banking

supplementary
information

for the six months ended 31 December 2004

FIRSTRAND
Banking Group

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FirstRand Banking Group »

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Banking Group

This information is available on our website:
www.firstrand.co.za
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asktheCFO@firstrand.co.za

Additional financial information

Advances

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Gross advances				
Total advances	**211 731**	207 665	2.0	214 005
Less: Contractual interest suspended	**(528)**	(590)	(10.5)	(564)
Gross advances	**211 203**	207 075	2.0	213 441
Less: Impairments	**(2 974)**	(3 314)	(10.3)	(3 027)
Net advances	**208 229**	203 761	2.2	210 414
Rand and non-Rand denominated advances				
All non-Rand denominated advances	**3 634**	4 222	(13.9)	4 519
At exchange rate	**5.62**	6.62	(15.0)	6.18
Non-Rand denominated advances (Rand)	**20 443**	27 928	(26.8)	27 928
Rand denominated advances	**190 760**	179 147	6.5	185 513
	211 203	207 075	2.0	213 441
Geographical split				
SA banking operations	**188 671**	176 600	6.8	185 362
International banking operations	**4 533**	8 287	(45.3)	7 310
US Corporate debt (CDO advances)	**1 011**	5 547	(81.8)	4 442
African banking operations	**10 229**	9 100	12.4	10 599
SA non-banking operations	**6 759**	7 541	(10.4)	5 728
Gross advances	**211 203**	207 075	2.0	213 441
Advances sector analysis				
Agriculture	**4 360**	4 302	1.3	5 860
Banks and financial services	**37 458**	42 509	(11.9)	38 771
Building and property development	**9 114**	6 479	40.7	7 796
Government, Land Bank and Public Authorities	**3 915**	7 109	(44.9)	11 618
Individuals	**110 686**	90 513	22.3	98 360
Manufacturing and commerce	**32 433**	32 410	0.1	31 719
Mining	**3 058**	4 923	(37.9)	2 070
Transport and communication	**3 639**	5 097	(28.6)	5 291
Other services	**6 540**	13 733	(52.4)	11 956
Gross advances	**211 203**	207 075	2.0	213 441

Advances

R million	Unaudited Six months ended 31 December 2004	Unaudited Six months ended 31 December 2003	% change	Audited Year ended 30 June 2004
Product split				
Overdrafts and managed accounts	**26 355**	24 273	8.6	26 181
Loans to other financial institutions	**5 751**	7 083	(18.8)	4 357
	32 106	31 356	2.4	30 538
Card loans	**6 331**	5 100	24.1	5 709
Instalment finance	**33 079**	27 310	21.1	29 283
Lease payments receivable	**17 612**	13 325	32.2	14 921
Property finance	**68 374**	56 147	21.8	61 335
Home loans	**64 398**	53 723	19.9	58 320
Commercial properties	**3 976**	2 424	64.0	3 015
Personal loans	**6 630**	5 469	21.2	5 971
Preference share advances	**1 634**	2 817	(42.0)	1 654
Other advances	**40 507**	43 880	(7.7)	35 498
	206 273	185 404	11.3	184 909
Collateralised debt obligation	**1 011**	5 547	(81.8)	4 442
Assets under agreement to sell	**3 919**	12 165	(67.8)	20 327
Ansbacher advances	**–**	3 959	(100.0)	3 763
Gross advances	**211 203**	207 075	2.0	213 441

Salient issues

- Growth of 24% Card loans due to:
  - new customer account opening of 14% in FNB Card
  - increase in customer spend levels of 25% in FNB Card
  - new product launches
- HomeLoans growth of 20%, due to:
  - current strong residential property market and low interest rate environment
  - new business payout growth of 90% in the South African home loan book, although run-off in the Saambou and NBS books limited growth of gross advances
- 30% growth in WesBank, due to:
  - new business growth of 29%, including R1.5 billion due to the acquisition of the Barloworld Equipment Finance book
  - record levels of new car sales
- 20% growth in FNB Namibia due to significant growth in home loans and instalment finance
- FNB Botswana growth in local currency terms was in excess of 15% due to increased client utilisation of existing facilities
- FNB Swaziland declined by 20%, due to:
  - slow economic conditions
  - sugar industry customers' poor performance
- Corporate advances declined by 20% due to:
  - large corporates declined by 26%, primarily due to cash-rich environment for corporates and continued disintermediation in this market
  - medium corporates growth of 4%
- Decline of 27% in non-Rand denominated advances as a result of:
  - significant reduction of 82% in CDO exposure as a result of a strategic decision to actively manage this exposure down
  - 15% strengthening of the Rand against the US$ year-on-year

Non-performing loans and advances

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
Non-performing loans				
Non-performing loans	**3 358**	4 058	(17.2)	3 389
Add: Present value adjustment	**358**	314	14.0	377
Less: Recoverable amount	**(145)**	(21)	>100.0	(14)
Net credit exposure	**3 571**	4 351	(17.9)	3 752
Less: Security	**(952)**	(1 262)	(24.6)	(993)
Less: Contractual interest suspended	**(528)**	(590)	(10.5)	(564)
Residual risk	**2 091**	2 499	(16.3)	2 195
Specific impairments/provisions	**2 091**	2 499	(16.3)	2 195
Portfolio impairments/provisions	**883**	815	8.3	832
Total impairments/provisions	**2 974**	3 314	(10.3)	3 027
Fair value impairment	**112**	331	(66.2)	135
Total provisioning	**3 086**	3 645	(15.3)	3 162
General Risk Reserve	**1 766**	1 248	41.5	1 467
Total impairments and reserves	**4 852**	4 893	(0.8)	4 629
Total advances	**211 731**	207 665	2.0	214 005
Less: Contractual interest suspended	**(528)**	(590)	(10.5)	(564)
Gross advances	**211 203**	207 075	2.0	213 441
Less: Impairments	**(2 974)**	(3 314)	(10.3)	(3 027)
Net advances	**208 229**	203 761	2.2	210 414

Salient issues

Overall NPLs and NPLs as % of gross advances declined by 17.2% and 18.9% respectively.

- Retail NPLs decreased from 1.7% to 1.1% of gross advances, due to:
  - positive impact of current low interest rate environment
  - an increase in the credit quality of core advances
  - recoveries in non-performing book
- FNB HomeLoans decreased to 0.91% of gross advances due to:
  - improved cash position of consumers
  - current low interest rates
- FNB Corporate
  - Corporate NPLs increased marginally as a % of book, despite a decrease in Rand terms
  - Bad debt charge reduced by 46%
- WesBank
  - NPLs remained constant at 0.8% of advances with the prior year
  - arrears at record lows due to
    - improved cash position of consumers
    - current economic environment
- FNB Namibia NPLs declined from 5.4% to 3.8% due to a more favourable economic environment
- FNB Botswana NPLs declined from 1% to 0.7% due to:
  - WesBank's arrears declining sharply
  - improved credit quality of the remainder of the book

Non-performing loans and advances

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
Impairment of advances				
Non-performing loans as a percentage of gross advances	**1.6**	2.0	(20.0)	1.6
Specific impairments as a percentage of non-performing loans	**62.3**	61.6	1.1	64.8
Specific impairments as a percentage of gross advances	**1.0**	1.2	(16.7)	1.0
Portfolio impairments as a percentage of gross advances	**0.4**	0.4	–	0.4
Fair value impairments as a percentage of gross advances	**0.1**	0.2	(50.0)	0.1
General Risk Reserve	**0.8**	0.6	33.3	0.7
Total impairments as a percentage of gross advances	**2.3**	2.4	(4.2)	2.5
Total impairments as a percentage of non-performing loans	**144.5**	120.6	19.8	136.6
Total impairments as a percentage of residual risk	**232.1**	195.8	18.5	232.0
Income statement charge				
Specific impairments	**311**	249	24.9	536
Portfolio impairments	**98**	206	(52.4)	297
	409	455	(10.1)	833

Non-interest revenue

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
Non-interest revenue drivers				
Transactional income	**3 644**	2 927	24.5	6 583
Trading income	**1 155**	878	31.5	2 121
Investment income	**600**	200	>100.0	430
Other income	**150**	115	30.4	206
Total non-interest income	**5 549**	4 120	34.7	9 340
Translation (losses)	**(215)**	(216)	(0.5)	(370)
Non-interest income	**5 334**	3 904	36.6	8 970
Transactional income				
Banking fee and commission income	**3 138**	2 618	19.9	5 782
Knowledge-based fee and commission income	**256**	176	45.5	431
Non-banking fee and commission income	**250**	133	88.0	370
Transactional income	**3 644**	2 927	24.5	6 583
Banking fee and commission income				
Card commissions	**324**	256	26.6	532
Cash deposit fee	**344**	294	17.0	590
Commission – bills, drafts and cheques	**212**	167	26.9	363
Service fees	**1 226**	1 081	13.4	2 191
Other	**1 032**	820	25.9	2 106
Banking fee and commission income	**3 138**	2 618	19.9	5 782
Trading income				
Foreign exchange trading	**504**	401	25.7	674
Treasury trading operations	**651**	477	36.5	1 447
Trading income	**1 155**	878	31.5	2 121

Salient issues

Transactional income

- Banking fee and commission income increased by 19.9%:
  - growth of 23.3% in Retail from higher transaction volumes, increased consumer spending and growth in electronic banking activity
  - growth of 43% in WesBank on increased business volume, higher penetration of insurance products and higher fleet volumes
  - 27% growth from FNB HomeLoans, reflecting new business growth
  - overall corporate growth was 21.9% due to increased volume growth, especially in electronic banking and merchant acquiring areas, as well as cash deposit volumes
- Knowledge-based fee increase of 45.5%:
  - stronger deal flow in mergers and acquisitions in RMB
  - contribution from FNB Trust improved

Trading income

- Increased by 31.5% due to:
  - increased trading volumes and positive market sentiment
  - structuring and arbitrage opportunities as well as a beneficial agricultural trading environment in RMB's Equities
  - trending currency and interest rates

Non-interest revenue

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
Investment income				
Profit on realisation of investment banking assets	**372**	13	>100.0	17
Transfer from revaluation reserve on sale of available-for-sale assets	**(31)**	–	100.0	107
Profit on sale of discontinuing operations	**396**	–	100.0	–
Dividends received	**122**	101	20.8	220
Investment income from associated companies	**385**	214	79.9	585
Investment income	**1 244**	328	>100.0	929
Investment income on assets held against employee liabilities	**137**	86	59.3	86
Gross investment income	**1 381**	414	>100.0	1 015
Profit on sale of discontinuing operations disclosed separately	**(396)**	–	100.0	–
Share of income from associated companies disclosed separately	**(385)**	(214)	79.9	(585)
Net investment income disclosed	**600**	200	>100.0	430
Analysis of income from associated companies				
McCarthy Retail	**–**	89	(100.0)	53
Less: Provision	**–**	(89)	(100.0)	–
Relyant Retail Limited	**78**	–	100.0	12
Toyota Finance	**19**	3	>100.0	15
Zeda Car Leasing	**10**	16	(37.5)	15
OUTsurance	**101**	68	48.5	158
First Link associates	**9**	4	>100.0	13
Private equity associates	**135**	57	>100.0	224
FirstRand International associates	**20**	62	(67.7)	73
Other	**13**	4	>100.0	22
Share of income of associated companies	**385**	214	79.9	585

Salient issues

Investment income

- An increase of more than 100% from:
  - strong growth of 79.9% in income from associated companies
  - realisation of an international private equity investment
  - increased dividend income of 21% from the underlying investments due to strong underlying performance of investees
  - transfer of the accumulated currency translation reserve of R413 million to income on the sale of Ansbacher, refer page 13
  - equity accounted income from private equity associates grew strongly with the increasing marketing of underlying businesses
  - the Banking Group's accumulated share of Relyant income was released in the current period

Share of income from associated companies

- The increase is due to:
  - excellent results from OUTsurance with an increase of 48.5%, resulting from a 44% growth in headline earnings as a result of low claims and top-line business growth
  - income from WesBank associates increased due to a buoyant vehicle market

Non-interest expenditure

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Operating expenditure				
Staff expenditure	**3 242**	2 852	13.7	5 756
Direct staff expenditure	**2 945**	2 649	11.2	5 274
Other staff-related expenditure	**297**	203	46.3	482
Depreciation	**289**	365	(20.8)	646
Amortisation of other intangible assets	**22**	30	(26.7)	62
Advertising and marketing	**252**	207	21.7	443
Insurance	**118**	75	57.3	163
Lease charges	**333**	271	22.9	547
Professional fees	**167**	163	2.5	398
Homeloans thirdparty origination costs	**128**	79	62.0	235
Total origination costs	**167**	96	74.0	253
Less: internal costs	**(39)**	(17)	>100.0	65
Audit fees	**34**	35	(2.9)	71
Computer expenses	**208**	158	31.6	315
Maintenance	**386**	269	43.5	650
Telecommunications	**168**	139	20.9	299
Other expenditure	**391**	349	12.0	918
Total non-interest expenditure	**5 738**	4 992	14.9	10 503

Salient issues

- an increase of 13.7% in staff costs, primarily due to additional staff recruited as a result of the significant new business growth in RMB Private Bank and WesBank and the annual August salary adjustments
- advertising and marketing spend increased by 21.7% on significant marketing costs on new products in the first half of the year. This is expected to normalise in the second half of the year
- mortgage origination fees increased by 62% which is in line with the new business growth experienced in the home loans market
- computer costs increased by 31.6% due to enhancements to the infrastructure to deal with increased volumes and new innovations

Business segment performance

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

R million	Unaudited Six months ended 31 December 2004	2003	% change	Audited Year ended 30 June 2004
FNB	**2 193**	1 793	22.3	3 507
FNB Retail	**1 293**	980	31.9	1 823
FNB HomeLoans	**261**	280	(6.8)	548
FNB Corporate	**552**	476*	16.0	988*
RMB Private Bank	**35**	21	66.7	60
First Trust	**15**	11	36.4	28
First Link	**37**	25	48.0	60
Investment Banking	**813**	596	36.4	1 442
Rand Merchant Bank	**781**	572	36.5	1 395
Commercial Properties	**32**	24	33.3	47
WesBank	**636**	478	33.1	1 049
FNB Africa	**331**	313	5.8	571
OUTsurance	**101**	68	48.5	161
Private banking – Offshore	**(35)**	(11)	218.2	(24)
Group Support	**346**	318	8.8	790
	4 385	3 555	23.3	7 496
Profit on sale of Ansbacher	**396**	–	>100.0	–
Translation losses	**(215)**	(216)	(0.5)	(370)
Income before tax	**4 566**	3 339	36.7	7 126

* *Commercial Properties has been excluded from FNB Corporate and shown separately.*

FNB

FNB Retail

Retail has produced excellent results with profit before taxation increasing by 31.9% from R980 million to R1 293 million. The negative effects of the low interest rate environment have been more than offset by the hedge previously put in place and the continued low level of bad debts.

Retail deposit growth was 10% with strong growth in current, savings and transmission accounts (17%) and money market balances (27%).

Advances growth of 9% came mainly from Credit Card, which grew by 24%.

FNB's Credit Card division had a successful half year, not only by capitalising on the rise in consumer confidence levels but also as a result of profitable sales and marketing campaigns. This is evident by the increases in new customer accounts of 14% and cardholders' spend levels of 25%. Growth in new business is as a result of the increased focus and successes in cross-selling to existing FNB and WesBank customers and the successful launch of the Balance Transfer product earlier this year.

The Discovery Card has seen unprecedented sales and customer utilisation levels following the development of this exciting product that offers customers a range of unique and valuable features and benefits. This product is expected to show significant growth in the next few years.

Non-performing loans have decreased from 1.7% to 1.1% of gross advances as a result of the continued low interest rates, better credit quality and good recoveries in the non-performing book.

Non-interest revenue grew by 22.2% from R1 947 million to R2 379 million due to significant increases in transaction volumes as consumer spending reached new levels. The growth in transaction volume has been most pronounced in the more affordable electronic channels.

Non-interest expenses have increased by R305 million to R2 531 million, up 13.7% year-on-year. The main contributors to this increase are staff costs, which have risen in line with business growth, and investment in new business areas such as Discovery Card.

The cost to income ratio improved from 67.0% in December 2003 to 64.8% in the current period.

FNB HomeLoans

The profit before taxation fell by 6.8% to R261 million due to increased acquisition costs and lower margins. The highly competitive mortgage market and lower interest rate environment resulted in decreased gross margins before bad debts of 11 basis points when compared to the prior year. These pressures were offset to some extent by a low bad debt charge and increased non-interest revenue, which grew by 27.1% (R23 million) year-on-year.

Acquisition costs rose by 74% to R167 million (including internal incentive costs of R37 million) for the period as a result of the increase in new business pay-outs.

FNB HomeLoans' gross advances grew by R8 billion (19.9%) year-on-year, compared to a December 2003 growth of 6%. Although the growth is still less than the market advances growth of 24% due to a high run-off rate on the acquired books, the gap is closing with each month and by year end it is expected that the advances growth will outstrip that of the market.

The increased growth is mainly attributable to new business pay-outs, which rose by 90% compared to the prior year, fuelled by an exceptionally buoyant property market and a low interest rate environment.

Non-performing loans have reduced since December 2003 to a record low of 0.91% of gross advances. The business is now well positioned for the period ahead.

FNB Corporate

FNB Corporate's profit before taxation increased from R476 million to R552 million, an increase of 16%. During the current period previously unrecognised attributable income of R78 million from FNB's associate, Relyant Retail, was released to the income statement. FNB Corporate obtained a 26% share in Relyant in a debt for equity swap in September 2002. Included in the prior year was profit of R24 million (net of carrying costs) relating to the realisation to the majority of the shares held in the JD Group, pursuant to the sale of Profurn.

Loan volumes have remained under pressure, with the effects of large corporate bond issues and disintermediation having a material impact on volumes. Within the large corporate segment, advances have declined 26% half-year on half-year, resulting in a significant decrease in net interest turn. Medium Corporate advances reflect an overall increase of 4% half-year-on-half year.

The growth in the deposit base of 6.4%, from R41.0 billion to R43.6 billion was mainly driven by the growth in the medium corporate market. Margins have come under pressure with the lower and more stable interest rates, offsetting a portion of the growth.

The streamlining of credit processes, together with strong ongoing risk management and robust recovery processes, is reflected in the 46% reduction in the bad debt charge from R74 million to R40 million.

Total non-interest revenue grew by 7.2% year-on-year from R905 million to R970 million. Excluding the JD Group transaction in the prior year, the growth would have been 18%. Sound growth in the retailer segment has assisted in growing overall cash deposit volumes and transactional volumes particularly in credit card transactions. Growth in non-interest revenue in the medium corporate segment of 24% reflects strong transactional volume growth, with revenues from foreign exchange and trade finance activities increasing strongly.

Operating expenditure has grown by 10.6% to R909 million. This increase occurred primarily within the frontline sales environment and took place in the second half of the prior financial period as part of the strategy to focus on the medium corporate segment. This strategy has resulted in an increase in medium corporate's non-interest revenue.

With the degree of competition within the large corporate segment continuing to grow, a shift in focus to the small and medium business segment will influence performance positively into the future. FNB Corporate is well positioned to benefit from opportunities for growth in this segment.

RMB Private Bank

RMB Private Bank recorded a profit before taxation of R35 million which is 67% higher than the same period last year.

This increase in profits was driven by strong balance sheet growth. Advances increased by 41% to R10.7 billion year-on-year and assets under management grew by 55% year-on-year. New business inflows in both the structured lending and wealth management divisions achieved record levels in the period under review with similar volumes forecast for the remainder of the financial year.

The advances margins remained under pressure, however, the non-performing loan book stabilised and had a positive impact on the bad debt charge. Net margins are likely to remain structurally lower and the business is gearing itself for a sustained low inflation and low interest rate environment.

Non-interest income is up 34% year-on-year from R61 million to R82 million. The majority of this increase can be attributed to new deal structuring fees and the asset management fee charged against the assets under management.

Operating expenses increased by 25.2% to R144 million as a result of a 14% increase in headcount to cater for the new business volumes and the direct acquisition costs associated with the increased new loan business. Despite the rise in costs, the cost to income ratio improved from 82.7% to 77.9% for the period under review.

FNB Trust

FNB Trust Services achieved a profit before taxation of R15 million for the first six months of the year, 36.4% higher than that of the comparative period.

Strong equity markets and the continued high values of estates assisted with this performance, while interest turn was squeezed as a result of lower interest rates. Assets under management grew by 18.3%.

The ongoing focus on the seniors' wealth segment continues to deliver positive results and will remain a core focus for the financial year.

First Link

Profit before taxation grew by 48% from R25 million to R37 million. This growth was driven by increased market share in both personal lines and commercial through aggressive new business drives and the broker acquisitions made in the previous year.

Investment Banking

Net income before taxation

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Rand Merchant Bank	**781**	572	36.5	1 395
Commercial Properties	**32**	24	33.3	47
	813	596	36.4	1 442

Rand Merchant Bank

Favourable market conditions have assisted Rand Merchant Bank ("RMB") to produce a solid performance for the six months to 31 December 2004. Profit before taxation amounted to R781 million which is more than 36% ahead of the prior year comparative number. There have been four factors in particular that have significantly influenced the results during the six months to December.

Profits were realised on the sale of Private Equity investments. Despite these realisations, the unrealised value of the portfolio has grown from R984 million in June 2004 to the current level of R1 014 million.

Black Economic Empowerment ("BEE") activity has provided good deal flow to most RMB businesses. Typically, BEE related opportunities include advisory mandates, underwriting, senior and mezzanine debt financing, interest rate hedging and a range of private equity opportunities.

The positive sentiment in the equity markets directly benefited the trading, structuring and broking businesses due to the increased trading volumes and inflated values.

The low interest rate/inflation environment and related strong credit markets have increased debt origination, securitisation, structuring and hedging activities, while also affording the opportunity to significantly reduce credit concentrations. The related increase in liquidity has improved profitability from interest rate market making and trading.

Commercial Properties

Commercial Properties was previously reported as part of FNB Corporate, but is now managed by RMB. Commercial Properties had an excellent six month performance. Profit before taxation was R32 million for the half-year ended 31 December 2004, an increase of marginally over 33% over the same period in the prior year. The majority of the income earned is in respect of the financing of commercial properties and dealing in large corporate paper, with the buildings acting as security.

WesBank

WesBank had an excellent six month performance, achieving a profit before taxation of R636 million for the half-year ended 31 December 2004, an increase of 33% over the same period in the prior year.

Gross advances grew by R12.8 billion when compared to the prior year six month comparative. This represents an increase of 29.6%. R1.5 billion of this growth related to the acquisition of the Barloworld Equipment Finance book.

New business production totalled R18.7 billion, as opposed to R14.5 billion for the same period in the prior year, an increase year-on-year of 28.6%. Continued buoyancy in the retail vehicle market, coupled with the low interest rate environment, contributed to this high production growth. New vehicle sales attained levels last seen twenty years ago, as the positive economic outlook and higher disposable income levels impacted on new business.

Competitive forces on pricing continued to place pressure on margins. Overall interest margins showed a 15 basis point decline year-on-year.

The charge for bad debts, as a percentage of advances, was 0.6%. This is consistent with the equivalent period in the prior year and reflects the current economic conditions. Arrear levels also attained record lows. Non-performing loans remained consistent with the prior year, at 0.8% of advances.

Non-interest revenue grew from R344 million to R492 million. The increased new business volumes and higher penetration of WesBank's insurance products contributed to this increase. Revenues from WesBank fleet business (WesBank Auto) also made a meaningful contribution to the increased revenue levels.

Non-interest expenditure rose 22.7% to R724 million. This growth is in line with the increased volumes, but the continued drive for efficiencies and improved scale resulted in an improved cost to income ratio of 47.5% (December 2003 – 49.9%).

Associate and subsidiary income increased significantly, with the profitability from Toyota Financial Services reflecting the growth in the retail motor industry.

Direct Axis, WesBank's personal loans business, recorded excellent profits on the back of a 90% year-on-year growth in new business.

A positive contribution was also derived from Worldmark Australia. Good progress has been made with the establishment of the Australian motor finance business. Volumes are expected to start increasing in the first quarter of 2005.

FNB Africa

Net income before taxation

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
FNB Botswana	**167**	158	5.7	294
FNB Namibia	**153**	138	10.9	247
FNB Swaziland	**15**	17	(11.8)	30
FNB Lesotho*	**(2)**	–	(100.0)	–
FNB Africa Support**	**(2)**	–	(100.0)	–
	331	313	5.8	571

* *FNB Lesotho only became operational during October 2004. Therefore, no comparative amounts.*

** *FNB Support previously included with FNB Retail.*

FNB Namibia

During December 2004 the Banking Group's interest in FNB Namibia increased from 60% to 61.6% when shares were acquired from one of the outside shareholders. This purchase was in terms of the pre-emptive right amongst major shareholders, negotiated as part of the Swabou merger.

The merger with Swabou has been bedded down. There is now a stable base and with the increased focus on the business and re-engineering of operations, business will be enhanced.

Despite the lower interest rate environment continuing to exert pressure on interest income, FNB Nambia still managed to increase pre-taxation profits by 11% to R153 million. The squeeze in interest rate margins was, however, partly compensated for by the diversified earnings base created as a consequence of the merger with the Swabou Group.

Non-performing loans as a percentage of advances have improved to 3.8% (5.4% in 2003) reflecting the current low interest environment and the healthy profile of the bank's lending book.

Non-interest revenue grew by 18% (15% excluding the sale of a surplus building). Increased volumes resulted in commissions and service fees growing by 16% despite a conservative 5% increase in prices.

The insurance operations delivered excellent results, increasing their contribution to pre-taxation earnings to 15% (2003: 5%). These results can be attributed to the total number of in-force policies increasing by 16.7% over the six month period. Year-on-year growth in premium income was 2.5%, and the annual return on assets amounted to 13%. The growth in policies was as a result of exceptional cross selling within the Group, while the return on investments can be attributed to the strengthening of the equity markets.

The cost to income ratio improved to 53.2% from 55.1% in the prior year, primarily due to a combination of revenue growth in 2004 and the once off merger costs which were absorbed in 2003.

Net advances improved by almost 20%, with both FNB HomeLoans and WesBank building on the momentum gained during the previous financial year. The increase at HomeLoans is primarily due to external focus embarked upon since the successful migration of Swabou customers, while the encouraging sales performance at WesBank is a result of the buoyant market in Namibia.

Towards the end of 2004, FNB Namibia announced details of its BEE transaction at the end of 2004. In terms of the agreement a consortium of black Namibian investors, black non-executive directors and staff will acquire 5% of FNB Namibia Holdings Limited. FNB Namibia and the consortium intend to work closely together in order to broaden the access to financial service products for the population of Namibia and to create value for the shareholders of FNB Namibia Holdings.

FNB Botswana

In Pula terms, FNB Botswana posted results which show profits before taxation increasing by 18%. This increase translates to a 5.7% growth in Rand terms due to the Rand strengthening by almost 11% against the Pula.

FNB Botswana had to deal with the continued slowdown in the Botswana economy. This, coupled with increased competition in the market, has resulted in no asset growth from June 2004. Assets, however, grew by 9.3% year-on-year, led by a pleasing increase of 15.4% in net advances in Pula terms. Growth has been particularly good in overdrafts and the property portfolio.

Net interest margins showed a slight increase, primarily due to a reduction in impairment charges. This is directly attributable to the marked improvement in the quality of the loan book. The biggest improvement has been at WesBank where the arrears as percentage of advances reduced sharply from 1% in December 2003 to 0.7% at the end of December 2004.

Non-interest revenue improved due to growth in transaction volumes as no tariff increases have been effected over the last two years. Transaction volumes have been driven primarily by the acquisition of new customer accounts and increased turnover through treasury dealing and card merchants.

The cost to income ratio of 38% remains at the lower end of the industry, and is down from the 41% reported at year end.

FNB Swaziland

The depressed state of the Swaziland economy continues to weigh heavily on the bank's performance and profitability. In addition, a lack of new investment in the economy, coupled with poor performance by customers in the sugar industry, hampered growth during 2004.

Despite the continued squeeze on margins and decline in gross advances, the bank has managed to minimise the effect of the lower interest turn on profits by growing non-interest revenue by almost 14%. New customers, coupled with a conservative annual price increase, improved commissions and service fees substantially.

FNB Lesotho

FNB Lesotho opened its doors to the public on 26 October 2004.

In the ten weeks since opening, FNB Lesotho has enjoyed reasonable success with a number of accounts being opened. The bank originally opened the branch in Maseru with a very basic product offering, but is subsequently offering InContact and internet banking as well as mini-ATMs. The first mini-ATM was installed in Maseru in late December 2004 and has been well received. This is a forerunner to bringing banking services, economically, to the wider community.

ATMs installed have also proven to be extremely popular, and the operation is currently performing in terms of our original business plan.

International operations

Net income before taxation

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
FNB Botswana	**167**	158	5.7	294
FNB Namibia	**153**	138	10.9	247
FNB Swaziland	**15**	17	(11.8)	30
FNB Lesotho	**(2)**	–	(100.0)	–
FNB Africa support	**(2)**	–	(100.0)	–
FNB Africa	**331**	313	5.8	571
FirstRand International	**216**	157	37.6	157
Ansbacher (UK)	**(35)**	(11)	(>100.0)	(24)
Other	**(77)**	28	(>100.0)	100
Total international earnings	**435**	487	(10.7)	804

OUTsurance

OUTsurance profit before taxation is R101 million, 48.5% up on prior year. The low loss ratio is the main contributor to better than expected profitability.

Group Support

Net income before taxation

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Group Support	**425**	472	(9.9)	878
Portfolio impairments	**(41)**	(109)	(62.4)	(159)
Ineffective hedge	**(38)**	(45)	(15.6)	71
	346	318	8.8	790

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 remained flat, but is down on the prior year. This had an adverse impact on endowment margins. The effect of lower rates was alleviated to some extent by the interest rate hedges that were put in place during the course of 2002 to protect the margin on the capital portfolio against an anticipated downward cycle in interest rates.

Interest rate hedges put in place to hedge the endowment effect do not qualify as effective hedges in terms of AC 133. The full mark-to-market impact of these hedges is therefore included in earnings in the period in which market rates move. As a consequence, an extraordinary loss of R45 million was realised in December 2003, against a loss in the current period of R38 million.

Although 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, the steady decline in interest rates reduced interest relative to the comparative period.

Segment information

R million	South African banking	*South African non-banking	Other African banking	Inter–national	Sub–total	Currency translation losses	Total
Geographic							
Net interest income before impairment of advances	3 777	222	382	217	4 598	–	4 598
Impairment of advances	(332)	(83)	(10)	16	(409)	–	(409)
Net interest income after impairment of advances	3 445	139	372	233	4 189	–	4 189
Non-interest revenue	4 538	709	283	19	5 549	(215)	5 334
Net income from operations	7 983	848	655	252	9 738	(215)	9 523
Operating expenditure	(5 412)	164	(324)	(166)	(5 738)	–	(5 738)
Income from operations	2 571	1 012	331	86	4 000	(215)	3 785
Share of income from associates	103	264	–	18	385	–	385
Income before discontinuing operations	2 674	1 276	331	104	4 385	(215)	4 170
Profit on sale of discontinuing operations	–	396	–	–	396	–	396
Income before taxation	2 674	1 672	331	104	4 781	(215)	4 566
Indirect taxation	(202)	(66)	(7)	(1)	(276)	–	(276)
Income before direct taxation	2 472	1 606	324	103	4 505	(215)	4 290
Direct taxation	(548)	(268)	(77)	(23)	(916)	–	(916)
Income after taxation	1 924	1 338	247	80	3 589	(215)	3 374
Earnings attributable to outside shareholders	–	(95)	(39)	(39)	(173)	–	(173)
Earnings attributable to ordinary shareholders	1 924	1 243	208	41	3 416	(215)	3 201
Key ratios							
Cost to income (%)	64.3	(13.7)	48.7	65.4	54.5	–	55.6
Diversity ratio (%)	53.9	59.3	42.6	7.5	52.7	–	51.7
Total assets	293 334	(9 055)	13 033	39 903	337 215	–	337 215

* *Includes consolidation adjustments.*

R million	FNB	Rand Merchant Bank including Commercial Property	African sub–sidiaries	WesBank	Ansbacher UK	Bank Support*	Sub-total	Currency translation losses	Total
Segment									
Net interest income before impairment of advances	2 785	–	382	993	57	381	4 598	–	4 598
Impairment of advances	(174)	–	(10)	(163)	(1)	(61)	(409)	–	(409)
Net interest income after impairment of advances	2 611	–	372	830	56	320	4 189	–	4 189
Non-interest revenue	3 655	960	283	492	115	44	5 549	(215)	5 334
Net income from operations	6 266	960	655	1 322	171	364	9 738	(215)	9 523
Operating expenditure	(4 163)	(282)	(324)	(724)	(206)	(39)	(5 738)	–	(5 738)
Income from operations	2 103	678	331	598	(35)	325	4 000	(215)	3 785
Share of income from associates	90	135	–	38	–	122	385	–	385
Income before discontinuing operations	2 193	813	331	636	(35)	447	4 385	(215)	4 170
Profit on sale of discontinuing operations	–	–	–	–	–	396	396	–	396
Income before taxation	2 193	813	331	636	(35)	843	4 781	(215)	4 566
Indirect taxation	(135)	(8)	(7)	(32)	–	(94)	(276)	–	(276)
Income before direct taxation	2 058	805	324	604	(35)	749	4 505	(215)	4 290
Direct taxation	(444)	(174)	(77)	(130)	2	(93)	(916)	–	(916)
Income after taxation	1 614	631	247	474	(33)	656	3 589	(215)	3 374
Earnings attributable to outside shareholders	–	(16)	(81)	–	–	(76)	(173)	–	(173)
Earnings attributable to ordinary shareholders	1 614	615	166	474	(33)	580	3 416	(215)	3 201
Cost to income (%)	63.8	25.8	48.7	47.5	119.8	7.1	54.5	–	55.6
Diversity ratio (%)	56.0	87.7	42.6	32.3	66.9	8.0	52.7	–	51.7
Total assets	116 604	105 346	12 901	56 643	–	45 721	337 215	–	337 215

* *Includes consolidation adjustments, OUTsurance and profit on sale of continuing operations.*

Disposal of Ansbacher

The Banking Group disposed of Ansbacher with effect from 1 November 2004.

A reconciliation of the profit on the disposal of Ansbacher is set out below:

Reconciliation of the profit on sale of Ansbacher

	£ million	R million
Proceeds on disposal	91.1	1 019
Net asset value of Ansbacher at date of sale	(83.6)	(936)
South African GAAP adjustment[1]	(2.2)	(25)
Disposal expenses	(6.7)	(75)
	(1.4)	(17)
Release from Currency translation reserve[2]	–	413
Net (loss)/profit on disposal	(1.4)	396

Notes:

1. *The adjustment is required as Ansbacher had, in terms of existing Statements of Generally Accepted Accounting Practice in the United Kingdom, not adopted AC 133/IAS 39 accounting statement on the recognition and measurement of financial instruments. Ansbacher had certain general credit provisions which did not qualify as a provision in terms of Statements of Generally Accepted Accounting Practice in South Africa ("SA GAAP").*

2. *On the disposal of a foreign subsidiary classified as an "Independent operation" in terms of the requirements of AC 112 of SA GAAP, the accumulated foreign currency translation reserve is released to income.*

	Unaudited Six months ended 31 December			Audited Year ended 30 June
R million	**2004**	2003	% change	2004
Financial information on Ansbacher				
Interest income	**234**	155	51.0	379
Interest expenditure	**(177)**	(76)	>100.0	(178)
Net interest income before impairment of advances	**57**	79	(27.8)	201
Impairment of advances	**(1)**	5	(>100.0)	13
Net interest income after impairment of advances	**56**	84	(33.3)	214
Non-interest income	**115**	167	(31.1)	219
Net income from operations	**171**	251	(31.9)	433
Operating expenditure	**(206)**	(262)	(21.4)	(432)
Income before taxation	**(35)**	(11)	>100.0	(24)
Indirect taxation	**–**		0.0	(36)
Direct taxation	**(2)**	(75)	(97.3)	(9)
Profit/(Loss) after tax	**(37)**	(86)	(57.0)	(69)

	Unaudited At 31 December			Audited At 31 December
R million	**2004**	2003	% change	2004
Other information				
Assets	**7 692**	9 056	(15.1)	8 614
Liabilities	**6 716**	7 920	(15.2)	7 075
Capital expenditure	**11**	89	(87.6)	132
Depreciation	**18**	22	(18.2)	48

Capital management principles

Economic profit contribution (net income after capital charge)

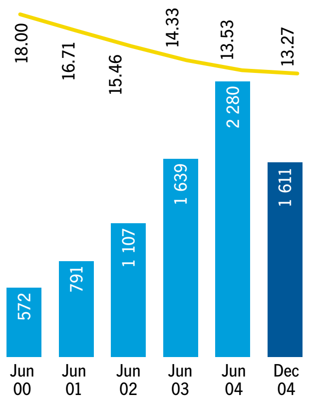
A key indicator of the efficiency of capital usage in the Banking Group is the absolute level and growth of net income after capital charge ("NIACC"), also referred to as economic profit.

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 five years.



Growth in economic profit (NIACC)

Return on equity 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.

December 2004

R million	Average allocated capital	Headline earnings[1]	ROE %	% of total average capital
South Africa*	20 308	2 881	28	94
FNB Africa	1 267	165	26	6
Total	**21 575**	**3 046**	**28**	**100**

December 2003

R million	Average allocated capital	Headline earnings[1]	ROE %	% of total average capital
South Africa*	18 192	2 358	26	94
FNB Africa	1 176	166	28	6
Total	**19 368**	**2 524**	**26**	**100**

* *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.*

1. *Excluding translation losses.*

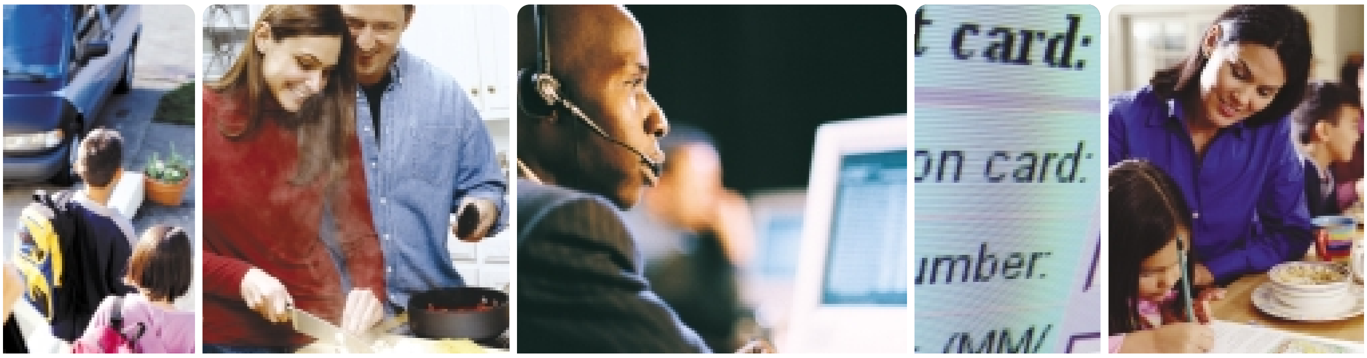
Restatement of prior year numbers

The following line items have been restated for improved disclosure:

Item	As previously reported R million	As restated R million	Reason for restatement
Advances – originated	144 192	140 878	Restated by showing net of impairments
Investment securities – available-for-sale	23 811	17 162	Restated to disclose elected fair value instruments separately
Investment securities – elected fair value	–	6 547	Refer "Investment securities – available-for-sale" above
Deposits and current accounts	195 506	231 588	Negotiable deposits have been combined with deposits and current accounts – previously disclosed separately
Negotiable deposits	35 166	–	Refer "Deposits and current accounts" above

Notes

Notes



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