline earnings per share (cents)	**51.0**	40.7	25	89.9
Earnings per share (cents)	**50.7**	37.6	35	84.3
Diluted headline earnings per share (cents)	**50.3**	40.0	26	88.6
Dividend per share (cents):				
Interim	**19.25**	16.5	17	16.5
Final	**n/a**	n/a	–	18.5
Total	**19.25**	16.5	17	35.0

Headline earnings reconciliation

R million	Unaudited six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Attributable earnings				
Banking Group	**2 303**	1 727	33	3 774
Momentum Group	**484**	280	73	629
Discovery Holdings	**86**	54	59	225
Goodwill amortised – intergroup	**3**	3	–	5
	2 876	2 064	39	4 633
FirstRand Limited	**(109)**	(18)	>(100)	(39)
Earnings attributable to ordinary shareholders	**2 767**	2 046	35	4 594
Add: Goodwill amortised	**20**	15		82
Add: Goodwill impaired	**–**	166		242
Less: Profit on disposal of assets	**–**	(12)		31
Less: Abnormal profit on release of reserves	**–**	–		(52)
Headline earnings	**2 787**	2 215	26	4 897

Balance sheet

R million	Unaudited at 31 December 2003	Unaudited at 31 December 2002	Audited at 30 June 2003
Assets			
Banking operations	**272 169**	249 664	257 926
Cash and short-term funds	**23 249**	21 491	29 252
Investment securities and other investments	**42 375**	43 034	36 136
Financial instruments held for trading	**16 260**	25 278	10 870
Investment securities	**26 115**	17 756	25 266
– Originated	**300**	–	–
– Held-to-maturity	**2 004**	5 469	1 220
– Available for sale	**23 811**	12 287	24 046
Advances	**203 776**	182 558	189 626
– Originated	**144 207**	134 753	135 062
– Held to maturity	**7 760**	9 859	9 753
– Available for sale	**9 085**	7 111	7 406
– Trading	**46 038**	34 061	40 707
– *Less:* Impairments	**(3 314)**	(3 226)	(3 302)
Commodities	**374**	437	509
Non-recourse investments	**2 395**	2 144	2 403
Insurance and Health operations	**83 353**	77 134	76 297
Funds on deposit	**13 749**	13 988	15 836
Government and public authority stocks	**12 170**	11 650	12 575
Debentures and other loans	**11 464**	12 805	10 759
Policy loans	**629**	578	581
Equity investments	**42 234**	35 187	33 793
Property investments	**3 107**	2 926	2 753
Current assets	**9 382**	11 062	8 926
Loans	**629**	1 214	686
Investments in associated companies	**2 492**	2 251	2 458
Derivative instruments	**42 948**	38 333	43 879
Deferred taxation assets	**1 135**	938	981
Intangible assets	**561**	672	472
Property and equipment	**4 376**	3 998	4 068
Total assets	**417 045**	385 266	395 693
Liabilities and shareholders' equity			
Deposits and current accounts	**196 506**	193 004	186 031
Negotiable deposits	**35 166**	20 144	29 662
Non-recourse deposits	**2 395**	2 144	2 403
Current liabilities	**17 305**	19 979	17 335
Provisions	**1 262**	886	1 092
Taxation	**986**	568	1 430
Derivative instruments	**41 275**	36 910	46 657
Short trading positions	**6 137**	7 443	4 219
Deferred taxation liabilities	**1 877**	2 045	1 944
Post-retirement medical liability	**1 315**	1 260	1 293
Long-term liabilities	**6 589**	5 391	4 645
Policyholder liabilities	**79 857**	73 700	75 551
Policyholder liabilities under insurance contracts	**41 441**	38 326	38 975
Policyholder liabilities under investment contracts	**38 416**	35 374	36 576
Total liabilities	**390 670**	363 474	372 262
Outside shareholders' interests	**1 959**	1 200	1 145
Shareholders' funds			
Share capital and share premium	**8 487**	8 487	8 487
Reserves	**15 929**	12 105	13 799
Total liabilities and shareholders' equity	**417 045**	385 266	395 693
Contingencies and commitments	**15 180**	26 484	25 888

Summarised cash flow statement

R million	Unaudited six months ended 31 December 2003	2002	Audited Year ended 30 June 2003
Cash flows from operating activities			
Cash generated by operations	**6 999**	10 404	13 469
Working capital changes	**(5 782)**	(1 594)	5 865
Cash inflow from operations	**1 217**	8 810	19 334
Taxation paid	**(1 882)**	(906)	(1 332)
Dividends paid	**(1 010)**	(817)	(1 715)
Net cash (outflow)/inflow from operating activities	**(1 675)**	7 087	16 287
Net cash outflow from investment activities	**(8 248)**	(10 126)	(9 140)
Net cash inflow/(outflow) from financing activities	**1 833**	279	(298)
Net (decrease)/increase in cash and cash equivalents	**(8 090)**	(2 760)	6 849
Cash and cash equivalents at beginning of period	**45 088**	38 239	38 239
Cash and cash equivalents at end of period	**36 998**	35 479	45 088

Statement of changes in equity

R million	Share capital	Share premium	Retained earnings	Non-distributable reserves	Total shareholders' funds
Balance as at 1 July 2003	55	8 432	11 766	2 033	22 286
Currency translation differences	–	–	–	(117)	(117)
Revaluation of investments	–	–	–	554	554
Realisation of available for sale assets	–	–	–	(25)	(25)
Cash flow hedging – effective portion	–	–	–	(67)	(67)
Reserves arising on acquisition of subsidiaries	–	–	–	19	19
Non-distributable reserves of associate companies	–	–	–	2	2
Movement in other reserves	–	–	–	7	7
Transfer to general risk reserve	–	–	(92)	92	–
Earnings attributable to shareholders	–	–	2 767	–	2 767
Dividends paid	–	–	(1 010)	–	(1 010)
Balance as at 31 December 2003	55	8 432	13 431	2 498	24 416
Balance as at 31 December 2002					
As previously stated	56	9 644	10 359	1 864	21 923
– Reclassification of preference shares	(1)	(1 212)	–	–	(1 213)
– Change in accounting policy – deferred acquisition costs	–	–	(118)	–	(118)
Restated balance as at 31 December 2002	55	8 432	10 241	1 864	20 592

Assets under management or administration

R million	Unaudited at 31 December 2003	2002	Audited 30 June 2003
Holding company	**963**	1 222	997
Banking Group	**317 078**	293 710	303 915
Insurance and Health	**200 470**	184 195	185 349
On-balance sheet	**99 004**	90 334	90 781
Off-balance sheet assets managed and administered on behalf of clients	**101 466**	93 861	94 568
Total	**518 511**	479 127	490 261

Sources of profit

for the six months ended 31 December

	2003		2002	
	R million	**%**	R million	%
FirstRand Banking Group [1]	**2 524**	**84.1**	2 084	80.8
Retail banking – FNB	**910**	**30.3**	756	29.3
Instalment finance – WesBank	**357**	**11.9**	254	9.9
African operations – FNB Africa	**166**	**5.5**	181	7.0
Short-term insurance – OUTsurance, FirstLink	**73**	**2.4**	44	1.7
Corporate banking – FNB Corporate	**380**	**12.7**	218	8.5
Investment banking – RMB	**433**	**14.4**	281	10.9
International banking – Ansbacher UK	**(86)**	**(2.9)**	(92)	(3.6)
Private banking – RMB Private Bank	**14**	**0.5**	19	0.7
Fiduciary Services – FNB Trust Services	**8**	**0.3**	9	0.3
Capital centre – Banking Group	**269**	**9.0**	414	16.1
Momentum Group	**502**	**16.7**	460	17.9
Insurance operations – Momentum	**261**	**8.7**	253	9.9
Asset management – RMBAM, Ashburton	**90**	**3.0**	86	3.3
Investment income on shareholders' assets	**151**	**5.0**	121	4.7
Discovery Group	**85**	**2.8**	51	2.0
FirstRand Limited	**(108)**	**(3.6)**	(18)	(0.7)
Core headline earnings [2]	**3 003**	**100.0**	2 577	100.0

Notes:

1 Taxation relating to the Banking Group has been allocated across the bank's operating divisions on a pro rata basis, except in the case of the settlement with the Irish tax authorities which is included in the tax charge for Ansbacher UK.

2 Core headline earnings exclude foreign currency translation losses and gains.

The period under review

Preference share issue

As advised in the previous report to shareholders, the Group raised R1 405 million of funding through the issue of preference shares to facilitate the restructuring of Momentum's balance sheet and the transfer of the investment in Discovery from Momentum to FirstRand.

Basis of presentation

AC133 was implemented with effect from 1 July 2002. The Group's first set of results under AC133 were produced in December 2002, and were supplemented by results prepared on a pre-AC133 basis. These are the first set of results presented which show the current and comparative results on a post-AC133 basis.

As previously discussed and extensively documented, AC133 creates a certain amount of additional volatility into the reporting of companies' results. AC133 introduces a mixed model requiring some assets and liabilities to be valued at fair value, while others are valued at historic cost. The resultant mismatch creates income statement volatility. In the case of FirstRand, and specifically the Banking Group, this mismatch arises in the case of hedges designed to protect the margin on the advances book. The hedges are carried at fair value, while the underlying advances are carried at historic cost.

The table below discloses the effect of these mismatches, and in the opinion of management, presents results that more accurately reflect the operating performance of FirstRand.

	Unaudited six months ended 31 December		
R million	**2003**	2002	% change
Headline earnings	**2 787**	2 215	26
Foreign currency translation loss	**216**	362	(40)
Core headline earnings	**3 003**	2 577	17
AC133 mismatch losses/(profits) reversed	**25**	(106)	>100
Operational earnings	**3 028**	2 471	23

Operational earnings represent a sound basis for assessing the sustainable future performance of the group. The AC133 mismatched profits and losses and foreign currency translation losses could be volatile and cannot be forecast with any certainty.

Operating environment

The Group's operating results for the six months to 31 December 2003 were achieved in a changing environment, characterised by the following:

- A reducing rate of inflation and declining interest rates resulted in a buoyant retail banking market.
- An upturn in equity markets. The JSE ALSI 40 Index increased by 24% during the period under review, of which 16% related to the last quarter of the calendar year.
- A strengthening Rand, increasing 12.4% to a level of R6.62: US$1.
- Lower economic growth of 1.9%.

The net impact on the Group was an increase in the demand for retail credit, improved bad debt ratios, a positive outlook for equity-related activities and lower earnings in Rand terms from offshore activities.

Operating performance and earnings

The results for the period under review again demonstrate the advantages of FirstRand's diversified earnings base. Whilst Momentum delivered a satisfactory performance in a difficult environment, the Group's banking operations delivered a particularly strong performance. FNB Corporate and Rand Merchant Bank produced excellent results, with the retail banking operations continuing to show good growth. Both OUTsurance and Discovery delivered outstanding results.

The Group's earnings in summary are:

- Headline earnings per share increased by 25% from 40.7 cents to 51.0 cents
- Diluted headline earnings per share increased by 26% from 40.0 cents to 50.3 cents
- Core headline earnings per share increased by 16% from 47.3 cents to 55.0 cents
- Return on capital based on headline earnings is 23.9%
- Growth in net asset value of 19%
- Growth in dividend per share of 17%

In line with FirstRand's stated policy of keeping dividends in line with earnings growth before taking into account any translation gains or losses, an interim dividend of R1 051 million, representing 19.25 cents per share (2002: 16.5 cents per share) was declared on 26 February 2004.

Strategic initiatives

During the period a number of strategic initiatives were implemented:

- The operations of SWABOU, Namibia's largest mortgage bank, were merged with FNB Namibia with effect from 1 July 2003. The merger resulted in the Group's interest in the enlarged Namibian operations reducing from 77.34% at 30 June 2003 to 60.52% at 31 December 2003.
- Good progress has been made with respect to the sale of Ansbacher. Since the process started the Group has received numerous expressions of interest from prospective bidders, for the whole and parts of the business. We are currently pursuing discussions with those parties interested in acquiring the Group as a whole, and we are confident that a sale will be concluded by financial year-end.
- Agreement was reached with the Irish Revenue to settle matters relating to Ansbacher Cayman Limited's alleged tax liabilities in Ireland. A payment of €7.5 million (approximately R60 million) was agreed in full and final settlement of the matter. Whilst FirstRand's position throughout was, and remains, that Ansbacher Cayman did not have any liability to Irish tax, it took a pragmatic view to avoid further litigation costs and ongoing reputational damage and thereby bring clarity to shareholders.
- The Group was a signatory to the Financial Services Charter, and in order to monitor progress and manage the reporting process, the FirstRand Transformation Unit was established. As previously indicated to shareholders FirstRand is committed to a BEE share ownership transaction at Group level and is continuing to explore appropriate ownership structures.

Review of operations

Detailed reports on the operations of the major subsidiaries are included elsewhere in this report. A summary is set out below:

FirstRand Banking Group
Headline earnings increased by 34%

The Banking Group, which contributed 84% to the Group's core headline earnings, had an excellent first six months due to strong new business growth, lower bad debts and non-performing loans, increased transactional and trading income and increased merchant banking income. The lower interest rate environment negatively affected interest rate margins, however this was partially offset by the Banking Group hedging strategy.

Operating expenses increased by 23.3%. This was caused partly by a change in the salary review date from January to August, which resulted in accelerated salary increases taking place in the first half of the financial year. The historical trend of a proportionately larger increase in expenses in the second half is not expected to be repeated this year. The first half increase in expenses should not be seen as a reflection of what is expected for the full year. This increase resulted in the cost-to-income ratio increasing to 55.5% compared with 55.3% in the year to June 2003.

At an operating level most divisions improved their performance over the corresponding period in the prior year.

Retail Banking

FNB Retail (+20%)

An increase in the customer base, increased transactional revenue, growth in card business and deposits and improving bad debts were the principal contributors to this excellent result. Non-performing loans were down to 6.3% from 8.2%. There was a turnaround in the micro-lending book. FNB HomeLoans' earnings growth was impacted negatively by margin squeeze which, together with the run-off in the book restricted overall profit growth to 1%. Non-performing loans and bad debt charges are at an all-time low.

WesBank (+41%)

Advances growth of 23%, driven by record increases in new business production, allowed WesBank to retain its dominant position in the asset finance market. The division's fixed loan book enabled it to protect its margins. Non-performing loans are at the lowest levels on record and the division benefited from growth in non-interest income.

Short-term insurance (+66%)

OUTsurance experienced continued new business growth and excellent claims experience which enabled this short-term insurance operation to increase its earnings substantially.

African operations (-8%)

Earnings from the Namibian, Botswana and Swaziland operations were slightly down on the prior period due to margin squeeze experienced in Namibia and Botswana, and merger costs incurred following the SWABOU acquisition. The dilution of the Group's shareholding in FNB Namibia following the SWABOU acquisition exaggerated this effect. New business growth was satisfactory. The devaluation of the Pula had a negative impact on earnings growth in Rand terms.

Corporate Banking

Rand Merchant Bank (RMB) (+54%)

RMB benefited from excellent growth in treasury trading and improved local and international credit environments. Merchant banking benefited from increased corporate activity and BEE transactions. Corporate Finance profit growth was bolstered by good profits from equity-related transactions. Private Equity also delivered a strong performance.

FNB Corporate (+74%)

FNB Corporate had an excellent first six months benefiting from new customer acquisition, which drove strong growth in transactional income across all products. FNB Corporate experienced an excellent reduction in bad debts. The growth in credit demand from the large corporates was modest. The continued progress on the work-out of previous retail industry credit exposures, including Profurn, removed this concentration in the lending book and eliminated the drag on earnings caused by holding costs in respect of non-performing assets. The final conditions relating to the sale of the investment in McCarthy were concluded early in 2004.

International Banking (+7%)

Ansbacher's operating losses have reduced from R92 million to R86 million mainly due to lower bad debts and improved trading results. The results were negatively impacted by the R60 million settlement with the Irish tax authorities. However, the operating environment remained difficult and new business flows were disappointing. We are satisfied with the progress on the disengagement process, which will result in the release of under-performing capital.

The Momentum Group
Headline earnings increased by 9%

Momentum delivered a satisfactory performance in tough market conditions, with earnings growth impacted by start-up costs relating to new products and distribution initiatives, which are only expected to make a contribution to profits in future years.

Insurance Operations (+3%)

Total retail new business production increased by 10% mainly due to the success of Momentum's new generation risk product and the sales of linked products, which offset the decline in single premium sales. The value of new business increased by 12% and the new business profit margin increased significantly from 15% to 19%.

Start-up costs were incurred with the launch of Momentum's health insurance offering Pulz, and the company's loyalty programme, Momentum Multiply.

Asset Management Operations (+5%)

As a result of the loss of a few large fixed interest mandates the level of outflows at RMB Asset Management was disappointing. However, there was a good turnaround in unit trust inflows, and total assets under management increased by 7% to R146.9 billion, driven by strong investment performance. RMB Asset Management's investment performance was rated jointly first over one year in an independent survey.

Discovery Group
Diluted headline earnings per share increased by 22%

Discovery Group delivered excellent growth in earnings and embedded value for the first six months, driven by strong new business growth. New business growth in Discovery Life was particularly strong, showing an increase of 35%.

Destiny Health is expected to reach its stated objective of break even in February 2004, one month later than its targeted date, and it is expected that the positive impact of the Tufts and Guardian joint ventures will only start to be felt in the next few months.

Discovery Health's members under administration now exceeds 1.5 million lives, and operating profit increased by an excellent 20%. The Discovery Health Medical Scheme has met its reserve requirements at 31 December 2003.

Capital

Following the introduction of the new FSB regulations and the subsequent re-structure of Momentum's shareholder portfolio, Momentum's capital has been maintained at twice the minimum capital adequacy requirement.

The Banking Group has, subsequent to the reporting period, successfully raised R1 billion of Tier 2 capital to meet its future capital requirements and further reduce its cost of capital.

FirstRand

The costs incurred by FirstRand increased from R18 million to R108 million. The table below analyses those costs.

	Six months ended 31 December	
R million	**2003**	2002
Capital funding costs	**70**	–
Secondary tax on companies	**27**	12
Operating expenses	**11**	6
Total	**108**	18

The capital funding costs resulted from the issue of R1.4 billion of preference shares to facilitate the restructure of the Group already discussed above. Operating expenses increased due to increased marketing spend.

Accounting policies

The accounting policies applied are in accordance with Statements of Generally Accepted Accounting Practice. These accounting policies are consistent with those of the prior year with the exception of the change in accounting policy adopted by Discovery from deferring health insurance and group life acquisition costs to expensing these costs as incurred, in line with industry practice. The effect of the change in this accounting policy is detailed in the "Restatement of comparative figures" section below.

Restatement of comparative figures

The table below summarises the restatement and reallocation of comparative figures as at 31 December 2002:

Balance sheet item	As restated	As originally stated	Difference	Reason
Financial instruments held for trading	25 278	25 715	(437)	Commodity instruments have been disclosed separately.
Advances				
– Originated	134 753	147 048	(12 295)	Restated by showing impairments of R3 226 million separately, and reallocating R15 521 million to "Trading advances".
– Trading	34 061	18 540	15 521	Reclassifying R15 521 million of advances from "Originated" to "Trading".
– *Less:* Impairments	(3 226)	–	(3 226)	Reallocated from "Originated".
Commodities	437	–	437	Reallocated from "Financial instruments held for trading".
Debentures and other loans	12 805	12 714	91	R84 million reallocated from current assets R7 million fair value adjustments.
Current assets	11 062	13 940	(2 878)	R84 million reallocated to debentures and other loans R43 million deferred costs written off. R2 751 million owing from policyholder portfolios in the Momentum Group previously shown on a grossed up basis.
Deposits and current accounts	193 004	202 903	(9 899)	Separate disclosure of negotiable deposits previously included in this category.
Negotiable deposits	20 144	–	20 144	Separate disclosure of negotiable deposits.
Current liabilities	19 979	23 384	(3 405)	(R2 751 million) owing from policyholder portfolios in the Momentum Group previously shown on a grossed up basis. (R886 million) reallocation to provisions. (R93 million) restatement relating to deferred acquisition costs. R325 million short-term portion of preference shares reallocated to liabilities.
Provisions	886	–	886	Reallocation from current liabilities.
Short trading positions	7 443	17 688	(10 245)	Separate disclosure of negotiable deposits previously included in this category.
Long-term liabilities	5 391	4 487	904	R888 million long-term portion of preference shares. R16 million AC133 fair value adjustment.
Policyholder liabilities under insurance contracts	38 326	38 095	231	(R16 million) AC133 fair value adjustment R247 million deferred aqcuisition cost adjustment.
Outside shareholders' interests	1 200	1 272	(72)	Outside shareholders' portion on deferred acquisition costs adjustments.
Share capital and share premium	8 487	9 700	(1 213)	Reallocation of preference share capital to long-term and short-term liabilities.
Reserves	12 105	12 223	(118)	R125 million opening balance adjustment in respect of deferred acquisition costs. R7 million profit effect for the six months ended 31 December 2002, relating to deferred acquisition costs, and AC133 adjustments.

Prospects

Looking forward, higher economic growth is expected in the 2004 calendar year and the low interest rate environment will impact favourably on credit demand and bad debts. For the bank, a sustained low interest rate environment will also continue to place pressure on margins, however growth in new business should offset these pressures and the bank's hedging strategy will continue to provide some protection.

For the insurance businesses, the strong growth in investment markets should have a positive impact on asset-based fees in the second half of the financial year, and new business flows should increase as investor sentiment improves. Momentum's new growth initiatives and targeted improvements in productivity should have a positive impact on future profitability.

We do not expect costs to increase significantly in the second half, and we expect a positive outcome from our disposal of Ansbacher, which will release under-performing capital.

We are confident that the Group's diverse earnings base, our new initiatives and the inherent organic growth opportunities that this Group offers will enable FirstRand to continue to enjoy good earnings growth.

For and on behalf of the board

GT Ferreira	**LL Dippenaar**
Chairman	*Chief Executive*

Sandton
2 March 2004

Interim dividend declaration

Notice is hereby given that an interim dividend of 19.25 cents per ordinary share has been declared on 2 March 2004 in respect of the six months ended 31 December 2003. The last day to trade in these shares on a cum dividend basis will be 18 March 2004 and the first day to trade ex-dividend will be 19 March 2004. The record date will be 26 March 2004 and the payment date 29 March 2004.

Please note that no dematerialisation or rematerialisation can be done in the period 19 March 2004 to 26 March 2004, both days inclusive.

AH Arnott
Company Secretary

2 March 2004

Directors

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

Secretary and registered office

AH Arnott, BCom, CA(SA)
17th Floor, 1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

Postal address

PO Box 786273, Sandton, 2146
Telephone: +27 11 282 1808
Telefax: +27 11 282 8088
Web address: www.firstrand.co.za

Sponsor

(in terms of JSE requirements)
Rand Merchant Bank
(a division of FirstRand Bank)
– Corporate Finance
1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

Transfer secretaries – South Africa

Computershare Limited
70 Marshall Street, Johannesburg

Postal address

PO Box 61051, Marshalltown, 2107
Telephone: +27 11 370 7700
Telefax: +27 11 688 7721

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Limited
Shop No 12
Kaiserkrone Centre
Post Street Mall
Windhoek

Postal address

PO Box 2401, Windhoek, Namibia
Telephone: +264 61227647
Telefax: +264 61248531

Introduction

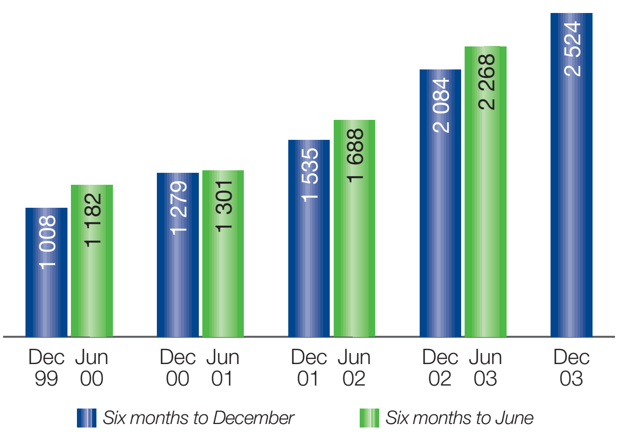
This report reflects the operating results and financial position of the banking interests of the FirstRand Limited group of companies ("the Banking Group") and should be read in conjunction with the report on FirstRand Limited.

Financial highlights

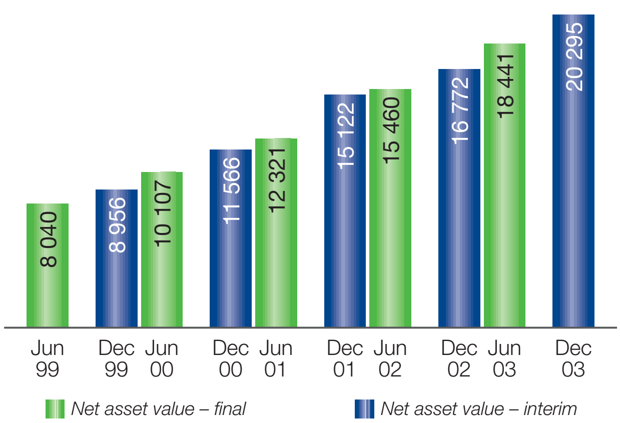
	Unaudited Six months ended 31 December 2003 % change
Attributable earnings	**+33.4**
Headline earnings	**+34.0**
Core headline earnings	**+21.1**
Net asset value growth	**+21.0**
Advances growth	**+11.6**

	%
Return on average equity (including translation losses)	**23.8**
Return on average equity (excluding translation losses)	**26.1**
Cost to income ratio (including translation losses)	**56.8**
Cost to income ratio (excluding translation losses)	**55.5**
Gross interest margin	**4.7**

Core headline earnings (R million)



Net asset value (R million)



Income statement

R million	Unaudited Six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Interest income	**11 860**	13 496	(12.1)	26 293
Interest expenditure	**(7 192)**	(9 109)	(21.0)	(17 189)
Net interest income before impairment of advances	**4 668**	4 387	6.4	9 104
Impairment of advances	**(455)**	(628)	(27.5)	(1 478)
Net interest income after impairment of advances	**4 213**	3 759	12.1	7 626
Non-interest revenue	**3 904**	2 886	35.3	7 123
Transactional income	**2 927**	2 527	15.8	5 735
Trading income	**878**	559	57.1	1 583
Investment income	**200**	41	>100.0	118
Other non-interest income	**115**	121	(5.0)	219
Translation losses	**(216)**	(362)	(40.3)	(532)
Net income from operations	**8 117**	6 645	22.2	14 749
Operating expenditure	**(4 992)**	(4 089)	22.1	(9 537)
Income from operations	**3 125**	2 556	22.3	5 212
Share of income of associated companies	**214**	148	44.6	494
Income before taxation	**3 339**	2 704	23.5	5 706
Indirect taxation	**(129)**	(175)	(26.3)	(346)
Income before direct taxation	**3 210**	2 529	26.9	5 360
Direct taxation	**(768)**	(702)	9.4	(1 308)
Income after taxation	**2 442**	1 827	33.7	4 052
Earnings attributable to outside shareholders	**(139)**	(100)	39.0	(278)
Earnings attributable to ordinary shareholders	**2 303**	1 727	33.4	3 774

Balance sheet

R million	Unaudited At 31 December 2003	2002	% change	Audited At 30 June 2003
Assets				
Cash and short-term funds	**23 249**	21 491	8.2	29 252
Derivative financial instruments	**35 113**	33 549	4.7	36 375
Advances	**203 761**	182 543	11.6	189 611
Originated	**144 192**	134 738	7.0	135 047
Held-to-maturity	**7 760**	9 859	(21.3)	9 753
Available for sale	**9 085**	7 111	27.8	7 406
Trading	**46 038**	34 061	35.2	40 707
Less: impairments	**(3 314)**	(3 226)	2.7	(3 302)
Investment securities and other investments	**42 385**	43 044	(1.5)	36 146
Financial instruments held for trading	**16 270**	25 288	(35.7)	10 880
Investment securities	**26 115**	17 756	47.1	25 266
Originated	**300**	–	100.0	1 220
Held-to-maturity	**2 004**	5 469	(63.4)	–
Available for sale	**23 811**	12 287	93.8	24 046
Commodities	**374**	437	(14.4)	509
Non-recourse investments	**2 395**	2 144	11.7	2 403
Accounts receivable	**2 793**	4 319	(35.3)	3 196
Investments in associated companies	**1 936**	1 680	15.2	1 915
Property and equipment	**3 766**	3 362	12.0	3 455
Deferred taxation assets	**1 080**	933	15.8	931
Intangible assets	**307**	294	4.4	205
Total assets	**317 159**	293 796	8.0	303 998
Liabilities and shareholders' funds				
Liabilities				
Deposits	**234 067**	215 292	8.7	218 096
Deposits and current accounts	**196 506**	193 004	1.8	186 031
Negotiable deposits	**35 166**	20 144	74.6	29 662
Non-recourse deposits	**2 395**	2 144	11.7	2 403
Short-trading positions	**6 137**	7 443	(17.5)	4 219
Derivative instruments	**36 545**	32 446	12.6	43 103
Accounts payable and accruals	**11 765**	13 971	(15.8)	11 888
Provisions	**1 120**	814	37.6	976
Taxation	**801**	399	>100.0	1 091
Deferred taxation liabilities	**1 608**	1 779	(9.6)	1 721
Post-retirement medical liability	**1 024**	966	6.0	1 004
Long-term liabilities	**2 826**	3 471	(18.6)	2 910
Total liabilities	**295 893**	276 581	7.0	285 008
Outside shareholders' interest	**971**	443	>100.0	549
Shareholders' equity				
Ordinary shares	**106**	106	–	106
Share premium	**1 632**	1 332	22.5	1 632
Non-distributable reserves	**2 932**	2 303	27.3	2 640
Distributable reserves	**15 625**	13 031	19.9	14 063
Total shareholders' equity	**20 295**	16 772	21.0	18 441
Total liabilities and shareholders' funds	**317 159**	293 796	8.0	303 998
Contingencies and commitments	**15 175**	26 484	(42.7)	25 883

The period under review

Economic overview

The six-month period ended 31 December 2003 was characterised by a relatively stable economic environment in South Africa. The Rand strengthened by a further 12.4% to a level of R6.62:US$1 at 31 December 2003. Despite the negative effects of a strong Rand on exports, as well as subdued international economic growth, the South African economy remained fairly resilient, growing at an annual rate of just below 1.9%.

The major benefit of the continued strength of the Rand was the positive impact on inflation, with CPIX falling from 6.4% at 30 June 2003 to 4.0% at 31 December 2003, well within the South African Reserve Bank's target range of 3 – 6%. The downward inflation trend paved the way for a further relaxation in interest rates, with the prime rate reducing by 4% during the period under review to 11.5% at 31 December 2003.

AC133 – Financial instruments – Recognition and measurement ("AC133")

AC133 was adopted by the Banking Group with effect from 1 July 2002. All results and commentary below are based on post-AC133 accounting policies. A table on page 20 of this document sets out some of the implications of AC133 on the results under review.

Financial review

The Banking Group produced excellent results in the period under review, benefiting from diverse income sources, lower bad debts and strong advances growth. The lower interest rate environment negatively affected endowment income as well as placing pressure on interest margins. This pressure was partially offset by the realised and unrealised benefits accruing from the hedging strategy the Banking Group put in place to counter the expected effects of the lower interest rate environment.

Attributable earnings increased by 33.4%, headline earnings increased by 34.0%, and core headline earnings increased by 21.1% as set out in the tables below:

Reconciliation between earnings attributable to ordinary shareholders and headline earnings:

R million	**Unaudited Six months ended 31 December 2003**	2002	% change	Audited Year ended 30 June 2003
Earnings attributable to ordinary shareholders	**2 303**	1 727	33.4	3 774
Plus: Loss/(Profit) on sale of fixed assets	**1**	(9)	(>100.0)	36
Plus: Goodwill	**4**	4	–	10
Headline earnings	**2 308**	1 722	34.0	3 820

Reconciliation between headline earnings and core headline earnings:

R million	**Unaudited Six months ended 31 December 2003**	2002	% change	Audited Year ended 30 June 2003
Headline earnings	**2 308**	1 722	34.0	3 820
Translation losses	**216**	362	(40.3)	532
Core headline earnings	**2 524**	2 084	21.1	4 352

Translation gains/(losses)

The Banking Group recognises translation gains and losses on currency movements in the income statement to the extent that the underlying operations are defined as integral to those of the South African-based business. Translation gains and losses relating to independent operations are recognised directly in reserves. The Banking Group incurred translation losses in the six-month period ended 31 December 2003 due to the continued appreciation of the Rand.

Consistent with the treatment in prior periods, translation gains and losses are excluded from the calculation of core headline earnings.

Operational review

The significant decline in interest rates has had a considerable impact on the results of the Banking Group during the period under review. Interest margins, particularly on the liability side, are placed under considerable pressure in this type of environment. This was compensated for by improved credit performance and growth in credit demand, particularly in the retail market.

The upturn in the equity markets, together with trending interest rates and foreign exchange markets have benefited the Banking Group's trading and investment teams. Although many of the benefits of low interest rates will only materialise in the latter half of the financial year, initial trends and results are extremely positive.

Settlement of Irish litigation

On 16 December 2003, Ansbacher (Cayman) Limited, a subsidiary of the Banking Group, reached a full and final settlement of €7.5 million (approximately R60 million) with the Irish Government in respect of its disputed tax liability in Ireland.

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

FirstRand still believes, based on independent legal advice, that there was no liability for Irish tax and therefore did not previously provide for the settlement. The settlement nevertheless provides welcome relief from the uncertainty created by the ongoing dispute with the Irish Government, as well as freeing up valuable executive time and allowing the Group to focus on improving its relations with the Irish Authorities.

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

Interest income

Interest rates were on average 4% lower than in the comparative period. The absolute year-on-year growth in advances and deposits partially compensated for this decline. This growth, together with the Banking Group's hedging strategies, resulted in net interest income before impairment of advances increasing by 6.4% in the period under review.

The Banking Group put hedge structures in place in anticipation of the decline in interest rates during the financial year ended 30 June 2003 to protect against the negative endowment effect. During the period under review these hedges contributed R215 million to net interest income.

Net interest income growth was positively influenced by:

- the volume effect arising from organic growth in both assets and liabilities;
- an increase in the average capital base following the retention of earnings in the previous financial year; and
- the endowment hedges entered into to protect margins.

These positive factors outweighed the negatives, which included:

- the negative impact on endowment margins;
- the lower translation rate relating to non-Rand denominated interest income; and
- holding costs in respect of non-performing corporate exposures.

Interest margins

Interest margins experienced an overall decline due to the anticipated, and partially hedged endowment effect. Although subjected to certain competitive pressures, asset margins were primarily impacted by the negative pressure on liabilities which tightened margins relative to the bank's internal transfer rate.

The interest margin based on average advances declined relative to the previous period from 4.93% to 4.70%, as a result of continued pressure on margins during the 2003 calendar year.

A reconciliation of the interest margin is set out below:

Net interest income	R million	Interest margin %
Net interest income – December 2002	4 387	4.93
Volume effect (growth in advances)	507	–
Endowment effect (deposits)	(156)	(0.16)
Endowment effect (capital)	(213)	(0.21)
Endowment hedges	215	0.22
Other	(72)	(0.08)
Net interest income – December 2003	4 668	4.70

FNB Retail experienced margin compression due to the lower interest rate environment. Margins on retail banking advances reduced from 7.9% at December 2002 to 7.0% at December 2003, with liability margins reducing from 4.0% to 3.2%.

Margins in FNB HomeLoans reduced from 3.87% at June 2003, to 3.03%, primarily as a result of margin pressure on new business written, the re-pricing of existing clients and increased funding costs.

WesBank benefited from an overall widening of margins as a result of the fixed rate business included in its book. The margin benefit associated with the fixed rate business will reduce as the book matures. Margin pressure continues in respect of WesBank's linked rate advances, primarily due to funding costs, which were on average 0.48% higher than the comparative period. Margins on new business have remained constant with the comparative period, but remain under competitive pressure.

FNB Corporate experienced a slight widening of asset margins year-on-year, primarily as a result of a widening in margins in overnight and term loans. Prime–linked products experienced margin compression in the lower interest rate environment.

Advances

Net advances grew by a satisfactory 11.6% year-on-year. Advances growth primarily resulted from significant new business production in FNB HomeLoans and WesBank, as well as strong advances growth in FNB Card.

Rand denominated advances grew by 18.6% in the period under review, in spite of the natural run-off on the older books and on the Saambou and NBS advances books. The Banking Group's non-Rand denominated advances portfolio grew by 4.9% year-on-year in US Dollar terms, but showed a decline of 19.7% in Rand terms as a direct result of the strengthening of the Rand.

FNB Retail achieved average advances growth of 7.6% during the period under review. Card loans achieved an excellent performance, growing by 20.1% year-on-year. Overdraft growth was however flat, as it was negatively affected by the continued drought and the resultant delay in agricultural plantings, which reduced credit extension.

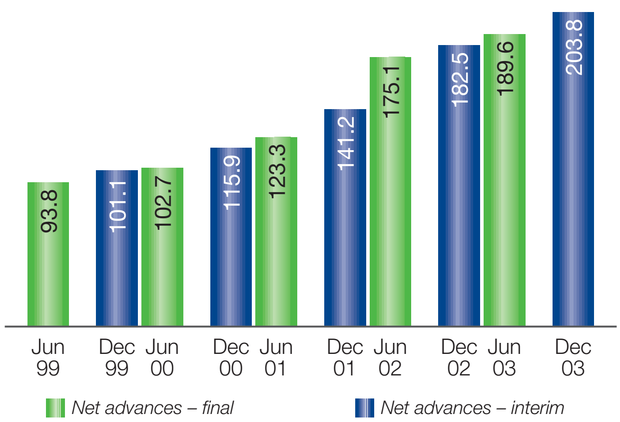
FNB HomeLoans achieved outstanding new business growth of 37% year-on-year, driven by a continued buoyant property market and the lower interest rates which stimulated demand. Overall average advances growth was a satisfactory 5.9%, taking into account the continued run-off in the acquired Saambou and NBS books.

WesBank achieved exceptional advances growth of 23.1% year-on-year, once again achieving record new business production levels, assisted by strong new and used car sales.

FNB Corporate achieved a 13.1% growth in domestic advances. This was however offset by a decline in syndicated off-shore advances as a result of the stronger Rand, resulting in overall flat advances growth.

FNB Africa (Namibia, Botswana and Swaziland) recorded significant advances growth of 29.6% including the effect of the SWABOU acquisition, in difficult market conditions resulting from lacklustre gross domestic product growth in the underlying economies, and despite a 6.3% strengthening of the Rand against the Pula. FNB Namibia achieved core advances growth of 9.8% (56.1% including the affect of the acquisition of SWABOU). FNB Botswana achieved satisfactory advances growth of 10.4% in Pula terms. This was however limited to 3.3% in Rand terms due to the strengthening of the Rand against the Pula.

Advances (R billion)



Non-performing loans and impairment of advances

Non-performing loans

Non-performing loans as a percentage of gross advances declined year-on-year from 2.7% at December 2002 to 2.0% (June 2003: 2.4%).

This can be ascribed to the following factors:

- the current interest rate environment which has freed up disposable income of consumers and corporate clients resulting in an improvement in client servicing of debt;
- continued focus on credit management processes within the Banking Group, including the use of sophisticated client scoring and rating models, and the consequential improvement in pricing for risk; and
- the positive effect of improved collection, work-out and debt-restructuring processes during the period under review.

Year-on-year, FNB Retail achieved a significant improvement of 23.2% in non-performing loans, from 8.2% at December 2002 to 6.3% at December 2003 (June 2003: 5.8%).

FNB HomeLoans showed significant improvement in its book, with non-performing loans reducing from 2.73% at December 2002 to 1.98% at December 2003 (June 2003: 2.73%).

WesBank has continued to show improvements in the overall quality of its loan book, with non-performing loans on its core asset based finance book improving from 0.86% at December 2002 to 0.78% (June 2003: 0.93%).

FNB Corporate experienced a reduction of non-performing loans from 6.35% at 31 December 2002 to a level of 2.75% (June 2003: 3.42%), benefiting from an improved credit environment and the continued workout of previous non-performing advances, including Profurn.

The relatively higher levels of provisions in the acquired SWABOU book increased the level of non-performing loans in FNB Namibia from 3% to 5% of the book. FNB Swaziland showed an improvement in their non-performing loans from 1.7% to 1.5% of the gross advances book.

The Banking Group uses an internal credit model rating ("FR rating") to evaluate and price the total advances book. The FR rating uses an internal rating-scale from 1 to 100, with 1 being the best credit rating and 100 the worst credit rating.

The improvement in the credit quality of the book over the past 12 months, and specifically during the period under review, is reflected in the improved average FR rating of the total advances book, improving from FR 27 at 30 June 2003, to FR 26 at 31 December 2003. Mapping the advances book to relevant rating agencies' credit ratings, reflects a corporate advances book with an average credit rating equivalent to an "A+" national currency rating, and a retail advances book with an average credit rating equivalent to an "A" rating.

The credit quality in the retail advances books (FNB Retail, FNB HomeLoans and WesBank) has on average improved from a FR 33 at 30 June 2003, to FR 30 at 31 December 2003. On the corporate advances (RMB, FNB Corporate and sovereign advances), the average credit rating has remained at FR 22.

Impairment of advances

The total impairments reflected in the balance sheet represents a conservative 2.4% of gross advances (2002: 2.4%). At 30 June 2003 the total impairments were 2.5% of gross advances. The reduction in the level of impairments reflects the improved credit quality of the advances book, which is in line with the improvement in non-performing loans.

Impairment losses in respect of the US Collateralised Debt Obligations (CDOs) were significantly below those experienced during the previous financial period, and are more in line with the expected losses inherent in these structures. The unrealised mark-to-market losses on these exposures have reduced significantly in the six months to 31 December 2003, and are

The period under review continued

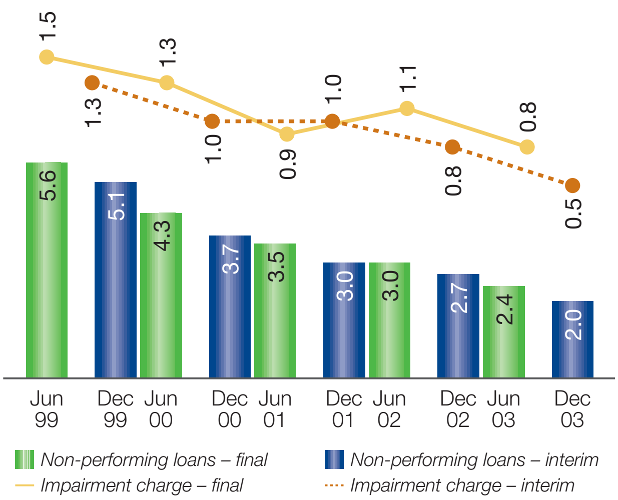
expected to reverse further in the remainder of the financial year. The Banking Group has maintained its conservative levels of provisions against these exposures.

Income statement charge

The income statement charge for impairment of advances reflects a 27.5% improvement relative to the prior period, and on an annualised basis amounted to 0.5% of average gross advances. This is in line with the general improvement in the credit quality of the advances book and the lower interest rate environment experienced during the period under review.

Non-performing loans as a percentage of gross advances and the impairment charge as a percentage of average gross advances are set out below:

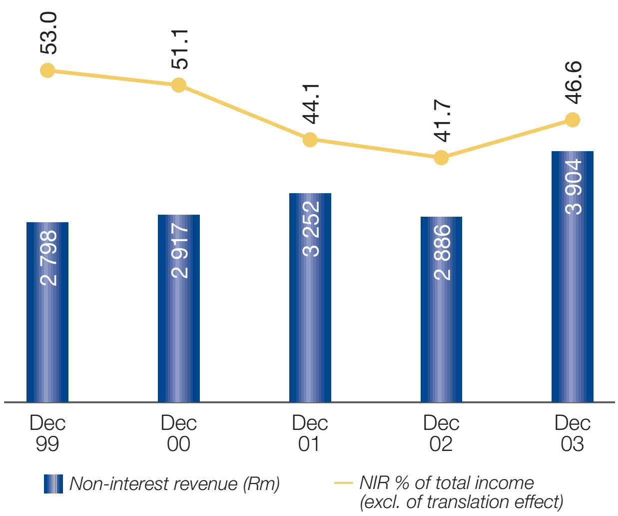
Non-performing loans and impairments (%)



Non-interest revenue

Core non-interest revenue (excluding currency translation gains or losses), increased by 26.8% to R4 120 million (2002: R3 248 million). Total non-interest revenue, including currency translation gains and losses, increased by 35.3% to an amount of R3 904 million (2002: R2 886 million). These increases are discussed in more detail below:

Non-interest revenue (R million)



Transactional income

Total transactional income grew by a healthy 15.8% year-on-year.

Retail banking fee and commission income grew by more than 20% as a result of growth in client numbers, growth in transactional accounts, increased transaction volumes as well as limited price increases on 1 November 2003.

FNB HomeLoans grew non-interest transactional revenue by 23.0%, primarily as a result of increased transaction fees and through actively promoting cross-selling opportunities of other banking products.

WesBank's transactional fee income increased by 33.1%, benefiting from an increase in transaction volumes, limited price increases, new business growth and insurance income on the enlarged book.

Corporate banking exchange earnings and commission income remained fairly flat in difficult market conditions.

Investment banking fee income improved in the period under review due to increased transaction flows. International fee income was negatively affected by subdued markets as well as by the continued strengthening of the Rand against the US Dollar during the period under review.

Trading income

Trading income increased by 57.1% in the period under review. However, this must be seen against a poor performance in the comparative period, which is in line with historical trends where fewer opportunities present themselves during the first six months of the financial year than in the second half of the financial year. In general, trading opportunities remained fairly difficult due to a lack of liquidity in certain markets.

The treasury and equity trading operations in RMB performed well, taking advantage of opportunities where possible. In particular, the treasury trading desks were well positioned for the decrease in interest rates, and capitalised on these opportunities.

Investment income

Investment income includes gains and losses from the Banking Group's private equity businesses, in addition to traditional investment activities. Private equity continued to benefit from growth in equity accounted income from associated companies. Few investments were realised in the current period due to limited realisation opportunities. Dividend flows from strategic investments including Private Equities' non-consolidated portfolio improved as a result of better underlying performance of its investments.

Long-term investments held in funds designed to meet the obligations of the Banking Group's post-retirement liabilities are mark-to-market and made unrealised profits during the period under review.

Share of income of associated companies

Income from associated companies increased significantly by 44.6% from R148 million at December 2002 to R214 million at December 2003 (June 2003: R494 million).

OUTsurance had another exceptional six-month period, with the profit after tax attributable to the Banking Group increasing by 57.1% to R43 million.

Income from the Banking Group's international private equity associated companies amounted to R62 million. These entities were not equity accounted in the comparative period as they did not qualify as associated companies in that period.

Operating expenditure

Non-interest expenditure increased by 22.1% in the period under review.

Over the last view years, the Banking Group has demonstrated a tendency for constrained expense growth in the first half of the financial year followed by large growth in the second half. This tendency has traditionally arisen from a slow start to business activity in July and August, especially with regard to the implementation of strategic initiatives. This has been further exaggerated by staff increases, the bulk of which had previously occurred in January.

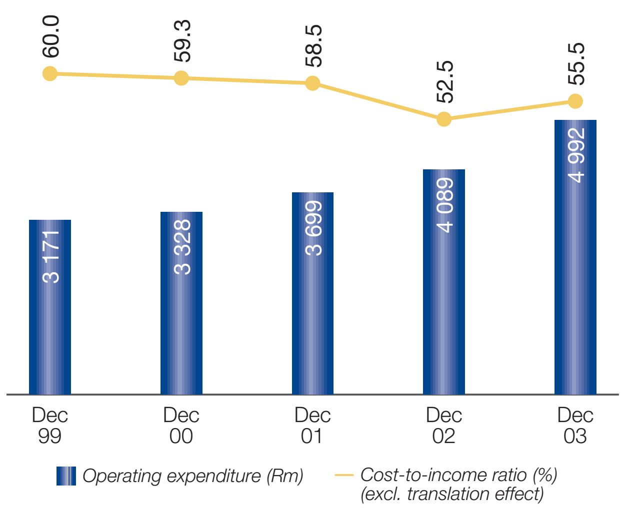
In an attempt to eliminate or reduce this seasonality, the Banking Group undertook several initiatives in the first half of the current financial year. Certain strategic initiatives were implemented earlier in the year and staff increases were moved to August. These initiatives accounted for a large part of the year-on-year increase in the expense line.

Cost to income ratio

The higher level of operating costs as well as the muted growth in net interest income negatively impacted on the ratio, resulting in an increase (excluding the effect of currency translation gains or losses) from 52.5% to 55.5% (June 2003: 55.3%).

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

Operating efficiency



The period under review continued

Contingencies and commitments

The new Basel II Accord on capital management ("Basel II") introduces onerous capital requirements in respect of off balance sheet exposures. In anticipation of its introduction and as a result of a conscious strategy followed by the Banking Group, contingencies and commitments have been managed down by 42.7% year-on-year, and by 41.4% from June 2003. The Banking Group is satisfied that the current levels of exposures provide an acceptable return given the associated capital costs.

AC133

AC133, as previously documented, introduces volatility into the reported income of companies.

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

The table below is not a reconciliation to pre-AC133 numbers, but rather concentrates on those elements of AC133 which in the opinion of management do not necessarily reflect the operational performance of the Banking Group.

	Six months ended		
R million	**Dec 2003**	June 2003	Dec 2002
Portfolio impairments	**(206)**	(67)	–
Mark to market of ineffective hedges	**(45)**	396	151
	(251)	329	151
Tax effect	**75**	(99)	45
Net adjustment	**(176)**	230	196

Capital

Optimal capitalisation is a key profit driver of the Banking Group and is managed accordingly.

Capital is allocated to business units on an economic capital methodology whereby each business unit's capital requirement is calculated from a bottom up approach. The economic capital is calculated based upon principles similar to those contained in Basel II.

Capital adequacy

The registered banks in the Banking Group are subject to regulatory capital adequacy requirements. The capital base of the Banking Group provides the foundation for lending, off-balance sheet transactions and other activities. The statutory capital adequacy of the Banking Group is measured in terms of the Banks Act, which requires that the Banking Group maintains a minimum level of capital based on its risk adjusted assets and off-balance sheet exposures. The current capital ratios within the Banking Group are:

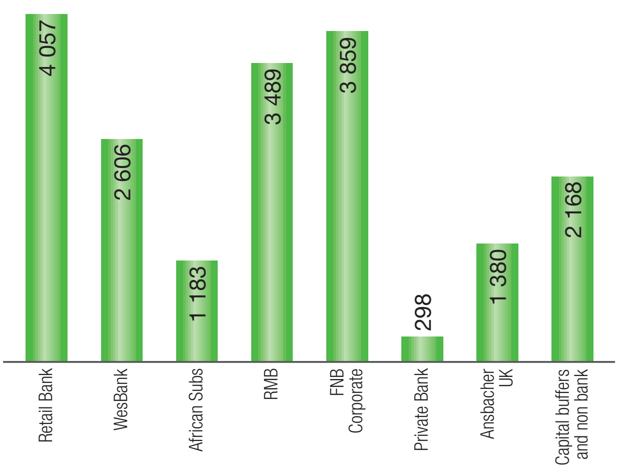
%	**Unaudited December 2003**	Unaudited December 2002	Audited June 2003
Tier 1	**9.5**	9.0	8.9
Tier 2	**3.0**	3.1	3.0
Total capital	**12.5**	12.1	11.9

Amounts have been rounded to 1 decimal place.

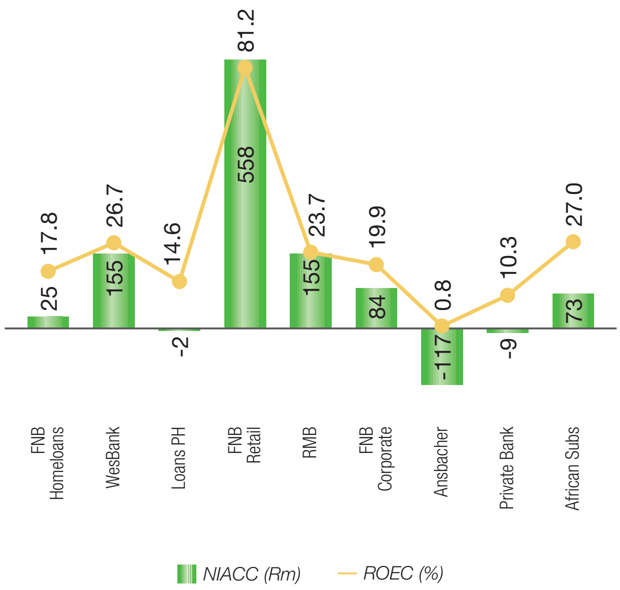
Capital management

The Banking Group allocates economic capital to business units and measures performance in terms of Net Income after Capital Charge ("NIACC"). Economic capital is allocated for credit risk, market risk, investment risk and operational risk. The economic capital allocation is based on principles similar to those of Basel II. The graphs below indicate the allocation of the Banking Group's capital base to various risk types, as well as the allocation to risk types. The NIACC per business unit is also indicated.

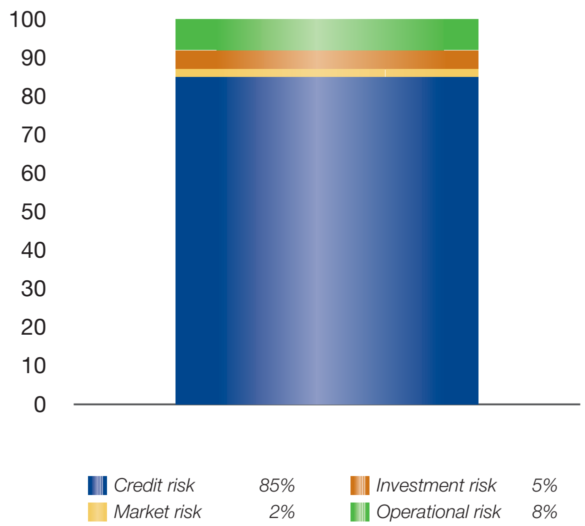
Deployment of economic capital to business units (R million)



NIACC and pre-tax ROEC for the main business unit



Allocation of capital per risk type (%)



Contingent liabilities

There are a number of legal or potential claims against the Banking Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or group basis. Provision is made for all liabilities which are expected to materialise.

Discontinuing operations

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 there was a poor strategic fit between the operations of Ansbacher and the international and domestic wealth management activities of the Banking Group.

Ansbacher falls within the Wealth segment of FirstRand and represents a primary geographical segment of the Banking Group. The activities of Ansbacher can be separately identified for financial reporting purposes.

Good progress has been made with respect to the sale of Ansbacher. Since the process started the Banking Group has received numerous expressions of interest from prospective bidders, for the whole or for parts of the business. The Banking Group is currently pursuing discussions with those parties interested in acquiring Ansbacher as a whole, and it is confident that a sale will be concluded by financial year-end.

The period under review continued

Financial information on Ansbacher

R million	Unaudited Six month ended 31 December 2003	2002	Audited Year ended 30 June 2003
Interest Income	**155**	252	415
Interest expenditure	**(76)**	(138)	(235)
Net interest income before impairment of advances	**79**	114	180
Impairment of advances	**5**	(1)	(3)
Net interest income after impairment of advances	**84**	113	177
Non interest income	**167**	104	310
Net income from operations	**251**	217	487
Operating expenditure	**(262)**	(302)	(599)
Loss before taxation	**(11)**	(85)	(112)
Taxation	**(75)**	(7)	26
Loss after taxation	**(86)**	(92)	(86)
Other information			
Assets	**9 056**	11 993	10 005
Liabilities	**7 920**	10 626	8 699
Capital expenditure	**89**	70	171
Depreciation	**22**	20	40
Cash flow from operating activities	**24**	(51)	(59)
Cash flow from investing activities	**(81)**	(16)	(21)
Cash flow from financing activities	**(11)**	(24)	(44)

Accounting policies

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

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

The consolidated interim financial statements conform to Statements of Generally Accepted Accounting Practice in South Africa, and specifically to the requirements of accounting statement AC127 – Interim Financial Reporting.

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

Restatement of prior year numbers

It was stated in the results announcement of the Banking Group for the period ended 31 December 2002, that the application and interpretation used by the Banking Group in respect of AC133 was still subject to vigorous debate as well as changes to the international statement (IAS39), and that these changes may lead to a change in the interpretation used by the Banking Group in the presentation of its future results.

During the previous 12 months, industry practice and the accepted interpretation relating to AC133 has evolved significantly. As a result, the Banking Group has restated its prior year numbers to reflect these changes. The restatement has not resulted in changes to the reported attributable earnings, headline earnings or net asset value of the Banking Group. The restatement of the prior year numbers has affected the categorisation of certain items in the balance sheet and income statement as well as expanded on disclosure in the balance sheet.

Certain other adjustments have been made for disclosure purposes only, which are non-AC133 related.

The following comparative numbers have been restated for AC133 purposes:

R million	As previously reported	As restated	Reason for restatement
Advances – Originated	147 033	134 738	Restated by showing impairments of R3 226 million separately, and reallocating R15 521 million to "Trading advances"
Advances – Trading	18 540	34 061	Reclassifying R15 521 million of advances from "Originated" to "Trading"
Financial instruments held for trading	25 725	25 288	Commodity instruments have been disclosed separately
Commodities	–	437	Refer to "Financial instruments held for trading" above
Interest income	13 436	13 496	The unwind of the present value discount was previously shown in the Impairment of advances line
Impairment of advances	(568)	(628)	Refer to "Interest income" above

The following numbers have been restated for disclosure purposes:

R million	As previously reported	As restated	Reason for restatement
Accounts receivable	7 070	4 319	Elimination of amounts owing from Insurance Group entities previously shown on a grossed-up basis
Accounts payable and accruals	16 722	13 971	Elimination of amounts owing to Insurance Group entities previously shown on a grossed-up basis
Deposits and current accounts	202 903	193 004	Separate disclosure of negotiable deposit previously included in this category
Short trading positions	17 688	7 443	Separate disclosure of negotiable deposit previously included in this category
Negotiable deposits	–	20 144	Separate disclosure of negotiable deposits

Prospects

A more positive economic outlook, sustained lower inflation over the short to medium term and the resultant continued lower interest rate environment are expected to provide the South African economy with stimulus for continued growth while increasing consumer demand for credit, especially in the home loan, vehicle asset finance and card loan sectors, and at the same time providing an environment for a further improvement in non-performing loans.

The lower interest rate environment is expected to continue to negatively affect margins in the six months to 30 June 2004. However, the hedging strategies implemented by the bank will to some extent alleviate these pressures.

The proposed disposal of Ansbacher is expected to be completed by the end of the financial year.

The Banking Group is confident that, excluding any major unforeseen exogenous factors, it is well positioned to enjoy good earnings growth.

On behalf of the directors

GT Ferreira
Chairman

PK Harris
Chief Executive Officer

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

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

Notes

momentum

Introduction

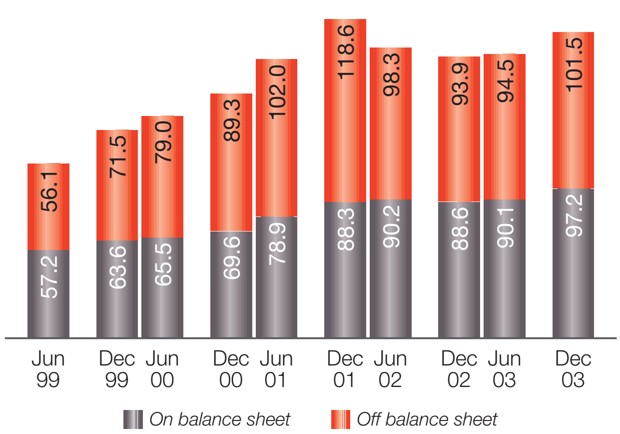
The consolidated figures in this report comprise the operations of Momentum Group Limited and its divisions, associates and subsidiary companies, including Momentum Life, Momentum International and FirstRand Asset Management, collectively referred to as the Momentum Group.

Effective 1 July 2003, the Momentum Group's 62% interest in Discovery was transferred to FirstRand Limited, as reported in the year-end results announcement to 30 June 2003. As a result of this transfer, the results of Discovery are consolidated at the FirstRand Group level for the six months to 31 December 2003, and Momentum's comparative figures have been adjusted to remove Discovery from these results.

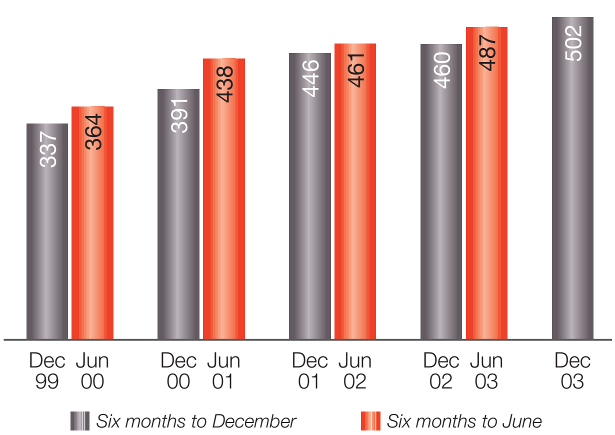
Financial highlights

- Group headline earnings **+9%**
- Assets under management or administration **R198.7 billion**
- Annualised return on embedded value **21%**

Assets under management or administration (R billion)



Headline earnings (R million)



Income statement

R million	Unaudited Six months ended 31 December 2003	2002[1]	% change	Audited Year ended 30 June 2003[1]
Income from operations	**600**	407	47	853
Share of income of associated companies	**30**	23	30	62
Income before direct taxation	**630**	430	47	915
Direct taxation[2]	**(141)**	(146)	3	(279)
Income after taxation	**489**	284	72	636
Earnings attributable to outside shareholders	**(5)**	(4)	(25)	(7)
Earnings attributable to ordinary shareholders	**484**	280	73	629

1 The results of Discovery Holdings have been excluded from the comparative income statements for the six months ended 31 December 2002 and the year ended 30 June 2003, as the investment in Discovery was transferred from Momentum to FirstRand, effective 1 July 2003. The income statements above reflect Momentum as a segment of the FirstRand Group, with Discovery Holdings being treated as a separate segment.

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

Headline earnings reconciliation

Earnings attributable to ordinary shareholders	**484**	280	73	629
Add: Goodwill amortised	**18**	14	29	77
Add: Goodwill impaired	**–**	166	(100)	242
Less: Profit on sale of assets	**–**	–	–	(1)
Group headline earnings	**502**	460	9	947
Group operating profit	**351**	339	4	686
Investment income on shareholders' assets	**151**	121	25	261
Group headline earnings	**502**	460	9	947

Balance sheet

R million	Unaudited At 31 December 2003	Unaudited At 31 December 2002[1]	Audited At 30 June 2003[1]
Assets			
Investment assets	**90 496**	81 430	83 112
Funds on deposit	**13 295**	13 742	15 257
Government and public authority stocks	**12 071**	11 569	12 467
Debentures and other loans	**11 233**	12 586	10 529
Policy loans	**629**	578	581
Equity investments	**41 781**	34 680	33 485
Investment in associated companies	**555**	566	536
Derivative instruments	**7 825**	4 783	7 504
Property investments	**3 107**	2 926	2 753
Current assets	**6 041**	6 342	6 162
Deferred taxation assets	**44**	4	44
Intangible assets	**268**	436	320
Property and equipment	**385**	419	392
Total assets	**97 234**	88 631	90 030
Liabilities and shareholders' funds			
Current liabilities	**3 559**	4 736	3 759
Provisions	**82**	60	98
Taxation	**133**	145	294
Derivative instruments	**4 730**	4 464	3 554
Deferred taxation liabilities	**254**	172	198
Post-retirement medical liability	**291**	294	289
Long-term liabilities	**3 187**	1 834	2 409
Policyholder liabilities	**80 620**	73 674	76 016
Policyholder liabilities under insurance contracts	**42 471**	38 683	39 674
Policyholder liabilities under investment contracts	**38 149**	34 991	36 342
Outside shareholders' interest	**39**	35	25
Share capital and reserves	**4 339**	3 217	3 388
Total liabilities and shareholders' funds	**97 234**	88 631	90 030
Total assets under management or administration	**198 700**	182 493	184 599

1 The assets and liabilities of Discovery Holdings have been excluded from the comparative balance sheets as at 31 December 2002 and 30 June 2003. The balance sheets above reflect Momentum as a segment of the FirstRand Group, with Discovery Holdings being treated as a separate segment.

The period under review

Operating environment

Local equity markets staged a strong comeback during the six months ended 31 December 2003, with the JSE ALSI 40 index increasing by 24% during the period, of which 16% was generated during the last three months. The overall trend in individual life single premium inflows in the industry over the past twelve months, according to statistics released by the Life Offices Association, has been sharply down, whilst new recurring premium business remained relatively flat over the same period. Investors remain cautious to commit their savings to equity-based products, and have preferred to place their funds in money market and fixed interest products. This is illustrated by the increase in money market unit trust fund assets from R57 billion at 31 December 2002 to R80 billion at 31 December 2003, as reported by the Association of Collective Investment Schemes.

Group operating results

Group headline earnings increased by 9% to R502 million for the six months ended 31 December 2003. These results benefited from good top line growth in the retail insurance and unit trust businesses, whilst the institutional asset management business experienced a number of large outflows. Earnings growth was impacted by a number of new product and distribution initiatives in the insurance operations. The investment in these initiatives resulted in a 6% (R26 million) reduction in group headline earnings growth from 15% to 9%. The group is confident that these initiatives will result in a positive effect on future earnings growth, and will provide a further level of diversity to group earnings.

Earnings attributable to ordinary shareholders increased by 73%, mainly due to the impairment of goodwill amounting to R166 million included in the comparative period's earnings.

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

Earnings source

	Unaudited Six months ended 31 December			Audited Year ended
R million	**2003**	2002	% change	30 June 2003
Insurance operations[1]	**261**	253	3	561
Asset management operations	**90**	86	5	125
Group operating profit	**351**	339	4	686
Investment income on shareholders' assets	**151**	121	25	261
Group headline earnings[2]	**502**	460	9	947

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

2 Core headline earnings, defined as group headline earnings excluding foreign currency translation gains, are equal to group headline earnings. This is due to the fact that the group has no offshore entities that are classified as integrated foreign operations.

Insurance operations

The insurance operations increased operating profit by 3% to R261 million. The combined effect of the termination of the Discovery Health distribution fee agreement with Momentum Distribution Services, together with the investment in Momentum's new health initiative and loyalty programme, the investment in the group's international multimanager operations and the increased spend on Momentum's brand awareness, reduced earnings growth in the insurance operations from 15% to 3%.

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

Retail new business

R million	Unaudited Six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
New annualised recurring premiums	**372**	352	6	737
Total lump sum inflows	**3 323**	2 996	11	4 570
Single premiums	**641**	988	(35)	1 832
Immediate annuities	**625**	699	(11)	1 452
Linked products	**2 057**	1 309	57	1 286
Total retail new business	**3 695**	3 348	10	5 307
Notional retail new business[1]	**704**	652	8	1 194

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

New annualised individual life recurring premium business increased by a pleasing 6% compared to the prior period. The main driver behind this growth was the 57% increase in recurring risk product sales as the group's Myriad product gained further market acceptance. Lump sum inflows increased by 11% to R3.3 billion, with the decline in single premium sales being offset by a strong increase in linked product sales.

Sales of Pulz, Momentum's new health offering, have been encouraging. Momentum's loyalty programme, Multiply, was also launched during the six months, and is available on all Momentum's products.

Momentum Collective Benefits, the provider of risk products to the employee benefits market, doubled new business volumes for the six months, and thereby substantially improved the embedded value of new business.

The value of new business increased by 12% from R131 million to R147 million. The new business profit margin increased significantly from 15% for the comparative period, to 19% for the six months ended 31 December 2003. The improved margin was due to the increased profitability of the group's Myriad risk product, the increased proportion of more profitable retirement annuity sales and the improved profitability of group risk business.

Momentum International, the group's local and international multimanager business, posted improved results due to the positive investment markets and encouraging new business growth, specifically in the retail investment product business with offices in London and Guernsey. Total assets under management at Momentum International increased from R23.9 billion at 30 June 2003, to R26.6 billion at 31 December 2003.

Asset management operations

The operations of FirstRand Asset Management (FRAM) comprise the local and international asset management operations of the Momentum Group.

FRAM generated an increase in operating profit after tax of 5% to R90 million. Growth in institutional funds under management was affected by the outflow of a number of large specialist bond mandates, which was countered by good market returns. An excellent turnaround was experienced in unit trust inflows. Due to the majority of equity market growth occurring in the second half of the six months, the impact on asset-based fee income will only be fully reflected in the second half of the financial year.

FRAM's assets under management are analysed in the following table:

FRAM – Assets under management

R billion	31 Dec 2003	30 June 2003	% change
Assets under management			
– Group assets managed on balance sheet	**56.4**	52.3	8
– Off balance sheet assets (including unit trust funds)	**90.5**	84.5	7
Total	**146.9**	136.8	7

FRAM's operating profit is sourced 22% from group assets managed, and 78% from off-balance sheet assets.

RMB Asset Management produced excellent investment performance for the calendar year ended December 2003, being placed jointly 1st in both the Alexander Forbes Global Large Manager Watch and the SA Large Manager Watch for performance over 1 year.

Investment income on shareholders' assets

The investment income earned on shareholders' assets increased by 25% to R151 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 the results announcement at 30 June 2003. The most significant aspect of this restructuring was the transfer of Momentum's investment in Discovery to FirstRand Limited in exchange for R740 million in cash. The earnings on this cash totalled R27 million after tax for the six months.

The directors' valuation of shareholders' net assets at 31 December 2003 is set out in the following table:

Directors' valuation of shareholders' net assets R million	**31 Dec 2003**	30 June 2003 (restated)[1]
Strategic subsidiary investments[2]:		
– FirstRand Asset Management	**1 428**	1 337
– Momentum MultiManagers	**40**	36
– Lekana Employee Benefit Solutions (70%)	**96**	–
Shareholders' portfolio investments[2]:		
– African Life (34%)	**600**	521
– Fixed interest instruments	**1 081**	573
– Equities	**147**	165
– Properties	**118**	265
– Share trust and subsidiary loans	**599**	567
– Cash and other	**1 664**	1 921
Total shareholders' net assets	**5 773**	5 385

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

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

Capital adequacy

The excess of assets over liabilities of Momentum Group Limited was R4 326 million at 31 December 2003 (30 June 2003: R4 032 million after the restatement to take account of the transfer of Discovery to FirstRand). The difference between the financial soundness excess and the directors' valuation of shareholders net assets set out in the table below, is the reversal of the cumulative revaluation of strategic investments. This reversal is required by the new FSB valuation requirements that came into effect on 1 August 2003, which require unlisted investments to be shown at net asset value as opposed to directors' valuation when determining the level of capital adequacy. The following table compares the directors' valuations at 31 December 2003 to the values according to the new FSB requirements:

	31 December 2003		
R million	**Directors' valuation**	**FSB valuation**	**Differ-ence**
FirstRand Asset Management[1]	**1 428**	**0**	**1 428**
Momentum MultiManagers	**40**	**21**	**19**
	1 468	**21**	**1 447**

1 The FSB requires that, for solvency purposes, the value of subsidiary investments is reduced to net asset value, with any goodwill asset in the subsidiary accounts being deducted from the net asset value, subject to a minimum value for solvency purposes of nil.

The capital adequacy requirement (CAR) of R2 142 million was covered 2.0 times (30 June 2003: 2.1 times) by the excess of assets over liabilities.

Results of the embedded value calculation

The embedded value of Momentum Group increased by 6% from R8 784 million at 30 June 2003 (restated to take account of the transfer of Discovery to FirstRand), to R9 276 million at 31 December 2003. The embedded value profit for the six months to 31 December 2003 totalled R881 million, which represents an annualised return of 21% on the adjusted opening embedded value. Headline earnings contributed 12% to this annualised return, with the balance representing the capital appreciation on shareholders' net assets, as well as the increase in the value of in-force insurance business.

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

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

Embedded value

R million	**31 Dec 2003**	30 June 2003 (restated)[1]
Directors' valuation of shareholders' net assets	**5 773**	5 385
Net value of in-force insurance business	**3 503**	3 399
Value of in-force insurance business	**4 094**	3 846
Opportunity cost of capital adequacy requirements[2]	**(591)**	(447)
Embedded value	**9 276**	8 784

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

2 The opportunity cost of holding capital reflects the fact that the expected long-term investment return on the assets backing the statutory capital is less than the return required by the shareholders, as reflected by the risk discount rate. It was assumed that the statutory capital would be backed predominantly by cash and near cash.

The difference between the financial soundness surplus and the shareholders' net assets as at 31 December 2003 as used in this report can be summarised as follows:

Embedded value

R million	**31 Dec 2003**	30 June 2003 (restated)
Financial soundness surplus	**4 326**	4 032
Revaluation of strategic investments	**1 447**	1 353
Shareholders' net assets (for embedded value purposes)	**5 773**	5 385

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

Value of new business

	Six months ended 31 December			Year ended
R million	**2003**	2002	% change	30 June 2003
Value of new business (before opportunity cost of capital)	**159**	139	14	290
Less: Opportunity cost of capital	**(12)**	(8)	(50)	(17)
Value of new business	**147**	131	12	273

The increase in the value of new business is pleasing considering the competitive pressures experienced in the market. The value of new business written during the six months represents a margin of 19% of the notional new business premiums (new recurring plus 10% of single premiums), compared with 15% for the comparative period. The improvement in the margin on new business is due to the improved profitability of the Myriad risk product against the traditional risk products, increased margins on annuity business, improved margins on group risk business and an increased proportion of retirement annuity business, which generates higher profit margins.

The following table summarises the new business inflows used in the calculation of the value of new business:

New business inflows

R million	**Six months ended 31 Dec 2003**
Annualised recurring premiums	**458**
Lump sum inflows	**3 187**
Individual life premium income	**1 266**
Term extensions on maturing policies	**277**
Corporate policy premium income	**476**
Employee benefits premium income (excluding investment only business)	**136**
Linked product inflows (excluding Momentum International and ad-hoc inflows)	**1 032**
Notional new business inflows[1]	**777**
Value of new business	**147**
New business profit margin (%)	**19**

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

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

Analysis of movement in embedded value

	R million
Embedded value at 30 June 2003	**10 002**
Less: Impact of sale of Discovery	(1 099)
Market value of Discovery	(1 839)
Proceeds received for Discovery	740
Less: Increased opportunity cost of capital[1]	(119)
Adjusted embedded value at 1 July 2003	**8 784**
Embedded value profit	**881**
Factors related to operations:	345
Value of new business	159
Expected return on new business	5
Expected return on existing business	232
Experience assumption changes	(31)
Operating experience variations	(20)
Factors related to market conditions:	536
Investment return on shareholders' net assets	514
Increase in opportunity cost of capital	(144)
Investment variations[2]	166
Less: Dividends paid	**(389)**
Embedded value at 31 December 2003	**9 276**

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

2 The positive investment variation is a result of investment markets outperforming the long-term investment return assumed in the embedded value calculation.

The following table shows the main economic assumptions used in calculating the embedded value at 31 December 2003:

Economic assumptions	%
Risk discount rate	12.6
Investment returns (before tax)	11.0
Expense inflation rate	7.0

These economic assumptions remained unchanged from the 30 June 2003 valuation. The investment return assumption of 11.0% per annum was determined with reference to the market interest rates on South African government stocks at 31 December 2003 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, using the same methodology as at 30 June 2003.

Allowance was made for future tax based on the four-fund tax dispensation. Allowance was made for the effect of Capital Gains Tax at face value in the policyholders' portfolios. No allowance was made for Capital Gains Tax on strategic shareholders' assets. Allowance was made for STC on future dividends ultimately payable to shareholders.

Group assets under management or administration

The Momentum Group managed or administered total assets of R198.7 billion at 31 December 2003 compared with R184.6 billion at 30 June 2003, an increase of 8% over the six-month period. This increase is mainly due to the strong performance from investment markets during the period. The following table provides an analysis of the assets managed or administered by group companies:

Assets under management or administration R billion	**31 Dec 2003**	30 June 2003	% change
On-balance sheet assets	**97.2**	90.1	8
Segregated third party funds	**79.2**	74.3	7
Unit trust funds managed	**15.5**	14.4	8
Assets under management	**191.9**	178.8	7
Linked product assets under administration[1]	**6.8**	5.8	17
Total assets under management or administration	**198.7**	184.6	8

1 Excludes business written by the Momentum Group's Linked Product Packager on the life company's balance sheet, as these assets are reflected under on-balance sheet assets above. Total linked product assets under administration amounted to R14.2 billion (30 June 2003: R12.6 billion).

Funds received from clients

New business inflows for the six months to 31 December 2003 totalled R13.4 billion, an increase of 27% compared with the corresponding figure in the prior year. New recurring premium business increased by a healthy 16%, mainly due to a significant improvement in new employee benefits risk business. The decline of 25% in individual life single premium inflows was offset by a 57% increase in linked product sales, and stronger unit trust sales. The decline in corporate policy lump sums was due to a few large transactions included in the comparative figure. A breakdown of the new business inflows is provided in the table below:

New business

R million	Unaudited Six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Annualised recurring premiums	**458**	395	16	859
Individual life	**372**	352	6	737
Employee benefits	**86**	43	100	122
Lump sum inflows	**7 916**	8 321	(5)	17 305
Individual life premium income	**1 266**	1 687	(25)	3 284
Corporate policy premium income	**476**	2 236	(79)	2 308
Employee benefits premium income	**1 246**	831	50	3 242
Linked product inflows[1]	**2 057**	1 309	57	2 722
Unit trust inflows – local	**2 194**	1 693	30	4 174
Unit trust inflows – offshore	**677**	565	20	1 575
Segregated third party inflows	**4 987**	1 822	>100	4 730
Total new business inflows	**13 361**	10 538	27	22 894
Notional new business inflows[2]	**1 748**	1 409	24	3 063

1 Includes inflows relating to products on the life insurance balance sheet totalling R724 million (2002: R520 million).

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

All transfers between on- and off-balance sheet funds have been excluded from the above.

Total funds received from clients, being the sum of the inflows from new and existing business, amounted to R15.5 billion, an increase of 25%. The following table provides an analysis of these inflows:

Funds received from clients

R million	Unaudited Six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Individual life premium income	**3 532**	5 568	(37)	8 893
Single premiums[1]	**1 266**	1 687	(25)	3 284
Corporate policy premiums	**489**	2 249	(78)	2 323
Recurring premiums	**1 777**	1 632	9	3 286
Employee benefits premium income	**1 975**	1 488	33	4 621
Single premiums	**1 246**	831	50	3 242
Recurring premiums	**729**	657	11	1 379
Linked product inflows	**2 057**	1 309	57	2 722
Unit trust inflows	**2 871**	2 258	27	5 750
Local	**2 194**	1 693	30	4 174
Offshore	**677**	565	20	1 576
Segregated third party inflows	**5 039**	1 767	>100	4 897
Total funds received from clients	**15 474**	12 390	25	26 883

1 Single premiums exclude funds retained through the extension of the original policy term, amounting to R277 million (2002: R272 million).

All transfers between on- and off-balance sheet funds have been excluded from the above.

Payments to clients

Payments to clients increased by 41% to R18.6 billion for the six months. The main reason for the increase was the large outflow of segregated third party funds at RMBAM, where a small number of large clients withdrew specialist bond mandates. On a positive note, the containment of linked product and unit trust outflows was particularly pleasing. The total outflows to clients are shown in the following table:

Payments to clients

R million	Unaudited Six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Individual life	**2 835**	2 688	5	5 226
Corporate policies	**572**	928	(38)	1 334
Employee benefits	**1 842**	1 789	3	4 343
Linked products[1]	**776**	1 067	(27)	2 008
Unit trusts – local	**1 686**	1 738	(3)	4 266
Unit trusts – offshore	**578**	723	(20)	1 128
Segregated third party funds	**10 358**	4 252	>100	8 252
Total payments to clients	**18 647**	13 185	41	26 557

1 Includes outflows relating to products on the life insurance balance sheet amounting to R501 million (2002: R468 million).

Net flow of funds

The net flow of funds from clients declined as a result of the large bond mandate withdrawals at RMBAM. It is however encouraging that the employee benefits, linked products and unit trust areas managed to improve their net flow of funds significantly.

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

Net flow of funds

R million	Unaudited Six months ended 31 December 2003	2002	Audited Year ended 30 June 2003
Individual life	**208**	631	1 344
Corporate policies	**(83)**	1 321	989
Employee benefits	**133**	(301)	278
Linked products	**1 281**	242	714
Unit trusts – local	**508**	(45)	(92)
Unit trusts – offshore	**99**	(158)	448
Segregated third party funds	**(5 319)**	(2 485)	(3 355)
Total net flow of funds	**(3 173)**	(795)	326

Accounting policies

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

The International Accounting Standards Board's (IASB) international project on insurance is due to release an international standard regarding the disclosure and classification of insurance contracts by the end of March 2004. There is an ongoing process to develop guidance in the local long-term insurance industry with regard to the classification of policyholder contracts between insurance contracts and investment contracts in terms of the new international standard (in exposure draft form) and AC133, as well as the valuation basis for such investment contracts. The implementation of updated guidance may have a further impact on the financial results for the year-end.

Prospects

The strong growth in investment markets during the six months should have a positive impact on asset-based fees during the remaining six months. New business inflows are also expected to improve as recent gains in investment markets impact positively on investor sentiment.

In the group's opinion there is currently excess capacity within the South African insurance industry, due to a lack of growth over the past few years. We are confident that we can extract improvements in productivity that will lead to a positive impact on future earnings growth.

The various growth initiatives in the group are placing a strain on earnings growth. We however remain confident that these initiatives will become important contributors to group profitability in future.

2 March 2004

LL Dippenaar	**HP Meyer**
Chairman	*Managing Director*

Momentum Group Limited

Reg No 1904/002186/06

Postal address

PO Box 7400, Centurion, 0046. Telephone 012 671 8911

Notes

Introduction

This report reflects the operating results and the financial position of Discovery which holds the health and certain related insurance interests of the FirstRand Limited group of companies. Discovery is 63% held by FirstRand (2002: 62%) and is listed on the JSE Securities Exchange. This report should be read in conjunction with the report on FirstRand Limited and is a summary of Discovery's announcement to shareholders published on 26 February 2004.

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

Financial highlights

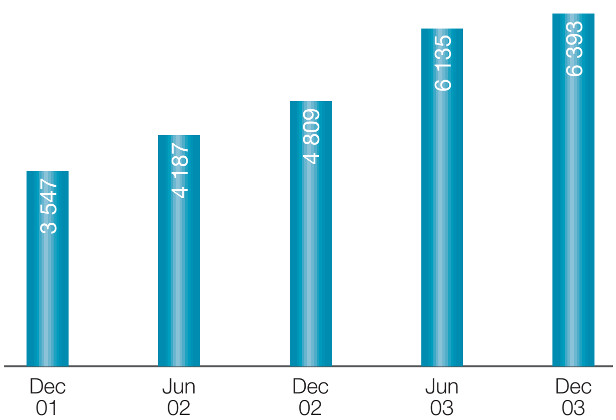
Operating profit **+ 87%** to **R324.8 million**

Attributable profit **+57%** to **R135.3 million**

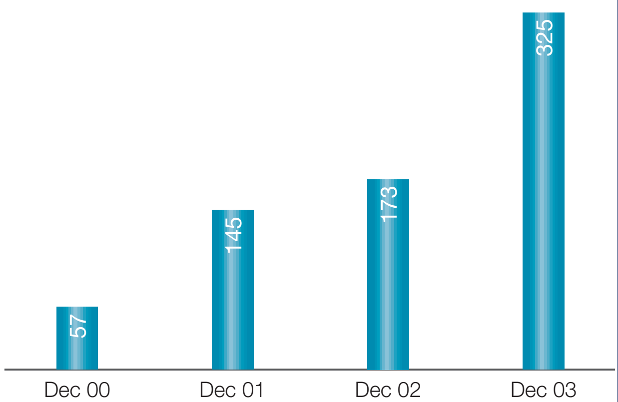
Diluted headline earnings per share **+22%** following **36%** additional shares in issue

Destiny Health expected to break-even in February 2004

Gross inflows under management (R million)



Operating profit before taxation (R million)



Group consolidated income statement

for the six months ended 31 December 2003

R million	Unaudited Six months ended 31 December 2003	2002	% change	Audited Year ended 30 June 2003
Operating profit	**324.8**	173.3		460.4
Local operations	**402.6**	263.2	53	628.2
Foreign operations	**(77.8)**	(89.9)		(167.8)
Financing costs	**(30.5)**	(11.6)		(25.2)
Foreign exchange loss – unrealised	**(36.5)**	–		(17.1)
Profit before abnormal items and taxation	**257.8**	161.7	59	418.1
Abnormal items	**–**	–		120.2
Profit before taxation	**257.8**	161.7	59	538.3
Taxation	**123.4**	75.5		182.2
Operating profit	**123.4**	75.5		146.1
Abnormal items	**–**	–		36.1
Profit after taxation	**134.4**	86.2		356.1
Minority share of loss	**0.9**	–		6.1
Net profit attributable to ordinary shareholders	**135.3**	86.2	57	362.2
Headline earnings per share (cents)				
– undiluted	**27.2**	21.5	27	94.1
– diluted	**26.2**	21.5	22	88.2
Basic earnings per share (cents)				
– undiluted	**27.4**	22.8	20	95.9
– diluted	**26.4**	22.7	16	89.8
Headline earnings per share before abnormal items and foreign exchange loss (cents)				
– undiluted	**34.6**	21.5	61	76.3
– diluted	**33.0**	21.5	54	72.1
Basic earnings per share before abnormal items and foreign exchange loss (cents)				
– undiluted	**34.9**	22.8	53	78.1
– diluted	**33.3**	22.7	47	73.7
Weighted number of shares in issue (000's)	**492 979**	377 876		377 876
Diluted weighted number of shares (000's)	**531 725**	409 458		417 594

Headline earnings per share is calculated as follows:

R million	December 2003	December 2002	June 2003
Net profit attributable to ordinary shareholders	**135.3**	86.2	362.2
Adjusted for realised profit on available for sale of financial instruments	**(1.2)**	(4.8)	(6.7)
Headline earnings	**134.1**	81.4	355.5
Foreign exchange loss – unrealised	**36.5**	–	17.1
Abnormal items	**–**	–	(84.1)
Headline earnings before abnormal items and foreign exchange loss	**170.6**	81.4	288.5

Group consolidated balance sheet

at 31 December 2003

R million	Unaudited 31 December 2003	Audited 30 June 2003
Assets		
Non-current assets	**1 422.1**	1 015.9
Fixed assets	**224.8**	221.2
Intangible assets	**38.0**	35.5
Investments	**1 082.0**	685.0
Loans receivable	**77.3**	74.2
Assets under insurance contracts	**1 054.0**	772.4
Current assets	**1 070.7**	1 552.7
Accounts receivable	**255.1**	209.0
Deferred tax asset	**10.3**	6.7
Cash and cash equivalents	**805.3**	1 337.0
Total assets	**3 546.8**	3 341.0
Equity and liabilities		
Capital and reserves	**2 110.1**	1 036.9
Share capital and share premium	**1 277.7**	428.9
Reserves	**832.4**	608.0
Minority interest	**127.4**	127.4
Liabilities under insurance contracts	**14.0**	9.5
Liabilities under investment contracts	**402.9**	370.2
Non-current liabilities	**312.4**	296.7
Deferred tax liability	**14.6**	25.9
Current liabilities	**565.4**	1 474.4
Short term loan	**–**	875.9
Other current liabilities	**565.4**	598.5
Total equity and liabilities	**3 546.8**	3 341.0
Net asset value per share (cents)	**411.0**	274.4
Number of shares in issue (000's)	**513 464**	377 876

The period under review

Financial results

Discovery's performance for the six months under review was pleasing. The company employs a business methodology based on innovation, product leadership and operational and financial excellence to achieve its purpose of making people healthier and enhancing and protecting their lives. The period under review saw the successful continuation of this approach, resulting in strong organic growth across all of Discovery's businesses.

Discovery increased its operating profit by 87% to R324.8 million (2002: R173.3 million) while net profit attributable to shareholders grew 57% to R135.3 million (2002: R86.2 million). Diluted headline earnings per share increased by 22% to 26.2 cents (2002: 21.5 cents) despite a 36% increase in the number of shares in issue. In line with Discovery's current policy, no dividend has been declared.

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.

Segmental information in respect of operating profits for the six months ended 31 December 2003 and 31 December 2002 is set out below:

31 December 2003	Health				
R million	South Africa	United States of America	Life	Vitality	Total
Gross inflows under management	**5 596.0**	**226.9**	**384.3**	**185.4**	**6 392.6**
Gross income	**1 285.2**	**165.0**	**384.3**	**185.4**	**2 019.9**
Reinsurance	**(44.1)**	**(43.7)**	**(79.9)**	**–**	**(167.7)**
Fair value adjustments	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Expenses, commissions and claims	**(1 026.7)**	**(200.3)**	**(476.3)**	**(165.2)**	**(1 868.5)**
Transfer from balances under insurance contracts	**–**	**–**	**234.4**	**–**	**234.4**
	214.4	**(79.0)**	**62.4**	**20.2**	**218.0**
Return on assets under insurance contracts	**–**	**–**	**42.7**	**–**	**42.7**
Operating profit before investment income	**214.4**	**(79.0)**	**105.1**	**20.2**	**260.7**
Investment income					**64.1**
Operating profit					**324.8**
31 December 2002					
Gross inflows under management	4 314.9	158.1	196.2	139.5	4 808.7
Gross income	1 381.9	128.4	196.2	139.5	1 846.0
Reinsurance	(74.6)	(53.3)	(33.1)	–	(161.0)
Fair value adjustments	–	–	(15.5)	–	(15.5)
Expenses, commissions and claims	(1 091.7)	(165.9)	(331.8)	(132.2)	(1 721.6)
Transfer (to)/from balances under investment and insurance contracts	(37.0)	–	175.7	–	138.7
	178.6	(90.8)	(8.5)	7.3	86.6
Return on assets under insurance contracts	–	–	25.3	–	25.3
Operating profit before investment income	178.6	(90.8)	16.8	7.3	111.9
Investment income					61.4
Operating profit					173.3

With reference to the balance sheet:

- The short-term loan of R875 million owing to FirstRand Limited as at 30 June 2003 that arose in terms of the claw-back offer was repaid by the issue of 134 615 385 new Discovery shares. These shares were listed on the JSE on 28 July 2003.
- The increase in the assets under insurance contracts of R281.6 million is as a result of the significant increase in profitable new business written by Discovery Life.
- Investments have increased due to the investment of an additional R300 million into equity portfolios during October 2003 coupled with the strong performance of the equity markets. Unrealised gains of R75.3 million on investments have been taken directly to reserves.
- Cash and cash equivalents at 30 June 2003 is R805.3 million.

Accounting policies

The principal accounting policies and methods of computation followed in the six months to 31 December 2003 are consistent with those followed at 30 June 2003.

The unaudited interim financial statements comply with South African Statements of Generally Accepted Accounting Practice.

Discovery Health

Discovery Health's performance was pleasing. Operating profit grew by 20% to R214.4 million (2002: R178.6 million), and the number of lives under administration now exceeds 1.5 million. Lapse rates reduced to an effective 3.3% per annum, the lowest in Discovery Health's history.

Discovery Health's role is to provide access to quality care on a sustainable basis in an environment of change and complexity. The period under review was particularly pleasing in this regard: healthcare costs were kept under control, while statutory reserves within the Discovery Health Medical Scheme ("DHMS") built up in line with that required – to over R1.6 billion. Despite the increased proportion of member contributions allocated to reserves, contribution rates increased from 2003 to 2004 in line with previous years. With falling levels of inflation, Discovery Health is acutely aware that the increasing gap between salary and medical inflation means that member expectations in terms of cost are not being met. However, given the performance of the Discovery Health Medical Scheme and the likelihood that the reserve requirements will be met by end 2004, single digit contribution increases are expected for 2005.

The impact of the resolution with the Council of Medical Schemes on the results of the health operations of Discovery, was a reduction in gross income with a corresponding decrease in reinsurance premiums and policyholder benefits. The increase of 20% in operating profit before investment income is attributable to:

- An increase in lives covered of 19.9% to 1 505 896 (2002: 1 255 797)
- Administration and marketing efficiencies

The operating profit of Discovery Health is weighted to the second half of the financial year as premium increase anniversaries are on 1 January each year while salary increases occur on 1 July each year.

The trustees of DHMS have applied for a 10% quota share reinsurance treaty with Discovery Life to commence on 1 January 2004, for which approval has not yet been received.

Destiny Health

The six months under review were important for Destiny Health. The company reduced its operating losses 30% to USD6.7 million (2002: USD9.6 million), and increased new business by 59% to USD31.3 million (2002: USD19.7 million).

Importantly, the company set the difficult short-term target of achieving break-even in its Illinois business by the start of 2004 and is expected to achieve this during the month of February – one month late of its target date. To this end, a significant focus was placed on the management of expenses, the acquisition of new business and a focus on managing the medical loss ratio. Not only was the company successful in achieving the set short-term targets, but it also introduced significant structural changes that bode well for longer term success.

In addition to the break-even goal, Destiny was focused on rolling out its joint ventures with Guardian Life Insurance Company of America in Illinois, and Tufts Health Plan in Massachusetts. It is expected that the impact of these ventures will only start being felt within the next few months.

The healthcare environment continues to evolve rapidly toward Destiny's Consumer-Driven Healthcare Model. Over the period under review, the amended Medicare legislation introduced the "Health Savings Account", which for the first time allows Americans to invest pre-tax dollars into a medical savings account – a structure that is central to the Destiny product design. The Health Savings Account was specifically mentioned by the US President in his State of the Union Address.

Destiny Health's operating losses before investment income, finance costs and non-recurring expenses reduced by 48% to R47.1 million for the six month period ended 31 December 2003 (2002: R90.8 million). This is attributable to the strengthening of the Rand against the Dollar, improved claims experience as a result of better risk management and the achievement of efficiencies in cost control as well as the growth in lives covered to 24 698 (2002: 14 840).

Non-recurring costs include set-up costs of R17.5 million incurred in respect of the joint ventures entered into with Guardian and Tufts. The R36.5 million exchange loss arises on the R279.2 million loan entered into by Destiny with RMB International (Dublin) Limited.

Discovery Life

Discovery Life's performance exceeded expectation. Profit increased to R105.1 million (2002: R16.8 million), and the value of in-force business increased by 89% to R946.3 million (2002: R500.0 million). Annualised new business premium income increased by 35% to R290.1 million (2002: R214.6 million). The number of policyholders grew to over 100 000.

The company's approach to life insurance has now become the industry norm and it has established a leadership position in a market that is transforming toward its approach. Its products exclude any investment element and therefore it is not only immunised against the fall-out of poor investment returns, but also against the fluctuating financial performance resulting from them. The company is well positioned for further innovation to capitalise on the platform it has created.

The quality of business written has been exceptional and over the period, focus was applied to maintaining and enhancing this. The average premium and the ancillary benefits per policy remain significantly above the industry average, which has helped to increase the profitability per policy. Notably, the company's mortality and morbidity experience was better than expected. Increasing success is being achieved through the integration with other Discovery products.

Discovery Life's increase in operating profit before investment income is attributable to the following:

- Significant new business
- Better than anticipated mortality and morbidity experience

The number of individual policyholders insured grew to 100 218 (2002: 46 340). Group lives covered increased to 34 968 (2002: 28 991).

Discovery Vitality

Discovery Vitality's operating profit increased to R20.2 million (2002: R7.3 million) resulting from an enhanced product offering increasing Vitality's membership. With effect from 1 January 2004, Discovery Vitality has launched further exciting benefits which are expected to lead to a reduction in the profitability of Vitality in the second half of the financial year.

Funds received from clients

New business annualised premium income

New business annualised premium income of the group decreased 8% for the six months under review to R1 473.4 million (2002: R1 597.7 million) and is made up as follows:

	2003	2002	% change
Health (Rm)	**934.5**	1 163.3	(20)
Vitality (Rm)	**26.4**	32.9	(20)
Life (Rm)	**290.1**	214.6	35
Destiny (Rm)	**222.4**	186.9	19
Total (Rm)	**1 473.4**	1 597.7	(8)
Destiny (USDm)	**31.3**	19.7	59

New business of Health and Vitality reduced by 20% to R960.9 million (2002: R1 196.2 million), primarily due to an unusually high intake of members in December/January of the previous financial year, which arose from the legislated introduction of an open enrolment period in January of each year. As this was the first of these open enrolment periods, the inflow of members during December and January 2003 reflected significant pent-up demand.

Discovery Life's new business increased 35% for the six months under review to R290.1 million (2002: R214.6 million) building further on its leadership position in the risk-only assurance market and proving its value proposition to clients.

Destiny's new business grew 59% to USD31.3 million (2002: USD19.7 million) bearing testimony to a continued focus on marketing and distribution activities and showing early signs of the benefits of the joint ventures. The strengthening of the Rand against the Dollar over the six month period translated into a 19% increase in new business in Rand terms over the six month period.

Gross inflows under management

Gross inflows under management includes flows into DHMS to demonstrate the scale of activity of the Discovery group and provide a direct comparison of activity to prior periods. All lines of business showed satisfactory growth in gross inflows under management as shown below:

R million	2003	2002	% change
Health	**5 596.0**	4 314.9	30
Vitality	**185.4**	139.5	33
Life	**384.3**	196.2	96
Destiny	**226.9**	158.1	44
	6 392.6	4 808.7	33

Summarised results of the embedded value calculation

The embedded value of Discovery increased by 68% from R3 710 million to R6 222 million. The embedded value per share increased by 23% from R9.82 to R12.12 following a 36% increase in the number of shares in issue.

R million	At 31 Dec 2003	At 31 Dec 2002	% change	At 30 June 2003	At 30 June 2003[1]
					(Illustrative, after capital raising)
Shareholders' funds	**2 110.1**	776.1[2]		1 036.9	1 885.7
Value of in-force business before cost of capital[3]	**4 401.5**	3 126.1	41	4 021.1	4 021.1
Cost of capital	**(289.7)**	(192.1)		(190.2)	(190.2)
Discovery Holdings embedded value	**6 221.9**	3 710.1	68	4 867.8	5 716.6
Number of shares millions	**513.5**	377.9		377.9	512.5
Embedded value per share	**R12.12**	R9.82	23	R12.88	R11.15
Diluted embedded value per share	**R11.27**	R9.06	24	R11.66	R10.35

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

2 The accounting policy for health insurance and group life acquisition costs was changed during the 2003 financial year from deferring acquisition costs to expensing these costs as incurred. The deferred acquisition cost asset was previously reflected as an adjustment to the value of shareholders' funds. The shareholders' funds balance at 31 December 2002 has been restated in line with the changes to the statement of changes in equity.

3 The pre-paid commission expense was previously reflected as an adjustment to shareholders' funds. It has now been fully expensed. The asset (which amounted to R76.7 million at 31 December 2002 and R17.6 million at 30 June 2003) has been deducted from the value of in-force business at 30 June 2003 and 31 December 2002 to avoid the double counting of expense loadings.

The period under review continued

Embedded value of new business is set out in the table below

R million	**6 months to 31 Dec 2003**	6 months to 31 Dec 2002	% change	12 months to 30 June 2003
Health and Vitality				
Net profit from new business at point of sale	**42.9**	70.2	(39)	234.7
Gross profit from new business at point of sale	**42.9**	76.5		237.9
Cost of capital	**–**	(6.3)		(3.2)
Life				
Net profit from new business at point of sale	**307.3**	198.3	55	418.3
Gross profit from new business at point of sale	**370.6**	218.6		493.9
Cost of capital	**(63.3)**	(20.3)		(75.6)
Destiny Health				
Net profit from new business at point of sale	**7.7**	7.0	10	16.6
Gross profit from new business at point of sale	**14.8**	16.0		40.5
Cost of capital	**(7.1)**	(9.0)		(23.9)
Total net profit from new business at point of sale	**357.9**	275.5	30	669.6
Total gross profit from new business at point of sale	**428.3**	311.1		772.3
Total cost of capital	**(70.4)**	(35.6)		(102.7)

The embedded value assumptions are set out below:

	31 Dec 2003 (%)	31 Dec 2002 (%)	30 June 2003 (%)
Risk discount rate			
– Health and Vitality	**13.50**	16.00	13.50
– Life product	**12.50**	14.00	12.50
– Destiny Health	**10.00**	10.00	10.00
Medical inflation			
South Africa	**8.50**	10.00	8.50
United States	Current levels reducing to 11.50% over the projection period	Decreasing linearly from 14.25% to 9.75% over the projection period	Current levels reducing to 11.50% over the projection period
Expense inflation			
South Africa	**5.50**	7.00	5.50
United States	**5.00**	6.00	6.00
Pre-tax investment return			
South Africa – cash	**8.00**	9.50	8.00
– bonds	**9.50**	11.00	9.50
– equity	**11.50**	13.00	11.50
United States – bonds	**2.00**	2.00	2.00
Income tax rate			
– South Africa	**30.00**	30.00	30.00
– United States Federal Tax Rate[1]	**34.00**	34.00	34.00

1 Various additional State taxes also apply. 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.

Embedded value earnings and the components thereof are set out below:

R million	**6 months to 31 Dec 2003**	6 months to 31 Dec 2002[1]	12 months to 30 June 2003
Embedded value at end of period	**6 221.9**	3 710.1	4 867.8
Embedded value at beginning of period	**4 867.8**	3 321.0	3 321.0
Increase in embedded value	**1 354.1**	389.1	1 546.8
Net issue of capital	**(848.8)**	(1.7)	(1.8)
Dividends paid to Destiny Health preference shareholders	**0.6**	2.1	12.6
Implementation of new accounting standards[2]	**–**	16.6	16.6
Transfer to hedging reserve[3]	**(14.4)**	–	14.4
Embedded value earnings	**491.5**	406.1	1 588.6

1 The value of shareholders' funds at 31 December 2002 has been restated in line with the adjustments to the statement of changes in equity. As a result, the embedded value earnings for the prior period has been adjusted.

2 Refer to the commentary to the Financial Statements regarding Discovery's adoption of AC133.

3 This item relates to a cashflow hedge that was taken out to reduce exposure to currency risk on capital inflows to Destiny Health.

Components of embedded value earnings

R million	**6 months to 31 Dec 2003**	6 months to 31 Dec 2002	% change	12 months to 30 June 2003
Total profit from new business (at point of sale)	**357.9**	275.5	30	669.6
Profit from existing business				
– Expected return	**272.3**	241.3		500.5
– Change in methodology and assumptions[1]	**(261.7)**	(182.8)		(0.1)
– Experience variances	**6.9**	74.1		365.8
Adjustment for minority interest in Destiny Health	**3.7**	–		(2.3)
Interest on loan capital	**(25.2)**	–		–
Return on shareholders' funds[2]	**137.6**	(2.0)		55.1
Embedded value earnings	**491.5**	406.1		1 588.6

1 The change in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. These changes are described in detail in Discovery's announcement to shareholders published on 26 February 2004.

2 Return on shareholders' funds is the after-tax investment return and unwinding of the negative reserves.

Prospects

Discovery is confident of continued growth, with robust performances expected from its established businesses and increasing contributions from start-ups.

By order of the Board
26 February 2004

LL Dippenaar
Chairman

A Gore
Chief Executive Officer

Discovery Holdings Limited

(Registration number 1999/007789/06)
Share code: DSY ISIN code: ZAE000022331
www.discovery.co.za/investor

Postal address

PO Box 786722, Sandton, 2146

Notes

FIRSTRAND

This information is available on
our website at www.firstrand.co.za

GRAPHICOR
30697

www.firstrand.co.za

FIRSTRAND