banking





supplementary information

for the year ended 30 June 2004

FIRSTRAND
Banking Group

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FirstRand Banking Group »

FirstRand Banking Group

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

Additional financial information

Advances

R million	2004	2003	% change
	Year ended 30 June		
Gross advances			
Total advances	**214 005**	193 526	10.6
Less: Contractual interest suspended	**(564)**	(613)	(8.0)
Gross advances	**213 441**	192 913	10.6
Less: Impairments	**(3 027)**	(3 302)	(8.3)
Net advances	**210 414**	189 611	11.0
Rand and non-Rand denominated advances			
All non-Rand denominated advances	**4 519**	4 416	2.3
At exchange rate	**6.18**	7.56	(18.2)
Non-Rand denominated advances (R)	**27 928**	33 383	(16.3)
Rand denominated advances	**185 513**	159 530	16.3
Gross advances	**213 441**	192 913	10.6
Geographical split			
SA banking operations	**185 362**	164 220	12.9
International banking operations	**7 310**	9 606	(23.9)
Collateralised debt obligations	**4 442**	6 762	(34.3)
African banking operations	**10 599**	7 340	44.4
SA non-banking operations	**5 583**	4 985	8.9
Gross advances	**213 441**	192 913	10.6
Product split			
Overdrafts and managed accounts	**26 498**	29 260	(9.4)
Card loans	**5 709**	4 613	23.8
Instalment finance	**29 283**	25 726	13.8
Lease payments receivable	**14 921**	11 799	26.5
Home loans	**59 008**	53 257	10.8
Collateralised debt obligations	**4 442**	6 762	(34.3)
Assets under agreement to sell	**20 327**	8 387	>100.0
Personal loans	**5 971**	5 971	–
Preference share advances	**1 654**	3 303	(49.9)
Other advances	**45 628**	43 834	4.1
Gross advances	**213 441**	192 912	10.6
Advances sector analysis			
Agriculture	**5 860**	4 077	43.7
Banks and financial services	**38 771**	35 726	8.5
Building and property development	**7 796**	7 187	8.5
Government, Land Bank and Public Authorities	**11 618**	5 527	>100.0
Individuals	**98 360**	83 572	17.7
Manufacturing and commerce	**31 719**	37 181	(14.7)
Mining	**2 070**	2 573	(19.6)
Transport and communication	**5 291**	4 737	11.7
Other services	**11 956**	12 333	(3.1)
Gross advances	**213 441**	192 913	10.6

Salient issues

- Satisfactory growth of 10.6% in gross advances, driven by lower interest rate environment.
- Growth of 11.0% in FNB Retail, driven primarily by a 20.6% growth in FNB Card, despite a decrease in overdrafts due to impact of late seasonal rains on agricultural plantings.
- Significant new business growth of 67% in FNB HomeLoans due to buoyant property market – gross advances growth of 11.3%, despite continued run-off of the acquired Saambou and NBS books.
- 25.8% increase in new business production in WesBank, resulting in gross advances growth of 22.2%, driven by:
  - 35.5% growth in new business production in the motor division as a result of increased demand for new and used vehicles, assisted by the significant reduction in interest rates – gross advances growth of 25.3%; and
  - 15.1% gross advances growth in the business division.
- Strong growth of 29.6% in FNB Africa advances book, assisted significantly by SWABOU acquisition – satisfactory growth in core-advances book of 5.0%.
- Negative impact of strong Rand on Rand value of international advances book.
- Strong growth in mid-corporate advances in excess of 30% – 7% decline in large corporate advances due to cash-flush position of corporates and increasing tendency to raise funds using own paper. Total decline of 20.4% in corporate gross advances book.

The business reviews on pages 7 to 10 of the document provide disclosure of the gross advances growth of the major business units for the year under review.

Non-performing loans and advances

Non-performing loans

	Year ended 30 June		
R million	**2004**	2003	% change
Non-performing loans	**3 389**	4 620	(26.6)
Add: Present value adjustment	**377**	360	4.7
Less: Recoverable amount	**(14)**	(92)	(84.8)
Net credit exposure	**3 752**	4 888	(23.2)
Less: Security	**(993)**	(1 579)	(37.1)
Less: Contractual interest suspended	**(564)**	(613)	(8.1)
Residual risk	**2 195**	2 696	(18.6)
Specific impairments	**2 195**	2 696	(18.6)
Portfolio impairments	**832**	606	37.3
Total impairments	**3 027**	3 302	(8.3)
Fair value impairments	**135**	378	(64.3)
Provisioning	**3 162**	3 680	(14.1)
General Risk Reserve	**1 467**	1 117	31.3
Total impairments and reserves	**4 629**	4 797	(3.5)
Total advances	**214 005**	193 526	10.6
Less: Contractual interest suspended	**(564)**	(613)	(8.1)
Gross advances	**213 441**	192 913	10.6
Less: Impairments	**(3 027)**	(3 302)	(8.3)
Net advances	**210 414**	189 611	11.0

Salient issues

- Significant improvement in quality of overall advances book due to lower interest rate environment.
- Reduction in non-performing loans in FNB Retail from 7.8% to 5.9% of gross advances.
- 58.6% improvement in non-performing loans percentage at FNB HomeLoans to level of 1.2% of gross advances.
- Further improvement of 11.1% in WesBank's asset-based non-performing loans to level of 0.8% of gross advances.
- Significant improvement in SPJ International high-yield debt portfolio due to tightening of credit spreads.
- 10% improvement in FNB Corporate non-performing loans, primarily due to improved credit processes and the final work-out of legacy non-performing retail advances.
- Increase in FNB Africa non-performing loans primarily as a result of the SWABOU acquisition provided for at acquisition date, not due to a deterioration in the quality of book during the year.

The business reviews on pages 7 to 10 of the document provide disclosure of the non-performing loans of the major business units for the year under review.

Impairment of advances

R million	2004	2003
Non-performing loans as a percentage of gross advances	**1.59**	2.39
Specific impairments as a percentage of non-performing loans	**64.77**	58.35
Specific impairments as a percentage of gross advances	**1.03**	1.40
Portfolio impairments as a percentage of gross advances	**0.39**	0.31
Fair value impairment as a percentage of gross advances	**0.06**	0.20
General Risk Reserve[1]	**0.69**	0.58
Total impairments and reserves as a percentage of gross advances	**2.17**	2.49
Total impairments as a percentage of non-performing loans	**136.59**	103.82
Total impairments as a percentage of residual risk	**210.93**	177.94

1. The General Risk Reserve is maintained to comply with the minimum provisioning requirements set by the South African Reserve Bank. The General Risk Reserve is increased or decreased to the extent that the specific and portfolio impairments are below or above the required level of General Provisions as required by the SARB.

Income statement charge

	Year ended 30 June		
R million	2004	2003	% change
Specific impairments	**536**	1 409	(62.0)
Portfolio impairments	**297**	69	>100.0
	833	1 478	(43.6)

Non-interest income

	Year ended 30 June		
R million	**2004**	2003	% change
Non-interest income drivers			
Transactional income	**6 583**	5 735	14.8
Trading income	**2 121**	1 592	33.2
Investment income	**430**	109	>100.0
Other income	**206**	219	(5.9)
Total non-interest income	**9 340**	7 655	22.0
Translation (losses)/gains	**(370)**	(532)	(30.5)
Non-interest income	**8 970**	7 123	25.9

Analysis of non-interest income drivers

	Year ended 30 June		
R million	**2004**	2003	% change
Transactional income			
Banking fee and commission income	**5 782**	5 116	13.0
Knowledge-based fee and commission income	**431**	303	42.2
Non-banking fee and commission income	**370**	316	17.1
Transactional income	**6 583**	5 735	14.8

Salient issues

- Strong growth in all business units within FNB Retail, in FNB HomeLoans, WesBank, RMB and FNB Corporate.
- 23.2% growth in transactional fee and commission income in FNB Retail, driven primarily by organic growth of the book, fee enhancement initiatives, increase in transaction volumes and below-inflation price increases, primarily from:
  - 33.5% growth in FNB Card, as a result of increased transaction volumes, increase in client numbers and limited price increases; and
  - 22.2% increase in Core Banking Solutions, as a result of increased transaction accounts (+6.7%), transaction volumes per account (+1.5%), increase in client numbers and limited price increases (+6.2%) and other fee enhancement initiatives (+7.8%).
- 29.4% increase in non-interest revenue in FNB HomeLoans, due to increased client volumes, increased transaction volumes per client and increased cross-sell opportunities of Group products.
- 39.4% increase in non-interest revenue in WesBank, resulting primarily from higher new business volumes, positively impacting on processing fees, and increased penetration and resultant income from insurance products sold.
- Growth of 11.5% in FNB Namibia, benefiting from the SWABOU acquisition.
- 15.8% growth in fee and commission income in FNB Corporate, assisted by volume growth of 21.5% in Electronic Banking and a 21.4% increase in gross merchant commissions earned.
- Strong growth in RMB knowledge-based fee income, primarily as a result of an improvement from the prior year low base in Corporate Finance fee income, as well as strong fee income generated in the Structured Finance area.
- Strong growth in other knowledge-based fee income from FNB Trust services.

R million	Year ended 30 June 2004	2003	% change
Trading income			
Foreign exchange trading	**674**	731	(7.8)
Domestic-based currency trading	**745**	772	(35)
Foreign-based currency position	**(71)**	(41)	(73.2)
Treasury trading operations	**1 447**	861	68.1
Trading income	**2 121**	1 592	33.2

Salient issues

- Treasury Trading benefited from increased opportunities in trending markets and was well positioned for the rapid reduction of rates in the first six months of the financial year.
- Reduced opportunities for Equities Trading due to lower volatility in the domestic market in non-ALSI 40 counters.
- Good results from other trading areas within the Merchant Bank.

R million	Year ended 30 June 2004	2003	% change
Investment income			
Profit/(Loss) on realisation of investment banking assets	**17**	(1)	>100.0
Transfer from revaluation reserve on sale of available for sale assets	**107**	(9)	>100.0
Dividends received	**220**	214	2.8
Income from associated companies	**585**	494	18.5
Investment income	**929**	698	33.1
Unrealised profit/(loss) on assets held against employee liabilities	**86**	(95)	>100.0
Gross investment income	**1 015**	603	68.3
Share of income from associated companies disclosed separately	**(585)**	(494)	18.5
Net investment income disclosed	**430**	109	>100.0
Analysis of income from associated companies			
McCarthy Retail	**53**	77	(31.2)
Less: Provision	**–**	(77)	100.0
Relyant Retail Ltd	**12**	14	(14.3)
Toyota Finance	**15**	4	>100.0
Zeda Car Leasing	**15**	21	(28.6)
OUTsurance	**158**	85	85.9
FirstLinks associates	**13**	38	(65.8)
Private equity associates	**224**	234	(4.3)
FirstRand International associates	**73**	65	12.3
Other	**22**	33	(33.3)
Share of income of associated companies	**585**	494	18.4

Salient issues

- Exceptional performance from OUTsurance, assisted by mild weather conditions which positively affected claims ratios.
- Limited realisations during the year.
- Strong growth in income from investment banking activities, both in the local Private Equity businesses and internationally.
- Exceptional performance from WesBank's joint financing arrangement partners.
- Significant turnaround in performance of post-employment medical liability assets due to stronger equities markets.

The unrealised value of the Private Equity portfolio at 30 June 2004 amounted to R984 million (2003: R699 million).

Operating expenditure

R million	2004	2003	% change
	Year ended 30 June		
Staff expenditure	**5 756**	5 350	7.6
Direct staff expenditure	**5 274**	4 911	7.4
Other staff-related expenditure	**482**	439	9.5
Depreciation	**646**	612	5.6
Goodwill	**31**	10	>100.0
Amortisation of other intangible assets	**62**	67	(7.5)
Advertising and marketing	**443**	413	7.3
Maintenance	**651**	607	7.2
Insurance	**163**	130	25.4
Lease charges	**547**	483	13.3
Professional fees	**398**	280	42.1
Homeloans thirdparty origination costs	**235**	129	82.2
Audit fees	**71**	55	29.1
Other expenditure	**1 501**	1 401	7.2
Total operating expenditure	**10 503**	9 537	10.1

Salient issues

- Staff expenditure increases due to:
  - Increased staff costs associated with the operations of Ansbacher.
  - Increased costs associated with the merger of FNB Namibia and SWABOU.
  - Once-off 2% bonus paid to certain staff as part of the 2004 salary negotiation process.
- Increase professional fees paid to advisors within the Retail bank environment.
- Increased equipment leasing costs as move to lease from own.
- Continuing trend of higher second-half than first-half costs.

Business reviews

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

	Year ended 30 June		
R million	**2004**	2003	% change
Retail cluster	**4 212**	3 315	27.1
FNB Retail	**1 823**	1 319	38.2
FNB HomeLoans	**548**	554	(1.1)
Wesbank	**1 049**	689	52.2
FNB Africa	**571**	606	(5.8)
Insurance	**221**	147	50.3
Corporate cluster	**2 430**	1 843	31.9
Investment banking	**1 395**	1 074	29.9
Corporate banking	**1 035**	769	34.6
Wealth cluster	**64**	(43)	(>100.0)
Private banking – Domestic	**60**	43	39.5
First Trust	**28**	26	7.7
Private banking – Offshore	**(24)**	(112)	(78.6)
Capital centre	**790**	1 123	(29.7)
	7 496	6 238	20.2
Translation (losses)/gains	**(370)**	(532)	(30.5)
Income before tax	**7 126**	5 706	24.9

Retail Business

FNB Retail

FNB Retail produced excellent results with profit before taxation increasing by 38.2%, despite the negative effects of sustained low interest rates, benefiting from strong year-on-year growth of 11.0% in gross advances, a 10.3% in growth in deposits, and a record low bad debt charge.

The low interest rate environment resulted in a margin squeeze on advances and deposits of 1.2% and 0.9% respectively. The hedge put in place during the 2003 financial year significantly offset the negative effect of the interest rate squeeze.

Retail deposit growth was driven by demand for short-term deposits and the higher liquidity positions of customers supported by a real increase in disposable income due to the low inflation environment and above inflation wage settlements.

Current accounts (+24.5%), money market accounts (+26.3%), call accounts (+12.1%) and savings & transmission accounts (+15.4%) showed impressive growth. The growth in current account balances also assisted in reducing the impact of the margin squeeze on these products.

Growth in advances came mainly from credit card loans (+20.6%) and instalment loans (+10.0%). The growth was negatively impacted by the decline in agricultural overdrafts, influenced by the late arrival of the rainy season.

Non-performing loans (NPLs) have decreased from 7.8% to 5.9% of gross advances during the 2004 financial year mainly as a result of improved credit and collection processes and low interest rates.

The growth in non-interest income is 19.3%. The increase is a function of the organic growth of the book and increased transaction volumes. Cash, Internet banking and ATM transaction volumes have all shown positive growth, whilst cheque volumes are down.

Non-interest expenses have increased by 17.8% year on year. The main contributors to this increase are staff costs, which have arisen in line with organic business growth and investment in new business areas and efficiencies. This resulted in the cost to income ratio increasing from 68.4% to 69.8%.

FNB HomeLoans

FNB HomeLoans gross advances increased by 11.3% year-on-year, compared to prior year growth of 2.4%. This was mainly as a result of outstanding new business (67%) and re-advances (25%) growth, as well as focused retention efforts, resulting in a reduction in the run-off rate on Saambou book to 23%. Milestone new business pay-outs were achieved in 6 of the 12 months of the year. Even though volumes have increased, interest margins have been squeezed as a result of the prevailing interest rate environment.

The squeeze on margins has been largely offset by the reduction in bad debts as a result of NPLs reducing to a record low level of 1.2% of advances. This can be attributed to:

- the lower interest rate environment;
- improved recoveries;
- a lower level of write-offs;
- increased value of security due to the property boom; and
- improved credit management.

Non-interest income has risen 29.4% year on year as a result of:

- the stemming of fee income leakage;
- cross selling of other Group banking and insurance products; and
- increased volumes.

Profit before taxation was impacted by the higher acquisition costs related to the increased new business volumes. Direct acquisition costs made up 27% of total operating expenditure in the year, and were written off in full in the current and preceding year. Direct acquisition costs for the year amounted to R235 million (R129 million in 2003).

WesBank

WesBank had an outstanding year, achieving a profit before taxation of R1 049 million for the financial year. This represents a year on year increase of 52.2%.

Gross advances grew by R8.9 billion when compared to the prior year, an increase of 22.2%. New business production totalled R30.1 billion. This represents a year on year increase of 25.8%.

A buoyant vehicle market combined with the low interest rate environment assisted this growth. New vehicle sales increased significantly as the positive market sentiment and increase in customer disposable income took effect. WesBank and its associates continued to increase its market share in this sector.

The larger and faster than anticipated decline in the prime rate led to improved margins on the fixed rate business, whilst competitive price pressures resulted in reduced margins in the prime linked business. Overall, interest margins were consistent with the prior year.

The charge for bad debts, as a percentage of advances, was 0.6%. This is attributable to the continued success in collections and consequent drop in levels of arrears, as well as the benign economic conditions evident during the year. The strength of the Rand did place a degree of stress on certain dollar-based sectors, most notably the aviation industry. Non Performing Loans reduced to 0.8% of gross advances (2003: 0.9%).

Non-interest revenue grew 39.4% year on year. The increased new business volumes, greater market penetration by WesBank's various insurance products, and a greater fee contribution from the Fleet Management business, WesBank Auto, contributed significantly to this performance.

Non-interest expenditure increased in line with new business volumes and the growth in the advances book, however the continued focus on efficiencies saw the cost to income ratio reduce to 48.8% (2003: 52.6%).

Associates and subsidiaries income increased significantly from the prior year, with the key contributions coming from Toyota Financial Services and Direct Axis (WesBank's personal loans business). WorldMark Australia, a company that provides aftermarket services to motor dealers, in which WesBank acquired a majority shareholding, also made a positive bottom line contribution. A retail finance offering, leveraging off the WorldMark dealer relationships will commence in Australia during September 2004.

FNB Africa

Total income before taxation is set out below:

R million	2004	2003	% change
FNB Botswana	**294**	320	(8.1)
FNB Namibia	**247**	254	(2.8)
FNB Swaziland	**30**	32	(6.3)
	571	606	(5.8)

FNB Botswana

In Pula terms FNB Botswana increased profits before taxation by 1.2%, but showed an 8.1% decrease in Rand terms due to the Rand strengthening by approximately 16% against the Pula.

FNB Botswana had to deal with low growth and increased competition from existing players in the market. This was evidenced by lower asset growth being achieved when compared to prior years.

The bank experienced less of a squeeze on margins than the other southern African banking operations as the Botswana economy was subjected to only one rate decrease of 1% during the period.

Margins were less impacted by the local conditions than in the other African countries. The cost to income ratio was contained at 41% (2003: 39%).

FNB Botswana restricted its use of Tier 1 capital, and issued P100 million of Tier 2 (secondary) capital. This had the effect of improving the return on equity from 45.9% to 55.5%.

FNB Namibia

The merger between FNB Namibia and SWABOU was effected on 1 July 2003. The migration and integration of all SWABOU accounts onto the FNB Namibia systems was successfully completed by 1 October 2003.

As a result of the merger, the Banking Group's interest in FNB Namibia has been diluted from 78% to 60%.

The Namibia economy has been relatively flat, which hampered organic asset creation. This combined with the lower interest rate environment has put interest margins under pressure. FNB Namibia still maintains the following Market shares:

- Home loans 46.2%
- Total advances 35.0%

Bad debts have decreased, reflecting the healthy profile of the bank's lending portfolio, and are a function of:

- lower interest rates; and
- improved credit management and enhanced collections and recoveries

Growth in non-interest income of 11.5% has been assisted by the SWABOU acquisition, whilst the slow growth in new business has resulted in fee and transaction income not increasing to expected levels.

The increase in non-interest expenditure of 55.2% is primarily as a result of the merger and the associated merger costs.

FNB Swaziland

FNB Swaziland experienced an operating environment characterised by a slightly depressed economy with low interest rates and little growth.

The large on balance sheet exposure to the Swazi Sugar Association was reduced during December 2003, in order to bring it into line with the requirements contained in the Swaziland banking regulations. This had a marked effect on interest turn and associated ratios.

Interest margins came under pressure due to the combined effects of the lower interest rate environment and decreased balance sheet volumes. The declining volumes also had an adverse impact on fee income.

The bad debt charge benefited from the low interest rates and the effective control of credit. Non-performing loans as a percentage of advances have remained at a low of 1.5%.

Non-interest expenses are at an acceptable level, but the cost to income ratio is relatively high and has increased from 60.0% to 64.5%.

Insurance

R million	2004	2003	% change
OUTsurance (49%)	**161**	85	89.4
FirstLink	**60**	62	(3.2)
Profit before tax	**221**	147	50.3

FirstLink

Operating profit grew by R9.6 million (34%) during the year under review. Strong revenue growth in commercial and personal lines was the driver of this performance.

Operating revenue has grown by 30.4% (R31.6 million). The growth in income was a function of a strong and effective new business drive as well as the benefits from good customer and business acquisitions.

Operating revenue, excluding the business acquisitions of Roos Vosloo Brokers, Rutgers and Checkley and Mared Insurance Brokers, increased by R19.7 million (18.9%) year-on-year.

Net profit before tax reduced by 3.2% due to the once off sale of a 34% shareholding in Agri Risk Specialists Limited in the prior year. If the profits relating to this sale were to be excluded from the comparative figure, then the profit before tax would have increased by 31.0%.

Expenditure grew by R18.9 million (21%) compared to 2003. The abnormally high expense growth is attributed to:

- acquisitions;
- establishment of an Employment Equity Learnership programme;
- post retirement medical aid funding; and
- goodwill.

Growth in expenses after adjusting for the abovementioned items was 7%.

OUTsurance

The Banking Group's share of headline earnings for the year ended 30 June 2004 was R161 million (2003: R85 million). An amount of R3 million in respect of goodwill amortisation is included in the results of Capital centre.

OUTsurance's headline earnings were R203 million, R100 million more than for the previous financial year.

New business volumes remained strong, but were only marginally ahead when compared to the prior year. Many of the industry players have now copied the OUTsurance product offering and are becoming more aggressive on price.

Gross premium income earned for the year ended 30 June 2004 was R1.46 billion, R458 million (45.7%) more than the previous year.

The OUTsurance administered gross claims ratio (including OUTbonus costs) reduced to an average of 58.5%. This is a 3.3% improvement on last year. The extremely favourable loss ratio is the main contributor to the results. Claims are down due to a number of factors:

- there were no catastrophic climatic events;
- the strengthening of Rand has led to a decrease in replacement costs; and
- an improvement in crime-related claims.

Corporate Business

FNB Corporate

Net income before tax increased to R1 035 million in the 2004 financial year (2003: R769 million). The cost to income ratio improved from 62.1% in the prior year to 58.0% this financial period. A compound annual growth in profit before taxation of 31.2% has been achieved over the past 4 years.

A number of positive market factors characterised the 2004 financial year. The market found itself in cash rich cycle that resulted in the growth of deposits, but caused pressure on loan volumes.

The latter part of 2003 saw interest rates decline, the strengthening of the Rand, subsequent currency volatility, higher consumer spending and an overall improvement in transactional volume flows, particularly over the Christmas season. This trend continued into the New Year, and resulted in increased transactional volumes in respect of cash deposits and credit card transactions being acquired through Retail merchants. All these factors generated a positive environment for the 2004 financial year.

The growth in the deposit volumes of 20.0%, together with an increase in average deposit margins, resulted in a 18% improvement in the interest turn earned on deposits year on year.

Provisions and bad debt write-offs declined by 31.3% due to the high quality of the credit book, strong ongoing risk management and robust recovery processes.

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

Electronic Banking experienced solid growth on the back of both organic growth and client acquisition. Volumes grew 21.5%.

Merchant Acquiring performed well due to significant revenue growth from increased volumes as a result of new client acquisitions. Gross merchant commissions in Merchant Acquiring, an indicator of activity, rose 21.4% year-on-year.

The restructuring of debt and the continued focus on debt management resulted in the disposal of certain investments acquired as a result of debt to equity conversions in previous financial periods. The entire McCarthy equity investment was sold to the Bidvest Group. The residual JD equity holdings, that arose after the successful Profurn restructure and merger with JD, was sold in the open market. These disposals will result in significant savings of funding costs going forward.

Rand Merchant Bank

2004 was a year in which the business fired on all cylinders. Profit before taxation increased from R1 074 million to R1 395 million, a growth of 29.9%. Non-interest income rose by 57.5% to R1 863 million, while non-interest expenditure was R468 million, up 16.1% over the prior year.

Private Equity was the most significant contributor to RMB's earnings. Strong financial performance in the current year was backed up by new asset growth of 40% and growth in the unrealised value of the portfolio from R699 million to R984 million.

Structured Finance has repositioned itself over the past few years as a credit specialist providing value added debt solutions, with structuring as an add-on. This strategy enabled the division to show strong earnings growth over the prior year and ensured that RMB retained its rating as the number one debt house in South Africa.

Treasury Trading produced a good performance attributable largely to successful proprietary trading activities. This was achieved on the back of declining interest rates and a disciplined approach to risk taking. The current year's performance was also boosted by structuring and annuity income.

Equities Trading benefited from good contributions by their Structuring and Corporate Arbitrage businesses. Proprietary trading was less successful than in prior years due to a marked decline in liquidity in non-ALSI 40 stocks, which are not as heavily researched by the market, and traditionally have been the source of most trading opportunities.

The bulk of SPJ International's revenue is US dollar denominated. In spite of the strengthening Rand the division still managed to produce a record performance, capitalising on lower default rates and significantly tighter credit spreads in both the emerging and high yield debt markets.

Corporate Finance increased its proactive value add to clients, generating deal flow and placing the balance sheet behind deals. This contributed to a record performance driven principally by investment opportunities and its preference share business. The Mergers and Acquisitions team have earned a reputation for structuring innovative BEE deals while concluding a number of high profile transactions during the year.

Regulatory issues and the strong Rand impeded opportunities for the Project Finance division. Nevertheless, the division managed to exceed the prior year's performance. Continued investment in jurisdictional knowledge and relationships in Africa is expected to bear fruit in the coming years.

Wealth Business

RMB Private Bank

The private bank recorded a profit before taxation of R60 million, an increase of 39.5% over the prior year.

Advances increased by 37.6% with growth being achieved in the overdraft, single credit facilities, capital contributor and commercial property categories.

Total assets under management have increased R1.3 billion (19.4%) to R6.7 billion. The portfolio management division increased assets under management by R0.8 billion whilst the wealth management portfolio is up R0.5 billion.

Margins on the advances book were squeezed, but were partly offset by the widening of deposit margins.

Both the non-performing loans portfolio and bad debt charge benefited from the effects of a low interest rate environment.

Non interest income is up R28 million (27.7%) as a result of the increase in transactional banking revenue arising from the growth in client numbers, fees generated from the growth in assets under management and the increase in new deal structuring fees arising from the higher new business volumes. Non-interest expenditure increased R34 million (16.6%) and can be attributed to the increased staff complement to service the larger client base as well as higher inter group product house utilisation charges arising from the significant growth in the business and client base during the year.

The diversity ratio for the private bank has improved. This is as a result of the increases in structuring fees.

FNB Trust Services

The Trust company ended the financial year with profit before taxation of R28 million, up 7.7% on the prior year.

Interest turn was squeezed as a result of a decline in asset values, suppressed margins and the low interest rate environment.

FNB Trust Services continues to have strong inflows from estate business. These inflows broke the R1 billion threshold for the first time during the year.

Equity market linked fees was adversely affected by the depressed stock market, which only started to recover during the latter part of the year.

Year-on-year management fee income is up 14.3%, after adjusting for the once-off Estates Loyalty Bonus paid and the transfer of Unit Trusts business to FNB Corporate (included in prior year numbers). Estate fees (21.6%), trust fees (6.3%) and managed investment accounts (3.7%), are up on last year.

Staff costs reduced by R2.0 million (3.3%), due mainly to a reduction in staff numbers following retrenchments, coupled with the transfer of the Unit Trust business to FNB Corporate.

Other costs were tightly controlled and are R0.7 million (1.8%) better than last year. Part of the savings (R1.3 million) relate to the transfer of the Unit Trust business to FNB Corporate.

The cost to income ratio for FNB Trust Services is 78.0%.

Ansbacher

The Ansbacher Group showed a pre-tax loss of R24 million for the year. This excludes the Irish tax case settlement (R61 million), which is disclosed in the indirect taxation line.

Fees and commissions were adversely impacted due to a decline in new business levels across most of the activities. This was particularly the case in respect of the Fiduciary and Advisory activities.

The Fiduciary businesses in Switzerland suffered, following the loss of the management team and much of the businesses during the year.

Staff costs increased due to incentives paid to retain key staff while the sale of Ansbacher was being negotiated.

The Ansbacher Group has absorbed significant professional fees relating to the sale of the company and various one-off restructuring activities.

All legal and professional fees relating to the Irish tax case have been expensed.

International operations

R million	**2004**	2003	% change
FNB Namibia	**247**	254	(2.8)
FNB Botswana	**294**	320	(8.1)
FNB Swaziland	**30**	32	(6.3)
FNB Africa	**571**	606	(5.8)
FirstRand International	**157**	210	(25.2)
Ansbacher (UK)	**(24)**	(112)	78.6
Other	**100**	89	12.4
Total international earnings	**804**	793	1.4

Capital centre

Capital centre invests the capital for the Banking Group in risk-free assets to protect against downward interest rate cycles and obtain a risk free return. During the period under review, the prime rate decreased by 4%, impacting on endowment margins.

The results of the capital centre are distorted by certain AC 133 anomalies which are carried centrally to avoid distorting the operating results of business units. These anomalies are set out in the table below:

R million	**2004**	2003	% change
Capital centre	**878**	725	21.1
Portfolio impairments	**(159)**	–	(100.0)
Ineffective hedge	**71**	398	(82.2)
Profit before tax	**790**	1 123	(29.7)

Interest rate hedges put in place to hedge the endowment effect do not qualify as effective hedges in terms of AC133. The full mark-to-market impact of these hedges is therefore included in earnings in the period in which market rates move. This has the effect of accelerating the realisation of profits relating to the decline in interest rates in the latter part of 2003. As a consequence, an extraordinary profit of R398 million was realised in 2003, against profits in the current period of R71 million.

Earnings on the capital balances benefited from a greater volume of capital relative to the prior year as well as the positive effect of remaining effective hedge structures.

Segment information

R million	South African banking	South African non-banking	Other African banking	International	Sub-total	Currency translation losses	Total
Geographic							
Net interest income before impairment of advances	7 553	168	780	406	8 907		**8 907**
Impairment of advances	(441)	(497)	(57)	162	(833)		**(833)**
Net interest income after impairment of advances	7 112	(329)	723	568	8 074	–	**8 074**
Other operating income	8 290	101	457	492	9 340	(370)	**8 970**
Net income from operations	15 402	(228)	1 180	1 060	17 414	(370)	**17 044**
Operating expenditure	(9 183)	117	(609)	(828)	(10 503)		**(10 503)**
Income from operations	6 219	(111)	571	232	6 911	(370)	**6 541**
Share of income from associates	–	585	–	–	585	585	**585**
Income before taxation	6 219	474	571	232	7 496	(370)	**7 126**
Indirect taxation	(316)	(109)	(10)	(1)	(436)		**(436)**
Income before direct taxation	5 903	365	561	231	7 060	(370)	**6 690**
Direct taxation	(1 422)	(88)	(135)	(56)	(1 701)		**(1 701)**
Income after taxation	4 481	277	426	175	5 359	(370)	**4 989**
Earnings attributable to outside shareholders	–	(144)	(74)	(59)	(277)		**(277)**
Earnings attributable to ordinary shareholders	4 481	133	352	116	5 082	(370)	**4 712**
Cost to income (%)	58.0	100.0	49.2	92.2	55.8		**56.9**
Diversity ratio (%)	52.3	37.5	36.9	54.8	51.2		**50.2**
Total assets	269 649	(12 200)	12 092	53 912	323 453	–	**323 453**

Consolidation adjustments have been included in South African non-banking numbers.

R million	Retail	Corporate	Wealth	Capital	Sub-total	Currency translation losses	Total
Business segments							
Net interest income before impairment of advances	6 561	1 010	327	1 009	8 907		**8 907**
Impairment of advances	(555)	(123)	4	(159)	(833)		**(833)**
Net interest income after impairment of advances	6 006	887	331	850	8 074	–	**8 074**
Other operating income	5 437	3 613	548	(258)	9 340	(370)	**8 970**
Net income from operations	11 443	4 500	879	592	17 414	(370)	**17 044**
Operating expenditure	(7 520)	(2 070)	(815)	(98)	(10 503)		**(10 503)**
Income from operations	3 923	2 430	64	494	6 911	(370)	**6 541**
Share of income from associates	289	–	–	296	585		**585**
Income before taxation	4 212	2 430	64	790	7 496	(370)	**7 126**
Indirect taxation	(249)	(43)	(70)	(74)	(436)		**(436)**
Income before direct taxation	3 963	2 387	(6)	716	7 060	(370)	**6 690**
Direct taxation	(955)	(575)	1	(173)	(1 701)		**(1 701)**
Income after taxation	3 008	1 812	(5)	543	5 359	(370)	**4 989**
Earnings attributable to outside shareholders	(134)	(32)	–	(111)	(277)		**(277)**
Earnings attributable to ordinary shareholders	2 874	1 780	(5)	432	5 082	(370)	**4 712**
Cost to Income (%)	61.2	44.8	93.1	9.4	55.8		**56.9**
Diversity ratio (%)	45.3	78.2	62.6	(34.4)	51.2		**50.2**
Total assets	130 328	130 261	18 166	44 698	323 453	–	**323 453**

Consolidation adjustments have been included in the Capital centre numbers.

Capital management principles

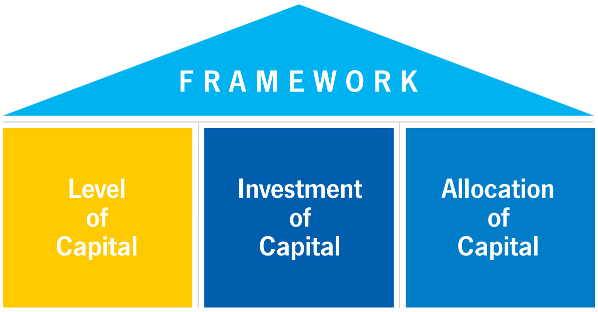
Framework for capital management

The Banking Group actively manages its capital base in order to support the creation of shareholder value. The key objectives of the capital management process are to:

- facilitate growth in the net asset value of the Banking Group;
- protect the capital base; and
- embed incentives which align the business unit behaviour with shareholder value growth objectives.

To achieve these objectives the capital management process considers the various views of capital (economic capital, regulatory capital and book capital) as well as the different perspectives of shareholders, debt holders and regulators in determining appropriate capital levels, investment strategies and capital allocation processes.

The overall framework for the management of the Banking Group's capital base consists of three pillars as depicted in the diagram below:



The key principles underpinning this framework are as follows:

Level of capital

The Banking Group capitalises itself appropriately to facilitate business growth, minimise business disruption and meet the requirements of shareholders, debt holders and regulators.

It maintains the higher of regulatory or economic capital. Further capital buffers are only held if required for risk concentrations, expected growth or capital volatility.

The level of capital is funded in the most efficient manner to achieve prudent and appropriate gearing levels within the constraints of regulatory and rating agency requirements.

Investment of capital

Free capital is invested in approved liquid or tradable debt instruments such as government bonds. A small proportion of funds are placed into the general funding pool of the bank.

Interest rate hedging instruments with approved highly rated institutions are used to achieve the desired interest rate profile which maximises wealth within acceptable earnings at risk.

Allocation of capital

Allocation of capital to business units is based on a bottom-up calculation of economic capital on a risk-adjusted basis, and charged for using appropriate hurdle rates.

The capital allocation process, used in conjunction with the matched maturity fund transfer pricing system, liquidity cost transfer process and cost allocation processes facilitate:

- informed pricing and reserving for transactions;
- informed strategic decision making;
- risk adjusted performance measurement of business units on a NIACC (net income after capital charge) basis; and
- alignment of managers and shareholders' interest.

Economic profit contribution (net income after capital charge)

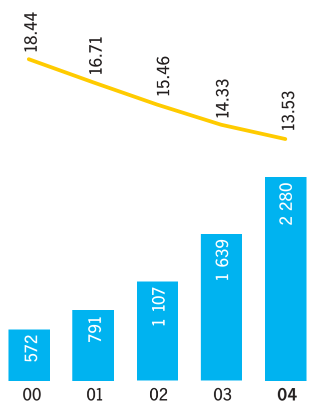
A key indicator of the efficiency of capital usage in the Banking Group is the absolute level and growth of net income after capital charge (NIACC), also referred to as economic profit.

NIACC is defined as the surplus profit that the Banking Group generates for shareholders, after deducting an appropriate charge for the cost of equity.

In equation form:

NIACC = Core headline earnings – (cost of equity x average shareholders' equity and reserves, i.e. "net asset value")

The graph below indicates the growth in economic profit, as well as the internally estimated cost of capital over the past 5 years.



Growth in economic profit (NIACC)

Economic capital

Economic capital is defined as the amount of capital required by the Banking Group in order to maintain the confidence of its depositors, counterparties and its desired credit rating.

Economic capital is calculated on a bottom-up basis for credit risk (direct, contingent and pre-settlement risk), market risk, investment risk and operational risk using risk measurement methodologies and input data comparable to those outlined and required in the new capital accord (Basel II).

The Banking Group uses economic capital as one of the key tools in deal pricing, risk management, the measurement of business performance on a risk adjusted basis, and strategic decisions regarding capitalisation and the deployment of its book capital.

Accounting capital analysis

The schedule below provides a geographical breakdown of the average accounting capital for the last two financial years, together with geographical return on average accounting capital ("ROE") percentages.

2004

R million	Average allocated capital	Attributable income	ROE %	% of total average capital
South Africa*	16 717	4 480	26.8	85.7
FNB Africa	1 678	296	17.6	8.6
Ansbsacher	1 103	(64)	(5.9)	5.7
Total	**19 498**	**4 712**	**24.2**	**100.0**

2003

R million	Average allocated capital	Attributable income	ROE %	% of total average capital
South Africa*	14 568	3 530	24.2	86.0
FNB Africa	1 123	323	28.8	6.6
Ansbacher	1 261	(79)	(6.3)	7.4
Total	**16 951**	**3 774**	**22.3**	**100.0**

**Includes Firstrand Bank Limited and other South African operations, as well as offshore subsidiaries and branches in Dublin, Mauritius and Australia which are currently managed as an extension of the South African businesses.*

The schedules below provide segmental ROE information. Book capital allocation to business units have been made taking into account the business units' regulatory capital requirements, economic capital requirements and accounting capital not available for gearing purposes (e.g. certain types of revaluation reserves). All central income and expenditure as well as capital buffers have been re-allocated to business units.

2004

R million	Average allocated capital	Attributable income	ROE %	% of total average capital
Retail banking	10 373	2 910	28.0	53.2
Corporate and investment banking	7 455	1 804	24.2	38.2
Private banking and wealth management	1 669	(1)	(0.1)	8.6
Total Banking Group	**19 498**	**4 712**	**24.2**	**100.0**

2003*

R million	Average attributed capital	Attributable income	ROE %	% of total average capital
Retail banking	8 569	2 384	27.8	50.6
Corporate and investment banking	6 826	1 418	20.8	40.3
Private banking and wealth management	1 556	(28)	(1.8)	9.1
Total Banking Group	**16 951**	**3 774**	**22.3**	**100.0**

Basel II

Preparation for compliance with the proposals on the International Convergence of Capital Measurement and Capital Standards issued in June 2004 ("Basel II") is a key focus for the Banking Group.

The Banking Group aims to comply with the Foundation Internal Ratings based approach for credit risk for corporate exposures and the Advanced Internal rating based approach for credit risk for retail exposures at the common implementation date of Basel II – currently set for 1 January 2007.

At present, the Banking Group is conducting a cost-benefit analysis to finalise its decision on the Advanced Measurement Approach versus the Standardised Approach for Operational Risk.

The main benefits that it expects from the implementation of Basel II are:

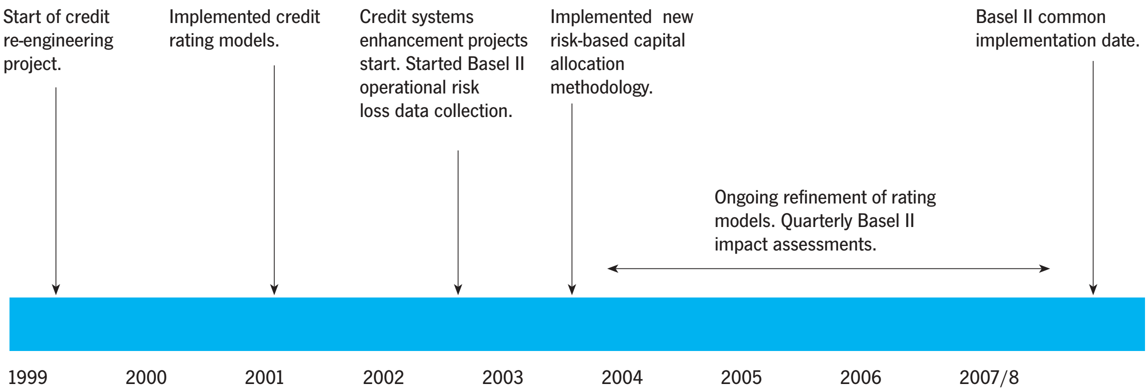
- improved alignment of regulatory and economic capital requirements;
- improved ability to price appropriately for risk;
- improved integrated risk management;
- regulatory capital incentives for prudent risk management, risk mitigation and sophisticated risk measurement techniques; and
- more transparency in terms of disclosure.

As part of its Basel II preparations, the Banking Group started in March 2003 to perform a quarterly quantitative impact study of the capital requirements under Basel II. The calculation provides insight to those business segments and business lines most affected by Basel II, as well as the volatility of capital over time under Basel II.

In general the impact assessments revealed the following:

- a moderate increase in capital requirements are expected as a result of adoption of Basel II. The final extent of this will only be clear once clarity has been obtained on areas of National discretion by the South African Reserve Bank;
- the Banking Group has sufficient capital buffers to operate under Basel II, even under the assumption of a moderate increase in capital requirements; and
- capital requirements are expected to be pro-cyclical and more volatile under Basel II. This is because capital requirements are driven by portfolio the composition, economic conditions and volumes. Under Basel I capital requirements were mostly dependent on volumes.

The diagram below illustrates the key milestones in the Basel II preparations:



Disposal of Ansbacher

Historically, the results of Ansbacher have been separately disclosed as a primary business segment of the Banking Group as contemplated by AC 115 – "Segment reporting" ("AC 115"), and have formed part of the separate geographical segment (United Kingdom) of the Banking Group.

Accounting standards with regard to discontinuing operations, specifically AC 117, require early identification of the exact operations to be discontinued together with a distinctive differentiation in the operational activities from the point of identification.

In seeking to maximise the return on the disposal of Ansbacher, FirstRand entered into a dynamic disposal process during which various operational combinations were considered and during which period the underlying business was actively managed on a going concern basis.

This active process precludes FirstRand from classifying Ansbacher as a discontinuing operation as contemplated in the accounting statement.

The financial information set out below should, however, assist in understanding the impact of the disposal of Ansbacher on the results of the Banking Group.

The table below provides summarised financial information on those components of Ansbacher included in the disposal:

R million	**2004**	2003
Interest income	**379**	535
Interest expenditure	**(178)**	(212)
Net interest income before impairment of advances	**201**	323
Impairment of advances	**13**	4
Net interest income after impairment of advances	**214**	327
Non interest income	**219**	286
Net income from operations	**433**	613
Operating expenditure	**(432)**	(641)
Income before taxation	**1**	(28)
Indirect taxation	**(61)**	–
Direct taxation	**(9)**	(13)
Profit/(Loss) after tax	**(69)**	(41)
Other information		
Assets	**8 614**	9 825
Liabilities	**7 075**	8 603
Depreciation	**48**	44

Changes in accounting policy

Business combinations

AC 140 – Business Combinations is effective in respect of business combination where the agreement date is on or after 31 March 2004.

AC 140 therefore should be applied prospectively for all business acquisitions with an agreement date after 31 March 2004. Prior to 31 March 2004, any existing goodwill will be amortised to the income statement. After 31 March 2004, goodwill arising from business combinations will not be amortised.

However, the transitional provisions to AC 140 require that in respect of goodwill arising from a business combination prior to 31 March 2004, with effect from the beginning of the first annual reporting period commencing after this date (i.e. 1 July 2004 for the Banking Group), an entity must:

- discontinue the amortisation of goodwill through the income statement;
- eliminate the carrying amount of amortised goodwill with a corresponding reduction in the carrying amount of goodwill; and
- perform an annual impairment test on goodwill, with any impairments expensed against income in the year incurred.

Similarly, the carrying amount of negative goodwill arising from a business combination before 31 March 2004 must be written back to opening retained income at the beginning of the first annual reporting period commencing on or after 31 March 2004.

The adoption of AC 140 does not affect the opening equity or current period income of the Banking Group.

Acquired trademarks, patents and similar intangible assets

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

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

The Banking Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value on an annual basis. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

Impact of the changes in accounting policy on opening equity and current period income

The Banking Group acquired a material trademark with the merger of FNB Namibia and SWABOU. The acquired trademark was capitalised and amortised with effect from the 2004 financial year.

The changes in accounting policies do not affect opening equity. The table below sets out the effect of the changes in accounting policy on current period income:

R million	Operating expenses	Taxation	Net adjustment
Amortisation of acquired trademarks	(17)	6	(11)

Restatement of prior year numbers

The following line items on the face of the balance sheet, income statement and in the statement of changes of equity of the Banking Group have been restated for more accurate disclosure purposes. These restatements affect classifications only.

Item	As previously reported R million	As restated R million	Reason for restatement
Balance sheet			
Investment securities and other investments	36 655	36 146	Commodities have been separately disclosed – previously disclosed as part of Financial instruments held for trading, a subsection of Investment securities
Commodities	–	509	Refer above
Financial instruments held for trading	11 389	10 880	Refer above
Negotiable deposits	–	29 662	Disclosed as part of current accounts – previously disclosed as part of Short-trading positions
Short-trading positions	33 881	4 219	Refer Negotiable deposits above
Income statement			
Trading income	1 583	1 592	Reclassification of recycling of loss on disposal of Available for sale assets to Investment income
Net investment income	118	109	Refer above

The restatement relating to the available for sale asset referred to above, had the effect of increasing reported headline earnings from R3 820 million to R3 829 million in 2003.

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