Contents

Registered address
FNB Namibia Holdings Limited
209 Independence Avenue
Windhoek
Namibia
PO Box 195
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Namibia

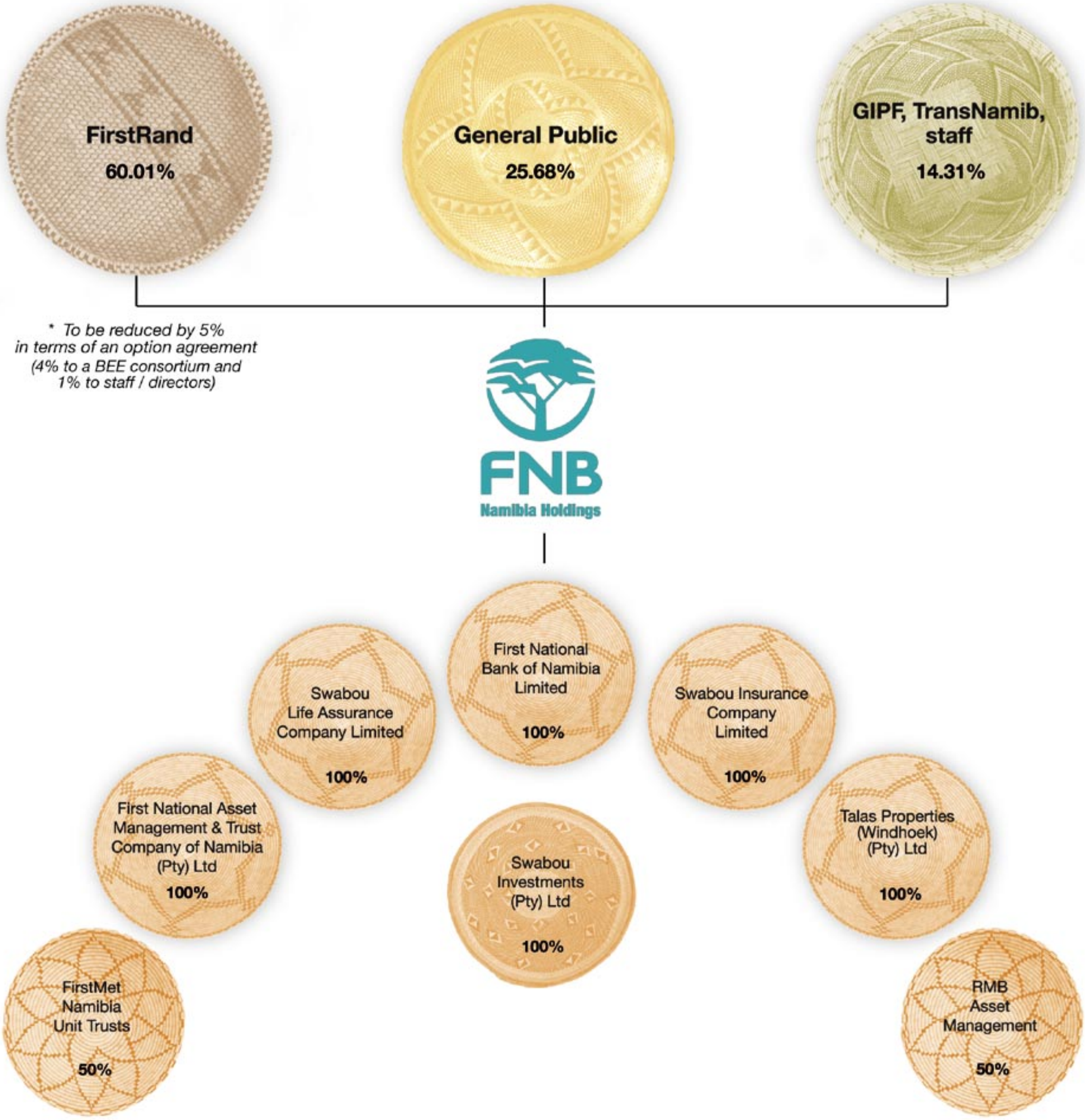
Company reg no 88/024
Transfer secretaries
Transfer Secretaries (Pty) Ltd
Shop 12, Kaiserkrone Centre
Windhoek
Namibia
PO Box 2401
Windhoek
Namibia

Auditors
Deloitte & Touche
PO Box 47
Windhoek
Namibia

Shareholders' diary

Announcement of results	20 September 2005
Publication of annual financial statements	20 September 2005
Declaration of final dividend	24 September 2005
Payment of final divided	22 October 2005
Annual general meeting	24 October 2005
Publication of interim dividend	February 2006
Declaration of interim dividend	February 2006
Payment of interim dividend	April 2006
Financial year-end	30 June

Group structure



Group corporate information

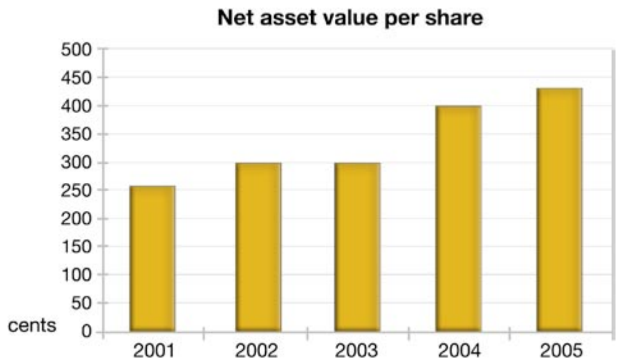
Company name	Holding %	Registration number
Erf Nine One Nil Klein Windhoek (Pty) Ltd	100	2003/0188
First Finance (Pty) Ltd	100	2002/058
First National Asset Management and Trust Company of Namibia (Pty) Ltd	100	91/125
First National Bank Nominees Namibia (Pty) Ltd	100	96/138
First National Bank of Namibia Ltd	100	2002/0180
FirstMet Namibia Unit Trusts Ltd	50	89/485
Namibia Properties Investment (Pty) Ltd	100	97/004
Namswitch (Pty) Ltd	100	2002/420
RMB Asset Management (Namibia) (Pty) Ltd	50	2003/781
Sunrise Properties (Pty) Ltd	100	88/065
Swabou Insurance Company Ltd	100	89/524
Swabou Investments (Pty) Ltd	100	94/081
Swabou Life Assurance Company Ltd	100	91/369
Talas Properties (Windhoek) (Pty) Ltd	100	282/68

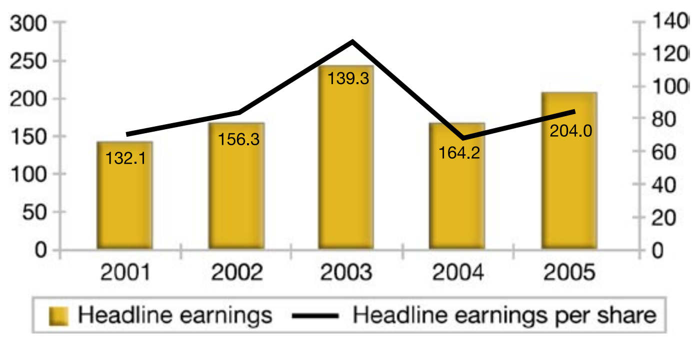
Features of group results

	Year ended 30 June		
	2005	2004	Change %
Share performance			
Earnings per ordinary share (cents)	**81.8**	63.7	28.4
Headline earnings per ordinary share (cents)	**78.9**	63.4	24.4
Total dividends per share (cents) - ordinary *	**32.0**	25.0	28.0
Dividends per share (cents) - interim dividend paid	**15.0**	11.5	30.4
Dividends per share (cents) - final dividend declared	**17.0**	13.5	25.9
Closing share price (cents) - ordinary	**600**	460	30.4
Number of shares in issue (000's) - ordinary **	**264 347**	259 071	2.0
Weighted number of shares in issue (000's) - ordinary **	**258 496**	259 071	(0.2)
Dividend cover - ordinary shares (times)	**2.6**	2.5	4.0
Net asset value per share (cents)	**432.5**	400.7	7.9
Dividend yield (%) - ordinary dividend	**5.3**	5.4	(1.9)
Earnings yield (%) - ordinary shares	**13.6**	13.9	(2.2)
Price: Earnings ratio (%) - ordinary shares	**7.3**	7.2	1.4

* Dividend based on current year profits
** After elimination of treasury shares

Selected ratios			
Return on average shareholders' equity (%)	**19.8**	20.2	(2.0)
Return on total assets (%)	**2.6**	2.3	13.0
Return on average assets (%)	**2.8**	2.8	
Cost to income ratio (%)	**51.0**	56.5	(9.7)
Other operating income as a % of total income (%)	**39.7**	37.0	7.3
Capital adequacy ratio of Bank			
Tier 1 (%)	**17.2**	19.9	(13.6)
Tier 1 & 2 (%)	**18.6**	21.2	(12.3)
CAR cover of Swabou Life (times)	**2.5**	3.1	(19.4)
Solvency margin of Swabou Insurance (%)	**83.9**	75.0	11.9
Return on investment			
Closing share price end of year (cents)	**600.0**	460.0	
Opening share price beginning of year (cents)	**(460.0)**	(446.0)	
Capital gain (cents)	**140.0**	14.0	
Dividends (cents)	**32.0**	25.0	
Total return, including capital gain (cents)	**172.0**	39.0	
Return on investment (%)	**37.4**	8.7	329.9





Board of directors

Hans-Dietrich Voigts
(d.o.b. 26.03.1938)
Non-executive Chairman
(appointed: February 1988)

Lazarus Shinyemba Ipangelwa
(d.o.b. 21.01.1965)
Chief Executive Officer
(appointed: March 2003)

Herbert Waldemar Peter Böttger
(d.o.b. 07.09.1938)
Non-executive Director
(appointed: February 1988)

Steve Vemunavi Katjiuanjo
(d.o.b. 14.07.1962)
Non-executive Director
(appointed: May 2003)

John Kienzley Macaskill
(d.o.b. 07.03.1950)
Non-executive Director
(appointed: March 2003)

Petrus Tukondjeni Nevonga
(d.o.b. 26.10.1968)
Non-executive Director
(appointed: May 2003)

Egbertus Bletterman Nieuwoudt
(d.o.b. 17.07.1961)
Non-executive Director
(appointed: February 2004)

Inge Ingenesia Zaamwani
(d.o.b. 11.11.1958)
Non-executive Director
(appointed: January 2000)

Hans-Dietrich Voigts

After completion of his apprenticeship as textile merchant in Germany, Dieter enrolled for further training in general commerce at retail, wholesale and manufacturing level in Germany, France and the United Kingdom. He returned to Windhoek in 1963, when he joined the family business, Wecke & Voigts, which was established in 1892. Ever since then, he has been successfully involved in a number of business and social organisations and associations and in 1982 he was awarded the prestigious "Marketing Man of the Year".

Directorships:

FNB Namibia Holdings Ltd (Chair); First National Bank of Namibia Ltd (Chair); FNB Foundation; Swabou Investments Ltd; Gustav Voigts Investments (Pty) Ltd; Sands Hotel Holdings (Namibia) (Pty) Ltd; Sands Hotels (Pty) Ltd; Swakop Textiles (Pty) Ltd; The Automobile Association of Namibia; Wecke & Voigts Investments (Pty) Ltd; Wecke & Voigts (Pty) Ltd; Windhoek Uitspan Sentrum (Edms) Bpk

Lazarus Shinyemba Ipangelwa

MBA (International Banking & Finance) – University of Birmingham, UK / Bank Management Certificate – National Institute of Bank Management, Pune, India / AMP – Templeton College, University of Oxford, UK / Financial Management Certificate – Sando U, Centrum, Sweden. He worked for Bank of Namibia from 1991 to 2002 in various capacities, including being the deputy governor. In July 2002 Lazarus joined First National Bank as CEO Designate, where his initial responsibility was to coordinate the planned merger between Swabou Group and FNB. In March 2003 he was appointed as CEO of FNB, which, as a result of the merger, a few months later became FNB Namibia Holdings Ltd. The merger was successfully completed and the FNB Namibia Group of Companies formed.

Directorships:

Namibia Chamber of Commerce and Industry; Various boards in the FNB Namibia Group

Professional memberships:

Chartered Institute of Bankers, England; Institute of Bankers, SA

FNB memberships:

Executive Committee – Chairman; FNB Foundation

Herbert Waldemar Peter Böttger

BComm / LLB – University Stellenbosch / Attorney's admission to the Supreme Court in Windhoek in March 1965. Peter joined the Swaco Group in May 1966, was appointed Director in 1969 and served as Exco Chairman from 1974 to 1989. During this time he was very involved in the Round Table Association and Rotary Club, serving as President and Charter President respectively. He was also a member of the Council of the University of Namibia. Since then he is working as an Independent Business Management Consultant.

Directorships:

FNB Namibia Holdings Ltd; First National Bank of Namibia Ltd; FNB Namibia Holdings Audit Committee (Chair); Swabou Insurance Company Ltd; Swaco Industries Namibia (Pty) Ltd; RCS Property (Pty) Ltd; Seaflower Lobster Corporation Ltd; Nat Fish Corporation of Namibia Ltd

Steve Vemunavi Katjiuanjo

BA – UCT / BSocSc (Hons) – UCT / MSocSc (Industrial Sociology) – UCT / MPPA – UNAM & Institute of Social Studies, Hague Netherlands / Thesis on "The implementation of the Labour Policy in Namibia: the case of agricultural employees". During his study years in South Africa, Steve served on various research projects for the University, where he gained insight in various fields, ranging from labour and development research, HIV/AIDS research projects to projects on drugs and sport in Namibia. In 1994 he joined the Legal Assistance Centre in Windhoek as a Labour Researcher and Coordinator of the Farmworkers' Project. Since 1997 he serves the Office of the Prime Minister as Deputy Secretary to the Cabinet.

Directorships:

FNB Namibia Holdings Ltd; Swabou Insurance Company Ltd (Chair); Swabou Life Assurance Company Ltd (Chair); Namibia Grape Company; Tender Board of Namibia

John Kienzley Macaskill

BCom (BEM) – University of Pretoria / CAIB / AEP – UNISA

John spent his entire career with First National Bank of Southern Africa Ltd, starting off in managerial positions in Human Resources, Corporate and Retail Banking. In 1972 he commenced his career as an Executive Trainee. Since then, John inter alia served as Far East Representative, based in Hong Kong and United Kingdom Representative, based in London. He then moved to Durban, KwaZulu-Natal, where he first was appointed Chief Manager of the Corporate Branch and then Assistant General Manager of the Regional Head Office. In 1996 he moved to Botswana, where he served as Managing Director until the beginning of 2003, when he was appointed CEO FNB Africa, based in Johannesburg.

Directorships:

FNB Namibia Holdings Ltd; First National Bank of Namibia Ltd; First National Bank of Swaziland Ltd; First National Bank of Botswana Ltd

Petrus Tukondjeni Nevonga

BTech (Business Administration) – Polytechnic of Namibia / Diploma in Human Resources Management – Polytechnic of Namibia

Peter joined the Namibia Public Workers' Union (NAPWU) in November 1993, serving as their General Secretary.

Directorships:

FNB Namibia Holdings Ltd; Swabou Insurance Company Ltd; Government Institutions Pension Fund

Egbertus Bletterman Nieuwoudt

BCom (Hons) Econometrics & MCom Econometrics (distinction) – University of Pretoria

EB started his business career in 1985 when he joined the South African Reserve Bank as an Economic Researcher. He moved on to Senbank, where he worked as Operational Researcher. In 1991 he was appointed Head of Money Market Trading at Bankorp Treasury, whereafter he moved on to Rand Merchant Bank Ltd (RMB), holding various positions in Treasury. In April 1998 EB commenced duty as the Group Treasurer at the FirstRand Banking Group, also serving on the FirstRand Strategic Forum and the Management Board of RMB. Mid 2002 EB was appointed CEO and elected Chairman of the Corporate Cluster at FirstRand. During 2004 he was CEO of the Corporate Cluster and CEO Africa & Middle East Portfolio. Since January 2005 EB is FirstRand's CEO Africa & Emerging Markets.

Directorships:

FNB Namibia Holdings Ltd; First National Bank of Namibia Ltd; FirstRand Banking Group; RMB Asset Management; FNB Botswana Ltd; FNB Swaziland Ltd

Inge Ingenesia Zaamwani

LLB (Hons) – London / LLM – Dundee

Inge was trained as a lawyer in the UK. After graduating, she worked for the Commonwealth Secretariat and in private legal practice in London and Windhoek. She is a qualified barrister and member of Lincoln's Inn, London, UK. In 1995 she joined the Ministry of Mines and Energy as Control Mineral Rights Officer and in 1996 was promoted to Director of Mines. At the beginning of 1999 Inge was appointed CEO of Namdeb Diamond Corporation.

Directorships:

FNB Namibia Holdings Ltd; First National Bank of Namibia Ltd; FNB Holdings Remuneration Committee (Chair); FNB Namibia Holdings Audit Committee; Namdeb Diamond Corporation Ltd; Namdeb Properties (Pty) Ltd; Namgem Diamond Manufacturing Corporation (Pty) Ltd; Diamond Board of Namibia; Fishcor and Seaflower Lobster (Pty) Ltd; Marsh Namibia (Pty) Ltd; Nosa Namibia; Zantang Investments (Pty) Ltd; UNAM Council; Namibia Nature Foundation; Namibia Institute of Mining and Technology; Chamber of Mines Council; Junior Achievement Namibia; Vocational and Training Board; International Seabed Authority LTC; NCCI – Chair; Nabcoa; XNET Trust Fund

Group executive committee (“EXCO”)

Lazarus Ipangelwa
Chief Executive Officer
MBA (International Banking & Finance)
AMP - Oxford

Fred Nel
Bank: Deputy Chief Executive Officer
BComm / CAIB (SA) / AEP

Gideon Cornelissen
Chief Financial Officer
BComm Honours / CA (SA)

Festus Hangula
Treasurer
BA (Business Administration) cum laude
MBA (Finance) distinction / Fellow of MEFMI

Sylvia Müller
Head of Credit
BComm / PDA / CA (Nam)

Stanley Similo
Head of Human Resources
BA (Communications) / MBA (HR)

Sarel van Zyl
Head of Branch Banking Operations
BA (Business Administration)
MBA (Business Administration)

Breaker

Economic performance & outlook for 2005/2006

Introduction

Namibia is projected to show economic growth of 3.5% in 2005, slightly below the estimated GDP growth rate of 4.4% in 2004. This growth will be supported by increasing production from offshore diamond mining and higher output in base metals, notably zinc and copper.

A lower interest rate and lower inflation, resulting in higher real disposable income, will support domestic demand and help sustain strong growth despite sluggish global economic growth. However, a strong negative currency effect and declining demand in the fishing sector will have a negative impact. The tight 2005/6 national budget, offering little economic stimulus, will serve as a drag on the economy. In the short run, the alcoholic and non-alcoholic beverages sub-sector will be hit by the closure of the brewery in Swakopmund, but Namibia Breweries Limited is making headway in promoting demand for premier beer in South Africa and this should offset the negative effects.

Sectoral economic performance

Mining Sector

The mining sector had an exceptional performance in 2004, registering a growth of 30%, mainly because of strong diamond production which exceeded the 2-million carats mark for the first time. The sector is still expected to perform exceptionally well in 2005 because of strong global demand and higher commodity prices. Most of the growth will come from higher offshore diamond output and increased zinc and copper production. Other minerals, such as gold, uranium, silver and lead, are expected to perform positively as global economic growth remains strong.

The positive outlook internationally could see a number of projects undertaken in the next three years, especially in diamonds, uranium and copper.

Fishing

In the last two years, the sector has been plagued by retrenchments and liquidations in 2004 and into 2005. Nearly 1 000 jobs have been lost, mainly because of the closure of one firm and the liquidation of three others. The fishing sector is estimated to have had a negative growth of 25.5% in the first three months of 2005 despite an increase in quotas. The adverse performance is attributed to low allowable catches; poor catches (fish are generally smaller); depressed prices; and an unfavourable exchange rate for local currency vis-a-vis the Euro.

Table 1: Key Macro-economic Indicators

Macro-economic indicators	2003	2004	2005
	Actual	Estimate	Forecast
Nominal GDP (N$ millions)	32 309	35 026	38 029
% Change Total Real Consumption	3.5	4.2	3.0
% Change Total Real Investment	18.6	-5.3	4.9
Exports of goods and services (N$ millions)	12 715	15 059	16 428
% Nominal Growth	(13.3)	18.4	9.1
% GDP	39.4	43.2	43.7
Import of goods and service (N$ millions)	15 088	15 841	17 847
Nominal Growth (%)	(4.6)	5.0	12.7
% GDP	46.7	45.2	46.9
Government Budget Deficit	(2 477.6)	(872.4)	(448.5)
% GDP	(7.5)	(2.5)	(1.2)
Current account balance	3 033	2 776	2 294
% GDP	9.4	7.9	6.0
CPI (%)	7.3	3.8	4.7

Agriculture

The agriculture sector is forecast to grow by a moderate 3% in 2005 compared to an estimated 1.8% in 2004. It is expected that slightly more cattle will be marketed in 2005 as opposed to a decrease in 2004 when farmers opted for restocking after good rains. Agronomic output is also expected to grow moderately as sustained harvesting follows good rain and normal weather conditions in 2005. Despite the increase in crop and cereal production, Namibia is still likely to experience shortages of maize and cereals. Efforts to diversify could contribute positively to the economy. A programme to market more pigs started in 2003 and plans are in hand to market more ostriches, dates and grapes. However, the strong Namibia Dollar relative to the Euro could negatively affect such efforts.

Manufacturing

Manufacturing is expected to perform poorly mainly because of the poor performance of the fishing sector and problems in the textile and food sectors, where two textile companies and Hansa Breweries in Swakopmund have closed. The sector registered a decline in value added in the first three months of 2005.

Credit growth

A low interest rate environment supported an overall increase in credit extensions by the Banking Industry in 2004 and the first part of 2005.

During the first quarter of 2005 the general trend in aggregate domestic credit was upward, supported by the 25 basis point cut in lending rates in April 2005. Despite the increase in credit extension, private sector claims were generally down during the first part of 2005 (refer Chart 1). Lending to the building and construction sector declined by 1.1% and by 12.4% to the manufacturing sector. Overall credit is expected to grow for the rest of 2005, in line with reduced cash flow of most companies and stable, favourable interest rates.

Interest rate

Because Namibia is a member of the common monetary area ("CMA"), local interest rate movements largely track those of South Africa. Following decling prime rates in 2003, the rate remained relatively stable at 12.5% for most of 2004 (see chart 2) and declined further by 25 basis points in September 2004 and by 50 basis points in March 2005 to the current level of 11.75%. The forecast for the remainder of 2005 is for interest rates to remain firm at the current level. Any change in the near future will probably be upwards.

Exchange rate

The Namibia Dollar, on par with the South African Rand, remained relatively strong for most of the first half of 2005. It traded at an average of 5.99 against the US Dollar during the first quarter compared to 6.05 in the last quarter of 2004. However, it weakened in recent months against the greenback. This deprecation was ascribed to increased volatility in the US Dollar/Euro exchange rate arising from political uncertainty in Europe. The rejection of the European Union ("EU") constitution by France and the Netherlands saw the Euro decline against other major currencies. The US Dollar is also expected to continue to strengthen in the next couple of months, which may lead to the further weakening of the Rand.

Inflation

The downward trend in inflation continued to gain momentum in the light of the strong Namibia Dollar. The new national consumer price index ("NCPI"), which covers the country, was released early in 2005. This index replaced the Windhoek consumer price index. Since its introduction, Namibia's inflation level has fallen below that of South Africa. The South African CPIX was well in range of the inflation target of 3% – 6% during 2004 and the first part of 2005, while inflation in Namibia dropped substantially from 4.3% in December 2004 to 1.7% and 1.6% for March and April 2005 respectively. Inflation in Namibia reached its lowest level in history, 0.9%, in May 2005 (See chart below).

Summary

Overall, the Namibian economy performed reasonably well. The authorities continue to pursue reasonable prudent economic policies that resulted in macro economic stability. We believe for the economy to grow at 3.5% in 2005 is attainable. Inflation is expected to remain below 5% and as a result interest rates are expected to remain at a lower level for the next twelve months, when an upward interest cycle may start in 2006. In addition the N$/US$ exchange rate is expected to remain stable and trade within the range of N$6.5 – N$7,5 for the next twelve months. The strength of the local currency depends mainly on the commodity price cycle and global economic performance. US economic imbalances and global interest rate cycles also affect Namibia Dollar strength.

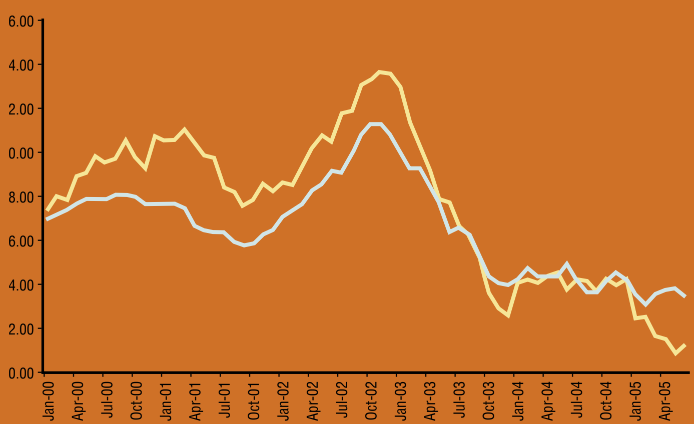


Figure 4 - Namibia's and RSA's inflation rates
Source: Bank of Namibia

breaker

Chairman's review

Dear stakeholders

It gives me great pleasure to report on a successful year for the Group, mainly due to our ability to capitalise on the synergies and improved collaboration among Group companies.

Introduction

In 1915, South Africa's Minister of Finance proposed that two banks commence operations in the then South West Africa. The staff of these banks traveled on the same train leaving De Aar on 14 August. The National Bank of South Africa took over the business of Deutsche-Afrika Bank and opened branches in Luderitz (19 August), Windhoek (20 August), Swakopmund (23 August) and Keetmanshoop (31 August). In 1926 National Bank was integrated with Barclays Bank DC & O and in 1971, the name changed to Barclays National Bank Limited.

The shareholding of Barclays Bank Plc was subsequently purchased by Anglo American Corporation of South Africa Limited, De Beers Consolidated Mines Limited and Southern Life Association Limited and the name changed to First National Bank of Southern Africa Limited. First National Bank of South West Africa Limited (later renamed First National Bank of Namibia Limited) was formed in February 1988 as the local company through which banking business was expanded in Namibia. This year, FNB Namibia celebrates its 90th anniversary and is now firmly established as a leading provider of banking and financial services.

In 1997 First National Bank of Namibia Limited was listed as the first financial institution on the Namibian Stock Exchange ("NSX"). It remains the only listed Namibian financial institution and all Namibians are provided with an opportunity to take up ownership of the Group via the NSX.

Market environment

First, I would like to salute the founding president of the Republic of Namibia, His Excellency Doctor Sam Nujoma, for his vision and profound leadership. We also congratulate His Excellency Hifikepunye Pohamba on his election in March as president. We fully support his commitment to growing the economy and implementing sound governance policies to present a well-controlled public and private sector, attractive to all foreign investors.

This year saw further increases in the price of crude oil, leading to increased commodity prices. However, inflation, based on the basic composition of goods and services, decreased. In addition, two further decreases in the prime lending rate narrowed the interest margin and fuelled consumer consumption. The Group is well positioned to facilitate this increased growth while being able to sustain possible defaults in customer obligations if the prime lending rate increases.

The Group takes cognisance of the difficulties experienced by the fishing industry. These problems relate to high cost structures and lower market prices. The latter is largely influenced by the exchange rate between the Namibia Dollar and the Euro.

The Group is also monitoring developments regarding redistribution of land and we are confident that this sensitive issue will be handled by all parties with the appropriate understanding and care within the provisions of the Law.

Financial overview

The Group was able to grow its before tax earnings base by 26%, mostly through organic growth. It grew and maintained its share in the various market segments. It also improved cost structures and workflow processes, which contributed to sound financial growth. Economies of scale ensured that operating expenditure increased by only 5% over the previous year.

Strategic initiatives

Black Economic Empowerment (BEE)

The conclusion of the BEE transaction was one of the last processes after the merger with the Swabou Group, and fulfilled one of the Group's strategic goals. Five percent of the total issued share capital of the Group was allocated to the BEE transaction, arising from FirstRand Bank Holdings Limited agreeing to reduce its overall shareholding from 60% to 55%. One percent of the shareholding was allocated to black employees and black non-executive directors of the Group and 4% was allocated to a BEE consortium.

After allocating shares to black non-executive directors and black employees, the balance of the 1% allocation went to a share trust through which dividends from the holding company would be used to meet the educational, health and other needs of staff members.

The 4% allocation to the BEE consortium is structured by means of an option agreement, whereby a minimal option premium was paid and the shares will vest over the next five years, based on agreed value addition targets. The BEE consortium consists of two groups namely Sovereign Capital and Chappa'Ai Investments. I am happy to say that about 30% of the shares made available to the consortium goes to the broad based groups that include members and dependents of the two largest unions in the public sector being NAPWU and NANTU.

With the conclusion of the additional 5% BEE transaction, the Group will be 45% owned by Namibians. Our shareholders include institutional investors and a number of individuals, the majority of whom are black shareholders.

FNB remains the only listed Namibian financial institution

Chairman's review continued

Preference shares

The preference shares transaction was terminated early, on 30 June 2005. This provided an opportunity to reconstitute the board of directors, whose composition was previously determined by the merger agreement pending the conclusion of the preference share transaction. The board will now be reconstituted along normal business principles in line with good corporate governance.

New developments

The Group introduced greater diversity in its range of products and services by acquiring 50% of the newly established RMB Asset Management Namibia (Pty) Ltd and is finalising the acquisition of a Namibia unit trust company. These fund management arms of the FNB Namibia Group will ensure that a single institution can now meet most of the finance-related needs of its customers.

A press release was published on 4 February 2005 explaining the forthcoming acquisition of the Southern Life book housed at Momentum Group Limited in South Africa. The transaction is in its final stages of completion, with regulatory, shareholders and court approval still pending.

Competitive environment

Competition in the Namibian banking industry remained fierce. First National Bank launched innovative and consumer-friendly products to counter pressure to lower bank charges and other transactional fees. In addition, with the limited deposit base in Namibia and further decreases in the prime lending rate, the competition to obtain funding in the market increased, leading to decreased interest margins.

The long term insurance industry has also seen consolidation as the country and its population proved to be too small for the number of life assurance cover providers. However, our life assurance arm, Swabou Life has capitalised fully on the cross-selling opportunities from the banking book and will grow further with the proposed Momentum transaction for the acquisition of the former Southern Life book.

Regulatory environment

The FNB Namibia Group operates in a highly regulated environment, maintaining good relationships with the Bank of Namibia, the Namibia Financial Institutions Supervisory Authority and the Ministry of Finance. We would like to thank these authorities for their assistance and co-operation.

FNB Namibia Holdings Limited is involved with the Bankers Association of Namibia in the research and formulation of the Banking Services Charter. FNB Namibia Holdings Limited is committed to this project, not only in finalising this necessary document, but also in implementing best practice in the industry. In terms of this Charter, the financial services industry will agree to work with Government and other interested parties to make financial services and, in particular, credit more accessible to this market.

Dividend

I proudly announce a final dividend for the year ended 30 June 2005 of 17 cents per ordinary share. The final dividend, together with the interim dividend declared in February 2005 of 15 cents per ordinary share results in a dividend cover of 2.6 times and this maintains the sound capital base of the banking institution.

Thanks

At the annual general meeting in November 2004, Cecil Robertson retired and I would like to express our appreciation for the valuable contribution his wealth of experience made during the demanding merger process.

I would also like to thank my colleagues on the various boards of directors in the Group for their continued support and valuable contribution. I welcome the newly appointed board members and trust that the joint working relationship will bring further growth and prosperity to the Group.

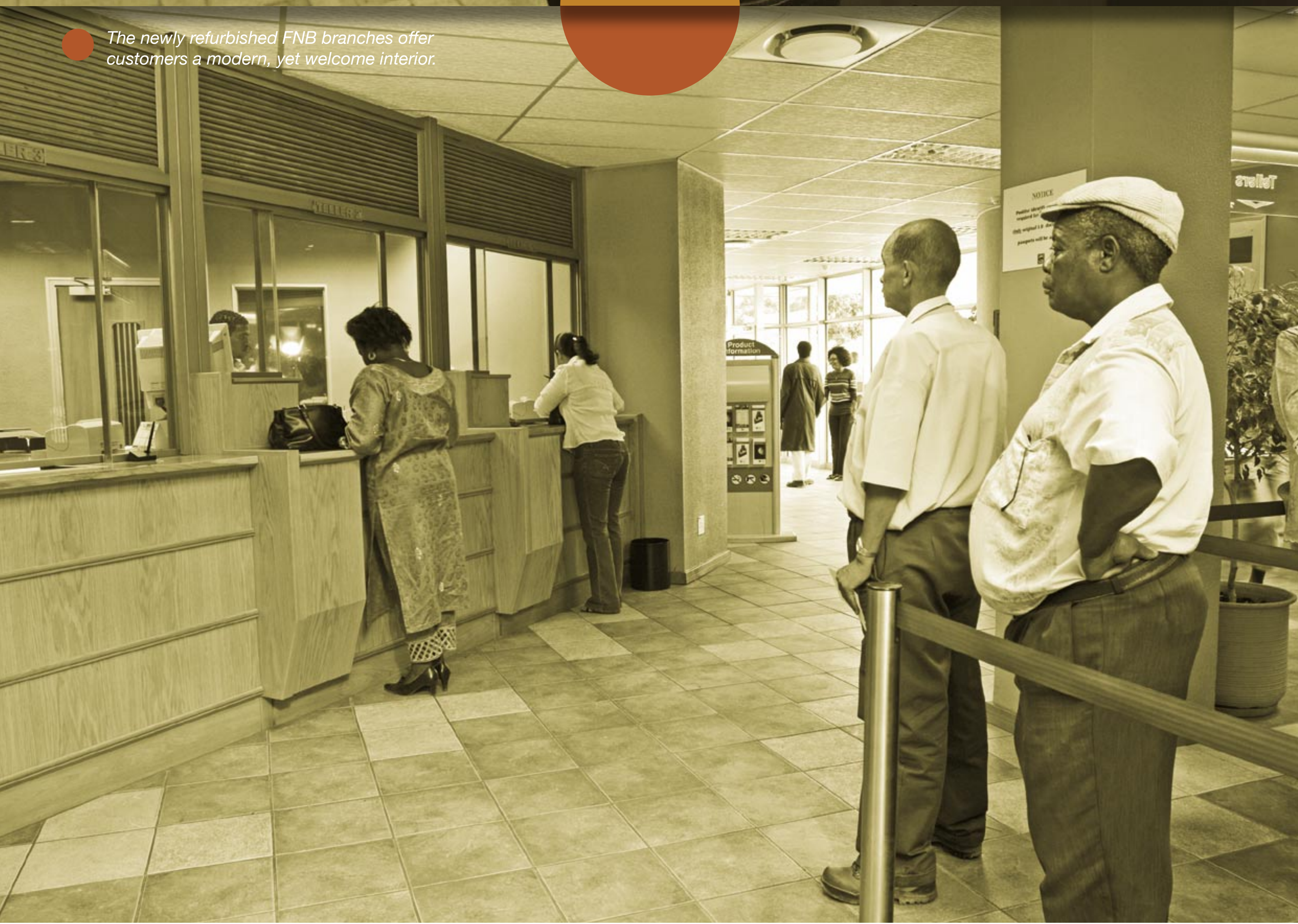
Further, I want to thank the management and staff for their outstanding commitment to grow the Group, service its customers and add value to all stakeholders.

In conclusion, thank you to our shareholders for your continued confidence in us as an investment of choice. We are confident that we are well positioned to continue to reward you with the best possible sustainable returns.

Dieter Voigts

Breaker

Providing access for our customers to their money remains high priority, and the Mini-ATMs provide the answer, even in the most remote areas of our country.



The newly refurbished FNB branches offer customers a modern, yet welcome interior.

CEO report

Introduction

Structural changes arising from the Swabou merger became fully operational and our efforts over the past year have been aimed at growing the business and delivering results. These results have been excellent, with profit growth of 26% before tax, which includes a 10% contribution from insurance operations.

During the year the Group continued to strive towards achieving our vision and mission of being a world class financial solutions provider of choice. Our stakeholders benefitted as follows:

- Shareholders from a dividend increase of 28% per share, and an increase in the net asset value of the Group to N$1.1 billion.
- Customers from improved service as we delivered new products and financial solutions.
- Staff from the Group's investment in training and development.
- The Namibian community at large benefited from the Group creating more distribution points, making banking even more accessible to all.

The financial services markets remained highly dynamic and competitive, with heightened demand for customer-centric solutions and excellent service. Structural changes enabled us to continue to shift our emphasis away from administration and towards sales and service. The business environment continues to be characterised by low interest and inflation rates, which bode well for consumer confidence.

The Branch Banking Network

In the previous year we focussed on integrating the FNB and Swabou cultures. Having achieved this, we have been able to focus on sales and service initiatives. A sales audit was undertaken to determine whether our approach to business and customers was in line with best practice. The findings were very rewarding, giving us a better understanding of the thinking of our customers.

The Branch Banking network had its most profitable year. It benefited from synergies in the Group and improved operational efficiency.

To enhance the look and feel of our branches an extensive refurbishment programme is under way. Eight branches have been upgraded so far. The objective is to achieve a better layout that will improve customer service and efficiency even more.

Keeping up with technology is essential to maintaining the highest possible standard of service. Upgrading our network to the Ethernet platform commenced during the year and will be completed before the end of 2005. The upgrade provides a quicker response time for all customer enquiries and processing. In addition, we are able to leverage off the FirstRand Group, which remains at the forefront of technological innovation.

In view of the current emphasis on bank charges, the bank continues to increase its self-service channels (ATMs and mini ATMs) to facilitate affordable banking throughout the country. We currently serve our client base through 90 ATMs and 129 Mini ATMs and have more point-of-sale devices (Speedpoints) than any other bank in Namibia. We intend rolling out more of these devices, especially Mini ATMs to remote areas in Namibia.

We are continuously investigating ways of improving the service we provide to our merchants via our Speedpoints. When the Europay Mastercard VISA ("EMV") standard for chip cards was implemented, we upgraded our devices and software to accommodate this change. To date 85% of our base throughout Namibia is EMV compliant and the plan is to be 100% compliant by the end of calendar year 2005.

A critical objective is to ensure that we provide customer-centric banking products to all segments of the market. In addition to the popular Platinum account, LifeStart student portfolio and Prime-linked investment accounts - launched successfully in the past year - we are finalising a number of new products we believe will meet, or exceed, customer expectations.

We continue to allocate more resources to the National Payments System initiative, facilitated by the Bank of Namibia. We have successfully implemented the first two payment streams, namely Electronic Funds Transfers ("EFT") and Code Line Clearing ("CLC") and are now focussing on card transfers. Our investment to date exceeds N$6 million.

Electronic Business

This is an area of significant growth for the Bank. We are proud that we have delivered an enhanced product range to clients at a reduced cost.

The Electronic Business customer base is continuing to grow rapidly. Internet banking has become increasingly popular, primarily because of improved security features and user friendliness. We successfully implemented the DigiTag as an added security measure. The Digitag is a device under the control of the customer with access to internet banking and prevents a third party, even with the right username and password, accessing the system.

Again, we are leading the industry, and are proud to be the first to introduce this technology in Namibia.

The results have been excellent, with profit growth of 26% before tax

Wesbank, the vehicle and asset financing branch of the bank, has seen an increase in the financing of yellow goods.

Electronic Business continues to provide one-on-one customer service, even with the introduction of Business Internet Solutions.

Business Internet Solutions ("BUS") replaced Bankit during the year. BUS is one of the most flexible and powerful commercial internet banking solutions in the market. It offers free subscription and other free features such as balance enquiries and e-mail remittance advices.

*In*Contact, providing customers with real-time information on their accounts via SMS or e-mail, is our industry-leading information system. We continue to offer *In*Contact as a free value-add product.

Home Loans

The home loan market grew on average by 23.5% in the past 12 months, less than the growth seen over the previous three years. Despite fierce competition, we have managed to maintain our market share at over 45%. Lower interest rates have facilitated good growth and our home loan book at N$3.7 billion remains at just over 50% of the Bank's advances base.

To supplement the strong asset growth in home loans, close attention has been focussed on the level of arrears and we are pleased to report that this has also improved the quality of the book. Arrears are at their lowest level since the merger, having reduced from 5.6% to 3.4% of the home loan book.

To improve service to customers we have significantly boosted our sales teams in the key areas of Windhoek, the north and the coast. We are constantly exploring new markets and have made significant progress in pension-backed schemes.

Sound administration, providing prompt turnaround times and good service, is a key driver of asset growth. We have implemented the L@W system, which improves the document flow between the bank and attorneys, as well as an electronic security documentation system.

WesBank

Despite aggressive competition in the consumer friendly market, WesBank has been one of the star performers for the bank this year. It is the market leader with over 34% of the vehicle and asset finance market. The book has exceeded the N$1 billion mark for the first time.

To sustain the momentum we plan to place WesBank representatives in all corners of Namibia.

Corporate Banking

The business and commercial sectors have been placed under the leadership of one business unit head who will ensure greater co-ordination in these two vital segments. We have also separated sales and credit responsibilities to create a dynamic sales-focussed team that will concentrate on good relationships and on unlocking synergies and cross-sell opportunities across the Group.

In the year under review, corporate business grew at a moderate pace. But the commercial business segment achieved growth levels that exceeded all expectations, driven by an increase in demand for credit. This growth is attributed to enterprises making large, forward-looking investments. This is particularly so in the building sector, with a number of commercial and residential property developments being financed. While interest rates remain low, demand is expected to continue.

Quality of Assets

Low interest rates and low inflation resulted in higher than expected demand for credit, especially in the instalment sale and home loan sector. This upward trend, if not monitored, could result in bad debts. This is addressed in our risk management process as explained on page xxxx.

The credit process as a whole is supported by the adoption of internationally accepted policies, which is continuously being updated to incorporate legislative changes and ensure compliance with the Banking Institutions Act (No 2 of 1998). As a further safeguard, the Bank's Senior Credit Risk Committee, a sub-committee of the Board, meets regularly to approve exposures with a higher risk profile, and to fulfil the requirement of Banking Institution Determination 2 (BID 2). The quality of the loan book is reviewed on a quarterly basis, addressing portfolio risk and problem credits.

The above measures, together with a concerted effort from collection departments, have resulted in a significant reduction in the specific provision balances as well as an extremely small charge net of recoveries for the current year. The non-performing loan ratio has also reduced significantly and is once again in line with the 2.7% ratio of 2003. This was mainly because of the good progress in collecting the CSIB book.

The bank's vigorous collection efforts of the non-performing loan book are continuing. The quality of the loan book will be monitored to ensure sustainable profits and good quality assets in future.

Treasury

In an increasingly complex and competitive trading environment, the effectiveness of strategic business initiatives must be continuously reassessed.

WesBank has been one of the star performers with a book exceeding N$1 billion

FNB Home Loans remains the market leader and continues to provide innovative products to the different market segments, and assistance to the estate agents.

The " speed and service excellence" commitment to customers was evidenced in the attendance of all Group staff members attending the launch of the sales and service initiatives, across the country.

CEO report continued

Accordingly, Treasury ensures that the bank is optimally funded and that it is prepared to maximise gains from trading opportunities as they present themselves.

In November 2003 the bank accessed the international market through a syndicated loan, a normal funding operation. The one-year loan matured in November 2004. Market conditions dictated a decision not to renew the loan at maturity. The bank will, however, continue to monitor the international market and maximise any opportunites that may be favourable.

It remains the bank's objective to play a leading role in the development of the local money and capital market. During the financial year, Treasury increased its active participation in the primary and secondary market activities in Government and parastatal securities with positive results.

Custody Services

The custodial business and other related services were until recently not regarded as core business, hence our involvement on a relatively small scale. During the financial year, FNB Namibia Custody Services embarked on extensive initiatives to change the Group's position. Among others, we have automated the safe custody processes by implementing a safe custodial management system designed to provide more efficient, value added customer services.

Although our primary service is safe custody and settlement of securities, we also act as Trustees within the Namibian Unit Trust Industry.

Corporate Citizenship

The Group continues to play a major role in corporate sponsorships in Namibia but now aims at a wider economic spectrum.

The FNB Foundation, funded annually by 1% of the Group's post tax profit, is now well established and contributing broadly to Namibian society. A full report on the foundation is available on our website. Since inception in 2002 the Group has committed a substantial amount to initiatives that range from uplifting standards of education to improving the quality of life of handicapped children.

Human Capital

Most employees directly linked to sales and customer service have been through a process of orientation aimed at improving service delivery.

The Group intends to build a high performance culture in which the right people do the right jobs. In this way both performance and productivity will improve. Policies dealing with performance and productivity have been amended to sustain this culture. Current staffing profiles show an improvement, over last year, in employee representation at all levels. The Group has received its Affirmative Action compliance certificate based on a clear-cut move aimed at transforming the ratio between black and white employees. The Group is committed to the process of transformation, and applies due diligence to sensitive and important issues of employment equity.

The Group participated in an HIV/AIDS prevalence testing exercise with the other three commercial banks. All participating employees were informed that the testing would be highly confidential and was aimed at understanding the impact of HIV/AIDS in the workplace. The next phase is an ongoing programme to encourage employees to volunteer for testing as part of the "know your status" initiative.

Swabou Insurance

Swabou Insurance completed the first phase in its long-term strategy, that of consolidation. It could be better described as "pruning for growth". As stated last year, the first step was to fill vacant positions and the second was to focus on management information systems. Both objectives were successfully achieved.

Despite a tough year, operating conditions were favourable and the company managed to increase its market awareness.

Exciting new business developments are envisaged for the future and will be achieved by maximising synergies with clients, partners and other stakeholders.

Swabou Life

The Company's excellent performance reflected the benefits of maximised synergies within the Group together with exceptional returns on our investment portfolio. Strong premium inflows were achieved, generated mainly by interaction with WesBank and wider access to credit products of the bank.

The introduction of the 35% limit on Government payroll deductions initially had a negative influence on new business sales, but the situation has subsequently stabilised.

Consolidations and mergers occurred over the last year. This was expected since there were fourteen local life insurance companies competing in a relatively small marketplace. The Group recently approved the purchase of the Southern Life book (Momentum) in South Africa. This transaction will only be finalised after shareholders, regulatory and court approval is obtained in both Namibia and the RSA towards the end of the year. Once integrated, customers will enjoy a wider choice of products and services and will benefit from more efficient operational structures.

Swabou Life's excellent performance reflected the benefits of maximised synergies within the Group

CEO report continued

Outlook

The outlook for the new financial year is positive, with a focus on:

- sales and services,
- financial and operational efficiency, and
- human capital.

This will entrench sustainable profitability for the Group and create value for our stakeholders.

Branch upgrading will continue, with the emphasis on customer services and continued focus on efficiency. Operational efficiency is an ongoing strategy and current projects to be completed this year are aimed at cost savings. The improved Group synergies will be further enhanced by continued collaboration with the FirstRand Group and the implementation of best practices.

The merger with Swabou is now fully embedded and our efforts are aimed at growing the business on a sustainable base. Group management will spend more time focussing on post-merger strategic issues that will include structural growth relating to life insurance, unit trust and asset management. This will stimulate organic growth. Thus we have introduced a new business unit to co-ordinate the cross-selling of products. FNB Insurance has been created to provide insurance products in all branches via insurance advisors and financial consultants.

We will be allocating more resources to the lower end of the market, including SME's, low-cost housing and micro financing. Simultaneously we will introduce savings and risk products targeted at the upper end. Black economic empowerment will remain an area of strategic focus, with attention on funding BEE related companies and supporting BEE suppliers through our procurement policy.

We view the lack of a national savings culture as a challenge and our role in securing Namibian funding for investment is being given priority. It is especially difficult to convince the public to save at a time of low interest rates. However, we are addressing this by increasing our stake in the unit trust business and by investigating a number of options that will help to bring about the culture of savings in Namibia.

In addition, economic indicators are being closely monitored and we are taking into consideration that a change in interest rates could impact on our customers. We will continue to pay close attention to the quality of the credit portfolio, although we do not expect the specific impairments to remain at the low levels reported this year.

Profitability and margins are expected to come under further pressure as competition remains relentless in this confined market. We are, however, confident that we are well positioned to meet this challenge by unleashing the synergies achieved through the merger and the solid foundation since created. We believe the Group is now well positioned to provide world-class financial service solutions to all our market segments, at the same time creating wealth for all our stakeholders.

Appreciation

I extend my sincere thanks to every member of our FNB Namibia Group "family" for the hard work, enthusiasm and commitment that resulted in the Group's success this year. The results are a tribute to them as well as the directors. A special thanks to EB Nieuwoudt who brought a wealth of experience and resigned from our board in August 2005 as he takes up the position as CEO of Momentum.

To our customers, thanks for your continued loyal support. We promise you continued high standards of service as well as financial products and solutions that will delight you!

Lazarus S Ipangelwa

The outlook for the new financial year is positive, with a continued focus on sales and services

Breaker

CFO report

Overall view of the results of the year

The Group has capitalised on the foundation it laid for growth. It is realising the benefits of diversified income streams and the broader customer and product base created by becoming an integrated financial services group. A positive economic environment also encouraged organic growth.

Earnings attributable to ordinary shareholders increased by 28% to N$211 million in the current year. Headline earnings increased by 24%, mainly as a result of the increase in non-interest income exceeded the increase in operating costs.

The cost-to-income ratio was corrected to 51% from 56.5% in the prior year and reflects an improvement in cross-selling as a result of the merger, economies of scale and more efficient operations. The squeeze in interest margin prevented the efficiency rate from dropping even more.

The contribution, before direct tax, of the banking and life insurance components increased slightly as shown in the table below:

	2005	
	N$ million	**% contribution**
Banking	**279**	**91%**
Life insurance	**21**	**7%**
Short term insurance	**7**	**2%**
Pre tax profit	**307**	**100%**

	2004	
	N$ million	% contribution
Banking	219	90%
Life insurance	15	6%
Short term insurance	9	4%
Pre tax profit	**243**	**100%**

Although we are comfortable with being overweight in our retail exposure, more emphasis will be placed on corporate in future. In time the more diversified earnings base will serve to protect earnings in a changing economic environment.

Total assets grew by 14% to N$8.2 billion, while the Group's net asset value per share increased to 433 cents (2004: 401 cents).

Preference share structure

The shareholders agreed on 30 June 2005 to the early redemption or conversion to ordinary shares of the preference shares. The preference shares were issued as a payment mechanism to address uncertainty about the value of the CSIB assets in the Swabou transaction.

The early conversion was made possible by management's exceptional effort to collect most of the book, thus enabling an appropriate valuation for conversion.

Of the total number of 27,187,566 preference shares, 21,215,198 were converted into 6,822,728 ordinary shares.

The remaining 5,972,368 preference shares were redeemed for cash of N$10,371,614.

The N$54.8 million carrying amount of issued preference share capital and premium was settled for N$37.5 million, creating a final adjustment to the Swabou purchase price of N$17.3 million. At company level, this amount was treated as profit in FNB Namibia Holdings Limited. At Group level, the adjustment was off-set against the trademark.

At the time of the transaction, the shareholders of FNB paid N$353.0 million in the form of ordinary, preference shares and cash, to the shareholders of Swabou, having a net asset value ("NAV") of N$199.6 million. See table below.

	Original N$ million	**Adjusted** N$ million	**Final** N$ million
Purchase consideration			
- Ordinary shares	236.3	27.1	263.4
- Preference shares	108.8	(108.8)	-
- Cash	7.9	10.4	18.3
Total	353.0	(71.3)	281.7
Swabou Net Asset Value	199.6	-	199.6
Excess, consisting of:	153.4	(71.3)	82.1
- Swabou Trademark	143.3	(61.2)	82.1
- Goodwill	10.1	(10.1)	-
AC133 Adjustment to Swabou NAV		26.6	26.6
Carrying value of Intangible assets			**108.7**

The cost-to-income ratio was corrected to 51% from 56.5% in the prior year and reflects an improvement in cross-selling as a result of the merger, economies of scale and more efficient operations

The Swabou transaction in perspective

Below is an analysis of the merits of the Swabou transaction from the stakeholders point of view:

Shareholder perspective

FNB shareholders

The potential for an organic growth in the fairly small Namibian market would largely depend on the banking sector's ability to develop this market. Conscious of the risk of stagnancy, FNB saw an opportunity to expand on earnings potential by merging with Swabou. The compound growth in earnings in the three years before the merger was 8.8%. The post-merger compound growth of 24.6% bears testimony to the benefit.

Swabou shareholders

The Swabou group of companies faced a serious constraint in having to fund growth from relatively low capital base. Being predominantly a supplier of home loans, it was exposed to concentration risk. Access to the FNB client base and infrastructure presented a huge opportunity for growth.

Combined entity

The post-merger entity has a far better earnings potential, as shown by the current year's results, than the pre-merger entities on their own.

Customer perspective

Swabou did not provide ATMs and electronic banking facilities. Via the FNB infrastructure the Swabou customers gained access not only to the extended FNB branch network, but also to more cost-effective banking via ATMs and mini ATMs. A wider range of products, including international banking services, were also on offer.

FNB customers benefited from becoming part of a broad financial services group with life and short term products available through the creation of a integrated financial services model. In addition, Swabou staff brought specialist home loan skills to the Group.

Human capital perspective

The 290 Swabou staff that joined the FNB Group became part of a bigger organization which offers diverse opportunities, including self development and career development.

Banking operations

Interest income

Net interest income increased by 6.5% (or 8% with the unwinding of the discounted present value provisions). It does not mirror the 15% growth in advances and the main reasons for this disparity were:

- the lower rates continued to impact negatively on endowment margins; and
- highly competitive market forces put pressure on interest margins during the year, contributing to average rates on advances being 1.7% lower and average rates on deposits being 1% lower than in the previous year.

Non-interest income

Core non-interest revenue, excluding the profit on sale of fixed assets, increased by 18%, notwithstanding foreign exchange trading income being at the same level as the previous year. Driving this increase were the expanding customer base and higher transaction volumes.

Expenses

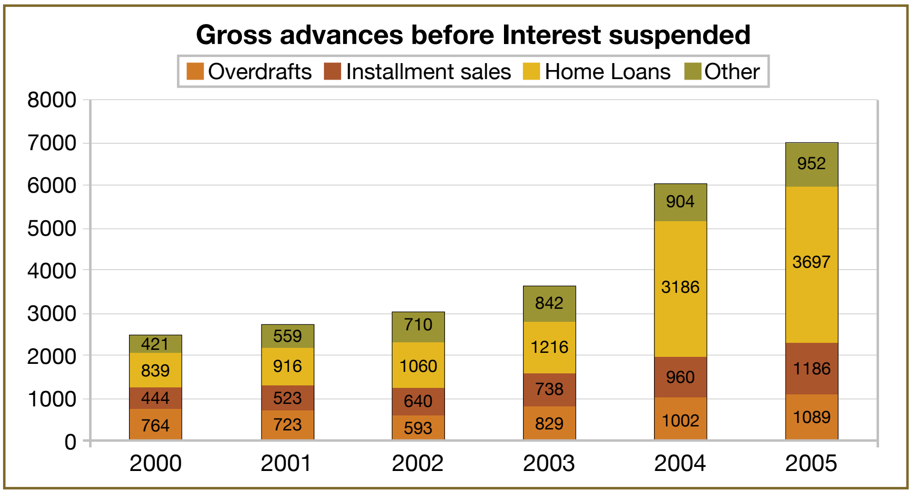
Excluding the once-off effect of the merger related expenses of N$10 million in the previous year, operating expenses were contained to an increase of 5.5%. This reflects efficiencies and synergies created by better utilising infrastructure after the merger. The increase in staff costs was relatively high at 15%, partly caused by an emphasis on getting the correct staff mix.

Operational effieciency

The impoved cost to income ratio combined with the improvement in critical mass from 5.9% to 4.4% is indicative of better efficiencies. Future investments in technology will be aimed at achieving continual improvement in operational efficiency.

Asset base

Year end net advances exceeded N$6.7 billion – a growth of 15%. WesBank achieved exceptional growth of 24%, exceeding the N$1 billion mark. It secured its position as market leader in financing moveable assets with 34% of the total market. HomeLoans recorded growth of 16%, reaching the N$3.7 billion mark and maintaining its position as market leader with market share of 46%.



HomeLoans recorded growth of 16%, reaching the N$3.7 billion mark and maintaining its position as market leader with market share of 46%

CFO report continued

Impairment of advances and non- performing loans (NPL)

The low interest rate environment and continued focus on credit processes has ensured that the quality of advances has improved over the last year. This is best illustrated in the current year's net specific impairment charge for advances of N$139 000 (2004: N$11.7 million).

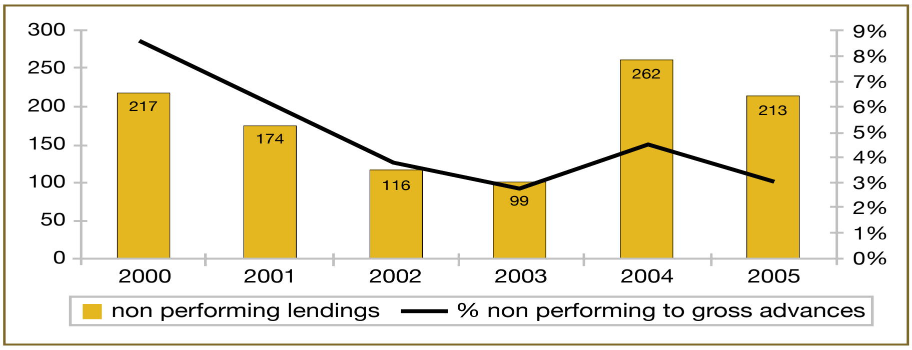
As in the prior year, the impairment charge includes the AC 133 provisions. Included in the above, there is a portfolio provision based on the anticipated losses for each main category of advances. This provision takes into consideration the current macro economic environment and past experience.

We are pleased to report that the overall quality of the advances portfolio continues to improve and the ratio of non-performing lendings to gross advances is almost at the same level as before the merger. This is mainly a result of a focus on clearing the CSIB book and is illustrated in the chart below:

Income statement effect of impairments

2005 N$'000	Net interest income	Impairment charge	Total
Unwind of discounted present value on NPL	12 634		12 634
Unwind of discounted present value on off-market loans	14 257		14 257
Increase in impairment for PV of NPL		(11 470)	(11 470)
Increase in impairment off-market loans		(12 176)	(12 176)
Net charge in specific bad debt impairment		(139)	(139)
Increase in dynamic provision		(11 226)	(11 226)
Net effect	**26 891**	**(35 011)**	**(8 120)**

2004 N$'000	Net interest income	Impairment charge	Total
Unwind of discounted present value on NPL	8 574		8 574
Unwind of discounted present value on off-market loans	8 315		8 315
Increase in impairment for PV of NPL		(3 853)	(3 853)
Increase in impairment off-market loans		(7 407)	(7 407)
Net charge in specific bad debt impairment		(11 697)	(11 697)
Net effect	**16 889**	**(22 957)**	**(6 068)**



Insurance Operations
Swabou Life Assurance Company

Gross premium income increased by 32% because of the increasing synergies between Swabou Life company and the bank group and excellent support from the independent brokerages with which Swabou Life conducts business. The increase in premium income and an above-average return on investment resulted in profit after tax for the year increasing by 43% despite the impact of new business strain on policyholders' liabilities.

The free reserves of the Swabou Life Company increased from N$33.7 million in the prior year to N$55.1 million as at 30 June 2005. The capital adequacy requirement (CAR) of N$24.9 million (2004: N$12.9 million) was covered 2.45 times (2004:3.09 times).

The embedded value of Swabou life has increased form N$111.9 million at 30 June 2004 to N$155.2 million at 30 June 2005 - an N$43.3 million increase of which N$28.4 million relates to new business.

The main components of the company's embedded value are seen in the following table:

N$'000	30 June 2005	30 June 2004	Percentage Increase
Shareholders' net assets	**36 265**	26 876	35%
Value of in force business	**118 925**	85 071	40%
Embedded value	**155 190**	**111 947**	**39%**

Swabou Insurance Company

Swabou Insurance's solvency margin has improved from 75% in 2004 to 83.9% at 30 June 2005, which indicates the improving strength of the business.

The company experienced a year of internal consolidation and alignment of goals. It successfully implemented its information and underwriting system and filled all key positions.

In the coming year the focus will be on efficiencies, cross-selling and restructuring the balance sheet to optimise solvency margin and investment returns.

Capital Management

Banking operations

The objective stipulated in the capital management framework of First National Bank of Namibia Limited ("FNB") is to actively manage its capital base in order to increase its return on equity and other indicators measuring shareholders' wealth.

The banking group operations comprise the consolidated results the bank and its wholly owned subsidiary, Swabou Investments (Pty) Ltd. The latter company houses the home loan book of the former Swabou Bank Ltd, funded through a loan account from its holding company, FNB. From a regulatory perspective, we report on the consolidated view of these two entities. Refer to the tables on the following page for a detailed summary of the capital adequacy calculation for the banking operation.

The framework for managing the bank's capital base has three pillars, namely:

- Level of capital
- Investment of capital
- Allocation of capital

Level of capital

The bank capitalises itself appropriately to facilitate business growth, minimise business disruption and meet the requirements of shareholders and regulator.

FNB retains the higher of regulatory or economic capital. Furthermore capital buffers are held due to the following reasons:

- In terms of the Banking Institutions Act (No. 2 of 1998), banks are only allowed to appropriate profits once audited. As a result, the capital level at the beginning of a financial year should be sufficient to cover the full growth in risk-weighted assets until the next audit;
- Risk concentrations, whether sectoral or product related; and
- Unexpected growth and market volatility.

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

Investment of capital

Capital funds are currently invested in the funding pool of the bank, and managed as part of the bank's overall interest rate risk management process.

Allocation of capital

The bank aims for accurate allocation of economic capital to business units to ensure proper return on capital according to risk profiles. Economic capital is calculated on the principles of the Basel II accord, an international policy regulating capital requirements for banks.

Economic capital is defined as the capital which FNB should hold, commensurate with its risk profile under severe stress conditions. This gives comfort to third party stakeholders (shareholders, counterparties, depositors and the regulator) that the banking group will be able to discharge its business obligations with a degree of certainty needed to continue to operate as a going concern.

Dividends

Overall, the level of capital influences the dividend policy. This policy is assessed on an ongoing basis, depending on the levels of capital required and growth factors. The dividend is based on:

- Sustainable dividend cover based on sustainable headline earnings (taking into account potential volatility of earnings brought on by adopting IFRS).
- Anticipated earnings yield on capital employed.
- Internal requirements for organic growth.
- A safety margin for unexpected market fluctuations not accounted for in the business plans.
- Desired capital levels.
- The solvency of the company before and after a dividend declaration.

Insurance operations

Swabou Life's capital management policy is to invest the capital in order to support the CAR in cash or near cash instruments, and to invest the remaining capital in equities.

The CAR for Swabou Life is calculated to determine whether the excess of assets over liabilities is sufficient to guard against possible severe negative future market conditions. A requirement of N$24.9 million (30 June 2004: N$12.9 million) has been established. This excess covers the capital adequacy requirement 2.45 times (30 June 2004: 3.09 times).

The financial soundness of Swabou Insurance Company Limited is measured by the solvency margin. This margin represents the free reserve ratio arrived at by expressing the shareholders funds as a percentage of net premium income. The solvency margin at 30 June 2005 is 83.9% (2004: 75%), which indicates a sound and healthy position.

CFO report continued

Capital adequacy of the Banking Group on 30 June 2005

	Balance		Risk weight	Risk adjusted balance	
N$000	**2005**	2004	%	2005	2004
Risk-adjusted assets and off-balance sheet exposures					
Cash, including foreign currency, claims on government and Bank of Namibia	**913 393**	914 414			
Public sector body advances	**211 128**	184 898	10	21 113	18 490
Other bank advances and letters of credit	**105 353**	108 221	20	21 071	21 644
Mortgage advances (excluding commercial)	**2 980 257**	2 967 957	50	1 490 129	1 483 979
Other advances	**3 952 613**	3 092 269	100	3 952 613	3 092 269
Total	**8 162 744**	7 267 759		5 484 926	4 616 382

N$000	**2005**	2004
Regulatory capital		
Tier 1		
Share capital and share premium	**1 142 792**	1 142 792
Retained profits	**160 346**	167 290
Opening balance 2004	**167 290**	15 510
Current year profit	**170 230**	116 950
Dividend	**(172 979)**	
Transfer (to) / from general risk reserve	**(4 195)**	34 830
Capital impairment: Intangible assets	**(361 295)**	(392 048)
	941 843	918 034
Tier 2		
General provision for bad and doubtful debts in terms of the Banking Institutions Act (Act no.2 of 1998)	**76 389**	61 016
Total tier 1 and tier 2 capital	**1 018 232**	979 050
Risk-weighted capital ratios		
Tier 1	**17.2%**	19.9%
Tier 2	**1.4%**	1.3%
Total	**18.6%**	21.2%

Adoption of International Financial Reporting Standards (“IFRS”)

The FNB Namibia Group will be adopting IFRS with effect from 1 July 2005.

To a large extent, the Namibian Statements of Generally Accepted Accounting Practice (“Namibian GAAP”) were harmonised with IFRS over the last few years. Namibia was one of the first countries to adopt the local version of IAS 39 (AC 133 - Financial instruments: Recognition and measurement, revised September 2002) effective for financial periods commencing on or after 1 January 2002.

As a result, the conversion to IFRS is expected to be less onerous for the Group than it will be for European companies. In February 2006, the Group will publish its first IFRS compliant set of interim financial information for the six months period ending 31 December 2005.

Simultaneously, the Group will publish detailed information on the financial impact of converting from Namibian GAAP to IFRS, including:

- the impact on opening equity on the transition date to IFRS for the Group as from 1 July 2004;
- the impact on the published audited results for the financial year ended 30 June 2005; and
- the impact on the unaudited interim results for the six months period ended 31 December 2004.

Gideon Cornelissen

Breaker

Glossary of terms

Accounting Statement (“AC”)
Namibian Statements of GAAP.

Attributable earnings
Earnings attributable to ordinary shareholders of the tax.

Capital Adequacy Requirement (“CAR”)
This is the minimum amount of capital required to be hold, as determined by the Authorities.

CAR cover
The CAR cover refers to the multiple by which an insurer’s free assets exceed its CAR, expressed as a ratio of free assets to CAR.

Cost to income ratio (%)
Operating expenditure, excluding indirect taxes, divided by total income.

Critical Mass
Operating costs as a percentage of total assets.

Embedded value
Embedded value equals the net asset value of the company, plus the present value of the projected stream of future after-tax profits on in-force insurance contracts, less the cost of capital at risk.

Financial Soundness Valuation
Methodology intended to provide a prudently realistic picture of the overall financial position of the long-term insurer, allowing explicitly for actual premiums that will be received and future experience that may be expected in respect of interest rates, expenses, mortality, and other relevant factors.

GAAP
Namibian General Accepted Accounting Practice.

General risk reserve
The prescribed minimum provisions by the Bank of Namibia on performing advances and allocations to this reserve are made from after tax distributable reserves.

Headline earnings
Earnings attributable to ordinary shareholders from trading operations, excluding capital profits and losses, amortisation of goodwill and revaluations of investment properties.

Impairments of advances
Advances are impaired (provided for) where the present value of the future cash flows on advances is less than the current carrying value in the bank’s records.

Interest in suspense
Contractual interest suspended on non-performing loans.

Interest margin on average advances (%)
Net interest income (before deducting the income statement charge for bad and doubtful advances) divided by gross average advances.

Interest margin on average total assets (%)
Net interest income (before deducting the income statement charge for bad and doubtful advances) divided by average total assets.

Mark-to-market
Valuation at an appropriate market price, set at arms length between informed, knowledgeable parties, with unrealised profit and losses reflected in income or equity depending on the classification of the instrument.

Non-performing loan (“NPL”)
A loan on which the recovery of the contractual interest and capital is doubtful.

Notional value
The principal amount stated in a contract on which future payments will be made or benefits be received.

Off-market loans
Loans granted at lower than market related rates.

Organic growth
Non-acquisition growth.

Portfolio impairments
Impairments to a specific portfolio within the performing lending book exposed to similar industry risks.

Present value (“PV”)
The present value of future cash flow discounted at a specific discounting rate.

Repo rate
Rate at which the Central Bank lends to banks.

Return on average equity (%) (”ROE”)
Earnings attributable to ordinary shareholders divided by average ordinary shareholders’ funds.

Return on average total assets (%) (“ROA”)
Earnings attributable to ordinary shareholders divided by weighted average total assets.

Ring-fenced portfolio
A portfolio of assets grouped together for reporting purposes in isolation to its performance within an entity’s overall records.

Strike price
The price at which employees allocated with share options can buy their shares from the share incentive trust.

Breaker