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FINANCIAL IMAGINEERING

DELIVERING ON OUR PROMISES

UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

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Group at a glance

The FirstRand Group comprises a number of independent operating divisions. These divisions are grouped and managed on a cluster basis which ensures appropriate collaboration between divisions operating in the same market segment.

Central to the FirstRand strategy is the image and reputation of its operating divisions and their respective brands.

The FirstRand mission statement is *to passionately build and nurture the most compelling range of financial service brands in the business.*

The divisions, their brands and the clusters to which they belong are presented below:

First National Bank	First National Bank retail banking division incorporates the branch network and all basic and transactional banking product offerings to the consumer market. FNB HomeLoans is the primary mortgage lending operation in the retail consumer market.	RETAIL CLUSTER
WesBank	WesBank is a full service provider of instalment credit finance to the retail and corporate market.	RETAIL CLUSTER
eBucks.com	e-Bucks.com is the internet banking operation incorporating full retail internet banking functionality and the Banking Group's customer appreciation programme.	RETAIL CLUSTER
OUTsurance; First Link Insurance Brokers	OUTsurance offers direct short-term insurance products. FirstLink offers insurance broking services to retail and medium corporate clients.	RETAIL CLUSTER
First National Bank of Namibia; First National Bank of Botswana; First National Bank of Swaziland	First National Bank of Namibia, Botswana and Swaziland comprise the Banking Group's regional offering. They provide a broad range of retail and medium corporate transactional and lending banking products to their regional client bases.	RETAIL CLUSTER
Ansbacher	Ansbacher (South Africa) provides a holistic wealth management offering to high net worth individuals, focused on personalised banking, advisory and portfolio management services.	WEALTH CLUSTER
Origin – The Merchant Bank for Individuals	Origin, the merchant bank for individuals, is focused on the provision of differentiated banking and investment products to the mass affluent market.	WEALTH CLUSTER
Momentum	Momentum Life develops and markets investment and risk products that create and preserve wealth in the middle to upper-income market.	WEALTH CLUSTER
Momentum	Momentum MultiManagers is a multi-management asset management business servicing institutional and retail clients in South Africa and internationally.	WEALTH CLUSTER
Ansbacher	Ansbacher (United Kingdom) offers personalised holistic global wealth management to high net worth individuals in international markets.	WEALTH CLUSTER

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RAND MERCHANT BANK	Rand Merchant Bank, the Banking Group's investment banking operation, provides a broad range of corporate finance, treasury, structured finance and private equity services to predominantly large corporates, government and parastatals.	CORPORATE CLUSTER
FNB Corporate A division of FirstRand Bank Limited	FNB Corporate provides a broad range of transactional, lending and basic banking products to the mid and large corporate markets, government and parastatals.	
Banking Group Treasury	The centralised treasury is responsible for the liquidity, funding and interest rate management of the Banking Group.	
FIRSTRAND Asset Management	FirstRand Asset Management is a global asset management group offering a complete range of domestic and international products to institutional and retail clients.	
MOMENTUM EMPLOYEE BENEFITS	Momentum Employee Benefits offers insurance benefits, consulting, administration, risk and investment solutions to the corporate and union market.	
Discovery	Discovery focuses on making people healthier and protecting and enhancing their lifestyles. Discovery's products relate to healthcare funding and life assurance and are all underpinned by the Vitality wellness programme.	HEALTH CLUSTER
	MOMENTUM SHAREHOLDER ASSETS Represents the interest, dividends and net rentals earned on Momentum Group's shareholders' assets.	CENTRAL CLUSTER
	BANKING GROUP CAPITAL CENTRE The Capital Centre owns and manages the Banking Group's capital base.	

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INTRODUCTION

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

Salient features

	Pre AC133	Post AC133
Core operational headline earnings	**+23,6%**	**+26,7%**
Headline earnings	**-23,8%**	**-19,3%**
Dividend per share	**+22,2%**	**+22,2%**
Total assets under management and administration	**R480bn**	**R482bn**

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Statement of headline earnings and dividends

R million	Unaudited six months ended 31 December Pro forma[1] 2002	Pro forma[1] 2001	% change	Unaudited six months ended 31 December Actual[2] 2002	Actual 2001	% change	Audited Year ended 30 June 2002
Banking Group	**1 498**	2 134	(29,8)	**1 731**	2 260	(23,4)	4 040
Core operations	**1 860**	1 420	31,0	**2 093**	1 546	35,4	3 492
Foreign currency translation (losses)/gains	**(362)**	714	>(100)	**(362)**	714	>(100)	548
Insurance Group	**523**	501	4,4	**510**	501	1,8	1 038
FirstRand Limited	**(18)**	(7)	>(100)	**(18)**	(7)	>(100)	(61)
Headline earnings	**2 003**	2 628	(23,8)	**2 223**	2 754	(19,3)	5 017
Add/(less): Foreign currency translation losses/(gains)	**362**	(714)	>(100)	**362**	(714)	>(100)	(548)
Core operational headline earnings	**2 365**	1 914	23,6	**2 585**	2 040	26,7	4 469
Dividends declared (Rm)	**898**	735	22,2	**898**	735	22,2	1 552
Return on average equity (based on core operational headline earnings) (%)	**26,0**	25,3		**27,4**	25,1		25,4
Return on average equity (based on headline earnings) (%)	**20,5**	32,0		**22,0**	31,3		26,9
Number of shares in issue (million)	**5 445**	5 445		**5 445**	5 445		5 445
Core operational headline earnings per share (cents)	**43,4**	35,1	23,6	**47,5**	37,5	26,7	82,1
Headline earnings per share (cents)	**36,8**	48,3	(23,8)	**40,8**	50,6	(19,3)	92,1
Earnings per share (cents)	**33,4**	47,9	(30,2)	**37,4**	50,2	(25,4)	88,2
Dividend per share (cents)							
Interim	**16,5**	13,5	22,2	**16,5**	13,5	22	13,5
Final	**n/a**	n/a	–	**n/a**	n/a	–	15,0
Total	**16,5**	13,50	22,2	**16,5**	13,50	22	28,5

Notes

1. The pro forma columns exclude the effect of AC133.
2. The actual column for 2002 includes the effect of AC133.

Headline earnings reconciliation

for the six months ended 31 December 2002

R million	Unaudited six months ended 31 December Pro forma[1] 2002	Pro forma[1] 2001	% change	Unaudited six months ended 31 December Actual[2] 2002	Actual 2001	% change	Audited Year ended 30 June 2002
Attributable earnings							
Banking Group	**1 494**	2 131	(29,9)	**1 727**	2 257	(23,5)	4 036
Insurance Group	**340**	480	(29,2)	**327**	480	(31,9)	825
Goodwill amortised – intergroup	**3**	3	–	**3**	3	–	5
	1 837	2 614	(29,7)	**2 057**	2 740	(24,9)	4 866
FirstRand Limited	**(18)**	(7)	>(100)	**(18)**	(7)	>(100)	(61)
Earnings attributable to ordinary shareholders	**1 819**	2 607	(30,2)	**2 039**	2 733	(25,4)	4 805
Add: Goodwill amortised	**18**	19		**18**	19		58
Add: Goodwill impaired	**166**	–		**166**	–		210
Add: Loss on disposal of assets	**–**	2		**–**	2		4
Less: Profit on sale of subsidiary	**–**	–		**–**	–		(32)
Less: Abnormal profit on release of reserves	**–**	–		**–**	–		(28)
Headline earnings	**2 003**	2 628	(23,8)	**2 223**	2 754	(19,3)	5 017

Balance sheet

R million	Unaudited at 31 December Pro forma[1] 2002	Unaudited at 31 December Pro forma[1] 2001	Unaudited at 31 December Actual[2] 2002	Unaudited at 31 December Actual 2001	Audited at 30 June 2002
ASSETS					
Banking operations	**248 163**	216 190	**249 664**	217 800	248 403
Cash and short-term funds	**21 366**	14 371	**21 491**	14 371	24 784
Investment securities and other investments	**43 466**	52 761	**43 471**	52 761	44 654
Financial instruments held for trading	**–**	–	**25 715**	–	–
Investment securities	**–**	–	**17 756**	–	–
Held-to-maturity	**–**	–	**5 469**	–	–
Available for sale	**–**	–	**12 287**	–	–
Advances	**181 187**	149 058	**182 558**	150 668	177 227
Originated	**–**	–	**147 048**	–	–
Held to maturity	**–**	–	**9 859**	–	–
Available for sale	**–**	–	**7 111**	–	–
Trading	**–**	–	**18 540**	–	–
Non-recourse investments	**2 144**	–	**2 144**	–	1 738
Insurance operations	**77 094**	79 158	**77 043**	79 158	76 461
Funds on deposit	**13 988**	8 031	**13 988**	8 031	13 334
Government and public authority stocks	**11 650**	9 095	**11 650**	9 095	9 868
Debentures and other loans	**12 765**	8 384	**12 714**	8 384	9 675
Policy loans	**578**	549	**578**	549	580
Equity investments	**35 187**	50 106	**35 187**	50 106	40 100
Property investments	**2 926**	2 993	**2 926**	2 993	2 904
Current assets	**13 947**	9 123	**13 940**	9 123	10 523
Loans	**1 214**	1 108	**1 214**	1 108	1 150
Investments in associated companies	**2 251**	1 150	**2 251**	1 150	1 736
Derivative instruments	**37 925**	53 235	**38 333**	53 235	32 342
Deferred taxation asset	**1 070**	265	**938**	265	1 264
Intangible assets	**672**	1 350	**672**	1 350	942
Property and equipment	**3 998**	3 992	**3 998**	3 992	4 045
TOTAL ASSETS	**386 334**	365 571	**388 053**	367 181	376 866
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits and current accounts	**202 984**	170 658	**202 903**	170 658	201 404
Non-recourse deposits	**2 144**	–	**2 144**	–	1 738
Current liabilities	**23 191**	19 665	**23 384**	19 665	14 716
Taxation	**568**	284	**568**	284	508
Derivative instruments	**35 928**	59 398	**36 910**	59 398	37 215
Short trading positions	**17 688**	13 078	**17 688**	13 078	16 799
Deferred taxation liability	**2 045**	1 657	**2 045**	2 041	2 794
Post-retirement medical liability	**1 260**	1 195	**1 260**	1 195	1 211
Long-term liabilities	**4 487**	3 911	**4 487**	3 911	4 229
Policyholder liabilities	**73 627**	75 960	**73 469**	75 960	73 273
Policyholder liabilities under insurance contracts	**73 627**	75 960	**38 095**	75 960	73 273
Policyholder liabilities under investment contracts	**–**	–	**35 374**	–	–
Total liabilities	**363 922**	345 806	**364 858**	346 190	353 887
Outside shareholders' interests	**1 283**	1 289	**1 272**	1 289	1 112
Shareholders' funds					
Share capital and share premium	**9 700**	9 595	**9 700**	9 595	9 585
Reserves	**11 429**	8 881	**12 223**	10 107	12 282
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**386 334**	365 571	**388 053**	367 181	376 866

Notes

1. The pro forma columns exclude the effect of AC133.
2. The actual column for 2002 includes the effect of AC133.

Summarised cash flow statement

for the six months ended 31 December 2002

R million	Unaudited at 30 December 2002 (Unaudited)	2001 (Unaudited)	Audited Year ended 30 June 2002
Cash flows from operating activities			
Cash generated by operations	**8 262**	8 235	15 401
Working capital changes	**(1 886)**	4 364	(3 218)
Cash inflow from operations	**6 376**	12 599	12 183
Taxation paid	**(906)**	(974)	(1 412)
Dividends paid	**(817)**	(681)	(1 416)
Net cash inflow from operating activities	**4 653**	10 944	9 355
Net cash (outflow)/inflow from investment activities	**(7 717)**	(4 742)	4 057
Net cash inflow from financing activities	**425**	243	481
Net (decrease)/increase in cash and cash equivalents	**(2 639)**	6 445	13 893
Cash and cash equivalents at beginning of period	**38 118**	15 957	16 294
Cash and cash equivalents acquired	**–**	–	7 931
Cash and cash equivalents at end of period	**35 479**	22 402	38 118

Statement of changes in equity

for the six months ended 31 December 2002

R million	Share capital	Share premium	Retained earnings	Non-distributable reserves	AC133 reserve	General risk reserve	Total shareholders' funds
Balance as at 1 July 2002							
As previously stated	56	9 529	9 590	1 132	–	–	20 307
Adoption of AC133	–	–	(328)	–	(425)	–	(753)
Release of general risk provision	–	–	1 181	–	–	–	1 181
Transfer to general risk reserve	–	–	(1 181)	–	–	1 181	–
Restated balance as at 1 July 2002	56	9 529	9 262	1 132	(425)	1 181	20 735
Issue of preference shares	–	115	–	–	–	–	115
Currency translation differences	–	–	–	(425)	–	–	(425)
Revaluation of investment assets	–	–	–	(6)	–	–	(6)
AC133 adjustments	–	–	–	–	280	–	280
Movement in other reserves	–	–	–	2	–	–	2
Transfer to general risk reserves	–	–	(123)	–	–	123	–
Transfer to non-distributable reserves	–	–	(2)	2	–	–	–
Earnings attributable to shareholders	–	–	2 039	–	–	–	2 039
Dividends paid	–	–	(817)	–	–	–	(817)
Balance as at 31 December 2002	56	9 644	10 359	705	(145)	1 304	21 923
Balance as at 31 December 2001							
As previously stated	56	9 539	8 919	1 645	–	–	20 159
Restatement of investment reserve	–	–	–	(295)	–	–	(295)
AC116 adjustment	–	–	(1 388)	–	–	–	(1 388)
Release of general risk provision	–	–	1 226	–	–	–	1 226
Transfer to general risk reserve	–	–	(1 226)	–	–	1 226	–
Restated balance as at 31 December 2001	56	9 539	7 531	1 350	–	1 226	19 702

Assets under management and administration

as at

R million	Unaudited 31 December Pro forma 2002	Unaudited 31 December Pro forma 2001	Unaudited 31 December Actual 2002	Unaudited 31 December Actual 2001	Audited 30 June 2002
Holding Company	**1 222**	1 112	**1 222**	1 112	1 158
Banking Group	**294 691**	274 125	**296 461**	275 735	283 840
Insurance Group	**184 282**	208 954	**184 231**	208 954	190 196
On-balance sheet	**90 421**	90 334	**90 370**	90 334	91 868
Off-balance sheet assets managed and administered on behalf of clients	**93 861**	118 620	**93 861**	118 620	98 328
Total	**480 195**	484 191	**481 914**	485 801	475 194

Sources of profit

for the six months ended 31 December

R million	2002	%	2001	%
Retail Cluster	**1 197**	**50,6**	928	48,4
Retail banking	**753**	**31,8**	536	27,9
Instalment finance	**238**	**10,1**	230	12,0
African subsidiaries	**165**	**7,0**	143	7,5
Short-term insurance	**41**	**1,7**	19	1,0
Corporate Cluster	**593**	**25,1**	602	31,5
Investment banking	**272**	**11,5**	216	11,3
Corporate banking	**174**	**7,4**	193	10,1
Asset management	**86**	**3,6**	134	7,0
Employee benefits	**61**	**2,6**	59	3,1
Wealth Cluster	**156**	**6,6**	210	11,0
Individual insurance business	**198**	**8,3**	161	8,4
Private banking – domestic	**14**	**0,6**	3	0,2
First National Trust	**9**	**0,4**	11	0,6
Ansbacher (UK)	**(65)**	**(2,7)**	35	1,8
Health Cluster				
Discovery Holdings	**57**	**2,4**	55	2,9
Capital	**362**	**15,3**	119	6,2
Capital centre – Banking Group	**259**	**11,0**	29	1,5
Investment income on shareholders' portfolio	**121**	**5,1**	97	5,1
FirstRand Limited	**(18)**	**(0,8)**	(7)	(0,4)
Core operational headline earnings (pre-AC133)	**2 365**	**100,0**	1 914	100,0

Notes
1. Core operational headline earnings exclude foreign currency translation losses and gains.
2. Taxation relating to the Banking Group has been allocated across the bank's operating divisions on a pro rata basis.

Commentary

PRESENTATION

FirstRand is the first major financial services group in South Africa to present its financial results in accordance with the requirements of AC133 "*Financial Instruments: Recognition and Measurement*". This standard introduces the concept of fair value accounting and is a prospective standard.

The application of AC133 is expected to result in a considerable amount of debate following the release of this set of results.

In the Insurance Group, the implementation of AC133 has necessitated the classification of policyholder contracts between insurance contracts and investment contracts. Insurance contracts continue to be valued and disclosed in terms of the Financial Soundness Valuation (FSV) basis. Investment contracts are accounted for at fair value. The net effect of the implementation of AC133 on earnings is not material. In the Banking Group, the implementation of AC133 has a material impact on headline earnings and net asset value per share. Accordingly, these financial results are shown both before and after the implementation of AC133 to facilitate a meaningful interpretation of the results for the six months to 31 December 2002.

A detailed analysis of the changes arising from AC133 is set out in the commentaries of the Banking and Insurance Groups, and in the statement of changes in equity.

The change in accounting practice resulting from AC133 is likely to lead to increased volatility in reported earnings in the future and will place a greater emphasis over the longer term on growth in net asset values.

OPERATING ENVIRONMENT

The operating environment has been one of continuing high interest rates, a strengthening of the rand relative to other major currencies and very poor investment markets both locally and internationally. The changes in the tax environment have been a challenge, while internationally the threat of war in the Middle East continues to be of global concern.

EARNINGS AND DIVIDENDS

Headline earnings for the period to 31 December 2002 of R2 223 million (47,5 cents per share) prepared in accordance with AC133, represents a decrease of 19% on the corresponding period for the prior year.

To ensure a meaningful comparison the following commentary is in respect of the financial results before adjustments caused by the implementation of AC133. The dividend proposals and cover are based on core operational headline earnings excluding the impact on any translation gains or losses.

Total headline earnings of R2 003 million (36,8 cents per share) which include an exceptional translation loss represent a decrease of 24% over the prior period. The translation loss is the result of a significant strengthening of the rand during the period under review. This decrease in headline earnings should be compared with an increase of 59,0% in headline earnings in the six months to December 2001 when there was a significant decline in the value of the rand. Since 31 December 2002, there has been a further strengthening of the rand relative to other major currencies.

Core operational headline earnings, excluding the exceptional translation loss of R362 million (2001: R714 million gain), increased by a pleasing 24% to R2 365 million (43,4 cents per share) compared to R1 914 million (35,2 cents per share) in the corresponding period of the previous year.

An interim dividend of R898,5 million (16,5 cents per share) has been declared representing an increase of 22,0% on the interim dividend of the previous year. Dividend cover, based on core operational earnings has been retained at 2,6 times. The dividend is sourced 24,0% from the Insurance Group (2001: 45,0%) and 76,0% (2001: 55,0%) from the Banking Group.

The calculation of return on equity is affected by the translation losses and gains. Excluding these the annualised return on average equity was 25,9% (2001: 25,3%). If the translation gains and losses are included the return is 20,5% (2001: 32,0%). For the purposes of calculating the return on equity, preference shares relating to the Outperformance scheme are ignored as there was no dilutory effect at 31 December 2002.

Total assets under management declined marginally to R480 billion, reflecting the impact of the translation losses referred to above and the state of local and international stock markets.

REVIEW OF OPERATIONS

A review of the results of the Group's operating divisions is dealt with in detail in each of the reports of the Insurance and Banking Groups. This excellent set of results reflects the benefits of a diverse and resilient earnings base and the benefits of sustained focus in our core businesses.

In summary the Retail Banking Cluster reflected growth of 26,0% over the corresponding period. This impressive increase is due to scale benefits achieved as a result of excellent organic growth as well as growth resulting from the acquisition of the Saambou and NBS books. The endowment effect on the larger retail deposit book coupled with the higher interest rate environment also impacted favourably on results. The African Subsidiaries have continued to perform well. OUTsurance doubled earnings as a result of organic growth and acquisitions made.

Results of the Corporate Cluster were negatively impacted by lower earnings in Asset Management and an increase in the bad debts provisions of FNB Corporate. These negatives were offset by good growth in the after-tax profits in the Investment Banking Division.

In the Wealth Cluster, Momentum Life produced excellent results while enjoying good gains in respect of recurring premium new business. There was also very pleasing progress made in Private Banking. Ansbacher's international operations were negatively affected by once-off losses in Treasury activities and reduced business volumes from the Caribbean region.

Commentary

Earnings from the Health Cluster were marginally positive after taking account of the write-off of costs incurred in developing Discovery's American operations. Discovery's domestic operations showed an excellent increase in headline earnings of 30% following strong new business growth and a further improvement in operating efficiencies.

The Capital Centre has shown good gains which result largely from the endowment effect of the higher interest rate environment, the growth in capital and satisfactory returns from the shareholder portfolio within the Insurance Group. The period to December 2001 included provisions on the converted debt to equity of McCarthy and Relyant. Similar provisions were not required during the period under review.

GROUP CAPITAL

The Group's capital adequacy ratios are satisfactory and are capable of meeting the anticipated volatility in earnings resulting from AC133 and the proposed changes to the method in which capital adequacy reserves are calculated in life companies. The capital demands of the Health Cluster, which are driven by new business in Discovery Life and the start-up costs of Destiny Health, are currently being evaluated.

ACCOUNTING POLICIES

The accounting policies of the Group comply in all material respects with Statements of South African GAAP and the Companies Act of 1973. These accounting policies are consistent with those applied during the year to 30 June 2002 with the exception of the introduction of AC133.

CONTINGENT LIABILITIES

The Group is party to legal proceedings in the normal course of business. Appropriate provisions are made when losses are expected to materialise.

PROSPECTS

The Group will continue to benefit from its diverse earnings base, a strong external focus and the sound foundations established over the last three years. It is also well positioned to benefit from any upturn in the stock markets.

We are confident that the pleasing growth trend established in the first half of the year will be maintained provided there are no major shocks or instability caused by the threat of war in the Middle East.

For and on behalf of the Board

GT Ferreira
Chairman

LL Dippenaar
Chief Executive

Sandton
28 February 2003

INTERIM DIVIDEND DECLARATION

Notice is hereby given that an interim dividend of 16,5 cents per ordinary share has been declared on 28 February 2003 in respect of the half year ended 31 December 2002. The last day to trade in these shares on a cum dividend basis will be 20 March 2003 and the first day to trade ex dividend will be 24 March 2003. The record date will be 28 March 2003 and the payment date is 31 March 2003.

Please note that no dematerialisation or rematerialisation can be done in the period 24 March 2003 to 28 March 2003, both days inclusive.

By order of the Board

AH Arnott
Company Secretary

28 February 2003

Directors

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

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(in terms of JSE requirements)
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1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

Transfer secretaries

Computershare Investment Services Limited
12th Floor, 70 Marshall Street, Johannesburg

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Banking Group

INTRODUCTION

The FirstRand Banking Group (the Banking Group) is 100% held by FirstRand Limited. The consolidated figures in this report include the divisional operations of FirstRand Bank Limited, namely First National Bank, FNB HomeLoans, WesBank, Ansbacher (SA), Origin, Rand Merchant Bank (RMB), FNB Corporate as well as the entities FirstLink, OUTsurance, Ansbacher (UK), FNB Swaziland, FNB Namibia, FNB Botswana and FirstRand International.

Salient features

	Pre AC133	Post AC133
Core headline earnings	**+31,0%**	**+35,4%**
Attributable earnings	**-29,9%**	**-23,5%**
Headline earnings	**-29,8%**	**-23,4%**
Cost to income ratio	**54,4%**	**52,9%**
Advances growth	**+21,6%**	**+22,5%**

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E-mail questions to: asktheCFO@firstrand.co.za

Income statement

R million	Unaudited six months ended 31 December Pro forma[1] 2002	Pro forma[1] 2001	% change	Unaudited six months ended 31 December Actual[2] 2002	Actual 2001	% change	Audited Year ended 30 June 2002
Interest income	13 304	8 609	54,5	13 436	8 609	56,1	18 721
Interest expenditure	(9 076)	(5 277)	72,0	(9 109)	(5 277)	72,6	(12 304)
Net interest income before impairment of advances	4 228	3 332	26,9	4 327	3 332	29,9	6 417
Impairment of advances	(701)	(680)	3,1	(568)	(500)	13,6	(1 283)
Net interest income after impairment of advances	3 527	2 652	33,0	3 759	2 832	32,7	5 134
Non-interest income	2 767	3 658	(24,4)	2 886	3 658	(21,1)	8 319
Non-interest income excluding translation (losses)/gains	3 129	2 944	6,3	3 248	2 944	10,3	7 771
Translations (losses)/gains	(362)	714	>(100,0)	(362)	714	>(100,0)	548
Net income from operations	6 294	6 310	(0,3)	6 645	6 490	2,4	13 453
Operating expenditure	(4 082)	(3 750)	8,9	(4 089)	(3 750)	9,0	(8 378)
Income from operations	2 212	2 560	(13,6)	2 556	2 740	(6,7)	5 075
Share of earnings of associate companies	148	132	12,1	148	132	12,1	368
Income before indirect taxation	2 360	2 692	(12,3)	2 704	2 872	(5,8)	5 443
Indirect taxation	(175)	(112)	56,3	(175)	(112)	56,3	(281)
Income before direct taxation	2 185	2 580	(15,3)	2 529	2 760	(8,4)	5 162
Direct taxation	(591)	(366)	61,5	(702)	(420)	67,1	(945)
Income after taxation	1 594	2 214	(28,0)	1 827	2 340	(21,9)	4 217
Earnings attributable to outside shareholders	(100)	(83)	20,5	(100)	(83)	20,5	(182)
Earnings attributable to ordinary shareholders	1 494	2 131	(29,9)	1 727	2 257	(23,5)	4 035
Less: Profit on sale of subsidiaries	–	–	–	–	–	–	(4)
Plus: Goodwill	4	3	33,3	4	3	33,3	9
Headline earnings	1 498	2 134	(29,8)	1 731	2 260	(23,4)	4 040
Translation losses/(gains) reversed	362	(714)	>(100,0)	362	(714)	>(100,0)	(548)
Core operational headline earnings	1 860	1 420	31,0	2 093	1 546	35,4	3 492

Notes

1. The pro forma columns exclude the effect of AC133.
2. The actual column for 2002 includes the effect of AC133.

Balance sheet

R million	Unaudited at 31 December Pro forma[1] 2002	Pro forma[1] 2001	Unaudited at 31 December Actual[2] 2002	Actual 2001	Audited at 30 June 2002
ASSETS					
Cash and short-term funds	**21 366**	14 371	**21 491**	14 371	24 643
Derivative financial instruments	**33 142**	48 810	**33 549**	48 810	26 139
qualifying for hedging			**682**		
trading			**32 867**		
Advances	**181 172**	149 044	**182 543**	150 654	177 211
originated			**147 033**		
held-to-maturity			**9 859**		
available for resale			**7 111**		
trading			**18 540**		
Investment securities and other investments	**43 475**	52 771	**43 481**	52 771	44 664
Financial instruments held for trading			**25 725**		
Investment securities			**17 756**		
held-to-maturity			**5 469**		
available for sale			**12 287**		
Non-recourse investments	**2 144**	–	**2 144**	–	1 738
Debtors	**7 078**	4 754	**7 070**	4 754	3 271
Investment in associated companies	**1 680**	643	**1 680**	643	1 169
Property and equipment	**3 362**	3 370	**3 362**	3 370	3 412
Deferred taxation asset	**1 066**	258	**933**	258	1 253
Intangible assets	**294**	196	**294**	196	288
TOTAL ASSETS	**294 779**	274 217	**296 547**	275 827	283 788
LIABILITIES AND SHAREHOLDERS' FUNDS					
Liabilities					
Deposit and current accounts	**202 984**	170 658	**202 903**	170 658	201 404
Non-recourse liabilities	**2 144**	–	**2 144**	–	1 738
Short trading positions	**17 688**	13 078	**17 688**	13 078	16 799
Derivative financial instruments	**31 621**	54 229	**32 446**	54 229	31 525
qualifying for hedging			**950**		
trading			**31 496**		
Post retirement medical liability	**966**	860	**966**	860	898
Creditors and accruals	**16 531**	15 573	**16 722**	15 573	7 014
Provisions	**814**	529	**814**	529	831
Taxation	**399**	4	**399**	4	429
Deferred taxation liability	**1 779**	1 657	**1 779**	2 041	2 438
Long-term liabilities	**3 471**	3 201	**3 471**	3 201	3 217
Total liabilities	**278 397**	259 789	**279 332**	260 173	266 293
Outside shareholders' interest	**443**	695	**443**	695	475
Shareholders' funds					
Ordinary share capital	**106**	106	**106**	106	106
Share premium	**1 332**	1 332	**1 332**	1 332	1 332
Non-distributable reserves	**1 280**	2 001	**2 303**	3 227	3 239
Distributable reserves	**13 221**	10 294	**13 031**	10 294	12 343
Total equity	**15 939**	13 733	**16 772**	14 959	17 020
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**294 779**	274 217	**296 547**	275 827	283 788
CONTINGENCIES AND COMMITMENTS	**26 484**	24 417	**26 484**	24 417	27 284

Notes

1. The pro forma columns exclude the effect of AC133.
2. The actual column for 2002 includes the effect of AC133.

Review of the group results

The Banking Group has produced excellent results, benefiting from strong organic growth as well as good contributions from the scale benefits achieved from the acquisitions made in the previous year. Core operational headline earnings, which exclude translation gains/(losses) and the impact of AC133, increased by 31,0% from R1 420 million to R1 860 million. On a post-AC133 basis, earnings attributable to shareholders decreased by 23,5% to R1 727 million (2001: R2 257 million) as a result of the translation loss, which is a reversal of last year's exceptional gain. Core headline earnings are calculated as follows:

R million	Six months ended 31 December 2002	Six months ended 31 December 2001	% change	Year ended 30 June 2002
Earnings attributable to shareholders	1 727	2 257	(23,5)	4 035
Translation losses/(gains)	362	(714)	>(100,0)	(548)
Operational earnings attributable to shareholders	2 089	1 543	35,4	3 487
Less: Impact of AC133	(233)	(126)	84,9	
Profit/loss on sale of subsidiary	–	–	–	(4)
Add: Goodwill	4	3	33,3	9
Core operational headline earnings	1 860	1 420	31,0	3 492

EXCEPTIONAL TRANSLATION (LOSSES)/GAINS

The Banking Group recognises translation losses and gains 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 losses and gains relating to independent operations are transferred directly to reserves. The significant strengthening of the Rand relative to the comparative period has given rise to large translation losses in the current financial period which is a reversal of the large gains in the previous financial period.

Translation (losses)/gains

R million	Cumulative[1]	Six months ended 31 December 2002	Six months ended 31 December 2001	% change	Year ended 30 June 2002
Non-distributable reserve	174	(404)	944	>(100,0)	578
Income statement	186	(362)	714	>(100,0)	548
Total translation (losses)/gains	360	(766)	1 658	>(100,0)	1 126

[1] *For the period from 1 July 2001.*

IMPACT OF AC133

These interim results have been prepared in accordance with the requirements of AC133, "Financial instruments: Recognition and measurement". This is a new accounting standard applicable for periods commencing on or after 1 July 2002. AC133 is a prospective standard, meaning it is not applied retrospectively. As a result, meaningful comparison requires the reversal of the impact of AC133. Further details regarding the differences between pre-AC133 and post-AC133 are set out in more detail on page 20.

Accounting policies

The financial results of the Banking Group comply in all material respects with South African statements of Generally Accepted Accounting Practice (SA GAAP).

The accounting policies applied are consistent with those of the previous year, except for the introduction of AC133.

The Banking Group is the first major South African Bank to comply with AC133. The application of this statement is expected to result in a considerable amount of debate following the release of this set of results.

To the extent that this debate leads to changes after the initial implementation thereof, it may be necessary for the Banking Group to make changes to aspects of its own interpretation prior to the release of its full year results in September 2003.

For comparative purposes, the Income Statement and Balance Sheet at 31 December 2002 are presented in both a pre- and post- AC133 format. **To be meaningful, all commentary below relates to the comparisons between the pre-AC133, pro forma numbers.** A detailed section at the end of this report deals with the difference between the pre- and post-AC133 numbers.

Group operational results

INTEREST EARNED

The prime interest rate increased by 1% during the period, following a 3% increase over the course of the six months ended 30 June 2002. Consequently, interest rates were on average 3,5% higher than the comparative period. This, together with the increase in average advances, accounts for the increase in absolute interest received and paid. Net interest income, which increased by 26,9%, was positively influenced by:

- the volume impact arising from the considerable organic growth in both assets and liabilities;
- the volume and margin impact on net interest income arising from the NBS and Saambou transactions; and
- a further increase in the Banking Group's average capital base following retention of earnings in the previous financial year.

These positive factors outweighed the negatives, which included:

- a tightening in corporate margins;
- holding costs of non-performing corporate exposures;
- reduced interest rates on the foreign capital base of the Banking Group; and
- reduced mismatch profits.

Interest margins

The gross interest margin based on average assets declined from 4,99% to 4,75%. Margins were affected by the following factors:

- the deposit base, especially in retail, benefited from a widening of margins in a higher interest rate environment;
- asset operations benefited from a change in average mix following the acquisition of the home loan advances in the latter part of the previous financial year;
- the proportionate increase in the use of wholesale funding for the banking book, following the increases in advances brought about by these acquisitions, negatively impacted overall margins; and
- corporate margins continue to reflect the pressure of a highly competitive and sophisticated market, and once again reflect a small decline.

Advances

Gross advances grew by 21,5% relative to the comparative period, and by 3,4% in the six months since 30 June 2002.

R million	At 31 December 2002	2001	% change	At 30 June 2002
SA banking operations	157 046	120 925	29,9	150 248
International banking operations	10 777	11 397	(5,4)	11 733
US Corporate debt	8 188	11 452	(28,5)	9 599
African banking operations	7 069	5 938	19,0	6 275
SA non-banking operations	2 605	3 073	(15,2)	1 655
Gross advances	185 685	152 785	21,5	179 510
Less: Provisions	(4 513)	(3 741)	20,6	(4 365)
Net advances	181 172	149 044	21,6	175 145

The strong growth in SA banking operations has arisen partially through acquisitions (11,1%) and partially through organic growth (18,8%). The Banking Group continued to grow its international banking operations portfolio in US dollar terms. The steady strengthening of the Rand against the US dollar has disguised this increase as the Rand value of these exposures steadily decreases. The African subsidiaries have recorded a strong increase in advances on the back of buoyant local economies and some improvement in market share. The table below provides a detailed analysis of the gross advances growth of 21,5% referred to above.

R million	At 31 December 2002	2001	% change	At 30 June 2002
Overdrafts and managed accounts	38 711	34 457	12,3	34 397
Card loans	3 996	3 424	16,7	3 942
Instalment finance	23 258	20 542	13,2	21 592
Lease payments receivable	9 345	9 244	1,1	9 514
Home loans	50 697	27 719	82,9	48 568
US Corporate debt	8 188	11 452	(28,5)	9 599
Other advances	51 490	45 947	12,1	51 898
	185 685	152 785	21,5	179 510

The acquisition of the NBS and Saambou home loan books has enabled FNB HomeLoans to leverage its existing infrastructure and considerably increase its contribution to group profitability. As anticipated at the time of these acquisitions, the run off of the two books has been faster than that of the existing FNB HomeLoans book.

WesBank has maintained its performance, with record new production and a broadened client base contributing to an increase in market share. Increased demand for specialised products has increased advances in RMB.

BAD DEBT CHARGE

Non-performing loans

As a result of the Banking Group's new credit methodology, the credit quality of the Banking Group's core advances book has continued to improve relative to advances, despite the interest rate increases over the last twelve months.

FNB Corporate's exposure to Relyant and Profurn are still included in non-performing loans. The exposure to Profurn will be reduced by R500 million in the second half of the financial year, following the sale to a foreign investor.

WesBank, FNB HomeLoans and the Retail Bank have continued to show improvements in the credit quality of their respective advance books. The Banking Group is confident that as long as interest rates do not rise any further, the bad debt experience is unlikely to deteriorate. The Banking Group's exposure to US Corporate markets has continued to drag down overall credit quality, although not to the extent of the prior year.

R million	At 31 December 2002	2001	% change	At 30 June 2002
Non-performing loans	5 027	4 540	10,7	5 305
Less: Recoverable amount	(722)	(491)	47,0	(1 014)
Net credit exposure	4 305	4 049	6,3	4 291
Less: Security	(1 080)	(1 114)	(3,1)	(1 266)
Less: Interest suspended	(813)	(804)	1,1	(725)
Residual risk	2 412	2 131	13,2	2 300
Specific provision	2 412	2 131	13,2	2 300
General provision	2 101	1 610	30,5	2 065
Total provisions	4 513	3 741	20,6	4 365
Total advances	186 498	153 589	21,4	180 235
Less: Interest suspended	(813)	(804)	1,1	(725)
Gross advances	185 685	152 785	21,5	179 510
Less: Provisions	(4 513)	(3 741)	20,6	(4 365)
Net advances	181 172	149 044	21,6	175 145

As a percentage of advances, non-performing loans continue to decline, falling to 2,7% from 3,0% at June 2002, which is in line with the improvement in credit quality.

Provisioning levels

R million	At 31 December 2002	2001	At 30 June 2002
Non-performing loans as a percentage of gross advances	2,7	3,0	3,0
Specific provision as a percentage of non-performing loans	48,0	46,9	43,4
Specific provision as a percentage of gross advances	1,3	1,4	1,3
General provision as a percentage of gross advances	1,1	1,1	1,2
Total provisions as a percentage of gross advances	2,4	2,5	2,5
Total provisions as a percentage of residual risk	187,1	175,6	189,8

The total provision reflected in the balance sheet represents a conservative 2,4% of gross advances (June 2002: 2,5%). This decline mirrors the decrease in non-performing loans as a percentage of gross advances.

Income statement charge

The income statement charge for bad and doubtful debts reflects an increase of 3,1% relative to the prior period. Should the abnormal charge of R150 million in the prior period on the US Corporate debt portfolio be excluded, this charge reflects an increase of 32,3%. The Banking Group has been negatively impacted by additional provisions raised against the local corporate portfolio in the current period.

NON-INTEREST INCOME

R million	Six months ended 31 December 2002	2001	% change	Year ended 30 June 2002
Transactional income	2 527	2 286	10,5	5 132
Trading income	452	576	(21,5)	1 772
Investment income[1]	178	387	(54,0)	862
Other income	120	(173)	>100,0	373
Total non-interest income[1]	3 277	3 076	6,5	8 139
Translation (losses)/gains	(362)	714	>(100,0)	548
Less: Income from associates	(148)	(132)	12,1	(368)
Non-interest income	2 767	3 658	(24,4)	8 319

[1] Includes income from associated companies.

Transactional income

Retail banking fee and commission income has grown by 14,9% as a result of steady growth in client numbers and transaction volumes. Corporate fee income has increased by 20,6% through a broadening of product offerings and substantial volume increases from existing clients. Investment bank fee income, which reflected a decline of 45%, and international fee income which reflected a decline of 16%, remains under pressure, with the pressure on international fee income further exacerbated by the strengthening of the Rand against the US dollar.

Trading income

The first half of the financial year has traditionally offered fewer trading opportunities than the second half. This trend re-occurred in the current year and has been exaggerated by trading losses in Ansbacher (UK)'s treasury activities. Exchange earnings continue to be solid, however volumes on client-based activities have returned to normal levels given the stronger performance of the Rand.

R million	Six months ended 31 December 2002	2001	% change	Year ended 30 June 2002
Exchange earnings	**302**	267	13,1	591
Exchange commissions	**61**	52	17,3	433
Other trading income	**89**	257	(65,4)	748
Trading income	**452**	576	(21,5)	1 772

Investment income

R million	Six months ended 31 December 2002	2001	% change	Year ended 30 June 2002
Profit and loss on realisation of investment banking assets	**8**	78	(89,7)	(14)
Income from associated companies	**148**	132	12,1	368
Dividends received	**70**	135	(48,1)	463
Investment income on assets held against employee liabilities	**(57)**	35	>(100,0)	71
Profit on sale of plant and equipment	**9**	7	28,6	(26)
Investment income	**178**	387	(54,0)	862

Investment income includes gains and losses from the Banking Group's Private Equity businesses, in addition to traditional investment activities. It is anticipated that private equity profits will increasingly be recognised through the 'Income from associates' line.

NON-INTEREST EXPENDITURE

R million	Six months ended 31 December 2002	2001	% change	Year ended 30 June 2002
Staff expenditure	**2 326**	2 031	14,5	4 412
Depreciation	**232**	210	10,5	436
Goodwill	**4**	4	–	9
Other expenditure	**1 520**	1 505	1,0	3 521
Total non-interest expenditure	**4 082**	3 750	8,9	8 378

Non-interest expenditure increased by 8,9%. Operational expenditure increased by 8,3% from R3 750 million to R4 062 million as set out in the table below, which is a satisfactory achievement.

R million	Six months ended 31 December 2002	2001	% change
Operational expenditure	**4 062**	3 750	8,3
Saambou and NBS acquisitions	**68**	–	–
Currency conversion	**(48)**	–	–
Total non-interest expenditure	**4 082**	3 750	8,9

Efficiency ratio

The efficiency ratio has continued to improve during the period under review. Continued strict management of costs together with the strategy of focussing on increased revenue by utilising existing capacity, has resulted in an improvement in the ratio from 58,5% in December 2001 to 54,4% (excluding translation (losses)/gains) in December 2002.

Cluster performance

The divisional performances of the Banking Group, before tax, can be analysed as follows:

R million	Six months ended 31 December 2002	2001	% change	Year ended 30 June 2002
Retail Cluster	**1 746**	1 248	39,9	2 492
Retail Bank	**783**	588	33,2	1 111
Mortgage finance	**249**	100	>100,0	179
eBucks	**19**	(21)	>100,0	(31)
Instalment finance	**332**	303	9,6	676
African subsidiaries	**306**	252	21,4	511
Insurance	**57**	26	>100,0	46
Corporate Cluster	**656**	538	21,9	1 480
Investment Banking	**413**	284	45,4	910
Corporate Banking	**243**	254	(4,3)	570
Wealth Cluster	**(60)**	64	>(100,0)	55
Private banking – domestic	**19**	6	>100,0	21
First Trust	**12**	12	–	23
Private banking – offshore	**(91)**	46	>(100,0)	11
Capital Centre	**380**	128	>100,0	446
	2 722	1 978	37,6	4 473
Translation (losses)/gains	**(362)**	714	>(100,0)	548
Income before tax	**2 360**	2 692	(12,3)	5 021

RETAIL CLUSTER

Retail Bank

Retail Bank benefited from the Saambou deposit book acquired in May 2002, but also saw strong organic growth in its existing deposit book, largely due to the demise of the Tier 2 banks in the early part of 2002 and an increase in available consumer cash. The rural network again contributed strongly to Retail Bank's performance, with solid growth in market share of deposits.

Mortgage finance

FNB HomeLoans' contribution was considerably enhanced by its ability to leverage its infrastructure with the Saambou and NBS acquisitions. The acquired assets delivered according to expectations, with slower than expected run-offs. FNB HomeLoans' better than expected organic advances growth has come about due to buoyancy in the market and record new business payouts.

eBucks

eBucks achieved a maiden profit in the period to 31 December 2002, six months ahead of target.

Instalment Finance

WesBank continued to achieve record new business production levels, breaking the R2 billion mark four times in the six months to December 2002. The motor division has grown 10% relative to the comparative period, while the business division, as a result of collaboration with FNB Corporate, has grown strongly at 23%, albeit off a lower base. Interest turn is under pressure due to a higher cost of borrowing and increased margin pressure, as well as the change in business mix.

Bad debts remain well under control, decreasing in absolute terms in spite of the increase in advances. Non-performing loans as a percentage of advances are at 0,85%, the lowest level ever and considerably below historic norms.

African Subsidiaries

The African Subsidiaries benefited from strong growth in interest income due to widening of margins in a higher interest rate environment and strong growth in advances. Non-interest income has grown exceptionally well on the back of higher transaction volumes and good trading results.

Insurance

R million	Six months ended 31 December 2002	2001	% change	Year ended 30 June 2002
OUTsurance (46%)	**39**	17	>100,0	27
FirstLink	**18**	9	>100,0	19
Insurance	**57**	26	>100,0	46

OUTsurance has achieved organic growth in gross premium income of 63% on the back of aggressive advertising and intensive cross-selling to Origin and FNB clients. The acquisition of the BoE Home-owners Insurance Portfolio in March 2002 has contributed to increased economies of scale. Expenses as a percentage of net earned premium have decreased from 35,2% to 25,3%.

FirstLink has grown commission and fee income in the commercial segment by 19%, against market growth of 10%.

CORPORATE CLUSTER

Investment Banking

RMB's Equities trading and Private Equity divisions achieved excellent results in spite of difficult market conditions. The Private Equity division has increasingly diversified its income sources, and was able to achieve good results in spite of minimal realisations during the period. RMB's other trading desks were unable to generate significant profits in an exceptionally difficult trading environment. Corporate Finance struggled in a very quiet market. In the prior period, extraordinary losses on the US Corporate Bond portfolios dominated the Investment Bank's performance. These losses have not been repeated in the current period, with the CDO portfolio stabilising.

Cluster performance

Corporate Banking

FNB Corporate was negatively impacted by higher bad debt provisioning, the additional funding cost of carrying investments in Profurn and McCarthy and a significant decline in demand for advances. Deposit margins have increased slightly in the higher interest rate environment and, with strong volume growth, the liability side of the balance sheet has substantially increased its contribution. Transactional income has also increased although pressure on pricing continues.

WEALTH CLUSTER

Private Banking – Domestic

First National Trust achieved its targets for the first half of the year following the automation of its systems. Costs are well controlled and, subject to market conditions, the division should continue to grow its contribution.

Origin and Ansbacher (SA) have continued to actively grow market share with advances and deposit growth once again exceeding targets. The integration of the back offices and management teams of the two operations was completed toward the end of the previous financial year. The cost savings arising from the synergies achieved contributed directly to the dramatically improved results in the current period.

Private Banking – International

The Ansbacher (UK) Group (Ansbacher Group) delivered disappointing results for the six months to 31 December. The low international interest rate environment squeezed margins on customer deposits. Poor overall stock market performance negatively impacted on the Ansbacher Group's investment advisory services. The performance of the treasury portfolios was particularly disappointing in difficult markets. The tightening of the regulatory environment in the United States forced a reduction in the size of the Caribbean operations. Management is continuing to evaluate a number of strategic options to improve profitability by seeking greater economies of scale.

Irish Litigation

In September 1999, Inspectors were appointed under the Irish Companies Act to investigate certain business which had commenced in 1971 involving Guinness & Mahon (Ireland) Limited, Guinness Mahon Cayman Trust Limited (GMCT) and its Irish clients. The Ansbacher Group acquired GMCT (subsequently renamed Ansbacher (Cayman) Limited in 1988) at a time when the business involving the Irish clients was declining, a trend that accelerated after the GMCT acquisition.

The Report of the Inspectors was published on 6 July 2002 and concluded that there was some evidence to suggest that the business involving the Irish clients, amongst other things, might have breached certain sections of the Irish tax code. Based on independent professional advice received, the directors of FirstRand Bank Holdings Limited are of the opinion that, given the degree of uncertainty associated with the company's purported tax liability, any estimate would be impracticable. Accordingly, no provision can be made in the financial statements. The Ansbacher Group and its advisors have entered into a process of engagement with the Irish revenue authorities to resolve the matter.

The Irish Minister of Justice has made an application to obtain reimbursement of the costs of the enquiry of approximately £2,34 million (Euro 3,6 million) against Ansbacher (Cayman) Limited and has made further application to include six other parties in this regard. The application is not expected to be heard until later this year, or early in 2004. Ansbacher (Cayman) Limited has a number of compelling arguments against the points raised in the application and therefore no provision for these costs is considered necessary.

CAPITAL CENTRE

Although the Banking Group Capital Centre reflected an increase of 197% relative to the prior period, these results are strongly influenced by the following:

- exceptional bad debt provisions against the debt and preference share exposures in Relyant and McCarthy which were created in the comparative period;
- considerable benefit derived from the endowment effect on capital as a result of the high interest rate environment; and
- a reduction in internal incentives paid in respect of structured finance transactions.

The current level of earnings in the Capital Centre is expected to be sustained over the full year unless there is a dramatic decline in interest rates before 30 June.

Capital adequacy

The Banking Group continues to actively manage its capital structure to optimise shareholder returns, while ensuring compliance with the new requirement of 10%. Current capital adequacy ratios are comfortably within the South African Reserve Bank (SARB) requirements. The increased requirement makes it more onerous for the bank to maintain its superior return on capital. The current capital ratios within the Banking Group are:

R million	2002	2001
Tier 1	**8,7**	8,4
Tier 2	**3,0**	3,2
Total capital	**11,7**	11,6

Contingent liabilities

The Banking Group, through a number of its subsidiary companies, is involved in legal actions in various jurisdictions arising from its normal business. No material adverse impact on the financial position of the Banking Group is expected to arise from these actions.

AC133

"Financial instruments: Recognition and measurement"

INTRODUCTION

AC133 is a prospective accounting statement and does not provide for the restatement of historical numbers. It rather provides comprehensive transitional provisions, which affect opening equity. The adjustments to opening equity of the Banking Group are set out below.

EFFECT OF IMPLEMENTATION OF AC133

The tables below provides disclosure of the adjustments required to equity of the Banking Group as a result of the implementation of AC133, together with accompanying commentary.

GENERAL PROVISIONS

Prior to the implementation of AC133, the Banking Group, consistent with existing banking industry practice, calculated a general provision for bad debts by applying the expected default frequencies to its advances book. This, calculated at a portfolio of advances and product level, gave rise to a total provision of approximately 1,1% of advances.

AC133 prescribes that a cash flow valuation methodology be used in calculating provisions going forward. This methodology requires that all future expected cash flows, including interest income be taken in to account in this calculation.

The credit risk premium included in interest charged to clients therefore offsets future losses to the extent that risk pricing has been correctly applied. The Banking Group's credit model includes risk pricing and consequently the general provision reduces to an amount close to zero in terms of AC133.

The impact of this adjustment is set out in the table below:

R million	Dec 2002	Dec 2001	June 2002
Retained income increases by*	1 581	1 226	1 560
Current income increases by*	123	126	295
General Provisions decrease by	2 128	1 610	2 065

* After tax

An impaired reserve equal to the released general provision has been created in order to meet the provisioning requirements of the regulations to the Banks Act.

R million	Dec 2002	Dec 2001	June 2002
Retained income decreases by	1 581	1 226	1 560
General risk reserve increases by*	1 181	1 226	1 560
Revaluation reserves increase by	400	–	–

* Net of tax

Impact on opening equity

R million	Retained income	Revaluation reserve	General risk reserve	Total
Closing balance at 30 June 2002	12 343	–	–	12 343
Retained income adjustment for:				
– Present value adjustment for off-market loans[1]	(192)	–	–	(192)
– Present value adjustment for specific loan provisions[2]	(193)	–	–	(193)
– Non-qualifying interest rate hedges[3]	(148)	–	–	(148)
– Present value adjustment for general loan provisions[4]	1 581	–	–	1 581
– Creation of a General risk reserve (impaired capital reserve)[5]	(1 581)	400	1 181	–
– Revaluation of held for trading portfolios[6]	232	–	–	232
Revaluation reserve adjustment for:[7]				
– International credit portfolios	–	(891)	–	(891)
– Other portfolios	–	66	–	66
Restated opening balance	12 042	(425)	1 181	12 798

Impact on current period income and equity

R million	Current income	Revaluation reserve	General risk reserve	Total
Present value adjustment for off-market loans[1]	36	–	–	**36**
Present value adjustment for specific loan provisions[2]	(2)	–	–	**(2)**
Non-qualifying interest rate hedges[3]	106	–	–	**106**
Present value adjustment for general loan provisions[4]	123	–	–	**123**
Revaluation of held for trading portfolios	(29)	–	–	**(29)**
Revaluation reserve adjustment for:[6]				
– International credit portfolios	–	103	–	**103**
– Other portfolios	–	42	–	**41**
Adjustment against income for the period	233	145	0	**378**
Transfer to General risk reserve (impaired capital reserve)[5]	(123)	–	123	**–**
Adjustments for the period	110	145	123	**378**

In accordance with the provisions of AC133, FirstRand has elected to account for all fair value changes on available for sale ("AFS") financial assets through the balance sheet.

1 AC133 requires that loans and advances at off-market rates be present valued. This gives rise to an "up front loss" on inception of such loans, which then gradually unwinds over the life of the transaction through the income statement. The Banking Group has loans to share trusts established on behalf of employees, which carry an interest rate equivalent to the dividend flow of the underlying shares.

2 A major change introduced by AC133 is that provisions for impairment of advances, on an individual or portfolio basis, must be calculated using a present value methodology, based on expected future cash flows of identified impaired advances or losses inherent in a portfolio of advances. This results in an increase in specific provisions previously provided to take account of the delay in collection of the recoverable amount.

3 AC133 sets onerous requirements before hedge accounting can be applied, including restrictions on use of partial hedges, internal hedges and net hedging. While the Banking Group has complied with these requirements in certain circumstances, in other situations, where the cost of complying exceeds any tangible business benefit, the Banking Group has elected to reflect the hedges through the income statement.

4 The present value calculation applied in AC133 requires that all future cash flows, including future interest payments, be taken into account in the creation of bad debt provisions. If the risk pricing methodology of an enterprise is correct, the risk premium inherent in future interest flows should compensate for the risk inherent in the underlying capital amount. Consequently, the specific provision is supplemented by taking account of provisions required where market conditions have changed and the Banking Group has been unable to re-price to compensate for the change in risk. This provision is included in adjustment 2 above. The general provision, which pre- AC133 took account of the inherent risk in the book, without adjusting for the risk premium, is no longer permitted under AC133, although still required for SARB reporting (refer 5 below)

5 The General risk reserve is created to comply with the minimum provisioning levels required in terms of the SARB. The formulistic approach prescribed by the SARB results in levels of provisioning which incorporate "unexpected losses" in a portfolio of advances. To the extent that general or specific provisions created relate to advances now held as "available for sale", these provisions have been included in the revaluation reserve column of the statement of changes in equity of the Banking Group.

6 Investment banking assets previously held at cost, now designated at fair value. This category includes Private Equity investments.

7 Adjustment relating to the measurement of AFS financial assets to fair value or amortised cost, on 1 July 2002 and at the reporting date.

Prospects

The Banking Group will continue to benefit from strong external focus and the foundations established over the past four years. The resilient and diverse earnings base will continue to support overall growth going forward. We are confident that, bar unforeseen circumstances, the Banking Group can continue its pleasing growth of the first six months.

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, corner Fredman Drive and Rivonia Road, Sandton, 2196

MOMENTUM

INTRODUCTION

This report relates to the life insurance, health insurance and asset management interests of the FirstRand Limited group of companies (the FirstRand group) and should be read in conjunction with the report on FirstRand Limited elsewhere in this announcement. 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, Momentum Employee Benefits, FirstRand Asset Management and Discovery Holdings, collectively referred to as the Momentum group.

Salient features

	Pre AC133	Post AC133
Group headline earnings	**+4,4%**	**+1,8%**
Return on embedded value	**12,3%**	**11,8%**
Headline operating profit on individual business	**+23,0%**	**+20,5%**
Investment income on shareholders' assets	**+24,7%**	**+24,7%**
Assets under management and administration	**R184,5bn**	**R184,5bn**

This circular is available on our website at: www.momentum.co.za

E-mail questions to: asktheCFO@momentum.co.za

Income statement

R million	Unaudited six months ended 31 December Pro forma[1] 2002	Pro forma[1] 2001	% change	Unaudited six months ended 31 December Actual[2] 2002	Actual 2001	% change	Audited Year ended 30 June 2002
Group operating profit	**402**	404	–	**389**	404	(3,7)	848
Investment income on shareholders' assets	**121**	97	24,7	**121**	97	24,7	190
Group headline earnings*	**523**	501	4,4	**510**	501	1,8	1 038
**Group headline earnings is shown after charging the following shareholders and policyholders' taxation:*							
Direct taxation	**207**	295	(29,8)	**205**	295	(30,5)	623
Indirect taxation	**66**	58	13,8	**65**	58	12,1	131
Total taxation	**273**	353	(22,7)	**270**	353	(23,5)	754
Headline earnings reconciliation							
Earnings attributable to shareholders	**340**	480	(29,2)	**327**	480	(31,9)	825
Add: Goodwill amortised	**17**	19		**17**	19		54
Add: Goodwill impaired	**166**	–		**166**	–		210
Add: Loss on sale of assets	**–**	2		**–**	2		4
Less: Abnormal profit on release of reserves	**–**	–		**–**	–		(28)
Less: Profit on disposal of subsidiary shares	**–**	–		**–**	–		(27)
Group headline earnings	**523**	501	4,4	**510**	501	1,8	1 038

Notes

1. The pro forma columns exclude the effect of AC133.
2. The actual column for 2002 includes the effect of AC133.

Balance sheet

	Unaudited at 31 December Pro forma 2002	Unaudited at 31 December Actual 2001	Unaudited Actual 31 Dec 2002	Audited 30 Jun 2002
ASSETS				
Investment assets	**82 651**	84 262	**82 600**	83 412
Funds on deposit	**14 061**	8 074	**14 061**	13 403
Government and public authority stocks	**11 650**	9 095	**11 650**	9 868
Debentures and other loans	**12 765**	8 384	**12 714**	9 675
Policy loans	**578**	549	**578**	580
Equity investments	**35 316**	50 236	**35 316**	40 213
Investment in associated companies	**572**	506	**572**	566
Derivative instruments	**4 783**	4 425	**4 783**	6 203
Property investments	**2 926**	2 993	**2 926**	2 904
Current assets	**6 901**	4 429	**6 901**	7 462
Deferred taxation asset	**4**	6	**4**	11
Intangible assets	**469**	1 251	**469**	748
Property and equipment	**640**	625	**640**	636
TOTAL ASSETS	**90 665**	90 573	**90 614**	92 269
LIABILITIES AND SHAREHOLDERS' FUNDS				
Current liabilities	**5 287**	2 408	**5 287**	6 129
Taxation	**168**	279	**168**	78
Derivative instruments	**4 307**	5 169	**4 464**	5 690
Deferred taxation liability	**267**	–	**267**	357
Post-retirement medical liability	**294**	335	**294**	313
Long-term liabilities	**1 834**	2 157	**1 834**	1 990
Policyholder liabilities	**73 753**	76 079	**73 596**	73 399
Policyholder liabilities under insurance contracts (previously Life Fund)	**73 753**	76 079	**38 085**	73 399
Policyholder liabilities under investment contracts	**–**	–	**35 511**	–
Outside shareholders' interest	**802**	554	**791**	603
Share capital and reserves	**3 953**	3 592	**3 913**	3 710
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**90 665**	90 573	**90 614**	92 269
TOTAL ASSETS UNDER MANAGEMENT AND ADMINISTRATION	**184 526**	209 193	**184 475**	190 597

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 year ended 30 June 2002, except for the changes made to comply with Accounting Standard AC133 – *Financial Instruments: Recognition and Measurement,* which became effective from 1 July 2002. The group has implemented AC133 on the following basis:

- ***Insurance contracts*** as defined in AC125 continue to be valued and disclosed in terms of the Financial Soundness Valuation (FSV) basis as contained in PGN104 issued by the Actuarial Society of South Africa. These liabilities are reflected as "Policyholder liabilities under insurance contracts (previously Life Fund)";
- ***Investment contracts*** that do not comply with the definition of *insurance contracts* have been reflected separately in the group balance sheet as "Policyholder liabilities under investment contracts". The premium income, benefit payments, investment income as well as the realised and unrealised investment surpluses on the assets backing these investment contracts, have been excluded from the income statement and accounted for directly against the liability under these contracts. Fees earned from these products are included in the investment income line;
- These ***investment contracts*** have been accounted for in the financial statements at fair value, with changes in fair value being accounted for in the income statement.

There is an ongoing process to develop guidance in the long-term insurance industry with regard to the classification of policyholder contracts between insurance contracts and investment contracts in terms of 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.

The following table illustrates the effect of AC133 on the income statement for the six months ended 31 December 2002, and the balance sheet at 31 December 2002, by detailing these items subsequent to the implementation of AC133, and as they would have been calculated prior to AC133:

	31 Dec 2002		31 Dec 2001
R million	Post-AC133	Pre-AC133	Pre-AC133
Income statement items			
Group headline earnings[1]	**510**	523	501
Net premium income	**5 215**	9 896	10 337
Investment income	**1 951**	2 729	2 810
Policyholder benefits	**(3 765)**	(7 334)	(9 198)
Realised and unrealised investment (deficits)/surpluses	**(1 607)**	(2 137)	6 547
Balance sheet items			
Derivative liabilities[2]	**4 464**	4 307	5 690
Policyholder liabilities	**73 596**	73 753	73 399
Policyholder liabilities under insurance contracts	**38 085**	73 753	73 399
Policyholder liabilities under investment contracts	**35 511**	–	–

1 The reduction in group headline earnings following the application of AC133 is due to a change in the valuation of share trust loans. These loans have been classified as loans on off-market terms, whereas previously these loans were reflected at historical cost.

2 The increase in derivative liabilities is due to the separate disclosure of derivatives embedded in insurance contracts. In terms of AC133, these embedded derivatives, previously included in the policyholder liabilities under insurance contracts, have been fair valued and disclosed separately.

Review of group results

The results of the Momentum group are pleasing considering the poor performance of global equity markets, as well as the negative effects of the stronger rand on offshore earnings. Group headline earnings increased by 2% to R510 million for the six months, with group operating profit decreasing marginally and investment income on shareholders' assets increasing by 25%. The most pleasing aspect of these results was the increase of 21% in Momentum's individual business operating profit after tax.

The volatility and uncertainty in global financial markets experienced during the year to 30 June 2002 continued during the six months ended 31 December 2002. Global equity markets continued their negative trend, with the MSCI World Index declining by 12% in US dollar-terms over the past six months, and by 25% in US dollar terms over the past 18 months. The strengthening of the rand, although positive for local inflation and interest rates, had a negative effect on offshore-based fee income. The South African markets did not escape the global uncertainty, with the JSE ALSI40 index declining by 15% during the six months under review. Overall market conditions are not conducive to attracting discretionary or retirement savings. Our asset management operations were especially hard hit by the declining markets and the stronger rand, as well as by a net outflow of investment funds.

GROUP OPERATING RESULTS

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

Earnings source	Six months ended 31 Dec 2002 Rm	2001 Rm	% change	Year ended 30 Jun 2002 Rm
Insurance operations	**253**	220	15,0	489
Individual business	**194**	161	20,5	382
Employee benefits	**59**	59	–	107
Asset management operations	**86**	134	(35,8)	228
Discovery Holdings	**50**	55	(9,1)	131
eBucks	**–**	(5)	–	–
Group operating profit	**389**	404	(3,7)	848
Investment income on shareholders' assets	**121**	97	24,7	190
Group headline earnings	**510**	501	1,8	1 038
Group core operational headline earnings[1]	**510**	501	1,8	1 038

1 Defined as group headline earnings excluding foreign currency translation gains. As the group has no offshore entities that are classified as integrated foreign operations, there are no foreign currency translation gains included in headline earnings.

Insurance operations

Individual business

The individual business continued its good performance of the prior year, with operating profit increasing by 21% to R194 million for the six months. These results reflect a strong allround performance from most business units. A number of innovative risk and investment products were launched, on which we experienced very pleasing new business sales. The results also benefited from a reduction in the effective tax rate compared with the prior period.

New individual life recurring premium business (excluding Discovery Life) increased by 22% compared to the prior period. This figure excludes automatic premium escalations, which totalled R90 million for the six months. Individual life single premium production increased by 15%, mainly due to a 30% increase in immediate annuity sales. Details regarding new business production can be found in the table headed "New Business" elsewhere in this report.

It was mentioned in the 2002 year-end results announcement that we were concerned about our dependence on offshore investment capacity for new business. We are pleased to report that locally-based investment portfolios increased as a proportion of new individual life production (recurring plus single) from 75% in the 2002 financial year, to 83% for this past six months.

Momentum International, which comprises the locally-based Momentum MultiManagers and the UK-based Ansbacher MultiManagers, experienced lower earnings due to the negative effect of declining investment markets, in particular global equity markets. Capacity building in these businesses also resulted in increased expenditure. Total assets under management declined from R27,3 billion at 30 June 2002, to R24,0 billion at 31 December 2002.

Employee benefits

The results of Momentum Employee Benefits (MEB) were in line with last year. Whilst underwriting margins have improved, new risk business production has suffered as a result of the repricing required to improve profitability. Therefore, overall underwriting profits remained at similar levels to the prior period. Risk underwriting profits currently account for approximately 65% of the total earnings of MEB.

Asset management operations

The operations of FirstRand Asset Management (FRAM) comprise RMB Asset Management (RMBAM), FirstRand International Asset Management, RMBAM Ireland, 87% of the Jersey General Group (Ashburton), RMB Properties and 40% of Futuregrowth.

FRAM generated an operating profit after tax of R86 million for the period, 36% below the profit in the prior year. The three main reasons for this decline were a net outflow of funds, the poor performance of global and local investment markets and the negative effect of the strengthening of the rand on offshore-based fee income.

FRAM's assets under management currently amount to R136 billion (30 June 2002: R142 billion), of which R84 billion (30 June 2002: R88 billion) represent off-balance sheet funds with the balance being group assets managed.

RMBAM's shorter term investment performance has continued to improve, with the RMB Managed Fund's one year performance improving from 5th out of 10 funds at 30 June 2002 to 3rd out of 10 funds at 31 December 2002 in the Alexander Forbes Global Large Manager Watch. This fund's performance, in the same survey, ranks 5th out of 10 and 4th out of 9 over three and five years respectively.

As mentioned in the results announcement for the year ended 30 June 2002, the carrying value of FRAM's 87% shareholding in Ashburton was impaired by an amount of R210 million. Due to the further decline in international equity markets since 30 June 2002, and the general uncertainty globally with regard to the direction of investment markets, a further impairment of R166 million has been charged against attributable earnings during the current period. Ashburton currently manages GBP583 million in retail assets (R8,1 billion) compared with GBP706 million (R11,1 billion) at 30 June 2002.

Discovery Holdings

The performance of Discovery over the first six months of the 2003 financial year has been pleasing. Discovery's health business continues to consolidate its leadership position locally, while transferring its unique capabilities to the US market. To leverage this, a significant agreement with a major US insurance company is in the process of being concluded. The Momentum group's 62% share of Discovery's headline earnings have decreased by 9%, whilst Discovery reported headline earnings per share in line with the prior period. The difference is due to:

- the dilution in Momentum's shareholding following the issue of additional shares to the Discovery Share Incentive Scheme, as well as;
- the reversal of Discovery's consolidation of their share incentive scheme. The FirstRand group policy is not to consolidate share incentive schemes, and this reversal has resulted in an impairment of the Discovery share incentive scheme loan, being an off-market loan, in terms of AC133 amounting to R7 million during the current period.

New business volumes at Discovery Health increased by 27% (including Vitality) over the comparative period, whilst Destiny Health, the US health insurance operation, increased new business by 84% from US$10,7 million in the prior period to US$19,7 million for the past six months. Discovery Life's new business growth of 96% was fuelled by the launch of the integrator product, and the expansion of the franchise network.

Discovery's embedded value increased by 13% over the six months to R3 611 million at 31 December 2002, including the embedded value of Destiny Health.

Investment income on shareholders' assets

The investment income earned on shareholders' assets increased by 25% to R121 million. The main reason for the increase is the higher cash balance in the shareholders' portfolio arising from:

- the decrease in dividends paid following a change in the dividend cover from 2,2 times to 2,8 times, to bring Momentum's dividend policy in line with the FirstRand group policy; and
- the sale of surplus shares in the Momentum and Southern share incentive schemes, which realised R140 million in cash.

The actuarial values of shareholders' net assets at 31 December 2002 were:

Actuarial value of shareholders' net assets	31 Dec 2002 Rm	30 Jun 2002 Rm
Strategic subsidiary investments[1]:		
– Discovery Holdings (62%)	**1 975**	1 777
– FirstRand Asset Management	**1 495**	1 603
– Momentum MultiManagers	**40**	40
Shareholders' portfolio investments[1]:		
– African Life (34%)	**533**	557
– Fixed interest instruments	**529**	572
– Equities	**141**	132
– Properties	**280**	268
– Share trust and subsidiary loans	**508**	589
– Cash and other	**984**	626
Total shareholders' net assets	**6 485**	6 164

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

CAPITAL ADEQUACY

The excess of assets over liabilities of Momentum Group Limited was R6 485 million at 31 December 2002 (30 June 2002: R6 164 million). The capital adequacy requirements (CAR) of R2 936 million were covered 2,2 times (30 June 2002: 2,4 times) by this excess.

The new capital adequacy guidelines issued for final comment by the Financial Services Board during December 2002 will, according to these guidelines, become applicable to Momentum from its financial year commencing 1 July 2003. These new guidelines require a more conservative valuation of strategic subsidiary investments. Based on the application of the transitional arrangements detailed in the new guidelines, Momentum's CAR cover would reduce to 1,7 times at 31 December 2002. We regard this level of cover to be acceptable given the current asset composition of the shareholders' investments.

RESULTS OF THE EMBEDDED VALUE CALCULATION

The embedded value of Momentum Group, representing the sum of the shareholders' net assets and the present value of expected future profits arising from the existing in-force insurance business, totalled R9 876 million at 31 December 2002 (30 June 2002: R9 532 million). The embedded value calculation includes Momentum Group's 62% share of the market value of Discovery Holdings, as well as the unlisted strategic subsidiary companies at directors' valuation (see table above). The analysis of the main components of the group embedded value is reflected in the following table:

Review of group results

Embedded value	31 Dec 2002 Rm	30 Jun 2002 Rm
Actuarial value of shareholders' net assets	**6 485**	6 164
Net value of in-force insurance business	**3 391**	3 368
Value of in-force insurance business	**3 680**	3 611
Opportunity cost of capital adequacy requirements	**(289)**	(243)
Embedded value	**9 876**	9 532

The embedded value of the six months' new business amounted to R131 million, compared with R120 million for the corresponding period in the prior year. The value of new business written during the six months represented 15% of notional new business premiums, compared with a margin of 16% for the year ended 30 June 2002. This decline was mainly due to a change in the business mix.

The embedded value profit for the six months to 31 December 2002 totalled R547 million, which represents an annualised return of 11,8% on the opening embedded value. 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	Rm
Embedded value at 30 June 2002	9 532
Embedded value profit	547
Factors related to operations:	421
Value of new business	131
Expected return on new business	5
Expected return on existing business	268
Experience assumption changes	(27)
Operating experience variations	44
Factors related to market conditions:	126
Investment return on shareholders' net assets	244
Change in economic assumptions	199
Investment variations	(317)
***Less:* Dividends paid**	(203)
Embedded value at 31 December 2002	**9 876**

The following table shows the main economic assumptions used in calculating the embedded value at 31 December 2002:

Economic assumptions	31 Dec 2002 %	30 Jun 2002 %
Risk discount rate	**14,0**	15,5
Investment returns (before tax)	**12,0**	13,5
Expense inflation rate	**8,0**	9,5

The adjustments to these assumptions from 30 June 2002 to 31 December 2002 reflect the decrease in long-term interest rates over the period. These changes in economic assumptions resulted in an increase of R199 million in the embedded value.

GROUP ASSETS UNDER MANAGEMENT AND ADMINISTRATION

The Momentum group managed or administered total assets of R184,5 billion at 31 December 2002 compared with R190,5 billion at 30 June 2002, a decrease of 3% over the six-month period. This decrease is mainly due to the decline in investment markets during the six months and includes the negative effect of the rand's strengthening on foreign currency assets. The following table provides an analysis of the assets managed or administered by group companies:

Assets under management and administration	31 Dec 2002 Rbn	30 Jun 2002 Rbn	% change
On-balance sheet assets	**90,6**	92,2	(2,0)
Assets managed on behalf of third parties	**73,5**	75,2	(2,3)
Unit trust funds managed	**14,6**	16,9	(13,6)
Assets under management	**178,7**	184,3	(3,0)
Linked product assets under administration[1]	**5,8**	6,2	(6,5)
Total assets under management and administration	**184,5**	190,5	(3,1)

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 R13,0 billion (30 June 2002: R13,9 billion).

Funds received from clients

New business inflows for the six months to 31 December 2002 totalled R12,1 billion, a decline of 35% compared with the corresponding figure in the prior year. However, new annualised recurring premium business increased by an excellent 31%, thanks to strong performances from the individual life and health insurance businesses. Lump sum inflows were disappointing, with unit trust, employee benefits and segregated third party funds suffering from the instability experienced by financial markets during the period under review. A breakdown of the *new business* inflows, which include 100% of the Discovery figures, is provided in the table below:

New business	Six months ended 31 Dec 2002 Rm	2001 Rm	% change	Year ended 30 Jun 2002 Rm
Annualised recurring premiums	1 981	1 514	30,8	3 030
Individual life[1]	520	391	32,9	818
Employee benefits[1]	78	61	27,9	137
Health insurance [2]	1 383	1 062	30,2	2 075
Lump sum inflows	8 321	9 745	(14,6)	17 456
Individual life premium income	1 687	1 467	15,0	3 021
Corporate policy premium income	2 236	1 090	>100,0	1 240
Employee benefits premium income	831	1 451	(42,7)	2 927
Linked product sales[3]	1 309	1 110	17,9	2 920
Unit trust sales – local	1 693	3 107	(45,5)	5 245
Unit trust sales – offshore	565	1 520	(62,8)	2 103
Segregated third party inflows[4]	1 821	7 418	(75,5)	10 665
Total new business inflows	**12 123**	18 677	(35,1)	31 151

1 Includes the new annualised premiums relating to the sales of Discovery Life products of R168 million (2001: R103 million) under individual life business and R35 million (2001: R7 million) under employee benefits business. These figures exclude automatic premium increases of R90 million for Momentum and R12 million for Discovery Life.

2 Includes the new annualised premiums relating to the sales of Destiny Health products of R187 million (2001: R119 million).

3 Includes sales of products on the life insurance balance sheet amounting to R520 million (2001: R472 million).

4 The figure for the comparative period includes the once-off inflow of assets from a single institutional mandate of R5,1 billion.

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

As detailed in the notes to the table above, the segregated third party inflows in the comparative period included a once-off institutional inflow of R5,1 billion, which if excluded, brings the decline in total new business down to 11%.

If the inflows from existing business are added to the new business inflows detailed above, the *total* funds received from clients amounted to R14,1 billion for the six months, a decrease of 33% compared with the corresponding period. The following table provides an analysis of these inflows:

Funds received from clients	Six months ended 31 Dec 2002 Rm	2001 Rm	% change	Year ended 30 Jun 2002 Rm
Individual life premium income	5 716	4 138	38,1	7 474
Single premiums[1]	1 687	1 467	15,0	3 021
Corporate policy premiums	2 236	1 090	>100,0	1 240
Recurring premiums	1 793	1 581	13,4	3 213
Employee benefits premium income	1 503	2 059	(27,0)	4 309
Single premiums	831	1 451	(42,7)	2 927
Recurring premiums	672	608	10,5	1 382
Health insurance net inflows	1 586	1 656	(4,2)	3 132
Gross inflows	4 626	3 480	32,9	7 545
Less: Medical scheme and money market contributions	(2 963)	(1 674)	(77,0)	(4 234)
Less: Reinsurance premiums	(77)	(150)	51,3	(179)
Linked product sales	1 309	1 110	17,9	2 920
Unit trust sales	2 258	4 627	(51,2)	7 348
Local	1 693	3 107	(45,5)	5 245
Offshore	565	1 520	(62,8)	2 103
Segregated third party inflows	1 766	7 418	(76,2)	10 665
Total funds received from clients	**14 138**	21 008	(32,7)	35 848

1 Single premiums exclude the reinvestment of matured policies, amounting to R272 million (2001: R210 million).

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

Payments to clients

The Momentum group managed to contain outflows during the six months under review, achieving a 25% reduction in payments to clients. All business lines, except corporate policies and individual life, showed significant decreases in fund outflows. Local unit trust repurchases reflected a pleasing decline, whilst the level of repurchases in the offshore unit trusts were reduced further by the strengthening in the rand. The total outflows to clients are analysed in the following table:

Review of group results

Payments to clients	Six months ended 31 Dec 2002 Rm	2001 Rm	% change	Year ended 30 Jun 2002 Rm
Individual life	**2 726**	2 717	0,3	5 561
Corporate policies	**928**	413	>100,0	669
Employee benefits	**1 793**	2 027	(11,5)	4 287
Health insurance	**763**	981	(22,2)	1 722
Linked products	**1 067**	1 266	(15,7)	2 491
Unit trusts – local	**1 738**	3 421	(49,2)	5 085
Unit trusts – offshore	**723**	1 254	(42,3)	1 716
Segregated third party funds	**4 252**	6 604	(35,6)	10 593
Total payments to clients	**13 990**	18 683	(25,1)	32 124

Net flow of funds

The **net** flow of funds from clients was marginally positive during the six months. Individual life net cash inflows have more than doubled from the prior period, thanks to well-contained outflows and strong annuity sales. Linked product net cash flows reflected a pleasing turnaround, as did local unit trust cash flows.

The following table identifies the components of this net inflow of funds, which takes account of the total inflows set out above and the payments to clients for the six months:

Net flow of funds	Six months ended 31 Dec 2002 Rm	2001 Rm	% change	Year ended 30 Jun 2002 Rm
Individual life	**754**	331	>100,0	673
Corporate policies	**1 308**	677	93,2	571
Employee benefits	**(290)**	32	>(100,0)	22
Health insurance	**823**	675	21,9	1 410
Linked products	**242**	(156)	>100,0	429
Unit trusts – local	**(45)**	(314)	85,7	160
Unit trusts – offshore	**(158)**	266	>(100,0)	387
Segregated third party funds	**(2 486)**	814	>(100,0)	72
Total net flow of funds	**148**	2 325	(93,6)	3 724

As noted under the commentary regarding new business inflows, if the once-off institutional inflow of R5,1 billion is excluded from the net flows of the comparative period, then net inflows showed an excellent improvement from R2,7 billion negative in the prior period, to R148 million positive for this past six months.

PROSPECTS

The continued uncertainty regarding the future direction of global markets make it difficult to project earnings growth for the remainder of the financial year. However, the strong performance from Momentum's individual business is expected to continue, with a number of growth initiatives planned, such as an expansion of our agency force and the planned launch of a number of innovative new products. The asset management operations are especially sensitive to investment market fluctuations, and earnings in this area will continue to be dependent on the performance of these markets.

3 March 2003

LL Dippenaar
Chairman

HP Meyer
Managing Director

Momentum Group Limited

Reg No 1904/002186/06

Registered office

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